ICICI Prudential Life Insurance Company Limited
Earnings conference call
Quarter ended June 30, 2022 (Q1-FY2023)
July 16, 2022

N. S. Kannan, Managing Director & CEO:

Good evening and welcome to the results call of ICICI Prudential Life Insurance Company for the quarter ended June 30, 2022. I have several of my senior colleagues on the call with me, Satyan Jambunathan, 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 is responsible for Audit, Legal, Risk and Compliance; Manish Kumar, who manages Investments; Souvik Jash, Appointed Actuary; Dhiren Salian, Deputy CFO; and Dhiraj Chugha from the Investor Relations team.

At the start, I would like to talk about the three developments during the quarter before I move on to our performance:

First development: As you know, we had our 22nd Annual General Meeting (AGM) through a video conference on June 27, 2022. All the items specified in the notice of the AGM were approved by the shareholders of the Company. The items as you know included, among others, the reappointment of three directors, Mr. Sandeep Batra nominated by ICICI Bank, Mr. R. K. Nair and Mr. Dileep Choksi, Independent Directors, and then approval of financial statements, final dividend for FY2022, and the material related party transactions for FY2024.

Further, we have voluntarily adopted the Business Responsibility and Sustainability disclosures (BRSR) for FY2022. It's a conscious decision to adopt the BRSR framework ahead of the statutory timelines and thereby reiterate our commitment to transparency in disclosures and also to promote a culture that embraces sustainability practices along with our business processes.

Given our ESG focus, we were the only Indian insurance company to be featured in the list of top 100 companies in the 'Most Sustainable Companies' by BW Businessworld and Sustain Labs Paris. FTSE Russell has improved our ESG rating score from 3.3 to 3.7 and we have been a part of FTSE4Good Index since last year.

Second development: During the quarter on the regulatory front, I had mentioned in the last quarter itself, that the IRDA Chairman took charge in March 2022. Since then, the regulator has engaged more frequently with the industry and we have witnessed some regulatory changes being set in motion - such as a shifting to Use and File process for certain categories of new products, rationalization of regulatory returns, and relaxation of solvency requirements for the PMJJBY scheme. As indicated in the first industry meeting, the Chairman has conducted the bi-monthly meeting with CEOs of all life insurers, and has provided a roadmap for further regulatory development. Eight thematic committees were formed to examine various phases of the regulatory framework, and all eight committees have submitted their report to the regulator. We believe we can expect further changes to the regulatory framework in the months to come based on the recommendations of these committees.

The Chairman has also expressed his intent to enable ease of doing business and has proposed initiatives to be run in mission mode - such as shifting to a risk-based capital regime, Ind-AS accounting standard and risk-based supervision. We expect our solvency to substantially improve under a risk-based capital regime.

The Regulator is also evaluating leveraging data and technology more and expects the industry to focus on enhancing awareness, serving the underserved, orderly market conduct and data security among other things. The Regulator is keen to set objectives collectively for the industry to improve insurance penetration and is willing to support the industry towards achieving these objectives. So, if I have to summarize, the Regulatory focus is going to be on growth and development along with ease of doing business.

Third development: During the quarter, financial markets have continued to exhibit increased volatility, given the continuing geopolitical conflict and the subsequent trade sanctions. Continued supply chain challenges have led to spike in commodity prices with crude oil trading at elevated levels. While inflationary pressure remains high, most central banks have increased policy rates. We are also witnessing global economic growth concerns. Domestically, though inflation remains high, policy interventions by the government as well as interventions through monetary policy changes by the RBI are likely to limit the inflationary spiral going forward.

Large net outflows by Foreign Institutional Investors (FIIs) have caused significant volatility in the capital market, directly impacting the unit linked business. While consumer preference for non-participating guaranteed saving products still continues, increase in yields in domestic market could place pressure on this business segment given that it could become more challenging to compete with other categories of savings products in the market.

I will now move on to our performance for the quarter in this overall background.

Our 4P strategic elements i.e. Premium growth, Protection business growth, Persistency improvement, and Productivity enhancement continue to guide us towards our objective of growing the absolute Value of New Business, while ensuring that our customer is at the core of everything we do. Along the way, we have also been integrating ESG aspects into the management of our business.

I will summarize the performance on the 4Ps through slides 5 to 9, and then conclude with a commentary on the VNB. Satyan will then be taking you through our performance in detail.

Let me start with the first P of our strategic elements, which is **Premium growth**.

Our Annualized Premium Equivalent (APE) grew by 25% in Q1-FY2023 to ₹ 15.20 billion, a robust growth despite the market volatility and the overall background of the environment. We continue to maintain a very well diversified product mix with the contribution from the linked savings products at 40%, non-linked savings at 28%, protection at 22%, annuity at 6% and the balance 4% coming from group savings products.

Through our focus on acquisition of new partners and investment in creation of new sourcing channels, we continue to diversify our distribution mix as well. In our Q1-FY2023 APE, on slide 6, Bancassurance channel share was 35% within which share of banks other than ICICI bank, grew to 15%. Agency channel share was 22%, direct business share was 11% and share of other partnerships was 11% and the balance was contributed by the group line of business.

We believe that our diversification agenda both on the product side as well as the distribution mix is well on track, enabling us to manage the impact of the external environment and respond to changing consumer preferences in a much more agile manner than in the past.

Moving on to the second P of **Protection business** growth on slide 7.

Our total protection APE grew by 22% to ₹ 3.3 billion in Q1-FY2023, increasing the protection mix from 17% for FY2022 to 21.7% for this quarter.

I would like to highlight that based on total New Business Sum Assured, our market share has increased from 13.4% for FY2022 to 15.8% in Q1-FY2023. With this, we have not only increased our market share lead within the private sector, but we have achieved overall market leadership in terms of New Business Sum Assured.

We continue to take a risk calibrated approach and our underwriting practices are commensurate with the prices offered, including emphasizing sourcing of preferred customer profiles.

On the third P of **Persistency improvement** which is presented in slide 8.

We continue to see further improvements across all cohorts. Our 13th month persistency ratio has increased by 90 basis points to 85.5%. Similarly, our 49th month persistency ratio has increased by 160 basis points to 65.0% at the end of June 2022.

On the fourth P of **Productivity enhancement** presented in slide 9.

Our total expenses grew at 18.6% year-on-year for Q1-FY2023. Our cost to total weighted received premium was higher at 23.8% for Q1-FY2023. While the absolute expenses are higher as compared to the same period last year because of our continuing investment in business growth, you can see that the new business growth is higher than the growth in expenses.

Alongside our 4P strategy framework, we continue to maintain a **resilient Balance Sheet** as presented in slide 10.

We have evaluated insurance risks and mortality experience and they are within expectation and we will continue to monitor them closely. Our solvency ratio was 203.6% as of June 30, 2022 compared to the required ratio of 150%. So, we are well capitalized, much ahead of the regulatory requirements.

On the credit risk, only 0.3% of our fixed income portfolio is invested in bonds rated below AA and we continue to maintain a track record of not having a single NPA since our inception. Of our total liabilities, non-par guaranteed return products comprise about 2.2%. We continue to closely monitor our liquidity and ALM positions, and we have no issues to report.

Now moving on to the **Value of New Business (VNB)**, as a result of the above drivers described, VNB for Q1-FY2023 was ₹ 4.71 billion, a significant growth of 31.6% over the corresponding quarter last year. Given our APE of ₹ 15.2 billion, the resultant VNB margin was 31% for Q1-FY2023 as compared to 28% for FY2022. While this increase in VNB margin is primarily on account of shift in underlying product mix, we continue to focus on absolute VNB growth, which is the stated objective.

Before I hand over to Satyan to talk through some of the details of the financial and performance numbers, I would like to mention that we continue to maintain our objective of doubling our FY2019 VNB by the end of this financial year, which requires a growth rate of about 23% over the last financial year. With a VNB growth of 31.6%, for Q1-FY2023, we believe we have had a very good start to the year and we are on track to achieve this aspiration.

Our primary objective is to outperform the industry on VNB growth over the medium term, even if our APE growth relative to the market may be influenced by the distribution strategies of some of our partners. Towards this, we believe all the necessary levers continue to be available with us.

Thank you and I now hand over the call to Satyan before taking the questions from you. Thank you.

Satyan Jambunathan, CFO:

Thank you. Good evening, everyone. Our primary focus continues to be to grow the absolute Value of New Business through the 4P strategy of Premium growth, Protection business growth, Persistency improvement and Productivity enhancement.

The first element of **Premium growth**: We continue to leverage on our innovative and comprehensive suite of products, distribution strength, robust technology and strong risk management architecture. Coming to product performance on slide 15, we have registered a strong growth year-on-year across all product segments except group funds business which tends to be lumpy in nature. For the quarter, our annuity business grew by 69%, non-linked saving grew by 41%, and protection grew by 22% year-on-year. Linked savings business growth has been moderate due to volatile market conditions in Q1-FY2023. The regular premium variant of our annuity product contributed to almost 40% of annuity APE while the return of premium variant of our protection product contributed to 18% of the retail protection APE. Both of these were relatively newer product launches in our stable.

With this, our overall APE saw a growth of 25% year-on-year to ₹ 15.20 billion for Q1-FY2023.

With an APE of ₹ 0.98 billion in Q1-FY2023, we were one of the largest pension and annuity providers in the market. The mix of annuity in terms of new business received premium was about 18%. Our wholly owned subsidiary ICICI Prudential Pension Fund Management Company Limited, distributes products under the National Pension System and is registered as a Pension Fund Manager (PFM). This business is synergistic to our annuity offerings, and is expected to support the growth of the annuity business in the future. The AUM managed by the PFM has increased by 40.4% over June 2021 to ₹ 117.4 billion at June 2022. The PFM has a market share of 14.8% in the private sector AUM at June 30, 2022.

Moving on to distribution, we have continued to enhance our distribution network across channels. In the agency channel, we have added more than 6,800 new agents. Within the Bancassurance channel, we now have a total of 30 bank partnerships. On partnership distribution, we have added 13 partnerships during the quarter, and now have more than 800 partnerships across traditional and non-traditional distributors, such as web aggregators, payment banks, small finance banks, and insurance marketing firms. For the direct channel, the strategy has been that of upsell to our existing customers, aided by analytics, and leveraging synergies between physical upsell and online digital sales processes.

Coming to the performance of these distribution channels on slide 18, we saw a strong growth across most distribution channels. Our Bancassurance channel APE grew by 12% year-on-year to ₹ 5.28 billion in Q1-FY2023. Within this, bank partnership other than ICICI Bank grew by 71% year-on-year. Our agency channel APE grew by 25% year-on-year to ₹ 3.41 billion. Our direct channel, which is primarily a unit-linked dominated segment, remained flat primarily owing to the volatility in the market. Our partnership and group channels grew by 66% and 50% respectively in Q1-FY2023 over the same period last year.

The second element of **Protection growth** on slide 20, with an APE of ₹ 3.30 billion, the protection segment saw a growth of 22% over Q1-FY2022. Our total New Business Sum Assured stood at ₹ 2.21 trillion for Q1-FY2023, a growth of 25% year-on-year. As Kannan mentioned, we had the highest overall market share of 15.8% for the quarter, a significant improvement over 14.7% in Q1-FY2022. While supply side challenges persisted in the retail protection segment, we continue to take advantage of the opportunity available in the group segment, specifically on group credit life products.

The third element of Persistency improvement on slide 22. We continue to have a strong focus on improving the quality of business and customer retention, which is reflected across all cohorts. Our 13th month and 49th month persistency ratios improved to 85.5% and 65.0% respectively at June end.

The fourth element of **Productivity enhancement** on slide 24. Our overall cost to total weighted received premium ratio stood higher at 23.8% for Q1-FY2023 as against the 19.9% for the same period last year. Similarly, our cost to TWRP ratio for the savings business stood higher at 16.9% primarily on account of decline in the renewal premium. While the absolute expenses are higher as compared to Q1-FY2022, the new business growth is higher than the growth in expenses, and we would therefore not expect margins to be adversely impacted because of expenses.

Additionally, we have also included details on our data excellence center on slide 39. It enables us to gain a deeper understanding of customers by analyzing the information of customers, their behavior and interactions, and thereby enables us to provide a more personalized and positive experience to every customer at every phase of their journey. We will continue to invest more in data science and data analytics, which continue to be central to our strategy, aiding us to provide better value to our customers.

The outcome of our focus on these 4P's on slide 25 has resulted in the VNB of ₹ 4.71 billion for Q1-FY2023, a growth of 31.6% over Q1-FY2022. Given our APE of ₹ 15.2 billion, the resultant margin was 31.0% for Q1-FY2023 as compared to 29.4% in Q1-FY2022. While this increase in VNB is primarily on account of shift in underlying product mix, we continue to focus on absolute VNB growth, which is a stated objective. As the product mix evolves over the rest of the year, the VNB margin is expected to move in line with the underlying product mix.

Coming to the **financial metrics**, our Profit After Tax for Q1-FY2023 was ₹ 1.56 billion compared to a loss of ₹ 1.86 billion in Q1-FY2022, primarily on account of significantly lower claims and provisions due to COVID-19. For the quarter, of the IBNR provision held to ₹ 0.24 billion last year, we received COVID-19 claims amounting to ₹ 0.16 billion. So far, we have got less than 10 claims pertaining to deaths due to COVID-19 in Q1-FY2023, but we will continue to monitor the emerging mortality experience closely. We also continue to hold IBNR provisions of ₹ 0.24 billion at June 30, 2022.

Our Solvency ratio continue to be strong at 203.6% at June 2022 and our AUM stood at ₹ 2.3 trillion.

Before I conclude, I would like to give a brief update on our ESG initiatives for Q1-FY2023. Given the nature of our business, we have focused on the ESG themes of human capital, responsible investing, governance and business ethics, data privacy and security, access to finance, environment, and Corporate Social Responsibility.

We have released our FY2022 ESG report during the quarter. As Kannan mentioned earlier, FTSE Russell has improved our ESG rating score from 3.3 to 3.7. And we have also been part of the FTSE4Good Index since last year. We have also instituted a Diversity Council chaired by our Chief Distribution Officer with an objective to steer the agenda of equal opportunity, diversity and inclusion in alignment with business needs and priorities along with reviewing diversity metrics and evaluating progress on diversity and inclusion goals.

With this, I conclude our ESG approach and initiatives. We believe ESG integration is an ongoing and evolving process and we are committed to progress on it.

To summarize, we will monitor ourselves on the 4P framework of Premium growth, Protection business growth, Persistency improvement, and Productivity enhancement to improve expense ratios. Our performance on these dimensions is what we expect to feed into our VNB growth over time. Thank you and we are now happy to take any questions that you may have.

Questions and Answers

Sanketh Godha: If I do a back calculation of the numbers, I see that individual protection has clearly declined by almost 40% in the current year. So, just wanted to understand that whether any revival we can expect in that particular business going ahead? And second point with respect to the protection, you said the group protection growth of 70 odd percentage is what we reported. How sustainable it is? And I just wanted to understand anything with respect to reinsurance with respect to the particular segment which could have a bearing probably going head. I just wanted to understand the sustainability of the particular business, whether it is credit life lead growth or GTL lead growth and how do you see it playing out going ahead? Sir, that's my first question. Maybe another regarding margin, I have one more.

N. S. Kannan: Let me start off. Then I would request Amit and Satyan to supplement. So, as you know, on the first question on the retail protection, we have had challenges, not just for us, across the industry in terms of supply side challenges during the pandemic to run the retail protection business. On our part, being a long tail business, we decided to stay clear of undesired profiles, and the mortality risk arising out of the pandemic environment. We focused on continuously improving our processes and customer experience. On the numbers you talked about, what I can tell you is that we have come to a stage where sequentially the numbers have stabilized now. So, we are not seeing any significant sequential decline of the business. And if you look at the last year, the initial part of the year started off well, and later on, the retail business went down. So, I think somewhere around the third quarter of the current financial year, you can expect the crossover to happen and put out a year-on-year growth on retail protection business. That is what we feel. So, what we would do from our side to ensure that this happens, is that we will continuously recalibrate our protection strategy and we will work on decongesting the process for our priority customers as well as partners. That's one approach we have. And we are also working on pitching the appropriate sum assured as per the eligibility and we will work on process improvement. Those are the two areas where we are working on and we believe that that will yield the desired results as we move along. The frequent process changes we used to have partly driven by our own tight underwriting guidelines and reinsurers changing the underwriting guidelines that is sort of behind us and the processes are now stable. So, that is what I can indicate to you. So, to summarize, from a numbers perspective, actually to start with, towards Q3, numbers going up to put a year-on-year growth in retail protection is how we are looking at. Now your second question, probably in a way for us it's a related question, it's about group protection business. Group protection, be it the credit life or group term, has really come in handy in the context of weakness in the retail protection for us to put out a good growth in the overall protection business at around 22%. Now, the way we look at group term business, is that it is a strategy and a core business line for us for a number of years. It's not that we have started doing the business opportunistically only during this period. So, we have over several years invested in the business; in the people, in the leadership and strong distribution network and the dedicated sales team. This is what is yielding results today. And we have been focusing on large corporates having COVID-19 protocols for employees. You talked about the risk arising out of that business, we believe that we have a risk calibrated pricing methodology reflecting the underlying risk, which we believe we have undertaken appropriately. On your retention question for group protection, we retain only up to ₹ 20 lakh, that is ₹ 2 million, whereas the rest is reinsured. We have not changed our approach to group business because it can be a lumpy business, so you want to be careful about that. We also worked with reinsurers very closely to get the optimal price for every transaction. It's more of a transaction-based approach rather than a carpet bombing approach. Accordingly, the price would vary from scheme to scheme reflecting the underlying risk. Another way we look at it is, it's not that we win 100% of the deals. We win some deals. There are several deals we let go that are not VNB accretive for us. So, that also sort of gives checks and balance in terms of whether we are calibrating the business properly. And the last point I want to say from a risk mitigation perspective is that the risk actually pertains for only one year, and we monitor the claims experience very closely. So, it's not such a long tail experience, and we are not seeing any alarming trends at all at this point on the claims experience. So, to finally answer your question on numbers again in this line, yes, the base is strong. I know that last year, we did a good growth. But actually I would say that the Q1 experience slightly surprised us on the positive side, because the growth has been quite good in this. Yes, as we go along, we may have to look at the next set of corporates without compromising on risk. But we are quite confident at this stage of growing the group term business even with the stiff base that we are likely to have. So, that is how I will answer the two questions you had. I will hand it over to Amit, Satyan to see if they want to add anything.

Amit Palta: Kannan, you have fairly covered the question both on group as well as retail. Just to supplement on group business, it has been very appropriately put that the investment has happened over a long period of time. And for the growth that we have seen, is largely on account of us through our distribution team being present where the demand is. And that is quite evident from the way even large corporates have looked at including more and more employees and offer higher and higher sum assured. So, by being present at the right time, at the right place where the demand was, we have been able to capitalize on growth further, which is quite evident on almost 40% plus growth on the number of lives that now we have covered in group vis-a-vis Q1-FY2022. So, that just substantiates the point the Kannan made, it is about being present there where the demand was and being concentrated in corporates, where there is a strong protocol of COVID-19 and hence, we are fairly protected in terms of quality of business that we are writing on group. On retail protection, if I were to supplement, Kannan spoke about the fact that we are going through a transition. We will continue to stay focused on decongesting process for our priority customers, priority partners. But at the same time, we need to understand that any business which is outside a priority customer or a priority partner is undergoing a big regime shift from the way protection was sold till the changes were incorporated from FY2020. So, imagine, distribution regime for 4 or 5 years when protection was largely seen as a product meant more for affluent customers to now moving to a regime which is more about calibrated approach on risk is a huge shift from the way it was sold earlier to the way it is expected to be sold now. For our very diverse distribution that you have, typically this transition takes longer than one would expect. So, we believe that it's a transition phase. It's like distribution aligning it to new way of pitching protection. And we are quite confident as the country is moving beyond affluent segments and becoming more meaningful for mass and mass affluent as well, the recalibrated approach will play out and distribution will also align to the new way of selling protection.

Sanketh Godha: But just if anything with respect to reinsurance, with respect to the group business, it remains the same as it is, the way it happened with the individual business, it is not the case with the group business, right?

Satyan Jambunathan: The group business anyway tends to be light touch underwriting. It tends to be more of a class underwriting as opposed to individual underwriting. We have spoken about this before in the context of the pandemic, there was some pandemic-related price increase which happened to the short-term group business that is now starting to come off. So, to that extent, I don't think reinsurance is having any constraining influence or challenge as far as group business growth is concerned.

Sanketh Godha: Another question was that though you highlighted that the underlying product mix led to the margin expansion, just wanted to know given our cost ratio compared to what it was last year which was 19.9%, now it is 23.8%, which is little higher. Despite that, the margins have expanded. So, should I consider that growth opportunities might have played a role, the margins now being built on the budgeted cost, which we expect to normalize and therefore the margins were better? Given even your RFR has gone up, that also played a role in margin expansion.

Satyan Jambunathan: First of all, the cost ratio as the cost to total premium is a bit of a challenging metric, because it also includes renewal premium. And you know, we have had a decline in renewal premium and that makes the ratio look worse. And like I spoke in my remarks, the absolute increase in costs has been less than new business, which means that compared to the same period last year, given that absolute cost growth is lesser than top-line growth, actually versus same period, cost ratios which are relevant for margins have improved. But in the way we are doing the margin at the quarter end, you know how we do it. We take the actual for one period and then project it for the rest, which we true up through the year. So, we are not taking a more aggressive cost assumption than last year at all. But this is something that we anyway true up as we go through the year. So, like I spoke in my comments as well, I really at this stage do not expect this to be adverse on margins.

Avinash Singh: Couple of questions. One on that the reduction in steepness in the yield curve. Has that had any sort of impact on your non-par products saving margins? And the other question is I mean again that is going on the retail protection mostly. That now you have added ROP product to address sort of a certain set of customers. And ROP will typically have a reasonable premium size. In terms of number of policies and not just for you, for the entire industry, there's a kind of a decline on the retail protection side even on the lower base of last year. Is that some kind of throwing some challenge for the industry that I mean we have sort of covered a reasonable addressable market as far as the retail protection business?

Satyan Jambunathan: On the first question on the yield curve, steepness impacting margins, that is not the case. The yield curve steepness actually affects prospective pricing that we offer to customers. We review the price each month and reflect the appropriate underlying expected returns, whatever the steepness of the yield curve and whatever the terms of the FRA that we get. So, to that extent, it doesn't. What affects margin therefore is the spread that I maintain, and not really the way the steepness of the yield curve is moving. To your second question with respect to number of policies overall and also protection and protection penetration, Amit can talk about it in more detail.

Amit Palta: Specific on ROP business, as you know that this is one product which was expected to create a category and I would like to walk back during the phase when protection penetration was at its early stages and the early success that protection saw was in the affluent segment. And it was only over the closer period, which is FY2018 and FY2019 is where we started seeing penetration reaching geographies beyond top cities and reaching segments which were beyond affluent; I am talking about mass and mass affluent. So, iPROP as a product category, serves mass and mass affluent customers more in comparison to what you would typically see as a demand from affluent customer segments. So, it's a journey. It is going to create category over a period of time. And as you see penetration growing beyond the affluent and reaching geographies beyond where we have been present in the past, you will see this product category also grow over a period of time. At the early stages, we have seen in industry, the contribution of ROP business has been limited to 15% to 18% company to company, and this is something with penetration is expected to show an upside over a period of time, but it will not happen in a hurry. It will take its time because I believe it's a transition period.

Satyan Jambunathan: With respect to your question on having hit a wall on protection penetration in terms of coverage, I think there's a fairly obvious answer. Even now, our expectation or assessment is that just about 12% to 13% of addressable market has any kind of term life.

Avinash Singh: No. So, it's a data sort of diverging. I totally agree, I mean all the things you see there is always so much of protection gap even I mean whichever metrics we use. It's fine. The affluent market, but the way I mean that's my question that we have seen ticket size increase here because of the pricing. ROP product that also tends to have certain higher ticket size and yet we are struggling to sort of grow retail protection on a larger base. Not just for you. I mean that's a phenomena for kind of the industry. So, that is where is that really, industry has over activated the addressable market or something of that sort because this is now we are talking on a base that is relatively favorable and we are seeing the price increase. Yet even the value premium value is not growing. So, is that okay there is some sort of misunderstanding or are we overestimating this addressable target market as far as retail is concerned?

Satyan Jambunathan: The only thing I would say is, we have been discussing this for a while now. The way term business was underwritten two years back pre-pandemic, to the way it is underwritten now is a completely different world. The way term business was pitched by distributors to the way it is pitch now is different. So, when process changes dramatically, there is always an adjustment period, and therefore both Kannan and Amit were referring to in their comments.

Dipanjan Ghosh: Just two small questions from my side. Firstly, congratulations on improving persistency across products, and you normally report it on a yearly basis, but if I can get some sense on the persistency that you're seeing on your guaranteed return product. And if you're seeing some level of higher surrenders for certain customer cohorts who are probably kind of renewing their money on maybe some new policies at higher rate?

Satyan Jambunathan: Our journey in the non- par is a very recent one. Practically twelve months back, we had a trivial, non-par business. But from what we have, clearly we are seeing no such behavior. I think the one thing that we need to keep in mind is for a customer to exit an existing policy and re-enter into a new policy at a higher rate means he loses his first premium practically. And if you stay longer, you can lose more. Now, when I add it all together, I suspect it may need a far more dramatic increase in yields for that to even start to make sense to any individual. So, I don't really expect that kind of a behavior to happen on the regular pay guaranteed return products. That may well be a risk for a single pay where surrender values can be quite high. But for regular pay, I really do not expect that to be a risk anywhere in the foreseeable future.

Dipanjan Ghosh: With the same guaranteed return products, you mentioned that with a rising rate environment, there is a chance that the product might lose a part of its competitiveness to other savings products. But if I see month-on-month journey of this product over the last 4 months and without just looking at the quarterly growth, have you seen any tapering out of demand on a month-on-month even going into the second quarter?

N. S. Kannan: Not yet. I was just highlighting it whenever the interest rate reversal cycle happens, when the banks start increasing their deposit rates, which has not yet happened fully, and that is the time I was saying that it might possibly impact the demand. So, not yet we are seeing to answer your question. And over a period of time also, we could look at participating products gaining more popularity at that time. But now that we have a much diversified product mix, we are quite indifferent to it. But I just wanted to highlight the risk that once the bank deposits go up across the banks, at that time possibly the going a little bit of more demand for bank deposits away from guaranteed products can happen is what I was highlighting, but we are not seeing it as of now.

Nidhesh Jain: First is on the protection side, how is the trend from the top of the funnel because the numbers in volume terms are very sharp decline and when COVID-19 started we were of the opinion that we will see 3-4 years of strong growth in protection health insurance. But across the segments, the growth has been quite disappointing. So, are we seeing any trends that the demand of the product itself has come down in the last twelve months and how the trend is on the top of the funnel? Second is last four years, we have done really well, we will probably be able to double our VNB. But how are we thinking about FY2023 to FY2027, next 4 years, in terms of growth?

N. S. Kannan: I will request Amit and Satyan to talk about the demand at the top of the funnel. From my perspective, several escalations come to me saying that we want to buy protection, you are not issuing. That is anecdotal evidence, I think they can explain better, I will request Satyan and Amit. On the second issue of going beyond this financial year, how do we see the VNB development? What we have said is that while we get more diversified in terms of the products and channel, that part has been done, but going forward, we are quite cognizant of the priorities of some of the channel partners changing. So, what we have guided is that our VNB development despite what happens to the top line would be broadly in line with the industry's VNB development. So, yes, we have not given a sense of doubling in four years in a sharp manner. But we have said that our VNB share will not lag or we will grow in line with the VNB development of the industry in spite of anything happening on the topline. The levers available, the new banks are available in terms of further increasing the productivity. We continue to add lots of partners to our existing ecosystem. That part will continue. Product mix, if it moves away from ULIP towards some of other products, it is margin accretive. If retail protection revives, which we are hoping, that is again margin accretive. So, those levers and margin are available. And persistency, as you have seen the numbers, it's doing much better than our assumptions. So, that could also give us some kicker in terms of margins. So, we will push both top line and margin, but net-net, we will ensure that we grow in line with the industry as far as the VNB is concerned. So, let me just pass it back to Amit and Satyan to talk about the demand for protection whether it is continuing or how do you see it emerging.

Amit Palta: Let me answer this question into two parts, because there is no single answer to your question on the top end of the funnel on protection. So, if I were to look at a customer as an individual customer who would experience protection as a proposition and when I look at platform like group, I see number of customers who could have come through any platform and they chose to get covered on the group platform. That increase in funnel is clearly visible. Otherwise as you know, premiums in group business actually has come down over last year, because last year there was a COVID-19 provisioning on the pricing, the way it was done. This year despite pricing coming down, number of lives actually has gone up tremendously. So, almost 40% increase in the number of lives and 40% increase in the sum assured is what we are witnessing where the customers are coming on a platform, which is not retail. But if you ask me same customer could have actually come through a retail platform as well. So, what we see is a difference in the funnel creation that is happening on the retail side. And the indications are that in terms of looking at searches on Google and the way we have seen visits on websites, yes, you are right, on the retail side, we have seen a drop on the number of visits that you have on the websites, whether it is ours or whether what has been reported by some of the other players who are active on web. And even though the conversions from the visits still remain almost similar, however, the number of visits have come down. Like I mentioned earlier as well, it could have been largely also because of the process being very different, process being very different from what it used to be earlier even when the customer himself was approaching for protection. It should settle once both customers as well as distribution align to a newer way of purchasing protection. I guess this is a place, this is a stage where everyone including customers will have to settle into taking protection in a different way. So, it's a mixed way. There's no one answer. On one side, we are seeing top of the funnel increasing. On the other side, we are seeing number of visits on websites as well as on other platforms coming down.

Satyan Jambunathan: Just one other thing I would add to that is that during the peak of the pandemic, we actually saw an unnatural spike in visits and we have discussed this in the past that we said that the pandemic may structurally improve awareness, but the unnatural spike arising out of fear will go down. That's not going to stay. So, again to that extent what Amit described is quite consistent with what we have always been expecting with respect to the pandemic driven pattern of the top of the funnel.

Nidhesh Jain: Could it be the case that the group business may be cannibalizing the retail business because those customers are getting a very good cover at a lower rate as a group business itself?

N. S. Kannan: That will be only through employment.

Amit Palta: I wish, I could analyze it that as deep. But I would like to believe that one is through employment and other is through open market. So, probably difficult to really gauge at this point in time.

Shyam Srinivasan: Just the first one on agency. We have seen growth improve. It's now close to APE average for the corporate. I am just trying to dissect it based on agent growth versus say productivity improvement and mix. So, agent growth is only 5%. So, is there an active agent growth that's faster or can you help us also split it out into product mix and productivity?

Amit Palta: On agency, let me segment our effort on agency channel into way we manage this through what we call it as managing our value agents, value agency we call it internally. So, value agency is typically targeted towards reaching out to affluent customers and they have a vintage with us which is proven over a long period of time. And this segment of our value agency typically contributes close to around 45% to 50%. Then 30% to 35% of our business typically, which is actually as high as 40% to 45% in the initial part of the year, which is done through our retail advisor activation and then the remaining part is what we do it through a new advisor addition. So, new advisor addition is actually in the initial part of the year is much smaller proportion of the overall output that we deliver from our agency channel. As you go deep into the year, you will realize that new agency or new agent licenses that you write in first few quarters eventually go on to increase contribution to close to around 15% to 20%. We expect that by the time on a full year basis we exit Q4, you will see new agency contribution growing to 20% to 25%. So, coming to our agency growth of 24% to 25%, it has been largely driven through new product introductions. We have introduced annuity regular premium product as a new variant, which has been really seen as a good product diversification tool for the customers and that is what has been lapped up by our value agents and has seen very good success. Today, mix on annuity has grown into double digits for agency channel and that is one product which is relatively higher on ticket size as well, which has contributed to our growth. Non-participating guaranteed products again has become a very good asset allocation tool for our value agents and has given our agents a choice to have something outside unit-linked as a primary proposition for affluent customers. So, that is something, which again has contributed towards overall growth. And coming to the growth that you have seen in agency, this by the way is relatively muted because of what we have experienced on volatility in the market in the month of June. So, as you know, the ULIP mix specifically on our value agency is as high as close to 40% to 45%, which means that they were impacted adversely in the month of June. So, our investment in creating capacity in agency is something that we initiated in the latter part of last year. And we do believe that adding new agency will help us license more advisors, activate more advisors and probably grow in productivity as we go deep into the year. As you know, this is a long gestation channel. It takes time for a new employee to hire, activate, build capability and deliver productivity. So, that is something that will pan out over the remaining part of the year.

Shyam Srinivasan: If you can help us understand what is competitive dynamics here. And using in individual regular premium sum assured as the market share and trying to compare, I don't know whether it's the right thing, you talk about the 15.8% which is total sum assured market share. But if I were to look at individual regular premium and there are companies which are at the higher end of the market share, which are growing fastest. And the bunch of the 3 or 4 which are similar market share are struggling with the exception of say SBI Life, I am just calling out a name. So, help us understand what is the competitive dynamics around why some companies are doing better, worse?

Satyan Jambunathan: On the sum assured, the one thing to keep in mind is those that are doing well in savings are also naturally doing well on sum assured because sum assured is 10x the premium. So, the growth that you are seeing for many of the companies that are doing well on savings is reflected in protection and its sum assured. And the sum assured for individual is not only a reflection of retail protection. It's very hard to disaggregate it and say what is happening, but from what we have as an understanding of the dynamics, it is not as if anybody is doing substantially better than anybody else in retail protection. There are probably months that one company does better in one month, another company does better in another month and the third in the third month. But at least so far if I were to take the last 12 to 15 months, I cannot come across a single instance of a company that has done substantially better than anybody else in the last 15 months.

Deepika Mundra: Just two questions from my side. So, on the regulatory front, do you think that there is a scope for the regulators contemplating using commissions as a tool to basically improve penetration in the industry?

N. S. Kannan: I have not heard of anything being looked at on the commission. I think they will be completely focused on giving the growth targets that you have seen happen. They are talking about ease of doing business and potentially they are talking about doing some RBC kind of a step. So, those were the facilitative measures I believe they will focus on rather than looking at commission as a thing. Maybe my colleague, Deepak, can answer this question in case he has got anything of commission being used as a tool. The only thing from our side we are representing is to relax the commission regime and the expense regime for the pension line of business. We believe that the pension line of business is heavily underpenetrated. Pension assets as a percentage of GDP is very low in the country. So, in those areas I do believe that there is a scope for a thing. But I have not heard anything from the regulator side of using commission as a tool for expanding the penetration. Deepak, do you want to add anything to this?

Deepak Kinger: No, Kannan. I think you have put it right.

Deepika Mundra: Demand for savings products. If you think that we are likely to see a prolonged period of high inflation, do you see any risk to any particular categories of products in terms of premium growth?

N. S. Kannan: If the prolonged period of inflation results in rates going up and some of our competing instruments like bank deposit rates go up, then possibly the demand for guaranteed products can get a little bit impacted, but normally what I have seen is that this kind of inflationary environment is very good for the earnings growth of companies. So, the equity markets can do well. And potentially because of that, the demand could shift towards the unit linked products or participating products where participating products, for example, we do have a little bit of equity being allocated. So, the good news, from our perspective is that we are today in a situation where our product mix is well diversified and we don't have any specific preference to one line of business over the other. So, we should be quite okay. What we should be looking at is whether overall demand for insurance goes down in an environment which we do not think will happen.

Deepika Mundra: And just one last thing, in case of risk-based solvency and you see a significant increase in your capital ratios. Could you walk us through your thought process on how would you deploy all this excess capital?

N. S. Kannan: If I look at the economic capital-based solvency, we would be closer to 400% depending on what the Regulator stipulates. So, given that, what will happen is that the capital will be used internally for other lines of business. What I mean by that is that I do not see Regulator coming and approving dividending out the excess capital. No regulators I think will allow that to happen. So, what they will do is that probably we can grow the business without resorting to external capital. So, that is what is going to happen is what we believe. And they may put certain caps on how much of diversification benefits to be taken, because there are a lot of calculations involved in arriving at the solvency requirements based on risk based capital. So, all-in-all, it will be good, but it will give us a good capital for running businesses like protection even more optimal manner than what we are doing currently. Any other thoughts Satyan or anybody has on this?

Satyan Jambunathan: I think that's fine Kannan. So, what it really does is it increases our capacity and we don't have to worry about capital management in the short-term or don't have to think about raising capital in the short-term. So, equity dilution becomes a bit more distant if you move to this kind of a structure.

Sanketh Godha: My one question is with respect to the distribution with ICICI Bank given it has declined almost 11% in the current quarter. How do we see this channel going ahead? Maybe that's one thing. And second, the non-ICICI banks have done phenomenally well in the quarter. Just wanted to understand what kind of market shares you have reached the new relationship or are there other levers available for us to grow in those relationships?

N. S. Kannan: Let me start the question, then I will ask Amit to supplement the answer for both your questions. The first question is around ICICI Bank. Yes, you have spotted it to say that it's already down to 20%. From our perspective, we see ICICI Bank focuses on retail protection and annuity predominantly and ULIP is available to be sold in that platform. Given this product mix, what's happened to ULIP is that it has got impacted due to market volatility. So, obviously the channel growth has got impacted. If you look at retail protection, we know the challenges we have on the ground. So, that is the reason why that has got impacted. Unlike other channels, ICICI Bank doesn't sell the traditional products or non-linked products in the savings line of business. So, the impact has been quite huge in terms of the sales from ICICI Bank channel given the current environment. What I believe is that ICICI Bank performance will continue to mirror the pace of the eco-system revival in retail protection and the market volatility. But if you look at our channel perspective in terms of distribution mix, now the other banks have become 15%. It used to be 4%, three years back. Now we are at 15%. Agency is 22%, direct is 11%, partnership is 11%, group is 21%. So, given that and the fact that we have put in place is growth levers with other channels, we believe that we are quite insulated in terms of the topline development. So, this is what I can say at this moment. So, we will not bother about this too much because some of these elements I said about protection as well as ULIP are environment linked. So, no point in bothering about it too much. We would focus on all the channels including ICICI Bank and we will continue to focus on building alternate product streams across channels and take the ICICI Bank business share as a natural outcome of this effort. Coming to non-ICICI Bank, I think that it's grown very well. 70% growth we have seen year-on-year. So, that is very positive thing for us. Now I will request Amit to talk about non-ICICI Bank in terms of the shares. You talked about for us vis-a-vis the other insurers in those shops.

Amit Palta: Across non-ICICI Bancassurance as well as what we have in partnership distribution channels, which are multi-insurer, I guess our ability to stay competitive and gain market share has improved phenomenally over a period of last 2 to 3 years ever since we have started adding products to our overall portfolio. So, while participating products or non-linked products were there in the basket, but eventually the targeted focus in adding value, looking at customer insights, looking at distribution feedback and building newer propositions has been our area of work over a period of last 24 months. And that is something which is holding us in good stead. And hence I do believe that the work of past is what is reflecting today in terms of outcome on growth on non-ICICI channels. And we want to believe that through our system integration, through our seamless ability to work closely with our partners, to be able to understand and build relationships at the ground level, we will leverage our diversified product mix in the portfolio to stay competitive in the shops and create differentiation and maintain growth over a period of next few quarters.

Sanketh Godha: But just wanted to know in that this growth will be more now in line with the bank growth or you have still market share levers available in this non-ICICI bank channels to drive the growth better than the overall channel growth for all players put together?

Amit Palta: Lot of our partnerships, has been built with a commitment between us as well as the partner right at the time when we got into partnership was that we will work towards growing the pie. Eventually, us taking away share of somebody else maybe of lot of interest to me, but it will end up being very futile exercise will be at the cost of revenue for our partner. So, we have stayed true to the philosophy and the commitment right at the time when we forged this partnership and that has been the effort. We have looked at customer spaces and customer segments. We have looked at geographies where current productivities of our partners have been lower and we have put much targeted focus there to get incremental business, not just for us, but also as an incremental revenue for our partner. So, to that extent, yes, you are right. We would like to believe that we want to align to the overall growth for the partner that is the first and the foremost philosophy that we agreed with our partners. So, I want to grow along with my partner growing. Taking away share is going to happen. Sometimes we will take away share, sometimes somebody else will take away share, because this is a competitive space and we have a lot of respect for competition. They also come out with products which are innovative. So, there will be various times during the year where your product may be more competitive vis-a-vis others. So, it will keep moving up and down, but for the sake of partner, I think it is more important that overall their revenue growth and all of us grow together in this.

Sanketh Godha: And then finally on annuity business. This again as a segment has done well. As you highlighted that last quarter, 40% of the business came from the regular premium paying plan. Sir, just wanted to understand given it is regular in nature, the average ticket size naturally increases in APE term. So, it's more of an optical increase or it is NOP net increase, number of policies sold increase, the whole idea I wanted to understand on annuity business?

Satyan Jambunathan: I don't quite understand what you mean by optical increase. Fundamentally, it is adding to APE and VNB.

Sanketh Godha: My simple point Satyan was that, the regular pay at APE per policy might be much higher compared to a single premium contract in APE term. So, it was NOP-led or a ticket size-led. Sir, that's the whole idea I just wanted to understand, because this was not there till fourth quarter for us.

Satyan Jambunathan: It is NOP led.

Madhukar Ladha: Number one, can you split the growth in group protection between GTI and credit protect. So, how much has each segment grown on a year-over-year basis? And second question on the annuity business. What percentage of the annuity sales is the pension corpus converting into an annuity? And what is sort of the normal business sale of annuity? And the related question would be, how do you ensure that the pension corpus converts into annuity with ICICI Prudential Life and not through with any other company? I just wanted to get a sense of how do you ensure that and what are the current retention rates so to say?

Satyan Jambunathan: We tend to give the split in a detailed fashion for protection once in a year. But I can tell you this at a broad level within group, this quarter, credit life did much better than the group term. Coming to your second question on annuities converting from pension products. The NPS conversion will still take some years to happen. Right now, it is about building a presence there starting to catch the pipeline early and then build the proposition around it, but the significant explosion in opportunity is more like 5 to 10 years away. This is more of investing for the future.

Amit Palta: On annuity side, the way we track business internally is, one is an opportunity that Satyan spoke about that NPS is actually expected to explode later, probably a decade later. But also currently there are NPS maturing customers which we track separately for central government employees. That is one stream of annuity business that we track closely. Second is, as you know, that even whether you purchase a pension product with the insurers or you pick up a regular savings product with insurer or you pick up any non-insurance savings product, virtually all these products eventually serve the accumulation purpose of the customer. Once the accumulation happens is when the decision is taken by the customer to go for annuity, which means when a customer starts approaching an age where the annuity need to legitimately start, which is probably 58 to 60 years is where the product becomes relevant. And hence, we are very keen on looking at how our distribution is aligned to reach out to customers who are nearing that life stage and then make a proposition assuming that the surplus and accumulation has been done, if not through pension product, but through a savings product or through any other savings products that may be available outside insurance industry as well. And third is like what you mentioned, we look at all our internal maturity customers as well. And we see all the maturing customers whose age is closer to 55 to 58. We would like to offer annuity also as an option because that becomes a natural first choice for the customer to go in for once the maturity proceeds are in-hand. So, at this point in time, of course NPS maturity customers are much lower. Open market is more where a customer is being approached by distributors who is focusing on the retired segment. And then of course, maturity base is something that we have visibility on what we have on our base.

Monal Sanghvi: There's a slight understanding that I need. Actually just trying to understand how these numbers work. So, there is a negative income from investment and we still reported a profit for the period. So, how does this calculation function? Could you please help me with that?

Satyan Jambunathan: If you see my disclosures, in the performance note that is attached to the results pack, there is a segment where we are breaking up the investment income between unit-linked and non-linked. You will notice that the decline in the investment income has come in the unit-linked space. And the unit-linked product construct is such that whatever is the investment income goes into liability. So, that is P&L neutral. If you see the other than unit-linked business, investment income on other than unit-linked business over the same period last year is more modest change and that also a lot of that in the savings products is reflected as a contra in the liability side. So, the profit that you see is actually the net outcome in the unit-linked business of charges less expenses. For the protection product, it is premium less claims less expenses. Investment income doesn't become a very big determinant of profit, unless it is a guarantee that our product where the investment income is far above what we have promised to the customer.

Monal Sanghvi: But I am still confused. The number makes sense. But I am still confused how we still manage to report profit. The place where I am most confused is the transfer to shareholders, the amount that we transfer, how do we commit that amount despite having a negative impact? Because I understand you have a higher exposure to equities than most other insurers, right?

Satyan Jambunathan: It's not just about equity. It is also fixed income with interest rates going up, even that has the mark-to-market negative on unit-linked. So, like I said, what comes out as profit eventually for the unit-linked is charges less expenses. Investment income has a very trivial role to play. What comes out as profit in protection is premium less provision for future claims less actual claims for the period less expenses. Investment income has a very small role to play in that. The transfers that you are seeing from policyholder to shareholders is actually reflecting the segmental surplus.

Nidhesh Jain: Sir, we are hearing that the Regulator may allow life insurance companies to sell health insurance policies. So, what are your views on that? Do you see that possibility and how that will benefit us?

N. S. Kannan: Overall focus of the Regulator is around both life insurance as well as health insurance penetration. So, our case to the Regulator has been that morbidity assessment is closer to mortality assessment. So, we are quite well equipped to manufacture these products. And second, we have a very large distribution compared to any other category of players in the insurance industry, be it health insurance, life insurance or general insurance. So, we feel that we are in a probably a better position to increase the penetration of health insurance. Those are the two points. And third point is really that we are requesting for status quo ante to be maintained because till 2015, we were writing this business. So, that is the basis on which we have been asking for this business to be given to us. So, we don't know when and what form it will be allowed. But we are hopeful that over a period of time, in some form, it will get opened up for us. So, if it gets opened up, our position is that we would very much like to write this business and distribute through our distributors, these products. Yes, of course, we will have to build some capabilities with respect to the hospital ecosystem or a third-party agent's ecosystem and third-party administrators ecosystem and so on. And that is something we will see as we go along how and what form it gets opened up. But having run the business till 2015, we are quite confident that we should be able to run the business. That also will be good from completion of a customer proposition from a customer's perspective, stickiness of the business can increase and potentially the margins can also increase. So, that's the way we are looking at this business. So, we would be extremely happy and delighted if something like this happens.

Ajox Frederick: That was my question actually. Thank you for that answer.

Neeraj Toshniwal: Wanted to understand, are we seeing higher surrenders, the higher-tenure buckets because renewals seems to have been going down, the pool itself is correcting despite persistency improving. So, wanted your thoughts here.

N. S. Kannan: We are not seeing any such pattern in terms of surrenders. We are actually doing better than what we did in the first quarter of the last financial year in terms of percentage getting surrendered out of the eligible surrender pool. Of course, as the business and scale increases, the absolute value may go up, but we don't have any concerns and none of this is anything which is beyond what we have assumed in our computations. Satyan, you want to add to that?

Satyan Jambunathan: Nothing, Kannan. I think that captures it.

Neeraj Toshniwal: Assuming similar product mix and 23% kind of ask rate what we have, let's say, at that 23%, largely for APE is around 18%. So, given, let's say, if we assume some moderation, what are the thoughts. Will we still be able to achieve this 23% or there might be likely some bit of lag in terms of reaching that 23% target?

N. S. Kannan: You are talking about the 23% in the context of VNB growth for the current financial year?

Neeraj Toshniwal: If I look at this 23% and if assuming the status quo in the sense of the current divergence between VNB and APE, the ask rate of APE is around 18% and the moderation what we saw recently in the recent month June. And maybe further some impact coming from the recent macro environment without taking any divergence between the current mix toward this ULIP or par, are we still hopeful to kind of deliver this 23% or how should one look at it and I just wanted your more general thoughts on this.

N. S. Kannan: You have talked about specifically June and the trends currently. So, the way we look at it is that sequentially we have grown by 20% from May to June despite all the issues of the market and volatility which I talked about. So, you should also note that while we have diversified and have done a good job of swinging the company so to say from 80% ULIP to a 40% ULIP, 40% is still high. So, that is something which we need to focus on. And whenever you look at the year-on-year metric, it should always adjust for the base because last year base was different for different quarters. For example, in April to May, we got a delta variant impact. From January and February of current calendar year, we had Omicron. So, there was a productivity loss. So, year-on-year, there could always be ups and downs when you look at the year-on-year growth. So, the best way to run the business we believe as an executive management at this stage is focus on managing the sequential momentum and which is quite good in terms of how June has grown over May. So, we will focus on that. In terms of your question on how do we get comfortable in this context getting to VNB target, as I said, we have done a good start to the year with 32%. We have already built some cushion in terms of target versus what we have achieved. And I also talked about base effect will kick in for some months at least through the year. Then again if you look at our own discourse on retail protection, you said that around Q3, it will start growing. And I'm hoping that till Q3, there would be a good momentum coming in the group term. So, given this, I think the mix of protection continuing to be robust will give us a kicker in margin compared to last year of 28% margin. And any short-term momentum shift from ULIP to non-ULIP is actually margin accretive. So, that is what I meant by saying that these are some of the 3 or 4 levers, which are available to us, which can be used to get to that 22.5% growth number on VNB. So, these are the levers. This is broadly our thinking. And if you put all this together, to answer your question, we do believe at this stage the 22.5% growth in VNB is quite possible.

Neeraj Toshniwal: One question on VNB. I think on the earlier question of RFR impact on the VNB expansion. Can you quantify it how much that has led to in our overall expansion in the VNB margin?

Satyan Jambunathan: We have not quantified that, but if you broadly apply last year segmental margins to product mix, you will get it in the same ballpark. So, there has not been a significant impact out of other parameters.

Jayant Kharote: First question is on the guaranteed products. So, that share is now moved up to around 38% on the non-linked savings overall as a percentage of APE. Is there any internal limit or internal deadline for us because it seems this is a product that is driving the growth right now?

N. S. Kannan: As long as there is a capacity to do FRA and as far as we are sensible in giving a rate, which is lower than what we can earn, we don't require any limits to be put in this business.

Jayant Kharote: So, you are comfortable with that?

Satyan Jambunathan: But first of all, I think you will have to look at how we are working out the proportion of non-linked. The number that you are quoting is not correct at all.

Jayant Kharote: So, if I just remove ULIP from your savings mix?

Satyan Jambunathan: We also do participating business.

Jayant Kharote: Sir, is that a meaningful number sir, now? I thought that business was growing slowly for us.

N S Kannan: We entered in the non-participating much later. We are a participating product company before we started guaranteed products.

Jayant Kharote: Any idea of what could be the number on par? Around 22% was guaranteed for the full year. Is that a correct number?

Satyan Jambunathan: We have not disclosed it separately.

Jayant Kharote: Secondly, on the ROP product, is it fair to assume that given that this is targeted towards the mass affluent, the mortality expectations or assumptions over here would be, let's say, more conservative? Or the other way to ask is, are you on board with the reinsurers with this product and does your retention strategy change with the product?

Satyan Jambunathan: Absolutely. ROP will have a higher expected mortality. That is reflected in the price. It is also reflected in the reinsurance arrangement. Retention in ROP is substantially lower than the retention in the pure term.

Jayant Kharote: The follow-up to this, what is our expectation of growth in this segment, given that there would be some latent demand in this segment because the calibration would be more on picking up the affluent customer groups. So, why wouldn't ROP grow faster than the current levels? What is limiting it?

Amit Palta: I mentioned as an answer to a question from one of your colleagues that this is a category that has been created, which is mass and mass affluent as you only articulated. And for a large part of the period between FY2015 to FY2020, protection mostly positioned for affluent customers. So, while there is a fair bit of awareness in the affluent segment, mass and mass affluent has only begun its journey. So, it's a category being created. You are right in your statement that it is more suited for mass customers and a lot of efforts need to be put in, in terms of awareness, building distribution capability to reach out to a newer customer segment with the proposition, which is on our ROP platform. So, right now, the fact that it has stayed at around 15% to 18% with various insurers at this point in time. In terms of sheer number of customers that you have on mass and mass affluent, you are right as it has potential to grow much faster but probably with time, because new categories take time to settle.

Jayant Kharote: And any preference to channel? I mean, your expectation this channel for us should be the drivers for these products.

Amit Palta: The channel which has access to mass and mass affluent will have a natural advantage. So, it goes without saying channels like agency or any distribution partner who has a natural access to mass and mass affluent will have an advantageous position in comparison to some of the other partners.

Nischint Chawathe: First one clarification, what we mentioned was that the margin expansion on a year-on-year basis was largely because of the product mix change with not very or probably negligible contribution from the reference rate change or for that matter any operating leverage would have done that in the quarter.

Satyan Jambunathan: That's correct.

Nischint Chawathe: The other thing is, as the composition of protection business changes where we probably looking at actual maybe some growth in the individual business in the second half of the year. And I guess even within the individual businesses we are talking about sort of the negative composition within segment, how should we really think of the overall protection margin that you are reporting? When you are kind of looking at these businesses, will you probably target a particular margin and then work numbers backward and kind of then focus on growth backward or VNB margin is just going to be an outcome of the individual segments and that this can be a little volatile?

Satyan Jambunathan: The category margin will be an outcome. We are actually looking at it as three pools of profitability. Group term is a distinct business opportunity, credit life is a distinct business opportunity and retail is a distinct business opportunity. Relative growth will dictate segment margin. We are quite comfortable with that outcome happening.

Nischint Chawathe: Typically, retail protection has been the more profitable if I understand, right?

Satyan Jambunathan: That is correct. By a long way that is the most profitable. So, if we were to look ahead and get back to a situation where retail becomes more relevant part of the protection mix, I would expect that to be positive to the category margin.

Nischint Chawathe: But probably for this year or maybe in the first 6 months probably that becomes probably a little bit of a drag on the margins. Is that the different way to think of this?

Satyan Jambunathan: Yes. As long as the mix of protection stays stable and overall protection margin is better than portfolio margin, I would still see that as being the margin expanding outcome. So, you are right first six months, it's more likely to be group dominated. But I wouldn't be really too concerned about the margin outcome.

Nischint Chawathe: And within the protection business, if I really look at the segment of mass, mass affluent and affluent business?

Satyan Jambunathan: That should not be very different in terms of margin. They should be broadly similar. What will drive the margin within retail protection is average term of the product. So, to the extent that my average age of customer is gravitating to a space closer to 30, with the 30 to 35 year term, it will be a better margin. But if there is for any reason a shift in the age mix that will have an impact because residual term may change. The term will be a bigger driver of margin than really the segment within that.

Nischint Chawathe: And for now, do we have any trend to read?

Satyan Jambunathan: Nothing. It still remains the young people preferred product category at this stage.

Mohit Mangal: You had a COVID-19 claims of ₹ 0.16 billion and then again you had a closing provision of ₹ 0.24 billion. So, you added ₹ 0.24 billion again in this quarter in terms of provision?

Satyan Jambunathan: From a net impact, it will be ₹ 0.24 billion I carried at the beginning. Out of which I consumed ₹ 0.16 billion. I was left with ₹ 0.08 billion, and I added back ₹0.16 billion to take it back ₹ 0.24 billion. So, roughly in P&L terms the claims that are utilized in this period have raised it back into provision. So, I am just being a little bit more conservative on provisions compared to what it was last quarter.

Mohit Mangal: So, just wondering that say if the markets remain floppy for the remainder part of the year, investment income could be more impacted in this year in terms of market movements?

Satyan Jambunathan: From a P&L point of view, what will matter from investment income is how much am I realizing from shareholder funds or how much am I realizing out of excess investment income compared to what I have promised. And from an accounting point of view, fixed income is accounted at amortized cost. So, in the natural course, interest rate change is not going to affect my P&L, except if unless I am realizing any of that. That's the only circumstance under which it change. And you're right, if you have a situation where mark-to-markets are better, there is an ability to realize more. In a period where mark to markets are not as good, there is less ability to realize more. But it's really coming from realization not strictly just from yield change.

N. S. Kannan: Thank you. I hope we have answered all the questions raised by you. In case there are any residual questions, please feel free to contact me or any of my team members. Thank you so much once again for joining the call. Have a good evening. Bye.

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