ICICI Prudential Life Insurance Company Limited
Earnings conference call
Year ended March 31, 2023 (FY2023)
April 20, 2023

N. S. Kannan, Managing Director & CEO:

Thank you, Neerav. Good evening to all of you. Sorry about this late call. We just completed the Board Meeting, so we had to have this call at this time. Good evening to all of you once again and welcome to the Results Call of ICICI Prudential Life Insurance Company for FY2023. I have several of my senior colleagues on the call: Satyan Jambunathan, our Chief Financial Officer; Judhajit Das, who heads Human Resources, Customer Service and Operations; Amit Palta, who heads Distribution, Brand & Marketing and Products; Deepak Kinger, who handles Audit, Legal, Risk and Compliance; Manish Kumar, our Chief Investment Officer; Souvik Jash, Appointed Actuary; Dhiren Salian, Deputy CFO; and Dhiraj Chugha from the Investor Relations team.

Let me start by talking about some of the key developments during the quarter:

First Development: On the regulatory front, IRDAI, our regulator, has notified revised regulations on the expenses of management (EOM) and commission. The increased flexibility in commission limits as per the new regulation will allow insurers to react to market forces in an agile manner thereby supporting the IRDAI's mission of improving penetration of insurance in the country and their focus on ease of doing business. The EOM regulations seek to bring about three relative shifts in our view:

- First, encourage longer term products by way of higher allowances relative to shorter tenure products, which is in line with insurance products being more suited with the long-term savings and protection needs of the customers.
- Second, incentivise renewals through increased allowance, which aligns distributor and manufacturers' interest with that of the customer. This was also expected to improve persistency levels for the entire industry.
- And third, provide incentivisation for protection at a higher level relative to savings products. In our view these regulations are a welcome change for the industry. As a Company, we are very optimistic about the growth prospects and the opportunities ahead of us.

Second development: In the Union Budget 2023, it was announced that if the total annual premium paid for non-unit-linked policies exceeds ₹ 500,000 then the difference between the total benefits received and the premiums paid would be subject to tax as income from the other sources. This will not affect the tax exemption provided to the amount received on the death of a person insured, and also on insurance policies issued till March 31, 2023. We do not expect this change to have a lasting impact on our business as customers who wish to take the benefit of section 10(10D) taxation can even in any case buy policies with premium amount being capped at ₹ 500,000. Up to this amount, insurance products have in fact become more attractive than competing debt products in the market. In any case customers value products which address their specific needs irrespective of the tax levied at various stages of the product life cycle. There is also the precedence of a similar event in the recent past when in the Union Budget 2021, high ticket ULIPs were subjected to capital gains tax. Despite this, for our Company, in APE terms, the product mix prior to and post-tax regime change was very similar. Finally, and most importantly, as of today, the well-diversified product and customer segments of our Company have made the business model much more resilient and allow us to take advantage of opportunities as they present themselves in the marketplace, without being reliant on one segment or one channel, nor on specific tax or other such issues specific to a particular segment of business.

Third development: I am happy to inform you that during the quarter, our annual report was awarded the 'ICAI Award for Excellence in Financial Reporting' for the year 2021-22. We are honored to be recognized as the most innovative insurer in 'Life Category' by FICCI. We have also been conferred with a Corporate Governance award at the 'Dun & Bradstreet ESG Awards 2023'. We are particularly delighted with outcome on the independent industry Net Promoter Score (NPS) survey where we were ranked the 'Best Life Insurance provider in India' by Hansa Research.

Fourth development: I am pleased to inform you that Ms. Vibha Paul Rishi has been reappointed by our Board of Directors as an Independent Director of the Company, for a second term of five consecutive years, with effect from January 01, 2024, subject to approval of the Shareholders of the Company.

Fifth development: I am happy to inform you that Mr. Anuj Bhargava has been nominated by ICICI Bank Ltd. as a Non-Executive (additional) Director of the Company, with effect from May 1, 2023, subject to the approval of the Shareholders of the Company. He began his career with ICICI Ltd. as a management trainee in 1998 and has successfully completed various assignments in different roles in the bank and the group companies during his career spanning 24 years. He has rich experience in Investment Banking, Corporate & Government Banking and Retail Banking.

Sixth development: As you are aware, the Board of Directors has appointed Mr. Anup Bagchi as the MD & CEO of the Company, for a period of five consecutive years with effect from June 19, 2023 subject to the approval of IRDAI, Shareholders and other approvals as maybe applicable. To ensure smooth leadership transition, the Board has also appointed Anup as Executive Director & Chief Operating Officer with effect from May 1, 2023, subject to regulatory and other requisite approvals.

While the approvals are still awaited, I have immense confidence that under Anup's leadership, the Company will continue to grow and bring even greater value to our shareholders. Anup has been my valued colleague at the ICICI Group, and I have personally known him for more than three decades since our business school days together. I want to assure you all, that my team and I personally will ensure the smoothest possible leadership transition of the Company. Anup has been on the Board of our Company as a Non-Executive Director for more than four and a half years now and has been one of the biggest supporters of 'Team ICICI Prudential'. While each new CEO will, and should, bring his or her own perspective on the business, I expect the overall strategic continuity to be maintained since he has been an integral part of the Board and the Company's strategic formulation over the years.

My journey as the MD & CEO of the Company will come to an end as I superannuate from the services of the Company on June 18, 2023. I would like to take this opportunity to thank all of you for being extremely supportive during my journey. We faced unprecedented challenges both internal and external during this period. Despite these challenges you continued to have faith in me and my team, for which I am extremely grateful. Achieving any of the milestones over the past five years wouldn't have been possible without your support. I once again extend my sincere gratitude to each one of you and thank you all for your huge belief in me not just during this five-year period but all through the last three decades of my tenure with the ICICI Group in various roles in the Bank as well as ICICI Prudential. Thank you very much.

I will now move on to the Company strategy and performance. We have put up the recent presentation on our website. You can refer to it as we take you through our performance.

First, let me talk about the strategy and the corresponding performance of our VNB journey. Four years bank in April 2019, I had articulated the aspiration to double the FY2019 VNB, building on the 4P strategy of Premium growth, Protection business Growth, Persistency improvement and Productivity enhancement, while keeping the customer centricity at the core.

My team and I are delighted to state that we have been able to walk the talk and have successfully doubled the FY2019 VNB in FY2023 with a four-year CAGR of 20.1% and industry leading margins of 32.0%. Over these past 16 quarters, we have demonstrated a consistent track record of healthy compounding of VNB and well diversified pools or profit.

As I look back, we started on this journey with a medium-term financial and a Shareholder value metric in mind, but along the way we have also focused on building long term capabilities to create an organisation well positioned to deliver sustainable growth in the future. Our long-term capability building has been focused on the building blocks of People, Process, Technology & Analytics, and Distribution & Product. While without any doubt these capabilities also contributed to our performance in the last four years, more importantly these capabilities will serve as the robust platform for sustainable growth, quality of business and profitability of the Company going forward. The details of our work relating to each of these capabilities in the last four years are set out in slides 8 to 11 of our presentation.

On the People aspect, we have systematically invested in expanding capacity, improving capability and strengthened our culture of empowerment & inclusion. Across the customer lifecycle, starting from purchase of policy upto claim settlement, you can see technology and digital have underpinned our process journey and the same is evidence to a steady increase in the digital adoption percentages and our net promoter score as presented in slide 9. As I mentioned earlier, the outcome of this NPS journey is the external endorsement of 'Best Life Insurance Provider in India' by Hansa Research. For increased productivity, we have invested in Technology and Analytics which helped us provide better value to our customers, improve our various processes, and identify new growth opportunities. Last but not the least, creating depth and adding width in our distribution channels and offering a comprehensive product suite to address varied customer needs has been our key focus. Amit will talk in detail about the capabilities on distribution and products in his section.

Now let me move on to the performance on Premium growth and Protection business growth.

APE performance across distribution channels in the last four years has been presented on slide 12. The performance has been split across the first three-year period of FY2019 to FY2022, then 9 months of FY2023 which we discussed during our last results call and the period just ended, that is the Q4-FY2023. Specifically, the FY2023 APE growth of 11.7% was on the back of 20% growth in APE in FY2022. The overall Company APE declined in the first three years at a CAGR of 0.3% followed by a 4.2% y-o-y growth for 9M-FY2023 and a 26.5% y-o-y growth for Q4-FY2023. As you can see, the decline in the ICICI Bank channel has been mitigated by the growth across all other channels. Overall, excluding ICICI Bank channel, during the four-year period, we have registered a very strong CAGR of 18.1% for the Company. The accelerated growth registered across channels other than ICICI Bank as you can see in the slide, is a result of our relentless focus on distribution expansion and accelerating our topline.

The APE performance across the product segments in the last four years has been presented on slide 13. Over the last four years, we have worked on broadening our product propositions through the launch of annuity variants, protection products and protection variants as well as guaranteed products and participating products. As a result, our non-linked savings on annuity business registered a very strong growth across the four-year period as can be seen in the slide presented. We have been witnessing an impact on growth in ULIP products on account of ICICI Bank channel shifting its priorities, pandemic related concerns and market volatility leading to a shift in consumer preference towards preserving wealth through guaranteed products. These factors have led to our ULIP business declining at a CAGR of 16% over the last four years. However, our systemic approach to building a comprehensive product suite with a product mix being well-diversified has ensured that the decline of ULIP business has been more than mitigated through growth across all other product segments. This is reflected in the 36.6% CAGR registered across all product categories excluding linked products over the last four-year period.

Moving on to our journey on protection growth. We have become a dominant private player on overall new business sum assured with a 23.8% four-year CAGR and with a market share expanding to 15.0% in 11M-FY2023. Our overall protection business including group protection has grown strongly by 20.2% CAGR in the last four years and contributes nearly one-third of the new business received premium in FY2023. While we faced supply side constraints coinciding with the start of the pandemic, we were focused on revival of the retail protection business. This effort has started yielding results through this year and we witnessed sequential growth in the Q2-FY2023 and Q3-FY2023, followed by a strong 27.7% y-o-y growth in Q4-FY2023. We will continue to direct our efforts in this segment while we leverage the opportunity in the group protection business as well. Protection and annuity products together contribute 47.8% of our new business received premium for the whole of fiscal 2023, a significant increase from 27.2% four years back in FY2019. With this, coupled with sum assured market share, we have truly become systematically more focused on mortality and longevity even as we continue to seize opportunities from the savings line of business.

While I have spoken about the short and medium-term performance on the strategic element of Premium and Protection growth, let me also talk about the long-term performance build through the building blocks of our investment in People, Process, Technology and Analytics and Distribution & Product which I talked about earlier. I am proud to say that we have become a resilient organization that can successfully seize and capitalize on emerging opportunities despite facing unprecedented challenges as we have seen in the last few years. The dimensions of resilience can be evidenced through the aspect of removal of skewness in the business model through well diversified business mix and also a strong balance sheet. First, the well-diversified business mix avoids any excessive concentration of risk in any one channel, product or customer segment. We have the power of comprehensive product proposition today distributed through multiple channels catering to a large customer base spread across various income segments. Second, we have built resilience across risk, capital and profitability aspects. We have no liability/reserving issues and our emerging mortality experience is consistent with our expectations. Our asset quality is high and we have had zero non-performing assets since the inception of the Company. We use forward rate agreements to hedge the interest rate risk for our non-par guaranteed savings portfolio. Our solvency levels are strong with a solvency ratio of 208.9% on March 31, 2023, which is much above the regulatory threshold of 150%. With the proposed risk-based capital under discussion by IRDAI, you can see that our solvency ratio on an economic capital basis is also robust at 385% on December 31, 2022. On profitability, we are focused on growing absolute VNB and it has led to industry leading VNB margin levels.

To summarize, the resilience built over the last few years across insurance risk, investment risk, solvency levels and profitability is reflected in our strong balance sheet as presented in slide 16 of our presentation. The growth trajectory of the last four years and finally the achievement of the VNB doubling objective, despite unprecedented internal and external challenges faced, is a testimony to the resilient organization that has been built and demonstrates that we are well positioned to deliver sustainable growth in the future. Now as we look forward, we are poised to capitalise on this platform and continue our journey of sustainable growth into the future.

Thank you once again. Now Amit, Satyan and Jit will be taking you through the performance update for FY2023, financial update and ESG update respectively. Thank you for your patience and over to you, Amit.

Amit Palta, Head – Distribution, Brand & Marketing and Products:

Good evening, everyone. I will be talking about performance update for FY2023 through the elements of the 4P strategy.

Let me start with the **first 'P'** of our strategic elements which is **'Premium Growth'** on slide 19 to 23. We have used a two-pronged strategy to drive premium growth. First, investing in building existing channels and widening the distribution to maintain a diversified distribution mix. Second, continuing to strengthen our product portfolio to address changing consumer preference in a dynamic economic environment.

On the distribution front we have continued to invest across channels. Our strategy in the agency channel is to ring fence our top producing advisors while continuing to have granular focus on expanding the width of advisor activation. We strengthened our sales management teams in FY2023 to manage our existing advisors and to add new advisors. We licensed more than 33,500 new advisors in FY2023. Within the bancassurance channel, during FY2023, we have added 13 new banks and with these new bank partnerships, we have now access to more than 17,500 partner bank branches for distribution of our products. Out of the 17,500 partner bank branches, more than 3,000 bank branches of UCO Bank have been added during Q3-FY2023. Recently we have tied up with Ujjivan Small Finance Bank in March and with commencement of business it will give a boost to our distribution network further. We have added 113 non-bank partnerships also in the year and have more than 900 non-bank partnerships now. For our direct channel, we continue to focus on business generation through our digital assets like website and mobile application. Additionally, we continue to leverage analytics to upsell to our existing clients.

There was strong momentum across most distribution channels in the last quarter of the year. As you can see on slide 20, for overall FY2023, our APE in banks other than ICICI grew by 28.2% y-o-y to ₹ 74.46 billion. ICICI Bank channel declined by 38% y-o-y and contributes now 13.8% of the APE for the last financial year. Among other channels, agency grew by 24.8%, bancassurance other than ICICI grew by 23.6%, direct business grew by 6.7%, partnership distribution grew by 78.2% and group grew by 26%.

Now moving on to the capability built in our product propositions. In FY2023, we have strengthened our product portfolio by introducing ICICI Pru Gold, a participating, non-linked life insurance product. With ICICI Pru Gold, we have combined saving benefits along with protection, where customer gets income up to 99 years and an option to earn immediate income which addresses their liquidity needs.

Even in the linked savings category, we have launched two new funds during the financial year. We have launched a Mid Cap Fund where we invest in stocks of companies which are currently in the growth space. We have also launched a Mid Cap Hybrid Growth Fund in the month of February. This fund is a combination of equity funds that we predominantly invest in mid cap stocks i.e. companies in the growth phase and debt funds that we invest in government securities and corporate bonds. The equity debt ratio is in 70:30 proportion.

We witnessed strong momentum across most product categories during the year and especially in Q4 of the financial year. As you can see on slide 23, apart from 51.9% y-o-y growth in non-linked savings product, our annuity products also grew by 69%, group funds grew by 17.2% and protection products grew by 14.5% even though these three product categories were not affected by the tax changes announced in Union Budget 2023. Linked business for us declined by 17% y-o-y in the entire financial year. On the back of strong growth in all product categories other than linked, overall APE grew by 11.7% y-o-y in FY2023.

Now moving on to **second 'P'**, which is **'Protection Growth'** on slide 24. For FY2023, protection APE grew by 14.5% y-o-y to ₹ 15.04 billion. We continue to be a leading private player on overall new business sum assured with a market share of 15% in 11M-FY2023 as compared to 13.4% in the last financial year.

Moving on to the **third 'P'**, which is **'Persistency Improvement'** on slide 25. We continue to have a strong focus on improving the quality of business and customer retention which is reflected in the significant improvement in persistency ratios across all cohorts. I would like to highlight here that our 13th month persistency ratio improved to 86.6%, 25th month improved to 77.8%, 37th month improved to 71.3% and 61st month improved to 65.7% in March 23, which is the best in the last five years. Our 49th month persistency ratio improved to 64.2% which is the best in the last three years.

Now moving on to the **fourth 'P'**, which is **'Productivity Improvement'** which is presented in slide 26. Our total expenses grew by 20.7% y-o-y. Excluding advertisements and publicity expenses, the increase in total expenses is 14.4% y-o-y, which are broadly in line with the APE growth. The absolute expenses are higher as compared to the same period last year due to the investments that we have made in order to deliver sustainable growth in the future. Our overall cost to total weighted received premium, TWRP as we call it, stood at 21.5% and the cost to TWRP ratio for the savings business at 14.2% for FY2023. Even with the cost increase, our cost to average assets under management has been stable at 2.6% for the financial year.

The outcome of our focus on these 4Ps has resulted in our VNB for FY2023 of ₹ 27.65 billion, a growth of 27.8% over the same period last year and VNB margin expansion from 28% for last financial year is 32% for FY2023. We will continue to monitor ourselves against the 4 P framework and our performance on these dimensions is what we expect to feed into our VNB growth over time. Given all this, we will continue to invest in organizational capabilities as Kannan mentioned such as People, Process, Technology & Analytics, Distribution & Product to enhance our overall growth trajectory. While this investment will lead to elevated costs in the short term, we believe this will yield results in the form of sustainable growth in the future and create value for our Shareholders.

Thank you and over to you, Satyan.

Satyan Jambunathan, CFO:

Thank you, Amit. Good evening.

I will now take you through some of the financial metrics. Let me start with the movement in Embedded Value during the year. If you refer to slide 29, you will see that our embedded value grew by 12.7% y-o-y to ₹ 356.34 billion at March 31, 2023, as compared to ₹ 316.25 billion at March 31, 2022. This growth was led by 15.4% y-o-y growth in the Value of In-force business. Our Embedded Value Operating Profit (EVOP) grew by 71.9% y-o-y to ₹ 54.88 billion in FY2023 as compared to ₹ 31.92 billion in FY2022.

The breakup of EVOP is as follows:

- Unwind contribution for FY2023 is at 8.6% of opening EV
- The VNB of ₹ 27.65 billion is 8.7% of the opening EV compared to 7.4% for FY2022. Total unwind and VNB constitute 17.3% of the opening EV
- Operating assumption change is a negative ₹ 1.61 billion primarily taking into account the revisions in group term premiums in the post COVID environment
- We continue to see a positive persistency variance of ₹ 1.43 billion on the back of an improvement in persistency
- Mortality variance for the year is at ₹ 0.22 billion
- The other operating variances are also marginally positive

Consequently, the ROEV for FY2023 stands at 17.4%.

Total economic and investment variance is negative ₹ 14.49 billion due to the shift in the yield curve and the equity market movement. Overall, this has resulted in EV growth of 12.7% for FY2023 with closing EV at ₹ 356.34 billion.

Our VNB margin for FY2023 stood at 32% as compared to 28% in FY2022. The contribution of VNB from non-linked savings products has increased to 53.4%. The VNB margin expansion can broadly be explained by the following.

- 3.5% points of margin improvement is due to the change in business mix, as contribution of non-linked portfolio increased from 32.6% in FY2022 to 45.2% in FY2023 with a corresponding decrease in the linked portfolio
- About 1% of the margin improvement came due to changes in operating assumptions, primarily taking into account some of the improvement in surrender rates under unit-linked products
- 0.5% margin reduction is due to the movement in the yield curve where we saw during the year for most parts arise in the yield curve. Comparison of the yield curve between the two years is provided in slide 74 and 75

On slide 32, sensitivity details have been provided. There is no significant change in the various sensitivities and overall, sensitivities of both VNB and EV to various factors remains low, reflecting a stable operating model.

Our VNB and EV have been reviewed independently by Milliman Advisors LLP and their opinion is available in the results pack submitted to the exchanges.

Slide 33 shows other financial metrics. The Company's profit before tax increased from ₹ 7.90 billion in FY2022 to ₹ 8.97 billion in FY2023, a y-o-y growth of 13.5%. Profit after tax for FY2023 stood at ₹ 8.11 billion an increase of 7.6% from FY2022. Our solvency ratio continues to be strong at 208.9% at March 2023, an improvement of 440 basis points from March 2022. Our AUM was more than ₹ 2.5 trillion at March 2023, a growth of 4.4% from March 2022.

This concludes the financial performance section, over to you, Jit.

Judhajit Das, Head – Human Resources, Customer Service and Operations:

Thank you, Satyan. Good evening. I will be sharing the salient aspects of our ESG journey. As shared in the investor pack, we received the highest ESG ranking in the Indian Insurance Industry by two well-known ESG rating agencies. I am also delighted to share that this year we received the 'Corporate Governance' award at the 'Dun & Bradstreet ESG Leadership Summit 2023'.

This year we expanded the terms of reference of our Board CSR committee to include review of sustainability activities and key ESG related disclosures. Under the Board Committee, we have the Executive Sustainability Steering Committee, this comprises members of our management committee and we are supported by a dedicated ESG resource. This Committee sets the ESG agenda and reviews progress every quarter.

I will now share the key highlights on each of the ESG focus areas. You can refer to slide 35 to 39 for more details.

- Starting with human capital, we believe that people are key to strategy execution and a source of our competitive advantage. We identified Diversity & Inclusion as a thrust area and our gender diversity has improved to 29% from 27% last year. We have a Diversity Council comprising senior colleagues and is chaired by our Chief Distribution Officer. This committee recommends, reviews and monitors D&I related initiatives. This year we also formalised a 'Human Rights Policy' to further strengthen our commitment to human rights and providing a professional work environment. I am also pleased to share that 90% of our employees gave us top 2 box scores on a 5-point rating scale on parameters like advocacy, morale and several others. Our approval ratings are also among the best in the Indian life insurance industry on a top global workforce platform.
- In the area of responsible investing, this year we put in place a Board approved policy to facilitate ESG integration in our investments. As a signatory to UN PRI, we remain committed towards integrating our responsible framework to promote ESG factors in our investment decisions.
- On governance, we continue to have a robust Governance framework with the Board having a majority of Independent Directors with an independent Chair, enabling the separation of the Board's supervisory role from executive management.
- In the area of access to finance, we have specially designed micro insurance products targeting socially and economically weaker sections governing 61.8 million lives as of March 2023. Our 13th month persistency ratio of 86.6% is one of the best in the industry and this year we settled around 246,273 retail and group death claims and overall our retail and group death claim settlement ratio stands at 98.64%. As mentioned by Kannan, in the industry Net Promoter Score (NPS) survey conducted by Hansa Research, we were ranked the 'Best Life Insurance provider in India'.
- On environment, our focus has been on reducing our carbon footprint. We have already calculated our scope 1, scope 2 and partial scope 3 emissions which have been verified by external sustainability consultants. Going forward we intend to have quantitative target for reduction in carbon footprint using the SBTI methodology and we are working with an external consultant on the same.

To summarize, Sustainability is intrinsic to a vision of building and enduring institution as we serve the long term savings and protection needs of our customers. I would like to once again reaffirm our commitment to creating a culture that embraces sustainability and goes beyond goals and targets by integrating best in class sustainability practices with our business processes.

Moving on, I would like to highlight that we have added a section on innovation in the investor pack from slides 41 to 43. I am pleased to share that we have created a platform called 'Pi' which is a digital portal to encourage all our colleagues to share their ideas. More than 1,200 employees participated and we identified 100 ideas as projects for implementation. These ideas span improving the customer journey, launching new product features, improvements in process and many more. Some of these projects have been recognized at prestigious forums organized by Chambers of Commerce such as ASSOCHAM, FICCI and the Indian Chamber of Commerce (ICC).

Thank you and we are now happy to take any questions that you may have.

Moderator: Thank you very much. The first question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: The first one is that I mean very impressive numbers driven by the last two months of kind of a high ticket non-linked policy sales for you and the industry. However, overall if you look, numbers tells a lot of positive story about your result. Policy count, I mean despite the retail protection coming back a bit, the policy count still remains muted and that again brings to the very basic point that the entire narrative of the opportunity, under penetration is not reflecting somewhere even if you were to look at the policy count overall adjusting for retail protection. Somehow that, and now with the regulatory changes, it means the industry participants are a lot kind of excited or rather looking opportunities in terms of the increase commission and OPEX. So, now the question is that if you were looking, the industry is looking to increase the OPEX and cost. I mean how is the product, particularly on the saving side, going to remain really competitive for the policy holder. So, that is my first question. And second question is more on that the VNB margin and the VNB contribution to EV growth looking pretty strong, can we expect the EV compounding trajectory to be very different now because if I look at over the last four years, I mean it is close to a 14% kind of a compounding in EV and additionally we were doing so can we expect the EV compounding trajectory to be different going forward?

Satyan Jambunathan: Thanks, Avinash. I think your first question was actually many questions rolled into one. So, I am trying to break down your question and answer them. The first point that you made was with respect to the strong growth in Q4 being driven by high ticket, I don't think that is entirely true for us. It may well have been true for many of the other market participants, but equally from the market numbers that you would have seen earlier in the day today, you would have seen that that was not the case for everyone. Particularly, the channels that did very well on the high-ticket sales were those which had a higher access to affluent customers. Typically, some of the large banks, some portion of agency which cater to high networth customers and some parts of partnership distribution or some brokers who had a natural customer base over there. So, you will find Avinash that most others who did very well in the period got disproportionate benefit and we may not have got nearly as much benefit in the quarter as some of them deal with respect to high ticket cases.

Your second question on the same part was with respect to number of policies. And we have discussed this now for many quarters Avinash, and we have said this that there are two distinct reasons why our number of policies have not growth. One, the decline in one of our channels and two, the decline in retail protection. I can say this for sure, I have the numbers in front of me and you will start seeing them in the overall public numbers in the next few quarters that as the impact of that distribution channel decline goes down and as we have seen in Q4 retail protection picking up to a 27% kind of a growth, number of policies growth will start again. So, I am not so sure, I agree with the view that not growing number of policies in the last year or two years particularly in ICICI Prudential case is about any decline in the opportunity. This is more to do with the specific circumstance of our business, which we now believe is behind us. Your second question in the context of compounding VNB and expenses of management, again the first point I would want to make there Avinash is to say that I don't see anything in the expenses of management regulation to even suggest that cost for companies should go up. And I say this knowing that if indeed the industry were to price at the current expenses of management, then we would end up with customer proposition that we would not be able to sell. So, in a way the expenses of management is only an enabling framework and a boundary and effectively cost will depend up on affordability that we create through our business models. And that is something that we believe will continue to drive the industry, we do not expect cost for the industry to go up on any of these accounts. In fact, we are very conscious of the expectation of the regulator that we should systematically bring down cost over a period of time and that is what I would expect to see for the industry at large.

Your fourth, or the second part of your second question which was with respect to EV compounding. I think a number of things have changed in the way our business has evolved in the last four years. And I would venture to say that what we are today is not nearly what we were four years back and therefore to superimpose what happened in the last 3 years to 4 years into what could happen for ICICI Prudential over the next 4 to 5 years, I think will end up giving very misleading answers. I would much rather focus on what Kannan spoke about as what are we today; a diversified customer acquisition model with a varied distribution channel and a variety of product offerings to cater to the needs of all of these customers. Where we are today, we really do not have any qualms about the kind of growth or compounding the VNB that can happen from here on. One of course has to keep in mind that EV compounding will also be a function of market and to that extent there will be some volatility in the shorter term but I don't think we ever had even in the past any doubts about our ability to compound EV if at all today with what we had built we would like to think that our ability to grow EV from here on will be far more sound and predictable compared to what it has been in the past. So, I hope I have been able to answer your rather two long questions which I broke down into four.

Avinash Singh: Yes. Quickly, regulator EOM thing they have also mentioned that okay, passing benefit of direct. Now what is your position on that and how are you going to handle channel conflict if indeed you want to pass some benefit of the direct sourcing to the customer. I mean how do you think about it?

Satyan Jambunathan: Avinash, if I may just point or draw your attention to the current product regulations which already require that if there are any cost savings, they should be passed on customers to that extent pretty much every company today has an architecture of what they believe they can pass on as benefits or discount for direct sales. I am not seeing anything in the current norms to change that approach from where we are today and as a category, as this category moves more towards becoming a full product, I only think there will be a greater ability for insurance companies to offer better propositions to customers.

Moderator: Thank you. Next question is from the Swarnabh Mukherjee from B&K Securities. Please go ahead.

Swarnabh Mukherjee: Congratulation sir for the great set of numbers and, also the fact that you have very comfortably exceeded the VNB growth aspirations that you had. So, I will just from the previous participants query on the cost side wanted to take your views on this factor; so cost to TWRP has been bit high for us. You had earlier also commented and today also commented that investment in business would keep this elevated at least in the near term. Given the EOM levels and the limits that you have right now, how would we be placed in terms of the regulatory method of calculation in terms of EOM, where would we be, are we comfortably having a headroom in that and how would can it pan out over the next year? And then how should we think about in terms of our profitability and VNB growth given that the costs are slightly higher that could have a drag on that. So, that would be my first question and maybe also in line with that, some comment on margin although I understand that your focus is more on absolute VNB, but whether with the change in product mix, the new par product, how should we think about VNB and VNB margin? So, that is the first question. And on the second question, just wanted to understand the retail protection growth. The pure term number has started to improve as well along with the ROP. So, the pure term, from where the growth is coming and is this primarily from the ICICI Bank channel that is selling this. And also wanted to understand the ticket size does not seem to have increased over the last year, so what is the dynamics playing out there? So, if you could take these two questions and then I will have couple of more, I mean bookkeeping kind of questions that I will ask after this.

Satyan Jambunathan: Thank you for your very kind words Swarnabh with respect to the numbers and results. But like Kannan spoke about in the beginning, it wasn't just about the numbers for this year, it was also about positioning the business for the years beyond 2023. And that really is the context of your question with respect to where the expenses are going. And you are right, we have been speaking about this for a few quarters now as we have ramped up our ability and capacity to expand. I would just point this out Swarnabh to say that despite the increase in cost ratios, we have been able to still improve our VNB margin for this year and that is through a variety of other factors such as the product mix. Going forward we are very clear that internally through managing the other levers of business we want to and we will create capacity to invest in growth, because growth is the primary driver of the way we are looking at the way forward. So, to that extent even if costs in the short term end up being higher, it wouldn't really worry us because we believe we have enough ability and capacity to generate the ability to spend for growth into the future. With respect to your question on limits on expenses of management, these do not tend to be very public numbers but I can say this, we are well within the limits and we have no intention or desire to expand cost in a way that it reaches the limits. So, we will continue to focus on delivering good propositions to customer which creates opportunity not just within the insurance space but across the wider financial saving space and that is what our focus will be. With respect to your question on protection, I am going to hand it over to Amit to talk through where the growth has come from. But before I handover I think I am quite happy that the growth has not come from average premium. Fundamentally we have one commentator who would like to see us grow the number of policies and as long as we are able to deliver that I think we have made our objective of growing the segment. Amit?

Amit Palta: Thanks, Satyan. See, retail protection has been a slow process over a period of the last four quarters if I may say. We saw congestion and unfortunate change in underwriting guidelines and product restructuring and retraining of distribution leading to quite a bit of a slowdown in FY2022 which we saw sequentially quarter-on-quarter. So, lot of time was spent in investing and distribution, retraining and getting used to selling protection in a different way. I called the current regime of protection being 'Regime 2.0' if I may call it as for protection. So, lot of relearning had to be done. Protection product had to be repositioned from being very strongly positioned on a high sum assured segment through our affluent product, we introduced return on premium product to reach out and become more meaningful to mass and mass affluent as well. We started looking at ₹ 50 lakhs to ₹ 1 crore sum assured also as a focus area and suddenly we saw that since we had a more diversity in distribution, our access to mass and mass affluent was also much better in comparison to what it was earlier. We started seeing some results going into from quarter one to quarter two, quarter two to quarter three; which if you are to track it closely we saw a sequential growth from quarter one to quarter two which was very small at least we could capture the degrowth. From quarter two to quarter three was again a sequential growth and we had kept our eyes on growth coming to y-o-y in quarter four. So, while this entire hysteria was being created on non-linked savings business, we are happy to say that by deploying right product to the right distribution segment with access to diversify customer segments, we started seeing variety of results coming from various partners and it was not restricted only to ICICI. So, we say various partners who had access to customer segments which are very diverse from the ones we had in the past. Choosing the right product and selling it and there of course return of premium products also helped and they helped us get the right sum assured being sold to mass and mass affluent. So, it is a combination of the right product, introduction of new product, introduction of distinct advantages that we could offer through our products and more and more distribution channels getting used to selling new products and of course learning curve that went into from quarter one to quarter two to quarter three to quarter four which led to 27% growth in quarter four. So, that is all I have to say, in case you want anything else you can.

Swarnabh Mukherjee: Very clear, sir. That is very helpful. I also wanted to ask a couple of quick questions on numbers. May I go ahead?

Satyan Jambunathan: You can but if it is also okay after the call you want to connect back the team and get the details as well, that is also okay, given that there are other people also who might have question.

Moderator: Thank you. The next question is from the line of Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha: In 9 months, we disclosed that our high ticket non-ULIP is around 6% of the total business. If you can tell that number, what it is for Q4-FY2023 and FY2023, it will give us some indication on the contribution of the high-ticket policy. And the second question was ULIP margins if I see have come up significantly around 6.5% in FY2023 which is meaningfully low compared to what we have delivered in FY2021 and FY2022. So, I just wanted to understand is that anything to read because persistency and everything seems to be better numbers, still margins in ULIP has taken a hit. And last one on protection mix, in the past you used to give the disclosure of protection mix in this credit for the GTL and ICICI and non ICICI credit life. So, if you can give the details it will be easy.

Satyan Jambunathan: Sanketh, if I may talk through the questions, the first question on the share of the business coming from high ticket, I somehow get the feeling that we are making too much of an issue of that particular topic, especially in our context and we have been saying this in the past as well, the proposition standalone is strong enough to stand on its own feet even without tax advantage. As an industry and as a Company we are very clear that over a period of time, we prepare for a regime where there are no tax advantages. So, to that extent, it shouldn't really matter what proportion of our business comes from there. While we gave the numbers at nine months, that was in a particular context when the announcement was being made. At this point of time, all that we would like to say is that in the context of our 2023 FY full year numbers we do not believe that the so-called elevated sales of Feb and March are in any way material. And therefore, going forward as well, we do not expect this to impact our growth to a base effect in any adverse fashion. We will remain focused on improving the proposition to our customers and that is going to be the way we operate. With respect to your question on unit link, why the margin has gone down, I guess it is not always possible to have all shinning bright spots in all parts of the results. There are always pockets where there will be challenge. A unit-linked margin decline comes predominantly from two factors. One is the yield curve shift which has reduced the margin a little. And the second is our higher expenses in the year which have also been allocated for the segment which has reduced the margin for that segment. At the end of the day if I were to go back to two years back our unit-linked margins were in the same ball park. In FY2022 we saw the unit-linked margins go up meaningfully on the back of a lower conscious expense level that we had. So, I wouldn't read anything into this Sanketh. I would actually say last year was an aberration, we have mean reverted back to the levels of margins of that category that we had prior to last year.

Sanketh Godha: Got it. And on the credit lines of our group protection business mix, if you…

Satyan Jambunathan: We have not put it out at this point of time, we will see whether we can put it out at some time later, Sanketh.

Sanketh Godha: Got it. And last one if I can squeeze. The unwind rate at 8.6% seems to be substantially superior compared to what we have even reported in last 3 years. I believe it was FY2020 around 7.9% and 7.2% in last two years, FY2021 and FY2022 and this number seems to be materially very higher. So, just wanted to understand that are we building better returns on the equity is reflecting in the unwind rate or this 8.6% number is sustainable going ahead?

Satyan Jambunathan: Nothing of this sort, Sanketh. I will just start off by saying that when others were having unwind rates of 8.5% nobody told us that ours should be better. So, I will leave that aside. But fundamentally unwind rates are a function of the yield curve, you know that. And also, the underlying portfolio composition. Given that our portfolio composition has been changing from being more unit-linked dominated to including other categories as well, the higher unwind rate is a natural consequence of that. It is not on account of any higher expectation of investment return compared to the past. It is only a reflection of the underlying yield curve and the underlying composition of the book that they described.

Moderator: Thank you. The next question is from the line of Deepika Mundra from JP Morgan. Please go ahead.

Deepika Mundra: Thanks for taking my question. Back to our margin stand on the ULIP margin when you said higher expenses, is that mainly because of the change in the channel mix for the products? Still on the protection margin, we have seen better numbers despite the group mix being higher this year. So, what is driving that margin improvement within protection and lastly on the expense outlook, you mentioned that you were not looking to materially up expenses, but given the fact that more taxes on non-participating products, do you think more distribution effort will require, will lead to product level change in margin?

Satyan Jambunathan: Deepika, first question on unit-linked margins, I refer to the cost delta, last year was a conscious lower spending year. So the 9% category margin that you saw for FY2022 was in a way artificially elevated and that is the reason why I said to the last question that we should keep that out and look at the trend for FY2023 compared to FY2021 and then I don't think it is too far off the mark. There may be some element of channel mix, but I don't think that is the bigger driver. The bigger driver is overall cost ratio this year for us was higher than last year. That is a reality and to that extent it will get reflected in respective product segment margins as well. But going forward as I said, a couple of things may end up happening. First, the yield curve itself may see a change of shape next year. So, to that extent that will impact margins as well. Second given that most of my new business now has moved to other product categories, it may well become the case that my expenses allocated to unit-linked also change from the current levels into last year. But to that extent we are not too fixated on the product category margin, we would much rather look at it as an overall VNB. So, from our point of view no real concerns with respect to the emerging trajectory of segmental profit margins. Second question on protection. Yes, indeed the composition of group has been higher in this period compared to what it was a couple of years back, but I think last year as well the contribution of group was substantially higher. In fact, this year the contribution of retail towards the last quarter started improving a little bit, so yes, you do have a little bit of plus and minus. We tend to focus more on underwriting group business also where we are comfortable with the levels of profitability. And you will remember Deepika, we have had in past quarter from the result call conversation about given the strong focus on group term will this materially affect our margins over a longer period of time. At least what this year's results on margin for the segment also demonstrate is, yes, there will be some changes in the underlying product mix, but the overall margins have remained stable. Your third question with respect to expenses on the guaranteed return non-participating, I would only say this Deepika that if I have to increase expenses the only way to fund it is by passing it on to customers. And from here if I actually worsen the proposition to customer then that may well be an adverse impact on demand that I don't think the industry will be keen to get to. So, if at all I would see that we have to manage our sourcing strategy in a way that costs are not adversely impacted.

Deepika Mundra: Well, understood, sir. And one last one from my side. In terms of the new banks contribution in Q4-FY2023, what would that be on APE?

Satyan Jambunathan: Banks, fourth quarter we have not separated out. But for the full year we have shown there. For the full year ICICI Bank was about 14% of APE, other banks were 16% of our APE, quarter three was a bit of an aberration for us. You know our quarter three numbers were generally weaker across all channels. We did see a rebound in the fourth quarter coming through, but I don't think we have put out 4Q numbers specifically, but full year we have seen it move on to 16.

Deepika Mundra: Sir, what I actually meant was that any new banks that you all signed up in the last couple of quarters alone, obviously non ICICI Bank, whether any incremental contributions specifically in the fourth quarter form bank which were not present in the distribution mix before?

Amit Palta: Yes, so I will take that Deepika. So, some of the significant partners that we added in the last couple of quarters are the ones who actually got operational only in the month of March and they are still at a very early stage. We were in the process of still integrating the systems, getting the employees trained and product dissemination was happening during this period. So, the contribution from the new partnerships during this period was very limited and hence is not part of the overall growth numbers that you see from the banks other than ICICI or new partnerships in the last quarter. Just to give you a number broadly if we were to be growing at about 24% growth for our non ICICI Bank bancassurance partner, our growth was in the similar range, little more for quarter four as well, but it doesn't include any new bank partner, very small number was there in quarter four.

Moderator: Thank you. The next question is from the line of Supratim Datta from Ambit Capital. Please go ahead.

Supratim Datta: I will start off with firstly seeking a clarification to earlier question. So, is the understanding correct that you expect to deliver growth on top of the elevated FY2023 APE? That will be the first question. And the second one is regarding the new commission guidelines and you talked about how incremental distribution that have to be passed on, but then now that you have the flexibility to design your commission structure, wouldn't the banks who give you most of the volumes demand a higher commission. So, are you getting similar enquiries from the banks? So, that is the second question and thirdly, there has been a lot of talks around composite license and some of the life insurers have indicated that they are interested in entering the health insurance segment, so how are you thinking about that? So, those are the three questions.

Satyan Jambunathan: Supratim, your first question was with respect to VNB growth on the back of elevated VNB or APE?

Supratim Datta: APE growth.

Satyan Jambunathan: I am struggling to see how 12% APE growth is elevated growth, Supratim, quite honestly. If at all we would like to accelerate from here on, so I don't think there is a base effect challenge with respect to APE. With respect to your second question on will banks demand more, I don't think anything has ever stopped distributors from demanding more in the past. What is now very clear is an overlay on top of that from the regulator to say that I will expect companies to bring down their cost. This is a matter of balance that has to be found between the manufacturers and distributors. It will play out over a period of time. Our view at this point of time is that it should not increase cost.

N.S. Kannan: On composite license, Kannan here, I wanted to say that from our perspective it is a welcome move. We do believe that composite license will be good ultimately for the consumers. On our part, we always believe that health insurance is integral to life insurance and integral to our business and we used to operate this business until 2016. So, we would be very keen to watch this space and make our moves. Even pending composite license if regulators can allow us in some form getting into health indemnity business, we would be very keen to do that. Apart from health we do see the allied businesses or wellness-related activities as something which could really be of interest to us because that will round up the proposition to the customer in a nice manner. So, wellness and allied business is the second area of this proposed new regime if it gets through will be of real help. And finally, anything to do with the insuretech/fintech space, in which as the bill suggest, the draft bill suggest, if we can get some form of skin in the game kind of a stake in those businesses that will also be of interest. So, to summarize, health insurance, allied businesses and insure tech fintech, these are the three areas we will be very keen to pursue it.

Moderator: Thank you. Next question is from the line of Nidhesh Jain from Investec Capital. Please go ahead.

Nidhesh Jain: Congratulations to the team to achieve the VNB aspiration of doubling the VNB over last full year, which I think honestly was looking quite difficult in between. So, congratulations for that. So sir, firstly on the protection we have seen good growth in this quarter, what give us confidence that this growth is now sustainable and probably next year we should again see a double-digit growth on the retail protection side. Has underwriting, reinsurance and the distribution issues all resolved which gives us confidence that we will be able to show decent growth in the premium protection next year?

N.S. Kannan: Thank you, Nidhesh for your kind words. It was not an easy journey. Thank you for the compliments because we had lot of ups and downs, more of a downs than ups, but still, we manage to double the VNB, so that is quite gratifying. Thank you for that. On the retail protection side what gives us confidence, I will ask Amit to elaborate, but essentially how we came to fourth quarter number is lot of hard work across the quarters and sequential improvement month-on-month we have been seeing in this business. Amit will talk about the strategy. But the bulk of the frequent process changes or the pricing changes we believe are behind us. It is more of activating the channels and having a coordinated strategy. It is a very granular strategy. Amit, you want to talk about that, and this is what gives me confidence from an outward perspective, but Amit can talk about how he has been able to track this business.

Amit Palta: So, Nidesh, I've spoken about retail protection as an answer to one of the questions, but let me on a lighter not tell you it is not doubling of VNB, it is little more than doubling of VNB that we eventually delivered. So, thank you so much still. Now coming to retail protection, like I mentioned earlier as well, that the process of coming back on retail protection for the industry has been a long one, has been a very adverse one and protection the way it was sold prior to all the changes that happened in the ecosystem was a very different regime altogether, distribution, sales processes, practices, learning of products, access to customer segments was very different and the landscape had to undergo a change after all the processes and underwriting guidelines had to be changed because of the challenges in the environment. Subsequent to that as you know distribution is generally very granular in nature and spread across various types of distribution which starts from agency to partnership distribution to banker and eventually at the ground is being sold by the employees scattered right across the country. And what we have been able to do as an investment over a period of the last few quarters is to take advantage of the diversity of our distribution and not make one strategy fit all for all our distribution channels. We look back at the access of the customer segments that our various partners had to their customer segments and we aligned and made offer on products which were most appropriate for those customer segments. So, not everyone was selling one kind of product, so depending upon where the natural advantage was, we positioned an appropriate product and introduction of return of the premium product also helped our cause. So, I think this has been a learning process. There is nothing miraculous that has happened. I am sure this learning curve will further improve and we will get into the next financial year on a sequential improvement trend. Y-o-y has just happened as an outcome, but I am still looking at a sequential improvement. So, quarter two was better than quarter one, quarter three was better than quarter two, quarter four was better than quarter three, in between we just happen to see that it was a good y-o-y positive. So, y-o-y was an outcome, was not something that we were intending to work towards. Everything was a result of incremental steps that we were taking every quarter. This gives the confidence; y-o-y will happen on its own. Sequential efforts on distribution and innovation on products will continue and training of course will be very important because now it is a very different and hard-working model that what it used to be earlier which was largely focused only on affluent customers.

Nidhesh Jain: Sure, sir. Secondly on this high-ticket policy issue, the management team seems to be quite confident that the impact is minimal, but as an outsider we are quite worried that hypothetically let us say 10% of APE came in this year from that segment, but you guys seems to be much more confident that the impact is lower. So, how are we thinking internally to mitigate that impact because from a high-ticket customer who is buying ₹ 30 -40 lakhs of policy for him there is a meaningful impact on IRR and these are very informed customers. So, the value proportion for that customer has materially been impacted. So, how do you think that the impact of that will be much lower in FY2024?

Amit Palta: If I can take your question again, Nidhesh, see like I mentioned, in fact Satyan mentioned about this in the beginning as well. First of all proposition in the opportunity which was available to us, we leveraged it through our distribution partners who had natural access to affluent customers. And of course, there was value. There was a value because with tax benefit IRRs definitely look very good. But let me just share with you some incremental information as to what we watched and what we observed as a consumer trend or consumer preference within the same segment which is affluent. I am very happy to share that even in the annuity space which is one of the fastest growing category of products within industry and we are no different, more than 50% of our business sold in annuity segment actually is being brought over by the same customer segment which is affluent. Which means that this customer is still buying a proposition for his need in his world view and that product happens to be taxable. So, imagine the fastest growing & you may have seen disproportionate growth in Quarter 4 or in March for non-linked savings business, but otherwise if you were to look at overall year, the fastest growing product category for the year is actually annuity and that is taxable. And more than 50% of annuity sales is actually done with the same customer segment. So, incidentally even on sum assured from almost 50% on the protection sales still happens in a sum assured in excess of ₹ 1 crore which makes me believe that this is also a customer who is affluent. And there, you like it or not, but it is the higher GST product available in the protection space. He is paying 18% GST for the protection premium that he is purchasing the product for. So, I think this customer is not averse to paying tax or paying tax for the value that he is getting. It is just that he got the opportunity to save some because of this arbitrage which was available. I am sure the normalcy will prevail and we need to look at the options available to this customer, in line of the fact that physical investments are anyways moving towards financialization and within financialization what are the options available. And we believe that unit-linked product in the current form also under ₹ 2.5 lakhs is still a value proportion which is available on the unit platform which is much better. Even beyond ₹ 2.5 lakhs that structure is quite favorable to these customer segments. Yes, it is going to be lesser than what it was in March, but then look at the options available. I think this is still the best option available within the life insurance space specifically in long term savings category.

Nidhesh Jain: Are you planning to make any changes in the product structure to mitigate the impact, or how are you thinking about that from a product structure point of view?

Amit Palta: There is some ongoing process and we keep looking at taking feedback from distribution. We have a team that is talking to customers, we look at insights and we align our product as the time goes by and look at what is best for the customer and create it on the go. But at this point in time, we will see how it emerges.

Nidhesh Jain: Thanks. And lastly on the EV work, if you can share the reason for negative operating variance in EV walk and positive operating variance in VNB?

Satyan Jambunathan: EV walk there are no negative operating variances, Nidhesh. On the EV walk operating assumption changes is net negative. If I were to talk through what are the elements that are contained in this, I would call out three specific elements. One the increase in expenses meant that there was a small increase in the renewal unit cost as well. That was a negative impact on EV. Second, the group term business in the last year had in the price an expectation of claims on account of COVID. Post the pandemic when those schemes got renewed that loading was not charged anymore. Some of that is reflected as a negative in the EV walk. The third element is surrender rates in the unit-linked business beyond 5 years for us have been considerably lower than what we had assumed. We have capitalized some of that in the assumptions. That is seen both in the VNB in the margin as well as the EV. Net-net it is ₹ 1.61 bn negative. But if I were to look at it slightly differently and club operating assumption changes to all operating variances, even that is a net positive. So, net-net we are looking a RoEV driven predominantly by unwind and VNB with a small aggregate delta driven by the net operating piece put together.

Nidhesh Jain: And the operating assumption change in VNB work is completely driven by surrender rates of the 100 basis points?

Satyan Jambunathan: That is the predominant one which is there. There may be other smaller persistency related or modality related for certain segments. But yes, nothing to significantly call out, Nidhesh, that is of material nature.

Moderator: Thank you. Next question is from the line of Madhukar Ladha from Nuvama. Please go ahead.

Madhukar Ladha: Congratulations on the good set of numbers. Couple of questions from me. First, we see further improvement in non-linked savings segment margins, can you elaborate a little bit on the sustainability of these margins and how they have been derived, especially given now that the interest rate curve is lot more flatter and let us say how could these margin behave if interest rate actually go down, maybe after 6 months. So, how could that play out? Second, coming back on APE growth and for the non-linked saving segments, do you think there has been some preponement of demand even for the less than ₹ 5 lakhs segment. I am coming from a thought process that people might buy a little bit now and just say that okay at least I have that ₹ 5 lakhs available if I want to buy it in the latter years. Could that also impact demand going into FY2024 and onwards? Those will be my two questions.

Satyan Jambunathan: Madhukar to answer your first question, non-linked savings margin increase that we saw this year compared to last year is a function of the underlying intermix between par and non-par. The last two years have been about non-par doing well, if it still happens at next few years are about par doing well, then this portfolio margin may well not be the same as what you are seeing now, it may come down. I have said this in the past as well. So, to that extent the way we see it is not about margin, it is about am I still there from an opportunity point of view or not. Product segment-related margin expansion opportunities will come as protection mix expands and within protection as retail grows faster than group which we saw happening in Q4. So, you will always have at a sub product category some changes which happen. But I think the really very good structural part of the life insurance business is that we have so many underlying distinct needs in segments that we don't need to worry about everything firing in the same fashion every period. I have unit-linked savings, I have par savings, I have non-par savings, I have annuities in savings, I have retail protection, I have credit life, I have group term, I have micro insurance, I don't think there is any other business model around us that has so many different opportunities that is there. So, I am never going to get worried about whether one segment in terms of mix both up or down, I think there are enough opportunities overall for that to ride, but to go back to your fundamental question if non-par mix goes down and par mix goes up, average portfolio margin of non-linked savings can go down but we will deal with it as we get to it. The second question with respect to preponement of demand I will hand over to Amit to answer that.

Amit Palta: Yes, actually we were tracking it. Good you asked this question. I have actually the answer very much ready. As you know, March business generally sees a scale up over February and this happened last year as well and did happened over the years. So, we were also internally tracking this business closely and we saw that this scale up that we had last year in less than equal to ₹ 5 lakh kind of a premium which is the premium segment that you are talking about actually scaled up almost the same from February to March last year like the way it did this year. So, if at all there is a preponement the systemic preponement generally happens every March if at all you call it as preponement. So, the movement from Feb to March was absolutely identical to what we saw last year, the entire swing of course we saw in the more than ₹ 5 lakh category but the less than equal to ₹ 5 lakh is exactly the same.

Madhukar Ladha: Got it. Satyan, just on part of my first question, how would the interest rates curves and flattening of the interest rate curves impact the non-par margins?

Satyan Jambunathan: Sorry, I missed that one. Yes, you are right. I don't think that the change in the yield curve or the change in interest rate should affect margins in any fashion. Eventually, what will matter is if the spread between expected return and actual return passed on to customer kept the same or not. So, to the extent that we can reprice the product practically every month to reflect the yield curve, level of yield curve or shape of the yield curve doesn't bother us. If competitive action enhances or reduces, that can change the spread. But I don't think one needs to be worried about the yield curve.

Moderator: Thank you. The next question is from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.

Nitin Aggarwal: Congratulations Kannan and entire team on surpassing the VNB guidance. Few questions right now. Firstly, if you can broadly share the mix of business that you sold through ICICI Bank this quarter and do you expect further decline in this channel mix from here? And secondly on the retail protection side, where in the growth has really picked up, so have we gained market share in this segment and what is the mix of ROP business here?

Satyan Jambunathan: ROP is disclosed in the slide Nitin. Whether we gained market share or not I have to wait for the disclosure of others. So, maybe we can have that conversation on the side couple of weeks from now. On the other question…

N.S. Kannan: Yes, so only thing I will add there is that overall sum assured market share 11 months we have done very well compared to last year. So, overall, the sum assured market share we have been picking up some momentum. And Nitin, thank you for your kind words. Thank you for all the support. On ICICI Bank you asked the question, at about 14% of my mix it doesn't really move the needle anymore too much going forward. Yes, it has been stable. We have started doing the monthly disclosures also. You would have seen. It's been stable at around a billion rupees as month. So, that is what it is currently doing. I would expect that to be around that as it move forward. But beyond that doesn't really move the needle in terms of impacting the overall APE if it goes down further. So, that is the stage we have gotten into. So, whatever the bank gives us we will be happy to take that is it. Those are the two questions you asked. Any other questions you have?

Nitin Aggarwal: No, that were the two question. Thank you.

Moderator: Thank you. The next question is from the line of Neeraj Toshniwal from UBS Securities. Please go ahead.

Neeraj Toshniwal: So, my first question is what is driving the improvement in the 61st month persistency? And follow up on that is, why is it not clearly getting into renewable pool, because renewable pool is still getting much lower. So, how to reconcile that?

Satyan Jambunathan: Every cohort's persistency improvement is also a function of preceding cohorts. Today if you see the 61st month persistency for the industry, it will predominantly be driven by unit-linked persistency for most private companies and participating persistency for LIC. Now given this and you would have noticed this even through the segmental persistency disclosures over the past few years, that we still stand head and shoulders over every other company with respect to unit-linked persistency. And what you are seeing is 61st months, today is just the accumulation if you will, of improving prior period persistency over a period of time, nothing dramatic overnight. Does this flow into renewal? Yes, there is a positive effect to renewal. But the bigger driver of renewal again is the pace of new business growth over the recent past. And to that extent because we have not been that strong, for all of these persistency improvements visibly show up in the renewal premium will only follow once growth also starts to pick up. But it is sitting in the renewal, without this possibly the renewal numbers would have been little worsened.

Neeraj Toshniwal: Are we looking to change the assumptions which we talked about earlier in terms of persistency we had some buffer?

Satyan Jambunathan: Slowly and steadily, we did a little bit on surrender this time, maybe we will pick up some of the other buckets over a period of time.

N.S. Kannan: As we get more confidence.

Satyan Jambunathan: Yes. And do you know Neeraj we have not, as a house we have not been of the view that we capitalise everything at one go and then put it at risk to see whether it will be sustained or not.

Neeraj Toshniwal: Last question, from the March month growth, how much if we have to attribute on the higher ticket sales. So, you have mentioned minimal, but if we have to really attribute how much would have been coming from seen in the budgetary headline, what would the realistic number to look at?

Satyan Jambunathan: Neeraj, I have been very gently trying to dissuade you from asking that question by saying what I did. I go back to what I said, the more relevant aspects are is the product proposition standalone good enough? And two, was it so much of a business in the last year that it should create a base. Did it add more than it normally does in the month of March, yes it did. Did we take advantage of that, yes we did. Did others take more advantage of that, I am sure they did.

Nitin Aggarwal: So, does it give us the confidence that in repeat or have you changed the strategy or is it just the March season, if you not at all attributing to budgeting, is the seasonality, the March factor or do you think it will be repeated in the going forward in FY2024.

Satyan Jambunathan: There is always seasonality. But I think both Kannan and Amit have been talking at length about distribution capacity and product capacity build out that we have been working on all of this time. A lot of what you are seeing now in terms of the outcome Neeraj is what we have done as good work over all of this period. You see these growth numbers are more pronounced because also ICICI Bank share and that impact is also gone down over a period of time. But reality is, four years, +18% CAGR on APE ex-ICICI Bank. So, to that extent it is really about building that wider distribution which is creating it, not so much of a seasonal or a mood-based phenomenon. Yes, there may be some of it, there will be some of it.

Neeraj Toshniwal: So, getting into FY2024, how to think about growth in terms of APE and VNB going forward?

Satyan Jambunathan: Again no different from what we have spoken in the past. Our expectation of growth across various segments still remains quite stable. Savings business for the industry more or less in line with the nominal GDP growth. So, the extent that we have been building some distribution capacity, can we move at those levels are slightly higher, I think that is an opportunity. Protection we still think we will grow faster than savings and that may well add to growth on an overall basis as well. So, no change in view with respect to growth opportunity from what we have discussed in the past.

Neeraj Toshniwal: And last question, if I may, is in the ICICI Bank, we have already 13% contribution now. So, do we think that in quarter go down or does it become stable or it will improve from here. How are we thinking about in our overall scheme of things?

Satyan Jambunathan: I think again Kannan addressed this when he said that there seems to be producing about a billion rupees of APE each month, if they remain at a billion a month and other grow faster, logically the share will reduce, but that's okay, it is what it is.

N.S. Kannan: And the drag in terms of decline, would go away, hopefully. But it is not in our hands. It is their approach towards distributing third party products.

Moderator: Thank you. Next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Congratulations on the good set of numbers. Three questions from my side. First, on the banca bit, if you can just give some color on some of the larger non ICICI partners and how they have been growing, I mean it may be specifically the top 2 or 3. On the context that maybe some of them would also incrementally focus on liability mobilization, not from a product competition perspective or maybe from RM bandwidth perspective out there. Second also is some of this part, Satyan incrementally discussing about opening up or expanding the partnership tie ups compared to what they already have. Second, if you can give some color on the annuity business and the variance types whether it is deferred variance that has been sold more in some of the other variance, maybe more from a FY perspective or maybe on quarterly perspective. And lastly if you can breakdown your unwinding into RFR and excess returns?

Satyan Jambunathan: I will let Amit answer the questions on distribution. But the unwind, Dipanjan, we have not broken out in disclosures. We are not expecting to do that at this point of time. But you can kind of back-work it from the yield curve that you have.

N.S. Kannan: Kannan here, I will ask Amit to specifically talk about what is the outlook for top 2 to 3 players in banca other than ICICI Bank. He will talk about the outlook. And you also asked in the context of thereon efforts towards deposit accretion. He will talk about that. I will ask him to give a general color. And on this opening up, we do see it as an opportunity because in over a period of time, now we have got good handle of how to drive business in multi partner shops in banks, that we have been able to push that forward in the last year and a half or so. And also given that for, we will be one of the largest bancassurance partner company for any bank promoted company. We do believe that our pitch book is very strong when I go to the potentially opening up banks. So, there I can make a strong case of getting into those banks. So, I do see it as an opportunity. We do have a very strong alliance team which keeps quoting for this opportunity. And I think at some point in time, we will be able to add a few mid-to-large-sized banks as we go along. You want to talk about the first part, Amit?

Amit Palta: So, specifically talking about banks other than ICICI, we have seen that they have been quite appreciative of the need to bring their fee income up and they have been focusing a lot in building, cross selling capabilities and we have seen most of our partners talking about getting more and more employees of their going through the licensing process and becoming part of the overall insurance sale process. That we have not seen coming down as a focus. While there has been discussions about asset liability mismatch which typically is witnessed on the growth side across the banking sector. But I still believe that almost if I want to take a guess, almost ₹ 150,000 crores to ₹ 200,000 crores is what is the fixed deposit utilized in a month by banking system. Insurance industry whole, forget about a company, industry as a whole does around ₹ 7,000 to ₹ 8,000 crores of premium which is very small fraction of the overall dispute mobilization that is done by banking industry. So, I think while the focus on deposits will continue and I think almost every bank is very sensitive to drive fixed deposits. But again the category of products are so different, one is short term with liquidity as a benefit, whereas our product is much longer term in nature offers a very distinct advantage. And I think most of our bancassurance partners have matured into accepting both as two different category of product serving two different needs of the customers. In terms of our success rate with all the other bank partners, actually we have been growing our share in most of the shops over a period of time, a large number of these partnerships we stitched almost two years back and we have seen progressively our share actually has reached a point which is highest that we have witnessed in last two years. I am talking about specifically quarter four. So, that is about the outlook on the other banks. In terms of the opportunity on new banks and new partners, I think that is an ongoing effort, given a choice we would like to tie up with all. But yes, this is a long process. It has gestation, but we are in it. Wherever we see an opportunity we are there making a proposition on fee income and our principle offer to our partners on increasing the overall revenue pie by working in the white spaces and helping the partner grow their overall pie and they away what they are doing with their existing partners. So, that proposition stays and that is something that we are going ahead and meeting newer partners. On non-bank partnerships we have been quite active and it is there in the deck somewhere, we added more than 100 non-bank partners as well last year. And that effort will continue. And we have seen that what you acquire typically in a year starts yielding results in 2 to 3 years time frame is what we have witnessed over a period of last so many years now having invested in partnership distribution space and that is something which also is helping our overall partnership distribution to grow much faster than any other distribution channel. So, that trend is no different for last year in comparison to years prior to that and I don't see any reason why the trend will change again in the coming years. So, that is how I would like to answer your question.

Dipanjan Ghosh: Sure. Just on the annuity mix, if you can give some color?

Amit Palta: See, one big trend as I can speak on annuity is that annuity is typically for a customer where a benefit starts accruing to him once he is retired. So, earlier it was about retired customers coming and investing lump sum into immediate annuity products, like we would start annuity immediately. Then the new customer segment was explored. Customer started looking at planning for the retirement much earlier which we called it as deferred annuity. On a single premium proposition, they started investing much earlier. So, we saw younger customer is starting to invest the annuity where he will invest now and start his annuity in 8-10 years later, which we called as 'deferred'. And what we witnessed in the last year and a half or so is that insurance industry introduced regular premium variant of deferred annuity. Which means that somebody who doesn't have a lump sum to invest in single premium and wanted to look at systematic investment as a root to plan for retirement, started adopting regular premium annuity product and that has been the most successfully run category within annuities over a period of last 12 months as witnessed by us.

Dipanjan Ghosh: Would you like to quantify or just leave it at that.

Amit Palta: We don't break it out, but on side discussion we can probably share.

N.S. Kannan: Some kind of colour Amit has already given, because of late we have seen regular premium annuity picking up. That is the current trend. So, let us see how it goes.

Moderator: Thank you. Next question is from the line of Mohit from BOB Capital. Please go ahead.

Mohit: My question is that if you see, do you foresee any change in the retail protection premium or do you think whatever hike had to happen has been done and now it has capitalised?

N.S. Kannan: As of now we are not foreseeing any changes and we do believe that whatever has to happen has happened.

Mohit: Okay, so basically no pressure from the reinsurers to have any hike, right?

N.S. Kannan: Yes, as of now there is no such conversation. We only hope that at some point in time they will come and reduce the price.

Mohit: Alright. Another question is basically in terms of persistency. So, if I look at the bancassurance persistency, it is actually lower than your average both on 13th and 49th month. So, is there a cause of concern or do you think that this will pass in the coming quarter?

Satyan Jambunathan: I think we have to recognize structurally that high engagement channels end up with a much higher persistency than relatively lower engagement channels. These are structural dynamics of distribution. I wouldn't read too much into it or worry too much about it. What is very clearly there is that partners recognize the merits of retaining customers for long and to that extent they are aligned to our efforts at improving persistency.

N.S. Kannan: And that is where I also feel that the proposed EOM guidelines which incentivize relatively more the renewal premiums compared to the new business premium, would be beneficial for the customers ultimately and we can drive through that behavior by all the partners including the partners who may not have that kind of a level of engagement with their customers.

Amit Palta: If I would also add, once you have the disclosures from other companies as well, they would share category wise persistency and you would know and appreciate by category, unit-linked persistency is relatively lower to non-linked, that is because customer doesn't lose in unit linked, funds only go into discontinuation and hence relatively in comparison to product categories, unit-linked has lower persistency in comparison to other categories and this is an industry phenomenon. Incidentally in bancassurance, ICICI Bank even in current form is half of our business in banca. So, in banca, half is done by ICICI and half is done by non ICICI and ICICI you know is only unit link. So, that could be one of the reasons that you may be seeing an aggregated number in banca where the number could be slightly lower to the extent of higher unit link.

Moderator: Thank you. Next question is from the line of Nischint from Kotak Securities. Please go ahead.

Nischint: Just a clarification, in the entire unwinding rate change reflects the RFR and probably the duration of the product mix change, right, or have you made any changes to the adjusted return or something?

Satyan Jambunathan: It is exactly these two Nischint, no other change, no change in method or anything else.

Nischint: And how should we really think about unwinding rates next year if we sort of make an assumption that you move from a flattish to a more upward sloppy curve? Because I think what seems to have happened is, it seems to have caused significant benefit in the unwinding side without not much movement in the longer end. So, if you see, the shorter end kind of is coming off then probably you might revert to where we were last year. I am just trying to kind of understand how it works because I don't really have any data points to write this?

Satyan Jambunathan: It may still be a function of where my cash flow patterns are. If it is shorter term cash flows, then steepening of yield curve through drop-in rate of the shorter term could have reduction in unwind rate. But to the extent that most of the cash flows are longer-term, the short-term shape of the curve I don't think should significantly impact the outcome. It is just the level of the yield curve which will be the bigger determinant than just the slope.

Nischint: You would probably say that the large or the significant contribution of the increase in unwinding rate this year was the movement of rates, not the change in the shape of the curve?

Satyan Jambunathan: And underlying composition. Given that my non-par and par is significantly higher term compared to unit-linked which would have been a shorter term concentration of cash flow pattern, that also feeds to the underlying.

Nischint: Sure, got it. And just one small clarification you said that change in surrender rate assumption for ULIPs, this had a positive impact on VNB walk and a negative on EV walk?

Satyan Jambunathan: Yes.
