ICICI Prudential Life Insurance Company

Conference call

February 28, 2020

Suresh Ganapathy: Good afternoon everyone. We welcome you to the call with ICICI Prudential Life Insurance. Today we have with us, the CEO of ICICI Prudential Life Insurance Mr. Kannan, as well as the CFO, Satyan on the call. We have close to 25 investors who have dialled on to the call as of now.

Of late there have been some concerns on the outlook and EV for life insurance companies post the recent changes in taxation announced in the Budget and the intent of the Government to eventually withdraw all tax exemptions. So we thought it is a very opportune time to hear from the senior management, the implications of recent changes for them as well as for the industry in the medium to longer-term. Over to you Kannan.

N.S. Kannan: Good afternoon to all of you and thank you Suresh for offering to do this call and we are happy we are able to do this today.

As Suresh mentioned, I have with me here my colleague, Satyan Jambunathan who is the CFO and along with Satyan we have his colleagues, Dhiren and Mukesh who help in the IR area.

At the outset, before I address some of the issues mentioned by Suresh, I would like to mention about our 4P strategic elements which we have been articulating from time-to-time, which comprise the premium growth, protection business growth, persistency improvement, and productivity

improvement. These are the 4Ps we have articulated. These 4P strategic elements continue to guide us towards our objective of growing the absolute Value of New Business that has been our stated path and that is what we are pursuing.

Supported by these strategic elements we have said that our aspiration is to double our FY2019 Value of New Business over a period of three to four years and this is what we have articulated. As we talk today I would like to reiterate that we continue to hold the same even as we talk about the recent developments.

That is the opening comment I want to make. In our last results call we had articulated our performance for the quarter as well as our own strategic path going forward. At that time, we had declared our Value of New Business of ₹ 11.35 billion for the 9M-FY2020 which was a growth of about 24.7% over the same period in the last year. The VNB margin at this level of VNB came at 21% which was 17% for FY2019. So that is being the development of VNB. Again this growth in VNB has been achieved largely through the growth in the protection business in which we have been focusing a lot in the recent years and that growth was about 66% for protection APE on a year-on-year basis. Since that call we had also disclosed our new business premium numbers for the month of January 2020. If we take the ten months as a whole, our APE grew by about 0.6% year-on-year to about ₹ 61 billion. That is the topline development during this ten month period. While the overall premium growth was flattish as we can see, we have been able to diversify our product mix through growth in the non-linked savings business as well as the protection

business. That journey has been continuing into the subsequent months as well since our call and we will continue to work on broadening our customer base, we will continue to work on increasing the penetration in the underserved customer segments and of course while doing so we will further diversify our product mix as well as our distribution channel mix. So this is the journey we have been pursuing.

So with these opening remarks and comments at the outset, let me come to the developments in the Union Budget of Government of India and there are two key proposals from the perspective of the Life Insurance Industry there. The first one is the option given to the individuals, individual taxpayers, to move to the new regime of lower tax rates provided the citizen foregoes up to 70 exemptions or deductions including section 80C, which covers life insurance premiums. This is one proposal which has been mentioned in the Budget and consequent to this statement, there has been a concern that tax benefit is an important demand driver for the industry and people will no longer, so to say, need to invest in life insurance if they switch to the new regime. So this has been one of the concerns which have been floating around. I would like to mention two key points. The first point is that section 80C is the section in which all these exemptions are stated today in the tax laws. I would like to say that that is not just limited to the life insurance premium but it covers other elements such as provident fund, long-term fixed deposits, mutual funds and repayment of housing loan. These are the various kinds of deductions which are possible under the section 80C and there was no separate carve out for life insurance premiums under the 80C. Second point is that various calculations which have been done show that the old

regime continues to be favourable for an individual claiming deductions above certain thresholds depending on their different levels of income. If the citizen is availing of benefits above those thresholds, then the current regime, which provides exemptions, is a better regime compared to moving to the newer regime.

Having said that, even if we assume that all upfront tax deductions are removed in the long-term because directionally the statement was made saying that they want to simplify the tax regime. Even if we assume that, we do not see any meaningful impact on our business that is the statement I want to make. If you look at our business to illustrate we have moved away from tax deduction base sales for many years now. We have not had a tax deduction specific advertisement campaigns for over five years now. If we were to look at the share of the new business from Q4 that is seen as another sort of a proxy to look at how much tax has been driving business and in fourth quarter business one could argue that is the significant part of that business would have had higher association from the tax deductions. If you look at this number the share of the fourth quarter in the total year’s business has come down to about 30% in the recent years as compared to over 40% in the past. So the seasonality across the quarters, with a significant skew towards the fourth quarter, had got mitigated in the recent years.

Further, if you look at our new business profile, about 70% of the business, as you know while we are trying to diversify which we have been successful to a great extent, still 70% comes from the ULIP products and if you look at its average ticket size is anything between ₹ 160,000 to

₹ 200,000. So the customer segment which is paying this level of premium is much less likely to buy a ULIP plan for the composite benefit under the section 80C of just ₹ 150,000. As most likely the customer would have already exhausted her limit through other deductions. So that is the way we sort up size up this issue. Even for the other savings segment which is participating product for us, which has been gaining ground in our product mix, our average ticket size there is also more than ₹ 60,000. So, these are the indicators which give us that the sense that there will be a very limited impact on us. Further if you look at section 10(10D) which is the section which talks about the benefit of tax exemption on proceeds from the life insurance policies, that is still intact. So if at all there was some tax driven behaviour of the customers we believe that it is 10(10D) benefit which keeps the maturity proceeds from life insurance non-taxable and that would have played a role in terms of consumer demand. So, we are unlikely to see any meaningful demand compression coming from this Budget proposal. So this is what we want to sort of explain today.

Even if I move away from the savings business to protection segment you are all aware that considering the untapped need of the customer we have been focusing a lot on this protection segment in the recent past for several years. The protection products have contributed to 60% of our last year VNB. We have mentioned that in the context of VNB being less volatile to the topline, given that 60% of our VNB was constituted by the protection products and this line of business is not bought with a primary reason of tax savings. These are need based selling and need based buying and that is what this segment has been driven by, be it for the

purpose of income protection or as a cover for the liabilities taken by the customer. So this part of the business which contributes 60% of VNB, there should not be any debate at all as to whether the tax proposals will meaningfully change the demand for this segment.

Now let me move onto the second key proposal which is the taxation of dividends in the hands of recipient and accordingly removal of tax exemption on dividend income received by us as a company. Our view in this context is withdrawal of tax exemption on dividend income will have an impact on the VNB and EV. Why we say that is because the current assumptions for Value of New Business as well as the Embedded Value factor in an effective tax rate after considering the availability of dividend exemption. So to that extent there would be an impact. However, the new provision also allows dividend payout to our shareholders as a deduction from the taxable surplus and to that extent it will mitigate the potential increase in the effective tax rate. Hence the final impact of what will happen here will really depend on the dividend payout rate applicable for future years, so that is really the point which we want to highlight. The Value of New Business and Embedded Value results at the end of March which we will announce in the month of April will reflect this impact. So just to give a colour on this, assuming we maintain our dividend payout at our policy level which is currently 40% of the PAT, we do not expect this change to move the needle significantly either on VNB or on EV. That is the point we want to make today. In case the dividend ratio is set lower the impact would be a little higher. But we will rely on our strategic levers which I had mentioned earlier of the 4P strategic elements to help us grow the VNB. That is what we plan, and we are

confident of doing that. In either of the above scenarios we continue to maintain our aspiration of doubling the FY2019 VNB in three to four years. That is what I want to reiterate in answering Suresh's questions. So with this once again I would like to thank you for joining the call and thanks Suresh particularly for organizing this call. Satyan, I and our team here is available we are happy to take the questions that you may have. Thank you very much.

Suresh Ganapathy: Kannan while you wait for the question queue to assemble couple of questions from my end. First to begin within general what has been the behaviour in terms of persistency because last quarter you guys were very dangerously close to that 82.5% assumption, in the sense have you seen persistency ratios stabilizing in general? That is the first question. The second thing is this 10(10D) that you are talking about, we were speaking to couple of life insurance companies as well as the CIOs and they were feeling that eventually the way the government is looking at it, they are going to just withdraw everything. So the fact that the maturity proceeds are now not taxable eventually even that may come through. So if that happens do you think that would be pretty negative. How do you look at the situation?

N.S. Kannan: Suresh let me take both those questions and Satyan can supplement my thoughts. First is the issue you raised on persistency and the outlook for persistency. As mentioned we have seen some decline in the persistency ratios clearly and what we have said based on our analysis is that this is primarily coming from the linked business. In fact, when we look at the traditional products, persistency had actually improved. So

that is the way we looked at our numbers based on analysis. Within the linked products as such if you look at it, the drop was attributable to a specific cohort of policies. That is the way we sort of size up the issue and we have been making specific efforts to make sure that we bring up the persistency on this cohort of policies as well as on the whole. We have taken various steps as we speak, even since we had the call last quarter. The steps have been around employees, customers as well as distributors to improve persistency. Last year also, if we really see the way it developed, we were able to bring back the persistency ratios while it had dipped during the year. Towards the end of the year we were able to bring it up to well above the assumptions we had used in our embedded value calculations. Further the other aspect which we have talked about in the past either directly or indirectly is about the fund management and there was a sort of thought which was emerging saying that when institutional fund managers had a little bit of challenge on the fund performance, there would be some impact naturally on persistency. So the good news is that while we keep on addressing this issue with the employees, customers as well as distributors to say that when one is buying a life policy of a much longer period, you have to really look at the very long-term fund performance. Having said that the steps we have taken in the investment management in terms of process initiatives have also helped. If you look at the very short-term fund performance, actually we have been able to improve the fund performance quite decently. So given all this we do believe that we will continue to improve persistency and again in this context I would like to mention that our persistency rates even at the current levels continue to be one of the best in the industry. We will

endeavour to keep it better than the assumptions used in the VNB as well as the EV calculations and that is the outlook we have as of now.

On section 10(10D) we have not heard anything to say that this is going to be withdrawn, to put the first point. Second, I would like to segregate it into the existing policies as well as the future policies. In existing policies which have been already sold under the regime that section 10(10D) benefits will be available. So to that extent the policies will be going for several years to come and that regime cannot be taken out in our view in terms of the policies which have been already sold as some of the policyholders would have clearly factored in the 10(10D) benefit while buying the policy. So to that extent I believe that the existing policies should be quite insulated from such a move if at all and secondly that as we have not heard anything of section 10(10D) being removed even in terms of the future business. So this is our view, Satyan if you want to supplement some of this.

Satyan Jambunathan: Nothing significant just that from an impact on business from section 10(10D) going away, I think the implications are not so straight forward. I do not really think that this particular aspect will be a light decision even for the government to take.

Nikhil Walecha: I have a question on pricing of protection products given that reinsurers want to increase the pricing for the protection? Have they increased the pricing for the protection products? And the pricing if we have increased is that sufficient to maintain the similar protection margins which we are having currently and secondly will that impact our growth in the protection if any?

N.S. Kannan: This is a good point. Actually this is something which has again been debated currently in the life insurance industry and in the market in general with regard to the life insurance industry. We understand that almost every reinsurer operating in the market in the country has served the notice for a price increase. That is our understanding based on conversations. Our view is that the current term life price in India is one of the cheapest across the world meaning that the price is more suited to the best mortality profile for the country. Now that is the way the pricing has been done. Of course partly driven by competition and partly driven by reinsurance rates so far. So with the distribution going deeper from a geography perspective, the underlying mix of the customer profile is changing quite rapidly. Now from the initial wave where retail protection started slowly and steadily, the profile has been changing. Our assessment to answer your question is that the companies will have to pass on the price increase to the customer and that is the sense we are getting. To answer your question whether we have increased the pricing? Not yet, because there is some more time for it to happen. So we have not increased it as of now. We will also keep watching the competitive actions in this regards. But as I said our assessment is that companies will have to pass on the price increase to the customer.

Having said this, as far as the underlying demand dynamics for protection is concerned to answer your question; that need, we believe, is quite intact. Our leadership in retail protection has been there, as you know, at approximate market share of 30% based on our own internal estimates. We are the market leaders in retail protection. We expect to leverage that

leadership position. We do believe that pricing is the only lever in this business. Yes pricing could be one of the levers but we believe that our leadership position in this space is due to strong brand, smoothened process aided by technology and the most importantly the moment of truth being the claims payout. We believe, we are best in class in terms of claim settlement metrics. These levers together we believe will help us to continue to deliver a substantial growth in the protection segment.

Nikhil Walecha: My second question is given that we have a guidance of doubling the VNB in next three years or so, are we factoring in lower protection margins in our assumption versus the current levels or are we factoring the similar kind of margins for the protection?

N.S. Kannan: As I said, we have to keep watching the competitive actions in this regards but having said that given our position today, our endeavour would be to keep the margins as close as possible to the current levels. Because as you know one of the key drivers for our VNB development has been the mix of protection going up and within that the margins of protection as compared to our savings product has been higher. So those are the two key reasons for our growth in our VNB in this year compared to last year. So obviously that path will continue and the fact that we are staying with our aspiration of VNB doubling over three to four years could necessarily mean that we cannot afford to drastically change the margin in the protection business. That is going to be our approach as we speak.

Nikhil Walecha: Thirdly Sir on EV I have a question. Obviously we have been seeing strong VNB growth but large part of the EV is also benefiting

from the positive operating assumption changes. So just wanted to understand. I understand on persistency what are our assumptions are. But from mortality and expenses side will the gap between the actual and the assumptions continue?

Satyan Jambunathan: Expenses, there would not be a gap because we do the VNB and EV calculations typically on actual expenses. It is a very, very small expense variance that you see. Mortality has been a little over a Rs 1 billion for us in the last year and that consistency is being maintained. It is not a very big impact yet because on my overall pool of EV today. As Kannan said on VNB, now 60% of my VNB comes from protection but given that the EV is a buildup of historical business, it still has a relatively smaller mortality component in it at this point of time. So the contribution of mortality to variance is something which will grow slowly over a period of time. It is not going to change overnight. But positive variance is still something that we expect to continue.

Yash Sidana: Thank you for taking my couple of questions. The first question is of course we have always struggled to understand how would a ULIP behave if there is a deep market correction and of course we cannot really say what will happen with what we are currently seeing. But how do you see behaviour of a typical ULIP customer if the markets have to go down by let us say 30%-40%? Is there anything that you are doing proactively to make them switch? Are they coming and talking to you about switching? Can you describe some of those behaviours? That is my first question.

N.S. Kannan: I think it is a good question because this ULIP volatility we have been seeing from time-to-time over the last year and a half, it has been one of the things that has been happening. Our strategy of product mix diversification also sort of squarely goes in handling the market volatility as well. I can take this question in the context of our overall growth outlook and how we are seeing for this business. Before I go into that overall growth outlook, I will talk about the ULIP itself in terms of behaviour. Compared to how it was in the past in terms of equity completely dominating the mix in the ULIP because as you know in ULIP asset allocation mix is chosen by the customer. It used to be about 70:30 in favour of equity. Over a period of time with debt markets doing well and the rates going down and the kind of our own proactive communication in terms of telling the customers that even in ULIP one should be looking at the need based approach in term of buying the policies in terms of developing the kitty and also in terms of looking at the asset allocation, we have actually seen the behaviour muting in terms of equity proportion over the last year and a half. Slowly it has been changing. In the last quarter in fact we saw a reversal in terms of the debt equity mix. We saw about 30% equity and 70% debt in terms of the incremental flows. So clearly some communication on it. It is not that we are directing them to shift. We are focusing both based on the needs of the customers and the age of the customers and the need to have a balanced asset allocation over a period of time. That is sort of resulting in that even people who want to be in equity, a lot of them have been choosing the systematic transfer plan. It starts with debt and slowly converts into equity. As you know we are able to do that in our product

which is designed to do this automatically. So these are some of the ways in which it has happened. But having said all this we have articulated in the past that our top line weakness is primarily been driven by the ULIP de-growth. That is a fact that we cannot escape. We have seen that happen in the last nine months of this current financial year. But having said that, premium growth is clearly one of the 4P strategic elements which we have articulated. We will continue to focus on growing the same and also along with that we will continue to diversify our customer base and make our premium growth a little more resilient. So here I want to also highlight the way the distribution channels are also moving in terms of the ULIP as well as the other products. Because it is very important being a highly intermediated business, channel behaviour is also very critical in understanding the overall outlook for growth. So, if you look at our distribution channels the approach for agency channel for us has been to ring fence the high productivity agents while increasing the activation of the other agents. That is what we have been focusing on. We have discussed in the past that we are focused on adding new agents with the distribution. So thanks to this and we say it is very hard working model but thanks to this initiative we have pursued over the last one year, agency channel registered a double-digit growth last quarter with half of the business coming from non-linked savings and protection product. So that is a significant change that we have been able to make during the last one and a half years. That is the outlook for agency channel. Accordingly, it will help us in the overall growth going forward. In the case of corporate agents and brokers which accounts for less than 10% of our business, we continue to build new partnerships. So the lever available there for us is

to keep building new partnerships. We have also tied up with various non-traditional distributors, which include web aggregators, payment banks, small finance banks, etc. For the nine months period of the current financial year in APE terms, the channel actually grew by more than 25%. Similarly our direct channel it is our own direct business, which we do over call centres and the physical fulfilment etc., with our own staff. That continues to grow during the quarter as well as for the nine months of this current financial year. So these are the areas where we are very confident with the kind of product diversification work we have done, with the kind of channel accretion we have done and the growth which has been emerging quite nicely.

Now coming to the bank assurance channel. We look at ICICI Bank as a core part of our strategy which is in terms of supporting our objective of VNB growth. So if you look at the ICICI Bank dynamics, the way it is moving is that with their focus on the growing protection mix, I believe that it will be one of the banks with the highest proportion of protection when it comes to life insurance sales. ICICI Bank is one of the largest distributors of protection in the country today. Given that, I believe that with ICICI Bank being focused on the higher affluence segments of customers and the fact that they do not sell traditional products, obviously the ULIP weakness would impact the top line. But the great news is that with the focus on protection as well as annuity, which is pension segment, they are core to our strategy of supporting the VNB growth. It is becoming more and more a VNB channel compared to a top line channel which I had articulated already in our last conference call. So to summarize while

premium growth remains to be our focus areas, we would look at all the levers and our 4P strategy to deliver our VNB growth aspiration.

Yash Sidana: Thank you so much for all the detailed comments. I think my bigger worry is more than the growth aspect. Because obviously if there is a need you can fulfill through different products it does not have to be ULIP right. But more on the EV side and what happens to the value of EV if people start to surrender these products given the volatility and especially in a regime where there is not a lot of penalty. At best the guy does not get back his or her premium for the next two, three, four years whatever this remaining period is left. So it is not a very large penalty and from that perspective and obviously persistency is one of our key profit drivers as well. So how do you look at it from a volatility of the current customer base from a persistency perspective?

Satyan Jambunathan: Yash, if I were to look at stability of persistency of the existing book, that has actually been far less volatile than the top line growth as far as unit linked is concerned. And the reason for that like we have discussed on many occasions in the past, is that if at the point of sale it was sold in a particular fashion, then the core holds up. Any impact to persistency hence would have been at the margin and surrender experience has been no different. In fact on surrender experience, our own observation is that it has been slightly different from persistency. Persistency or premium persistency, we have seen it sometimes go little lower when markets are weaker and improve when markets improve. On the other hand, we have seen surrender behaviour operating in the other direction. So we have tended to see a little more elevated surrenders

when markets have done better and a little less pronounced level of surrenders when markets have not done so well. So between the two of these with the market being volatile, you tend to have slightly opposing effects which come in and that is the reason that even though there are no significant penalties for surrenders, the fact that through this longer period of volatility, the persistency has held up fairly strong at above 82% level at least is indicative that it is not going to fall off a clip and we are not going to lose the book overnight.

Yash Sidana: Just quickly last question on the 80C and sorry if I am unaware. Does the customer need to take any certificate from the bank regarding the 80C investment?

Satyan Jambunathan: In the tax return, he has to file receipts of investment under qualifying instrument for section 80C. If it is a bank deposit of longer than five years, which is one of the qualifying elements, he has to show the receipt of that. If he is buying an ELSS, he has to show the investment proof. If he is buying an insurance he has to show that. If it is a home loan repayment he has to show that. All of those things, for employed people typically is given to the employer who calculates the Form 16. But for other people for whom it is not included in Form 16, it actually has to be produced as evidence at the time of filing the return.

Yash Sidana: Right, so that proof from life insurance companies is it any different from the mail that people get?

Satyan Jambunathan: It is a premium paid receipt. You can go to our website, your customer section and you can print it out.

Yash Sidana: So you would not know whether this guy has taken life insurance product for 80C purpose or not that is what I am trying to get to?

Satyan Jambunathan: The point is I take it and the reason I take it for my policies is that in my declaration, I have put a listing of all my insurance policies. For that purpose I generate the receipt. I do not use any of that premium as a deduction but I put it there as an evidence for the listing.

N.S. Kannan: Yes, anyway Satyan would have got capped because of his PF and the other contributions itself and so that is never availed.

Satyan Jambunathan: Generating the receipt, if you are asking if it is an indicator of tax behaviour, it is not an indicator of tax behaviour. Because increasingly tax authorities are asking for other statements and at least for that we are having to generate all of these evidences.

N.S. Kannan: The other issue is also that one of the proxies which can be looked at is what I mentioned in my opening comments. This is around the average premium which for even participating type of policies is ~₹ 60,000. Such customer is very unlikely to have used it for 80C. He would have had other elements such as HRA or the housing repayment. They are also part of this bucket. So our sense is that based on our own analytics and calculations and also executive judgment, is that it is very unlikely that this upfront tax deduction would have driven the behaviour in terms of purchase of insurance policies, especially for our kind of customer profile.

Yash Sidana: Thank you so much for all the details.

Anjali Sinha: Sir you mentioned that in ULIP the persistency has gone down because of a particular cohort. Is it possible to mention around the time those policies were sold? Is it related to the policy sold around the demonetisation time?

Satyan Jambunathan: Not demonetisation. Policies that were purchased two years back and that predominantly invested in equity over this period where overall equity market returns have been negative. That is an example of one cohort where we have seen some impact. So there are smaller periods of time generally from a distributors perspective. Again I go back to the point Kannan made that it is a very intermediated industry. The distributor usually goes and talks to the customer about renewal premium and if their policy is not in the money, many distributors find it to be a more difficult conversation to have. In such a scenario the way we try to deal with it is, to initiate communication directly with the customer. Our own experience of directly reaching out the customers has been that when we speak to them directly they are ready to pay. But sometimes the distributor feels defensive of going and talking to the customers. This has been affecting at least at the margin, some elements of persistency.

Anjali Sinha: What about the ticket size of these customers it will be similar to the overall ticket size? And the segment like will be again upwards of ₹130,000-140,000 ticket size we are talking about?

Satyan Jambunathan: Yes.

Anjali Sinha: So in that case the assumption we usually have is, customers who are investing that kind of amount in ULIP will be quite an informed one and will not really be taking decisions just on back of the

performance. Do you see that is not really the case always like this particular cohort what we are talking about? Like two years of underperformance is stopping them from investing further?

N.S. Kannan: There are two parts. One I think we will be very surprised at how many people still rely so much on a distributor in making the decision, financially savvy or otherwise. But having said that for people that are more aware, is this impact on persistency likely to be permanent? I would think not. I would think and from what we have seen in the past also is, that there are delays in their coming back. But they tend to come back because eventually they have taken it for an objective and as soon as you get the distributors more comfortable talking to them about it we start to see persistency improve. To that extent I do not think this is the permanent impairment in that sense. It will come back. But very clearly we would be very, very surprised at the level of reliance the customers, even large premium paying customers, have on distributors. The competitors distribution also look, that is the reality, they keep talking about relative fund performances. This is like you rightly said; these are not only savvy customers they are also overbanked customers. So a lot of the other distributors also go and talk about that; let us say fund performance of different companies and there is always a little bit of confusion. So you have to engage them either directly or through distribution and they eventually will come back. Like Satyan said, it is a matter of time. While your point is right, in reality it involves more work from us in terms of engaging them and to make ensure it happens. But that is the practical reality. You are right that they know all this, that we have to wait for five years ten years. Equity market is really a long-term

play and they also invested upfront only for a long-term play. But having said that because of these sort of competitive elements, these sort of behaviours in the market, it takes time. It does not mean that if I delay the payment and it does not come before publishing of our persistency numbers in the market, it does not mean that it will lapse forever. We will continue to make an effort to revive or reinstate the policy and with some work it happens also.

Anjali Sinha: Got it. My other question is actually linked to industry practices. Like you were saying in this particular case, industry practices do impact you. Similarly and if you see while you might not be advertising the tax angle while selling your policies, the industry definitely is doing so. So from that perspective once if we see benefits go, do you think, like I am talking three or four years down the line when the government moves towards that, do you think this selling from the industry side will also have an impact on your ability to push some of these products?

N.S. Kannan: As I have said earlier, looking at proxy in terms of our average premium, the kind of customer segment we have, it does not seem to have any impact at all in the upfront deduction. If you are talking about something like in three to four years, my sense is that protection would have become even more significant part of our sales compared to what it is today. So to that extent we will be insulated from that kind of a behaviour and based on my own conversation and in some other panel discussions which have happened in the recent past, my own discussion with some of my colleagues in the industry also seems to indicate that there is no great push back from their distribution in terms of numbers

muting because of this tax provision. Yes there is a little bit of concern around the savings products about the weakness around the market situation, but nothing to do with the tax related compression of the demand, so to say. So those are the kind of things we are looking at and making an assessment of. We will see how it evolves. But to our sales teams, the direction is very clear that insurance sales should always be done on the basis of need. Yes, being a highly intermediate industry, you could not have avoided that being a return based pitch is there also. As I mentioned in my opening remarks, if at all it had happened it would have then probably based on the tax benefit available at the time of maturity rather than showing a benefit illustration to say that actually availing of the deduction. That seems to be less and less in terms of the method of sale to the customers. These are the things which sort of gives me a confidence that it may not have a huge impact.

Satyan Jambunathan: Because realistically if that has to be the impact and let us do the math on this. If a high net-worth customer gets a deduction at a 40% marginal tax rate, he has the big benefit out of the deduction. If we were using it on top of that long-term capital gains tax at 10%, it is another big benefit. On top of that dividend being taxable is another 60 basis point of benefit for a 40% marginal taxpayer. If indeed he used all the elements of this, life insurance industry should be three times the size of what it is today.

Suresh Ganapathy: While the question queue assembles just one more question from my end, Kannan. Have you got any feedback on the ground, from your agents on what is their conversation with the

customers? Because we would like to see practicality check now and also say in future are you really having something in mind to train the agents to sell the policies better? Because I am pretty sure some of them will be definitely using a tax angle to sell the policy. So have you thought about that in your operations team how to handle the selling process and stuffs something like that on something feedback on that?

Satyan Jambunathan: At this point, conversations are not giving rise to any concerns. But more important than what we are training them, actually we would inherently believe that the sales guys are creative enough to find their own parts of sleeves, persistence and design. Today, if they talk tax it is also because it exists. Tomorrow if tax does not exist, then I am sure they will find another way of selling it. At the end of the day successful salespersons are not relying on only one dimension to make a sale. And the fact that this is not a hear and now issue. At the very least, it is 12 months away, and gives distributors enough time to adjust to how they go and pitch even if they are forced into the situation in the future.

N.S. Kannan: I feel that the last mile is in this industry is inherently an entrepreneur. This is something which we need to factor in because there are a lot of individual entrepreneurial elements which are going and making it a success. Which itself would lend to creative ways of making sure that the sale is a success.

Yash Sidana: I thought I will take another question. When you look at this industry from the next five, seven year perspective or even longer, where do you think the distribution landscape is going towards. Do you think as

it is currently dominated by banks and agency force would that sort of continue or do you think that there will be other sources of distribution that would dominate in the next five to seven years?

N.S. Kannan: Two aspects I want to talk about. One is regarding the distribution. If I really look at that kind of a longer timeframe, I do believe that the industry will make more and more efforts in selling the products through the natural owners of customers and the kind of platforms which will naturally be having lots of transactions with customers. I think that is the direction in which we, based on our internal discussions we believe, the industry will move. This would mean that banks will continue to be one of the dominant players because they are natural owners of the customers and there are a huge number of transactions which are happening with the bank. So, bank being there, I do not think, we can rule out. What percentage, that time will only have to tell. But that will be one of the key channels that will definitely be there. We do believe that during this period there could be emergence of nonconventional distributors and these are owners of the customers. These are e-commerce companies, these are the payment companies, etc. They seem to be getting a lot of traction in terms of transaction volumes. There is no doubt about that and the endeavour of companies like us is to tie up with them. Some of the business models are very clear, while some of the business models are not yet clear. But we do believe, based on our own internal strategic discussions, is that the nonconventional players will start occupying meaningful proportion of our business going forward and some of the players will continue to have physical interaction. So to that extent some presence of the agency will also be there. So, these three kinds of

segments we do not expect them to become irrelevant. There has been a lot of debate about pure online. At this stage, we are only able to say that it is a very small component. Unlike in the non-life industry, here the online channels are being used for comparison of price or indicating their interests etc. The fulfilment seems to be quite offline today. So whether that will change or not in the five year timeframe, we are not able to see fully. But the other three things, which I mentioned that the natural owners of customers including banks and some of the nonconventional players and some of the agents who are having a deep relationship with the families of the high net-worth customers, I think this will really continue. That is the way we see it going.

The second part I wanted to talk about is that during this timeframe if we are lucky hopefully we will get a better play in the health insurance space. So, as you know, couple of days back IRDAI has formed a committee which is headed by the Chairman of LIC and Director of National Insurance Academy to look at the health indemnity products. You would recall that till the year 2013 it was in the preserve for both life insurance as well as general insurance companies. At that time, there was also a report by committee which was formed at that time, and which had also recommended a level playing field. Whereas health ended up being taken out of life insurance companies and left only to the general insurance and health insurance companies. Now that the committee has been formed and I must say that it is well represented across the three sets of companies, standalone health, P&C companies as well as life companies, I am sure they will take a balanced view. Our view is that if you look at the morbidity, it is much closer to mortality, portfolio of which life insurance

companies handle quite well both from a policy and risk management perspective. Secondly, we also feel that opening up this part of the insurance, which is health insurance and which is highly underpenetrated in the country, to about 2.5 million agents today of LIC and all of us put together, it will create a huge space for public policy in terms of pushing the health agenda of the country. So given these two we believe that if we are talking about a five years plus kind of a timeframe, in some form or other we will be able to play this space of health insurance. So those two parts and accordingly the channels and other things in the health insurance will also evolve. So that is how we figure distribution as evolving in the five plus years to answer your question.

Yash Sidana: That is very helpful. One last question based on that bit is obviously agency force remains important. Do you think that direct agents, the company owned agents could also become one of the dominant factors given as industry moves towards some of the higher value product or longer-term products more difficult to sell products usually when you see the direct channels have been really, really strong, but I think, one of the thing that has helped the insurers in India that is the low commission levels allowed by the regulators. So, you think those things can change going forward?

Satyan Jambunathan: Even as we speak now we have a dedicated employee sales channel. We show that under our direct business. These are salaried employees who are directly selling to customers. Typically what we use this channel for is to deliver cross sell and up sell campaigns on our existing customer base as the core, and not really to go out and

prospect or acquire new customers. If they acquire new customers that tends to be secondary, but the primary purpose of this channel actually is cross sell and up sell and that exists even today and that has been one of our better growing channels over the past four to five years.

Yash Sidana: But you do not think this could become a primary sourcing channel, a dominant?

Satyan Jambunathan: It is over 10% already. The challenge with this channel is say it becomes a fully fixed cost channel and therefore in the context of agency which is more variable, the elements of economics are different. What you tried to do therefore is to have a balance across various channels and see how we can make that work for the cross sell opportunity where the campaigns are delivered by the organization directly. We find the productivity of these salaried people to be very good and therefore it works economically.

Suresh Ganapathy: Thanks so much Kannan and Satyan for your time. It has been a very useful call and I appreciate all the investors who have dialled on to the call. Thank you so much.

N.S. Kannan: Thank you Suresh for suggesting and making it happen. Thank you so much.

Disclaimer: Please note that this transcript has been edited for the purpose of clarity. The transcript reflects the Management's views and beliefs on business outlook and on Value of New Business and Embedded Value considering the Union Budget 2020. Certain statements in this transcript are forward-looking statements and are based upon what the Management of Company believes are reasonable as on the date of this transcript. The Company undertakes no obligation to update the forward looking statements to reflect events or circumstances after the date thereof.