

ICICI Prudential Life Insurance Company

Earnings Conference call – Quarter ended June 30, 2018

(Q1-FY2019)

July 24, 2018

Please note that the transcript has been edited for the purpose of clarity and accuracy. Certain statements in this call are forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors.

N. S. Kannan:

Good evening to all of you and welcome to the results call of ICICI Prudential Life Insurance Company for the first quarter of the financial year 2019, that is Q1 of FY2019.

I have with me here Puneet Nanda, Deputy Managing Director and Satyan Jambunathan, CFO. We will walk you through the developments during the quarter as well as the presentation on the performance for Q1-FY2019. We have put up the results presentation on our website. You can access it as we walk through the performance presentation.

At the outset, as you know, I have been appointed as MD of the Company effective June 19, 2018 subject to IRDAI approval. It is indeed a pleasure for me to return to ICICI Prudential Life in an executive capacity after a nine-year stint as a non-executive director on the Board of the Company. Some of you might recall that I was on the Board here in an executive capacity from 2005 to 2009 and had held positions across business and corporate functions. It is also a matter of great pride to us that the senior leadership team here carries on the legacy that the Company leadership has built over the last 18 years.

Just a brief introduction of my colleagues with me. Puneet, as you know, has been elevated recently as the Deputy Managing Director of the Company. His responsibilities include Business, Operations, Service and Technology functions amongst various other functions. He is a founder member of the Company and has been handling the Business functions for around five years now. Satyan is also a founder member. He has extensive experience leading the Actuarial and Finance functions, and has been the CFO of the Company for over two years now. At this juncture, I would also like to point out that we are currently a 17,000+ strong organisation and 94 out of our 113 top managers have been with us for over 10 years.

Just to conclude this part, I would like to mention that in my last nine years on the Board in a non-executive capacity, I have also been closely involved in the formulation and delivery of this Company's strategy. So, in several ways, it is homecoming for me.

Moving on, I will be outlining our key imperatives as we move forward this year and briefly highlight the quarterly performance. Thereafter, Satyan will discuss the quarterly performance in greater detail. At the end, Puneet, Satyan and I will be happy to take any questions you may have.

Strategy & performance

Our fundamental focus continues to be to grow the absolute Value of New Business (VNB) while ensuring that our customer is at the core of everything we do. In doing so, we believe in a long term strategy focused on retail business through our multi-channel distribution, customer centric

products and relentless efforts to deliver superior business quality; with technology as a business enabler in each of these aspects.

During our FY2018 results call, we had highlighted the impact on VNB growth of the key levers of premium growth, product mix focusing on protection business, productivity enhancement and persistency improvement resulting in better experience than the assumptions.

We believe that these 4 Ps of “Premium growth”, “Protection focus”, “Persistency improvement” and “Productivity enhancement as reflected in improving cost ratios” are core to the path of delivering our objective of VNB growth.

The first “P” of “Premium growth”

Over the years, we have built a strong retail franchise on the back of a range of product offerings that mitigate risk and add value to our customers. We have continually evolved our processes and technology to ensure that our customers’ on-boarding and service experiences are seamless and enhanced all the time. To translate these product and service propositions into business outcomes, we have built a very well-diversified distribution architecture, as demonstrated by our channel-mix of business.

We have had a muted growth of new business APE during the quarter in relation to the industry, with APE declining by 18.1%. We had a market share of 11.3% in new business for the quarter. Our immediate focus has been on reversing this year-on-year decline. Satyan will later talk about the premium development during the quarter.

The second “P” of “Protection focus”

With growing affluence of the working population, the need to protect their dependents from losing their family income is on the rise. This need is further accentuated by the trend of nuclear families becoming the norm. Further, as retail customers borrow to create assets, the need to secure these liabilities through suitable insurance also comes to the fore. While our key strength has been our retail distribution, we have also extended our focus to building partnerships with lenders who can help us reach these customers and service their need. It is in this context that our approach of providing products and solutions to meet this need of the customer sharpens our focus on this business segment.

During the quarter, our protection APE grew 48.1%, with the mix of protection being 8.2% of APE for the quarter.

The third “P” of “Persistency improvement”

While sales effort is normally directed towards acquisition of customers, it is the retention of these customers that delivers the full intended benefit to the customer and profitability to the Company. Customer retention also is probably the most effective indicator of the quality of sale and is a barometer of customer experience. Our efforts over the last few years in changing the organisation culture as well as partner culture in this direction have been amply evidenced by the strong improvement in persistency.

During this quarter, we continued our efforts in this direction which resulted in 13% growth of total premium and 29% growth of retail renewal premium on a year on year basis. 13th month

persistence was stable at 85.8%. I want to specifically highlight that we saw meaningful persistence improvement in the other longer buckets on a year-on-year basis which Satyan will elaborate and Puneet will clarify later during the call.

The fourth “P” of “Productivity gains reflecting in reduced cost ratios”

Technology and process re-engineering have been at the centre of our efforts to improve expense ratios. Improving productivity of all parts of the organisation from sales to service to support has resulted in our cost ratios coming down over the years. As we redouble our focus on protection, we are also conscious that we will have to invest in this segment resulting in some increase in cost ratios.

For the quarter, our expense ratio for the savings business was at 13.7%, driven mainly by a decline in the savings business. While we are monitoring the expenses closely, we expect the ratio to improve as the premium growth picks up.

VNB growth: Outcome of strategic elements

The outcome of our focus on these 4 Ps has resulted in our Value of New Business for the quarter being at ₹ 2.44 billion at a margin of 17.5%. Thus the VNB registered a robust growth of 34.1% over the first quarter of last year. This growth, even on the back of an 18.1% decline in APE, has been achieved through the 48.1% growth in the protection business which I talked about earlier.

I would like to conclude with my view of our prospects going forward.

India continues to be an underpenetrated insurance market based on parameters such as life insurance premium to GDP in the context of savings business or sum assured to GDP in respect of protection cover. Rise in the working population and per capita income coupled with financialisation of savings offer significant opportunities for both savings and protection businesses going forward. This opportunity, when coupled with customer centric products and proper multi-channel reach, would lead to increased inflow for the industry.

Given this, I am confident that the industry can grow ahead of nominal GDP growth in the future. I also believe that the protection business has the potential to grow well ahead of this.

Thank you for your attention and I look forward to interacting with you in due course of time.

I now hand over to Satyan to discuss the results in greater detail.

Satyan Jambunathan:

Thank you Kannan. Good evening. I will take the next few minutes to detail out the performance over the quarter.

A very quick recap of the structure of products that we offer. Broadly, our products can be categorised into either savings or protection. Savings products are offered on three platforms-linked, participating and non-participating. The key differences across these platforms are the choice of asset allocation, cost to the customer, transparency and surrender penalties. If you look at the life cover across these segments, it is quite similar, i.e. ten times annual premium, except for

annuity products. Protection products are available in retail, group and credit cover platforms. These products provide cover for life, disability, critical illness and accidental death. These are pure risk products.

Just as a brief reminder, IRDAI's product committee highlighted the difference in surrender penalty across different product categories, specifically the high surrender penalty in the non-linked traditional savings platform. Our product mix remains largely in products where the customer is reasonably protected from persistency risk. We continue to maintain our view that delivering the highest levels of persistency is key to safeguarding the interests of our customers.

Strategy

Very quickly recapping the strategy, our focus is to grow the absolute Value of New Business (VNB) while ensuring that our customer is at the core of everything we do. Our long term strategy focused on retail business through our multi-channel distribution, customer centric products and relentless effort to deliver superior business quality; with technology as a business enabler is the core of the way we function.

Retail focus

Retail business contributes ~ 96% of new business APE for us. If I were to compare it to the past quarter, it has marginally gone down on the back of robust growth in the group protection business.

Our total AUM grew by 12.7% during the quarter to ₹ 1.43 trillion. Retail AUM of ₹ 1.28 trillion constitutes more than 89% of the total AUM and this share has continued to increase during the quarter.

Our private market share for the quarter is stable at 21.0%. Total market share of 11.3% has declined from 11.8% for FY2018. The numbers for the new business for the various months have been public for a while. I am sure you would have observed the development of month-wise RWRP numbers which are in the public domain. In the first two months of this year, we started with a large decline by over 30% year on year predominantly on the back of fairly strong first quarter last year, which was on the back of the demonetization impact and the consequent immediate impetus to financialisation of savings. If we look at June, it is much more gratifying to note that, sequentially it is 36% higher than May and also, the year on year decline was -5%. As we go into the next quarter, the focus would be on carrying the sequential momentum forward.

Multi-channel distribution

On the distribution front, we have invested across channels such as agency, bancassurance partnerships, proprietary sales force, corporate agents and brokers including web aggregators. During the quarter, non-bank channels have contributed ~45% of our APE and this share has been fairly stable over the past few quarters which is quite a diversified mix as far as distribution channels are considered.

Customer centric products

It has always been our belief that ULIPs offer transparency, lower cost and lower persistency risk to the customer. ULIPs with their structure can compete effectively across the wider financial savings space in both offline and online environments. In protection products, benefits are paid only on mortality/morbidity events and there is no maturity or surrender value. During Q1-FY2019, our protection APE grew by 48.1%. We continue to focus on the three segments of protection i.e.

Individual life/health, Credit cover and Group life and all segments witnessed growth during Q1-FY2019.

Persistency

Our persistency continues on an improving trend. Just a recap, we calculate persistency excluding group premium and single premium because it is the retail persistency which clearly determines the profit trajectory. The 13th month persistency has been stable at 85.8% and we have seen meaningful improvement in persistency across the later buckets. Specifically, I would like to draw your attention to the 49th month persistency, which has improved to 63.7% from 59.2% in same period last year. Beyond the 49th month persistency, our focus remains on containing surrenders so that the customer that stays with us longer gets the full intended benefit and this also feeds into the improved profitability to the Company. As discussed in our last result call, we have put in some initiatives to retain customers. During the quarter, our surrenders have reduced by around 35% on a year-on-year basis.

Consequent to this focus on persistency, you would notice that our retail renewal premium grew by 29.1% to ₹ 36.25 billion during Q1-FY2019. The growth rate of 29.1% is our fastest during recent periods.

Productivity (cost)

Our cost to TWRP ratio was 17.5% for Q1-FY2019 as compared to 14.2% for Q1-FY2018. Within this, the cost to TWRP for the savings business was 13.7% compared to 12.5% for Q1-FY2018. We have been saying that as we continue to focus on protection products, the cost ratio for that segment is higher. As we go through the rest of the year, we do expect growth to improve some of these efficiencies. If I were to break down the expense ratio, the commission ratio of 5.5% is stable on a sequential basis. This is higher than Q1-FY2018 because of the change in products that we had in Q2-FY2018. The new products have a different commission structure from the old ones. The non-commission component of cost has grown year-on-year at over 40%; but if I compare it to a sequential growth rate as we have seen between Q3 and Q4 last year, it has been flat. Clearly there is no worsening from the cost perspective during the quarter and the imperative is to get the growth back so that expense ratio improves.

Technology as a business enabler

Developments in social, mobile, analytics and cloud technologies are presenting new challenges and opportunities for business growth and sustainability. The adoption of digital technologies is necessary not only to redefine the way we work, but also the way systems and processes enable us to maximise human potential. Multiple initiatives across the product life cycle i.e. from business acquisition to operations and to customer service have been undertaken in this regard. The outcome of our business parameters is a testimony to the technological journey we have undertaken. For Q1-FY2019, 73% of new business policies are issued within 2 days, 61% of renewal premium is receipted through electronic mediums and 99% of customer initiated payouts are processed electronically.

Financial update

Within financial metrics, total premium increased by 13% to ₹ 55.18 billion in Q1-FY2019. While we had a decline in retail new business premium, strong growth of retail renewal premium resulted in

the overall growth. The profit after tax for Q1-FY2019 was ₹ 2.82 billion as compared to ₹ 4.06 billion in Q1-FY2018. The drop in PAT is primarily on account of increase in expenses with the focus on protection business as well as new business strain arising out of growth in protection business at 48%. While expenses increased by 43.4% in Q1-FY2019 compared to the same period last year, it was primarily on account of increased advertisement & publicity, which was in support of protection business, as well as employee cost. As I have highlighted, while expenses are higher than the same period last year, on a sequential quarter basis they have been flat.

Looking at the segments, the drop in PAT is explained by a reduction of surplus in non-par life and annuity segment. Non-participating life and annuity segment encompasses the protection and annuity business and the growth in these segments is reflecting the profit for these segment going down. Solvency ratio continues to be strong at 235%. The drop in solvency is on account of protection growth as well as the payment of final dividend pertaining to FY2018. Given the growth opportunities, the special dividend may come down over the next few quarters.

Our total AUM grew by 12.7% during the quarter to ₹ 1.43 trillion. We are amongst the largest fund managers in India. 86% of our linked portfolio has out-performed the benchmark indices since inception.

To summarize, we monitor ourselves on the 4P framework of "Premium growth", "Protection business growth", "Persistency improvement" and "Productivity improvement to improve expense ratios". Our performance on these dimensions is what we expect to feed into our VNB growth over time. Value of New Business for the quarter was ₹ 2.44 billion which was a robust growth of 34.1% over the first quarter of last year.

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

Adarsh Parasrampuria: Operating expense ratio change in the savings business is lower than the increase in overall Operating expense ratio, just wanted to understand when you are reporting margins for Q1, you would still have operating expense ratios based on last year, so does that mean that if there is no recovery of growth in ULIP, there could be some margin compression?

Satyan Jambunathan: The way we look at our expense during the quarters is not just based on last year but based on our forecast of the current year that sequentially takes into account the emerging trends on expense ratios.

Adarsh Parasrampuria: Is there any expectation of growth in the saving business?

Satyan Jambunathan: Yes to some extent.

Adarsh Parasrampuria: Last year we had a positive contribution to VNB margin, because the growth ended up being better than what we would have started off the year, so could that be a reason to have some reversal in VNB margin at the end of the year or this year?

Satyan Jambunathan: I don't think there should be a reversal of VNB margins on that account.

Adarsh Parasrampuria: During the Q4 call last year we discussed that your 13th month persistency for the last two three years you had a good improvement and you said that as we see that translating into the other cohorts, we would take an active view about changing our assumptions into VNB margin, so where are you because we have seen in this quarter some improvement or material improvement at least on the 49 month.

Satyan Jambunathan: As a normal practice, we review our assumptions at the end of the year. Clearly these positive trends that we are seeing even through the first quarter are reason for us to look at it again at the end of the year.

Adarsh Parasrampuria: There has been worry around whether some amount of slowdown in ULIP flows kind of translates also into people not persisting with the policy, numbers clearly are telling the other way around but anything more qualitative on this?

Satyan Jambunathan: When you said numbers are telling this story that is in fact quite true. We have been saying this repeatedly that we believe that the single largest driver of persistency outcome is how the business was sold. It does not mean that no other factor has a role to play, but clearly our effort has been to make this sales process robust enough to keep the persistency strong.

Adarsh Parasrampuria: Can you talk about the steps that you have taken to reduce surrender rates?

Puneet Nanda: Surrenders are something that we have been very actively tracking. We saw over the last financial year a significant increase in surrenders which worried us. So over the past quarter or so we have put in place a lot of efforts in terms of the sales culture, process, customer education and others which is resulting in the kind of numbers that you have seen. We are fairly confident that we can manage this kind of a trend.

Nidhesh Jain: In Opex is it correct to look at on a quarter-on-quarter trend because Q4 is a seasonally very strong quarter and from Opex perspective also Q4 is a large quarter? Also what portion of our Opex in this quarter is structural in nature because of protection and what is our conscious increase in advertisement expenses that we have put out in this quarter which we can control over future?

Satyan Jambunathan: The two primary components of expansion that have grown are advertising and publicity cost and manpower cost. Advertising and publicity cost has been a focus effort from a protection business promotion and it started early on in the last year as well. So, from Q2 of last year you will find a fairly consistent pattern of spend on advertising and promotions that same pattern continues into Q1. The second element which has caused the increase in expense is manpower. Through the last year you would be aware we increased our employee count. We started the year at about 12,500 people and built it over the year and at the end of last year we were closer to about 15,000 employees and therefore we had an average of about 13,500 employees through last year. What you are seeing in the first quarter is a continuation of all the build-up of manpower that we had in the second, third and fourth quarters of last year and that is to a large extent fixed. What we have not been able to deliver from a relative perspective in the first quarter is the growth in the top line and given that we have already put the people and infrastructure to deliver growth, the focus continue to be to bring the growth back over the next few months.

Nidhesh Jain: This advertisement and publicity would translate into retail protection growth or it is also linked to group especially the credit life business?

Satyan Jambunathan: It would be with respect to both because it is a more generic kind of spend. The spend could happen through direct advertising, it could happen through below the line campaigns, it could happen through focused opportunities that we are pursuing, so there are a variety of areas in which it happens, so it could benefit both retail as well as group.

Nidhesh Jain: Can you share the growth in the retail protection APE on a YOY basis?

Satyan Jambunathan: We have not put out the segmental numbers.

Nidhesh Jain: On the annuity business, what are the steps we are doing and what sort of growth we have seen in that business?

Satyan Jambunathan: Our focus has been more on immediate annuities where it is the vesting of pension but going forward we are conscious of the opportunities on deferred annuities as well.

Puneet Nanda: We will create products and solutions which make sense for the customers, but at the same time where we are confident that we can manage the risk. We do not want to expose our balance sheet to risk that we cannot manage so if we put these through two things together in line with this we will keep creating opportunities whether it is on the immediate annuity plans whether it is on deferred or indeed we will try to bring innovation in this space, but it will be on these philosophies.

Nidhesh Jain: Lastly on the growth if I look at channel wise growth there is a sharp decline in both agency and direct channel as compared to bancassurance channel so is there any specific thing which has happened in this or just a base effect?

Puneet Nanda: It is largely base effect.

Suresh Ganpathy: We are hearing a lot that the credit protection business margins are abnormally high and there is a risk for it to come down, so I just wanted to get your view on whether the credit life protection margins could continue or whether it could come down over the course of next couple of years. Also is it possible to share the split of VNB across various products like you can break it into saving and protection products if possible?

Puneet Nanda: Our focus on credit life is not necessarily to do with high margin. It is to do with convenience and to ride the credit expansion that is happening in the overall economy itself. So as that credit expansion happens there are people who are getting exposed to different kinds of risk. So our aim as a risk management provider is to cover those risks. There are certain profitability measures that we track, but that is not really the driver of how we are doing this business. Our business is driven by convenience, by simplicity and by an on boarding process which is customer centric.

Satyan Jambunathan: We have not given the split of VNB across segments.

Suresh Ganpathy: Can you give that for the previous years?

Satyan Jambunathan: We have not given the split between savings and protection contribution of VNB.

Suresh Ganpathy: Solvency margin declined because of dividend as well as growth in protection business, but the rate at which you are growing do you really see solvency dipping below 200% and perhaps capital raising in the next three years or a 20%, 25% growth over the next three years can be sustained with current levels of solvency margin?

Satyan Jambunathan: The levers of capital management for us first is the dividend policy. We are still paying a special dividend beyond the target in the dividend policy. As I had mentioned in my comments something that we can expect over the next few quarters is the special dividend coming down. Beyond that, if necessary we can raise tier 2 capital up to 25% of the required capital. Raising equity will only come after that.

N. S. Kannan: Based on the financial plan we do not expect to be raising capital in the foreseeable future.

Suresh Ganpathy: What about IndAS implementation for insurance companies? When is it applicable and would DAC be applicable under IndAS or no?

Satyan Jambunathan: The regulator has articulated an intention to move with the rest of the world which is 2021. Having said that, there is still some discussion going on with the regulator to assess what is the most appropriate way of implementing it in the Indian context. IndAS is going to be not just about deferred acquisition cost. It is actually going to change the entire measurement of revenue, liability and recognition of profits. So it will very definitely change the entire profile of profits from what we currently know.

Suresh Ganpathy: So can you give us an example as to how does it change?

Satyan Jambunathan: Different products will have a very different outcome, but by and large the new business strain that we currently see in the current accounting regime will change quite dramatically. There will be more level emergence of profits which will be more in line with delivery of service and not necessarily front-ending the loss part of it.

Suresh Ganpathy: Any assessment of how the new product committee regulation on non-linked products could affect your margins based on the revised surrender penalties?

Satyan Jambunathan: You would have observed our product mix still continues to be predominantly unit-linked and in the non-linked, protection is the significant component of it. So, we do not really think that any of this should affect our profitability in any meaningful fashion.

Avinash Singh: On a like-to-like basis the margin 17.5% of course could be based on the tax assumption adjustment which you changed in FY18, what would be on a like-to-like margin movement in absolute VNB? On your policy holder surplus, can you just provide its breakup between your new business strain and surplus on back book? I am asking this because for the full year you had a sort of a sizable negative number in the annuity book and if I look at your valuation of a liability your discount rate is 5.5% so in the rising interest environment you have taken down your discount rate and there seems to be a negative surplus generated out of that annuity business?

Satyan Jambunathan: In response to the first question the 17.5% margin that you see is on a comparable basis to the full year margin on 16.5% that we had for FY18. So, it has a consistent tax rate and every other treatment being consistent. Any changes in assumption for the current year would typically be considered at the end of the year.

Avinash Singh: But that 10.7% was when we were using that at the marginal tax rate?

Satyan Jambunathan: It is never going to be comparable to Q1 of last year. We should look at this 17.5% in the context of 16.5% of full year last year. Moving on to the second question on profit

and profit trajectory, the discount rate that is used for the liabilities is a function of variety of things. It is not just about how interest rate moves, it is also a function of what is the yield on the portfolio. Prospective changes to interest rate only incrementally affects the investment. Hence it is a slower change from the past rate into a new rate. So I do not think you can quite in a simple fashion transpose the trend of interest rates into what one would expect from a valuation rate of interest because one needs to keep in mind that the asset side accounting is still amortized cost. So, to keep the liability valuation consistent it will be more driven by the existing book yield than just about the future yield. Eventually what one takes into account is both of these, but it is a slower progression towards the future.

Avinash Singh: If you can provide breakup of your policy holder surplus into new business strain and your back-book profit? The new business strain seems to be a lot higher which depends on the product but despite the slow new business growth and what is the reason in FY18 particularly Q4 FY2018, a large negative adjustment which is leading to a large negative surplus?

Satyan Jambunathan: We have not given the breakup between new business strain and inforce profits. With respect to annuities in Q4 of last year, we also wrote a considerable amount of new business in the annuity segment which is what has a Q4 impact on P&L.

Madhukar Ladha: What has driven this strong growth in the group business, can you talk a little bit about the different products where the growth is coming from?

Puneet Nanda: Group business has largely three components. One is what we call the group funds business. Second is group term insurance business and the third is group credit life business. In line with our strategy of increasing focus on protection and having disproportionate growth, even within group most of the growth for us in group has come on the protection side. A lot of it within that will be credit life and some of it will also be group term.

Madhukar Ladha: So, most of it you would say has come from credit life and you have also mentioned that you have launched a new micro insurance product, can you talk a little bit more on that?

Puneet Nanda: It is a group protection product. There are specific guidelines from the regulator on the micro insurance segment depending the ticket size and hence you need a specific product. At a broad level it is a group credit life product.

Madhukar Ladha: For the microfinance need?

Puneet Nanda: Yes.

Madhukar Ladha: Within the protection APE, do you segregate between group and individual and what percentage of the 8.2 is coming from group?

Satyan Jambunathan: We have not given that split.

Neeraj Toshniwal: On the claims which has been very fairly low at ~ 9% of the AUM, how do we see it playing out in the future quarters?

Puneet Nanda: Claims that we have reported is largely surrender. We articulated a little while back, surrender is something that we were concerned about in the last year, so we have put in place

a lot of measures both around distributor, customer communication, etc., which has resulted in this lower surrender claims. We are fairly confident that we can sustain this kind of result.

Neeraj Toshniwal: For the full year basis, are you comfortable with such level of surrenders?

Puneet Nanda: We really do not know how the full year will play out, but our effort is to ensure that we keep educating the customer on the benefit of staying invested.

Satyan Jambunathan: The other elements of benefits are actually contractual. If there is a maturity due for a chosen policy it will happen. It is not something that we can control.

Neeraj Toshniwal: Given we had a higher base, we saw a dip in the premium so now with the base effect weaning-off, how are we seeing the overall market and again what are we doing to pick market share?

Puneet Nanda: As we have articulated, we will continue on our customer centric strategy via our multichannel architecture. We continue to invest in all the channels, we continue to see good traction in all. Obviously, market share is something that we do wish to improve and accordingly if we wish to improve market share, the objective will be to go ahead of the market that is what we will attempt to do during the rest of the year.

Neeraj Toshniwal: Is there an overall moderation you are seeing in the market itself and how are we picking up the momentum now?

Puneet Nanda: Very difficult to predict these kinds of things. At a broad level we think that the market will continue to grow ahead of nominal GDP and that is what we will track.

N. S. Kannan: And within that we will definitely try and grow protection at a much higher rate.

Neeraj Toshniwal: Will we continue this kind of growth in protection or higher?

N. S. Kannan: We have not given a specific number, but our endeavor would be to give disproportionate emphasis internally for the protection business.

Neeraj Toshniwal: Do you see any impact on the margin because of your higher opex? How does it reflect if at all in your variances or we need to see your assumption on the higher side or is it because Q1 is front-loaded?

Satyan Jambunathan: How expenses are playing out on margin will come through as we go through the quarters. This is because when we start the year we are forecasting another three quarters of expenses and as we go through each quarter we have more visibility and certainty on where we can get to. But we do think that the efficiency that we have been getting, we should be able to maintain.

Harshit Toshniwal: When I look at the credit protect segments, you say that new business strain is higher in Protection, so credit protect is mostly single premium so the strain could come either from higher expenses or from higher reserving, so can you directionally guide that is it the expense or is it the claims or basically the provisions which we are making is causing the new business strain because in a single premium shouldn't it be lower?

Satyan Jambunathan: In the single premium it should be lower than a regular premium and you are also correct about the two factors that you described. Typically, in a Credit Life it is not a single price offered across all partnerships, so it could happen that in certain cases it is the reserving which is causing the strain, it could be in certain other cases that it is the expense which is causing the strain.

Harshit Toshniwal: Is it also important that what is our mix of credit protects in terms of loan? If we are more in microfinance for example, our new business strain would be lower compared to housing loan? Also can you broadly guide what kind of loans are predominating our mix?

Satyan Jambunathan: In our mix today, it is still mortgage-related which has the lion's share. The other segments are only starting to become meaningful as we speak, but mortgage is still the largest part of credit life for us.

Harshit Toshniwal: Our annuity liability is high because of the lower discounting rate also, is it that we try to match the kind of guarantees we have provided on the product, so is it on a product-to-product basis the discounting of the liability?

Satyan Jambunathan: Not necessarily product-to-product, more like portfolio-to-portfolio. So, I would actually aggregate some products which may have similar liability profile and then manage it together.

Harshit Toshniwal: Annuities would be amongst the separate pool because the way it will be invested would be bit different from the other lines of businesses?

Satyan Jambunathan: Yes

Sumeet Kariwala: With respect to the mix of ULIP products, so there was a focus towards increasing seven-year premium payment term products versus 5 year earlier, can you give an update on that how is that changed over the last two years? The second question is that I know you guys have not disclosed the mix between individual protection and Group Protection, but can you talk about as to how broadly the growth rates are in individual and group protection? Is group term disproportionate for this time? As the company has been entering into number of new tie-ups on the group protection side and in some quarter there should be a jump in group protection premiums because there will be a quarter where the entire business opportunity comes for the first time, so when will that quarter be or that year be for ICICI Prudential because we have been investing in the tie-ups over the last two years?

Satyan Jambunathan: The answer to your first question the focus towards longer premium payment terms continues. The positive trend that we have seen through the last few quarters continues, so we now have over two-thirds of our new business coming in the longer pay terms. The answer to your other question on where the growth is coming from on protection relatively in this quarter the group protection has grown faster than retail protection and also in answer to your question as to when the growth from the partnerships could come, I think it is starting to come through but it is still be a gradual I do not think you will suddenly see a quarter where it jumps up because the build-up of partnerships has been gradual and systematic over a period of time.

Dhawal Gada: Could you give the new business premium of overall protection and credit protect?

Satyan Jambunathan: We have not given that number.

Dhawal Gada: For FY18 would that number be upwards of 1000 crore?

Satyan Jambunathan: We have not given that number for FY18 as well.

Dhawal Gada: As you mentioned, large part of the credit protect is mortgage, should I assume (+90%) or could you quantify it that I?

Satyan Jambunathan: It would not be 90% but it is still a majority.

Dhawal Gada: Could you talk a little bit about how margins have moved in the ULIP business over the last couple of years, adjusted for the tax rate changes, the underlying margin given the improvement there we have seen persistency as well as surrender rates going down, could you talk a little bit about how that is shifted?

Satyan Jambunathan: We have not disclosed the product category level margins. The best way probably to understand the impact on the product level margin atleast on account of persistency would be the sensitivity information that we have given.

Dhawal Gada: In the annuities business, just wanted to understand not just for us, but just in general for the market as well. I mean how do you see the market on hedging the investment and the interest rate risk on this product and also I mean the depth on the market as far as longevity risk is concerned just some color in your thoughts on how you are thinking about the business?

Puneet Nanda: Hedging on annuity indeed is the single biggest risk that insurance companies carry. So, there are two kinds of annuities – one is immediate annuities, second is deferred annuities. Immediate annuity is where the entire premium comes towards upfront and they are depending on whatever the duration of the annuity is. One attempts to hedge it through various instruments. I think the market has evolved to a large extent to be able to realistically manage this kind of thing given the current size of the annuity market. However, deferred annuity is a product where actually the premium is going to come to the insurance company sometime in the future. It maybe 5 years/ 10 years/15 years down the line. And hence being able to hedge that. Let us say premium comes 10 years later and if you have given some guaranteed rates from that date onwards, to be able to hedge that is very difficult. In the current Indian market environment, it is extremely difficult. So if one wants to attempt to do that, it is going to be a big risk on the balance sheet. That is the way we think of annuities hedging.

Dhawal Gada: If you want to write today the deferred annuity product, you would carry more of your own equity into this business to sort of manage these risks? How would you go about it if you were to have it today?

Puneet Nanda: Either one keeps the risks open or one lives in hope.

Dhawal Gada: And on longevity I mean do you think that is a risk or it is too early in India?

Satyan Jambunathan: That is too early now. There is not enough experience to demonstrate how longevity is developing. The only thing that we can say directionally is that longevity is improving.

Prakhar Sharma: On the conservation ratio where you have discussed, for most of the linked product the conservation ratio has come down materially, how do I read this?

Satyan Jambunathan: Conservation ratio can actually be distorted by maturities, expiry of premium payment terms and such and therefore it is always harder to make meaning out of conservation ratio than of persistency. I would actually suggest that looking at a period wise persistency and surrender would probably give us a bit more insight than looking at conservation ratio.

Prakhar Sharma: Basically, I am just trying to correlate things like market movement and the way this ratio is panning out, are you seeing slower growth in renewal premiums in the linked space?

Satyan Jambunathan: That would not happen. If I have a five pay which has crossed five years, I will not get premium. It will show as a drop in conservation ratio. If I did not expect the premium at all, then the persistency is not a problem.

Prakhar Sharma: Across products, the persistency that you have disclosed protection still make lower persistency that ULIP and other products, what would be the reason for this?

Satyan Jambunathan: I think first of all, we should note that these are fairly narrow ranges. The persistency that we have given is last year's full year numbers and there is nothing new in this with respect to this quarter. Also, you will never get a situation where persistency is the same across all segments; at best it will be in a narrow range. So I do not think one can read too much into one segment being better or worse than another. For example, if I look at it, I can't quite conclude by looking at par persistency of 88% versus ULIP persistency of 87%, that par has inherently better persistency. Sometimes you have the shorter-term trends; but the way we look at it is, are they in a narrow band or are they diverging? If they are diverging what could be the potential causes of the divergence?

Prakhar Sharma: As you had indicated earlier there used to be a gap between what is the actual persistency on an overall basis vis-à-vis what you have built in to your VNB margin forecast, could you just confirm it is 400-500 basis points gap?

Satyan Jambunathan: The last we had disclosed the persistency assumption change was 13th month persistency of 82.5% as compared to the experience which exists now. So, the gap is coming from the current persistency of about 85.8% for the three months' period, compared to the 82.5% for the assumption.

Vinod Rajamani: I know you don't disclose margins by products, but then could you visualize this scenario of increasing competition in the protection market and resultantly a drop in terms of the margins for the protection segment? What is the role reinsurance can play as far as protection is concerned, could it help in writing protection without depleting the solvency?

Satyan Jambunathan: While one can never take away the effect of competition on pricing of protection, there are few things to keep in mind: 1) the starting point of the penetration of protection 2) distribution largely still remains captive to an insurance or tied to an insurance company; it is only the online market which is the pure open architecture, and 3) bringing in the reinsurance that you have highlighted. Most reinsurers give the feedback that the protection prices in India are actually comparable to what has been charged in most other parts of the world and therefore these are all elements which would eventually determine how the protection premium plays out. Reinsurance does help in capital conservation? Yes, it does help, but there are also limits on how much capital credits can be taken from reinsurance by regulation. At best half of the required capital credit can be taken on account of reinsurance, the rest of it still has to be held by the direct company.

Mahantesh M: You mentioned about the cost going up due to manpower, from Q2 it will be normalized?

Satyan Jambunathan: From Q2 of last year onwards itself it has been largely normalized, so what we are seeing in Q1 of this year is a continuation of Q2, Q3, and Q4 of last year.

Mahantesh M: So, Q1 of this year and last year are not comparable?

Satyan Jambunathan: Yes.

Mahantesh M: From Q2 the base will be normalized year-on-year?

Satyan Jambunathan: Sequentially, the base will be normalized.

Mahantesh M: One of the participants asked about the change in accounting norms into IndAS, can you just give me a timeline until we implement it?

Satyan Jambunathan: 2021.

Saurabh Desai: You mentioned expenses have increased because of investment in protection business especially advertisement and publicity. I assume that the expenses are one-time given that protection products are normally a high margin product, is that the right assumption?

Satyan Jambunathan: It would not be one-time because advertisement is a continuous process required to keep the awareness up. However, whatever is the actual cost that is being spent is fully reflected when we report the margin. So, what you see as a protection margin at the end of the period is on the basis of the actual cost.

Saurabh Desai: VNB has increased and the new business premium has degrown? Can we say that VNB will grow at the expense of reduction in new business premium of lower margin saving products?

Satyan Jambunathan: Just to reiterate what we had said before. The approach to growing absolute VNB is driven by both growing the saving premium as well as growing the protection premium. In the last quarter, we have had a situation where the protection premium grew at a healthy pace and saving premium did not grow but the intent continues to be to grow both the segments of business and not just one. So it is not just about margin expansion, it is about absolute value of new business expansion.

Saurabh Desai: Any views on how the open multi tied architecture will impact ICICI Banks and hence ICICI Prudential?

Satyan Jambunathan: The multi tied architecture has been in place now for almost three years. It is up to the banks to decide how they want to go about it. Most banks in the Indian context today you will notice have remained single tied.

Nidhesh Jain: On the product level margins if we look at from FY18 to Q1, is it reasonable to expect the product level margin have remained broadly stable adjusted for the probably interest rate impact that we have seen in the quarter or is there any deterioration in margins?

Satyan Jambunathan: Product level margins would be largely stable.

Nidhesh Jain: On the surrenders benefits the improvement in surrenders that we are seeing is it mostly on the more than 5 year policies where consumer behavior that we are witnessing, or we are also witnessing consumer behavior changing in the less than 5-year bucket?

Satyan Jambunathan: Less than five year, he cannot surrender. He is locked in for five years so all of what we are seeing is beyond five years behavior.

Nidhesh Jain: And that will not get captured in our persistency number because contractually he is allowed to pay for five years.

Satyan Jambunathan: It does not capture in the persistency numbers because that captures premium payment, surrender therefore needs to be looked at separately.

Adarsh Parasrampuria: Does advertising cost include any payments made to the parent or these are all third-party payments.

Satyan Jambunathan: Anything that is paid to parent or related parties is fully disclosed in the financial statements. There is nothing beyond that.

Harshit Toshniwal: In deferred annuity you mentioned that we receive a payment after the end of the deferment period is that for applicable for all or in general we receive the lump sum amount today only. Even though we guarantee him a rate which will be annuitized after the deferment period?

Satyan Jambunathan: Both forms exist. It can be single pay deferred annuity, or it can be a regular pay deferred annuity. It is relatively much more difficult to hedge a regular pay deferred annuity than it is a single pay.

Harshit Toshniwal: And most of the single payment has received upfront even before the deferment period.

Satyan Jambunathan: Yes, if it is single pay it is received today.

Harshit Toshniwal: In ULIP when I look at the new product structure so instead of five pay we have increased the premium payment term to seven pay. So, is there any other material change in the product structure in terms of commissions because our growth being a little slower apart from the base effects is that also somewhere linked to the change in the product structure which we are offering just asking because apart from base is that there any reasons for lower ULIP growth?

Satyan Jambunathan: It is not that the product structure is seven pay. Product structure is still five pay plus. We have actually been trying to build an approach to sales which is more towards the longer-term than it was in the past.

Harshit Toshniwal: If we persist that is an additional gain to our base products.

Satyan Jambunathan: Correct.

Nishchint Chawathe: How do you decide the allocation of advertisement or any other expenses between protection and other business?

Puneet Nanda: That depends on what strategy we are pursuing as we have been articulating for some time. Our strategy currently is to try and achieve disproportionate growth in protection and that is why most of our advertising expense is in that direction, but this is a dynamic call that we keep taking from time-to-time.

N. S. Kannan: Thank you once again for participating on this call. I am very sorry we got delayed well into the evening but any time you have any questions, my team is available for answering your questions. Thank you once again for joining the call, bye-bye good night.