ICICI Prudential Life Insurance Company

Earnings conference call

Nine months ended December 31, 2020 (9M-FY2021)

January 27, 2021

N. S. Kannan:

Good evening and welcome to the results call of ICICI Prudential Life Insurance Company for the nine months ended December 31, 2020. I have several of my senior colleagues with me on the call: Satyan Jambunathan, CFO, Judhajit Das, who leads Human resources, Customer service & operations, Amit Palta, who heads Distribution, Brand & Marketing and Products, Deepak Kinger, who is responsible for Audit, Legal, Risk and Compliance, Manish Kumar, who manages Investments and Asha Murali, Appointed Actuary, and also Dhiren Salian and Mukesh Boobana from the Investor Relations team.

Let me start by mentioning some of the key developments during the quarter.

On the distribution front, as we had mentioned earlier, our focus has been to further diversify the distribution network. We have been actively engaging in establishing partnerships with various banks, from large private sector banks to new age small finance banks and payment banks. We announced multiple partnerships in the last two quarters. Specifically, the partnerships with IDFC First Bank and IndusInd Bank have already started yielding results, with us having gained a significant share of those shops.

In Q3-FY2021, we have partnered with RBL Bank, one of the fastest growing private sector banks in the country serving over 8.7 million customers through a network of 398 branches. We also signed a partnership with AU Small Finance Bank, a scheduled commercial bank and one of the largest small finance banks in the country serving over 1.8 million customers through a network of 700 banking touch points. These partnerships will enable the customers of both banks to access and seamlessly purchase our customer-centric protection and long-term savings products and provide financial security to themselves and their families.

We continued to deepen our presence across emerging channels as well. During the quarter, we have partnered with PhonePe, India's leading digital payments platform with over 250 million customers. We launched an instant term insurance plan with premium as low as ₹149 per annum. We also partnered with BSE Ebix Insurance Broking Private Limited, a joint venture of BSE and Ebix Fincorp Exchange, launching a term insurance product on their state-of-the-art hi-tech platform with an omni-channel digital presence.

These are the developments on the distribution and we will talk about the numbers later. Moving on to other developments.

During the quarter, we proactively used the opportunity offered by benign fixed income market conditions to raise ₹ 12 billion through issuance of non-convertible debentures, which are unsecured and in the nature of subordinated debt. The issue was tightly priced at a coupon rate of 6.85% per annum and received a good response from the market.

In April 2020, we had released our maiden ESG report. Even as we continue to further incorporate ESG principles within our organisation, I am happy to report that we are the only insurance company to have been ranked in the top 30 of India's most sustainable companies by Sustain Labs Paris in association with BW Businessworld.

That concludes the key developments during the quarter and I will now move on to the presentation.

Moving to slide 3 on risk management, we continue to maintain a resilient Balance Sheet, which has been our focus. Of our total liabilities, non-par guaranteed return products comprise only 0.7% i.e. less than 1%. We continue to closely monitor our liquidity and ALM positions, and we have no issues to report. On credit risk, only 0.6% of our fixed income portfolio is invested in bonds rated below AA and we continue to maintain our proud track record of not having a single non performing asset (NPA) since inception. Further, I am very happy to mention that our Assets under Management (AUM) have crossed ₹ 2 trillion during the quarter and stood at ₹ 2.05 trillion at December 31, 2020. This AUM is a reflection of our growth in new business premium, good persistency, lower surrenders and robust fund management.

Moving on to insurance risks; first on mortality. While we have seen claims arising from the spread of Covid-19, our overall mortality experience, including deaths on account of Covid-19, continues to be in line with our liability provisions. Further, at December 2020, we continue to hold additional reserves towards Covid-19 claims, although we have not had to utilise any amount from these additional reserves till date. Satyan will talk about this in more detail. In terms of persistency risk, our 13th and 61st month persistency ratios have significantly improved from the ratios we saw at the end of Q1-FY2021, and persistency ratios of other cohorts continued to be in a narrow range. The improvement in the 61st month persistency is a testimony to how we are building the business for the long term. One of the key imperatives for us this year has been to manage cost dynamically in line with emerging new business growth. With our focus on variabalisation, the cost ratios have been in-line with our assumptions. Our solvency ratio has increased to 226% at December 31, 2020 as compared to 194% at March 31, 2020.

I will now move on to our performance for the quarter. Our 4P strategic elements i.e. Premium growth, Protection business growth, Persistency improvement and Productivity improvement continue to guide us towards our objective of growing the absolute Value of New Business while ensuring that our customer is at the core of everything we do.

I will talk through our performance on the 4Ps through slide 6 to 10 and then conclude with a commentary on the VNB for the quarter.

Coming to the first P of our strategic elements which is Premium growth. For the quarter, our new business premium grew by 14% year on year to ₹ 34.43 billion**.** In terms of Annualized Premium Equivalent (APE), while the linked segment registered a decline year on year, there is a sequential momentum with Q3-FY2021 growing 21% over Q2-FY2021. Our non-linked savings segment continued to register a strong growth of 36% year on year for Q3-FY2021. The segment grew 10% sequentially, in line with the overall market. The overall APE grew by 14% sequentially in the quarter, which was significantly ahead of the growth rate of the overall market. We also continued to maintain a diversified product mix with 48% linked, 46% non-linked and 6% group savings for 9M-FY2021. From a channel perspective, APE from channels other than ICICI Bank grew by 9% during the quarter as compared to the same period last year. Our total APE was ₹ 39.54 billion for the nine months. While some of the new partnerships that we created have started yielding results, we expect them to provide a further fillip going forward.

Moving on to the second P of protection business growth. With an APE of ₹ 7.03 billion, the protection business accounted for about 18% of our overall APE as compared to 15% in FY2020. Based on the disclosed results and market estimates adjusted for return of premium business, we continue to lead the industry in terms of overall protection APE and for retail protection segment. Within the protection business, while retail protection continues to dominate our protection mix, we have seen a strong growth in the group term business. Also credit life saw a strong recovery and registered a robust growth in Q3-FY2021 over the same period last year.

Overall on the two P's of Premium growth and Protection business growth, I would like to highlight that based on total new business sum assured which includes both savings and protection business, we continue to be the private sector leader. Our new business sum assured market share significantly increased from 11.8% in FY2020 to 12.5% in H1-FY2021 to 13.0% in 9M-FY2021. Our new business sum assured grew by 22% year-on-year in Q3-FY2021. With this our new business sum assured for 9M-FY2021 is higher than the same period last year. So we have arrested the decline even on a cumulative basis. Our efforts in encouraging customers to complement their life insurance coverage with Critical Illness cover has aided this growth in sum assured. We believe that this result of driving insurance coverage both through term and health will help us in our VNB aspiration.

On the third P of persistency presented in slide 8, as mentioned earlier, we saw significant improvements in 13th month and 61st month persistency ratios from the ratios we saw at the end of Q1-FY2021 as well as H1-FY2021. Our 13th and 61st month persistency for retail business and excluding single premium stood at 82.7% and 58.0% respectively. It would be worth mentioning that within this, 13th month persistency of the non-linked savings business is at the same level as last year i.e. FY2020, and the persistency of the protection business has improved meaningfully from the last year. Beyond the premium payment term, containing surrenders is important and our retail linked surrenders have reduced by 7% as compared to the corresponding period last year.

On the fourth P of productivity improvement presented in slide 9, our cost to TWRP ratio was 14.6% for 9M-FY2021 as compared to 16.6% for the same period last year. So there is a two percent improvement. For the savings business the ratio was 9.3% as compared to 11.1% for the same period last year. Our cost ratios are one of the best in the industry and we continue to leverage technology. Satyan will talk about some of the technology initiatives undertaken during Q3-FY2021.

Moving on to VNB. As a result, VNB for 9M-FY2021 was ₹ 10.30 billion, as compared to ₹ 11.35 billion for the same period last year. For Q3-FY2021 our VNB was ₹ 4.28 billion as compared to ₹ 4.26 billion for the same period last year. As can be seen from the quarterly development of VNB, VNB growth has been well ahead of APE growth for each of the past quarters. Our VNB margin for 9M-FY2021 stood at 26.0% as compared to 21.0% for 9M-FY2020. Our AUM was ₹ 2.05 trillion at December 2020, a growth of 34% from March 2020.
I would like to mention that we continue to progress on our objective of doubling FY2019 VNB over 4 years.

To summarise the performance for the quarter,

1) Non-linked savings business grew 36% year on year for Q3-FY2021, ahead of the growth of the overall market
2) Unit linked business grew 21% sequentially with the market conditions and our fund performance
3) Both of this led to the new business APE growth of 14% over Q2-FY2021
4) New business sum assured grew 22% year on year in Q3-FY2021, resulting in growth of 2.1% for 9M-FY2021
5) We not only maintained the private market leadership in terms of new business sum assured but also increased market share further
6) Adjusted for return of premium business, we believe, we have continued our leadership in the overall protection market for 9M-FY2021
7) Persistency and cost ratios continued to be one of the best in the Industry
8) And most importantly, despite a lower APE, our VNB for Q3-FY2021 equalled the same quarter last year.

Moving on to customer service metrics. We continue to improve upon industry leading benchmarks on turn-around time for claims. The average number of days for non-investigated claims stood at 1.4 days for 9M-FY2021. Similarly, over 90% of all service transactions were conducted by customers in self-help mode and renewal collections through digital mode increased to 80% in 9M-FY2021.

Before I conclude, I would like to give a quick update on our wholly owned subsidiary, ICICI Prudential Pension Fund Management Company Limited (PFM). The AUM managed by the PFM has increased by 52% to ₹ 66.20 billion at December 2020 as compared to ₹ 43.53 billion at March 2020. The PFM has a market share of 16% in the private sector AUM at December 31, 2020. In terms of new subscriber additions for 9M-FY2021, the market share of the PFM was higher at 22.3%. The PFM commenced operations as a Point of Presence during FY2020 and in terms of subscriber enrolment stood second among the pension fund managers registered as Point of Presence.

To conclude, even as we pursued our strategy of expanding VNB, at the start of the pandemic, our focus was to ensure resilience of our Balance Sheet along with close monitoring of risk metrics. As we moved along, we focused on creating a base for future growth by-

- further strengthening the capital position through raising of subordinated debt;
- enhancing our product suite by introducing customer centric products in life and retirement space; thereby also enabling us to manage cycles better;
- diversifying distribution through new agents, new bank partners, new conventional and emerging ecosystem partners and
- last but not the least, continued investment in people, process and technology.

I now hand over to Satyan to talk through some of the details of our performance.

Satyan Jambunathan: Thank you Kannan. Good evening.

Our primary focus continues to be to grow the absolute value of new business i.e. VNB through the 4P strategy of Premium growth, Protection business growth, Persistency improvement and Productivity improvement.

The first element of Premium growth on slide 13: The strength of our product range with propositions to suit different risk characteristics of customers has been a very important enabler of premium growth. We have a complete range of product offerings ranging from unit linked products without any guarantees, to fully guaranteed return products on the savings side; complemented by a range of retail, group and critical illness products for meeting protection needs. Enhancing our product strength further, we launched 'ICICI Pru Guaranteed Pension Plan', an innovative retirement plan that offers guaranteed life-long income along with an option of return of the premium amount on diagnosis of critical illnesses and permanent disability, and also an option to increase the annuity pay-out to combat inflation. We also launched 'ICICI Pru Guaranteed Income For Tomorrow' (GIFT), a product providing guaranteed benefits in the form of a lump sum or regular income. Also as a variant of regular income, customer can opt for an early income benefit to receive a guaranteed income from the second year onwards. With these products, we continue to capitalize on opportunities in the emerging environment, without compromising on our risk management approach.

From a risk management perspective (slide 14), we continue to take a calibrated approach on non-participating products. While the earlier product ASIP catered to lump-sum benefits with a policy term of upto 15 years, the new product GIFT includes an income benefit option, as well as extends the coverage to ~20 years. We are hedging the interest rate risk through a combination of cash market instruments and derivatives, which predominantly are forward rate agreements (FRA) on Government bonds. From a hedge effectiveness perspective, our hedge program is designed for each tranche of new business as well as residual hedging requirements for the non participating portfolio. The underlying bond tenor for the derivative is based on the liability tenor required at the time of bond purchase. We continue to conduct a regular review of the portfolio for mismatches on asset liability as well as initiate repricing, as required, based on the prevailing interest rates.

On slide 15, as Kannan had mentioned earlier, we have registered a sequential improvement with our savings APE growing at 14% to ₹ 14.09 billion as compared to Q2-FY2021.

Moving on to distribution channels, all our channels have registered a strong sequential growth. For the agency channel, our focus has been to get more of our agents to be "digitally active". For 9M-FY2021, active advisor count was about 95% of the count we had in 9M of last year. The agency channel grew sequentially by 25% in Q3-FY2021 as compared to Q2-FY2021. Our direct channel grew sequentially by 24% in Q3-FY2021 as compared to Q2-FY2021. With ICICI Bank we continued to focus on protection and annuity. As mentioned in last results call, we have been focusing on growing Critical Illness benefit attachment along with the term life product. Further we continued to make significant strides in the annuity business through ICICI Bank, growing by more than 400% during Q3-FY2021 as against the same period last year. As you can see on slide 18, we have added 83 partnerships during 9M-FY2021 including the new bancassurance and non-conventional distribution partnerships. With the new partnerships, our bancassurance distribution is now able to reach out to 162 million customers as compared to 116 million earlier. Similarly our bancassurance branch footprint will increase from about 8,600 branches to about 12,000 branches. During 9M-FY2021, we continued to have a well-diversified distribution mix with distribution channels other than ICICI bank contributing about 66% of our APE.

The second element of Protection growth on slide 22: With an APE of ₹ 7.03 billion, the protection business was 18% of APE for the nine months as compared to 15% for FY2020. In terms of total new business sum assured, we are the private sector leader with a market share of 13.0% for 9M-FY2021, a significant improvement over FY2020 market share of 11.8%. During Q3-FY2021, while we have seen some decline in new business APE from the retail protection segment, based on market disclosures and adjusted for return of premium business, we continued to be market leader in the retail segment. Based on these estimates and coupled with our strong growth in group term business and credit life, we are the market leader in overall protection for 9M-FY2021. We continue to believe that protection is a long tail business and hence it is important for companies to have underwriting practices commensurate with the price, as risks will emerge only over a period of time. Given that the protection market in India continues to be significantly under-penetrated, we continue to believe it to be a multi-decade opportunity, and specifically for a company like us having a strong customer proposition and a wide distribution.

The third element of Persistency on slide 24: For persistency, you may recall, we had mentioned in our Q1-FY2021 results call that we expect the 13th month persistency ratio to recover as we go through this year. I am happy to inform you that our 13th month persistency ratio has significantly improved and stood at 82.7% at December 2020. Also our 61st month persistency ratio continued to make significant strides by improving from 56% in FY2020 to 58.0% now. We have seen some decline in persistency ratios of other cohorts, primarily from the linked business while persistency of other product segments have been stable. We do expect the persistency ratios of other cohorts as well to improve from hereon as we end this year.

The fourth element of Productivity on slide 26: During the quarter we continued to see improvement with cost to TWRP ratio for the savings business at 9.3% as against 11.1% for the same period last year. We have seen a reduction in discretionary expenses, infrastructure related expenses and employee cost through optimal deployment of manpower. Our cost ratios continue to be one of the best in the industry and we continue to leverage technology. During the nine months, 97% of new business applications initiated via digital platform and more than 90% of service requests were completed through self-help modules. We also launched technology initiatives around personalised video product brochure to further improve the quality of sale, Video verification in vernacular language for improved risk management practice and Rapid application development tool to ensure a more responsive IT deployment architecture.

The outcome of our focus on these 4Ps, as you may see on slide 28, has resulted in our Value of New Business of ₹ 10.30 billion with a margin of 26.0% in 9M-FY2021. The VNB outcome for the quarter has been supported by the strong growth in non-linked savings business.

Within financial metrics, our Profit Before Tax (PBT) for 9M-FY2021 was ₹ 9.68 billion, a growth of 8% year on year. In terms of components of PBT, we have seen higher contribution of underwriting profits, which is a net surplus generated from the policies underwritten, and transferred to Shareholders' account during the period. Our underwriting profits have increased by 24% to ₹ 5.28 billion as compared to the same period last year. Our profit after tax (PAT) for 9M-FY2021 was ₹ 8.96 billion with a strong solvency ratio of 226% at December 2020. Our AUM was ₹ 2.05 trillion at December 2020, a growth of 34% from March 2020. As mentioned by Kannan earlier, this is a reflection of our growth in new business premium, good persistency, lower surrenders and robust fund management.

Given the pandemic, we wanted to talk about our mortality experience including Covid-19 claims so far, as shown in slide 31. The total claims on account of Covid-19 for 9M-FY2021 was ₹ 3.44 billion. We have reinsurance arrangements and net of reinsurance the retained Covind-19 claims impact was ₹ 1.54 billion. What we have tried to illustrate in the chart is the pattern of our claims observed across months. We find this to be very consistent with national statistics on deaths. What is also coming out clearly is that in the early part of the year, because of lockdown related challenges, there was delay in intimation, which now seems to be normalising. I would like to mention that our mortality claims including that of Covid-19 are in line with the provisions we have made in the liability. Further, we carry an additional provision of ~ ₹ 1 billion towards Covid-19 claims, which has not been utilised so far. Based on the data we have observed, it seems that deaths on account of Covid-19 have peaked out during Q2-FY2021 and intimations to us seem to be peaking out through Q3-FY2021. We thought this additional data about what happening to Covid-19 claims might be useful to understand the impact of the pandemic.

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.

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

Arav Sangai: Hope all good at your end. So I have three questions. My first question is, even though the protection mix, and the savings mix, and within the savings the non-par mix also is kind of stable Q-o-Q, can you explain the margin fall for this quarter? Second part of this question is, we been hearing the retail protection has kind of normalized across the industry. So with this, will it be possible for you to guide us better as to the kind of margin you are expecting across our portfolio for the next two years? Because even though you have mentioned that we remain committed for our VNB doubling target, it still looks a tall task. So any guidance on that part will be helpful.

My second question is, what kind of products are we distributing through the other partnerships except ICICI Bank? And lastly, if you could comment on the sensitivity of the non-par book. Thank you.

N. S. Kannan: Let me first start with the question you had on the margins on a quarter-on-quarter drop, if I heard you correctly, you wanted to get the reasons for that. What I would like to emphasize once again is to look at the absolute VNB development more than looking at the margins. That's the first point I would like to make. The second point I would like to make here is that quarterly margins can be fluctuating, we have said that before and it is possible. However, what is probably a good thing to look at is that over a period of the nine months, the overall margins we have been able to put out, which is about 26%, that has been pretty stable. I would say that at 26% levels, probably we will be the best in the industry today and that is something which we need to look at because as things stabilize through the year you will get a better sense of the margins as we go deeper into the year. So I do not see any concern whatsoever on looking at a quarterly number, because from Q1 to Q2 there was a smart pickup. At that time also we said that we should look at the six months more appropriately.

The second question you asked is about retail protection. You talked about that in the context of I think the overall margin development. As Satyan mentioned during his opening remarks, we have had some decline in the retail segment. But I would like to put the retail protection numbers in context. To start with, the last quarter itself we had mentioned that we will have supply side constraints in pushing the protection business on the retail side, especially during a pandemic. Because this is a long-tail business, which entails a lot of tests to be done of the customer, including possible medical tests and other due diligence. Given that, the friction is still there on the ground, though it is going away. So the supply side constraints will get removed only when the friction completely goes away and that is happening as we speak, but we are not fully normal in terms of doing the business the way it is panning out. Second, in a pandemic like this especially, we will have to get the risk capacity and approach will have to be suitably calibrated. That is what we have been doing from the quarter one itself; that we have to be very careful in terms of underwriting. It is not that we have changed anything in the recent past, but we have been following this approach from day one. What is very important in writing this kind of business is that we should have a sufficient reinsurance comfort. So, we will have to take into account the reinsurers comfort also, in looking at the risk capacity and approach in calibrating this business. The third point I want to say is that while all of us say that it is a high margin business, etc., that is based on looking at the numerator as a PV of all the future profits, and dividing it by the one year premium, while it is a multiple year premium payment product. So to some extent, it's an anomaly. So if you sort of spread it out and look for a like-to-like comparison, I would look at this product more like a general insurance product with a 95% type of combined ratio. Given that I want to emphasize that 100% kind of margin or a 90% kind of margin, we should not get carried away, because the cushion is quite limited in terms of margin of error. The fourth point I want to make is that we would like to be patient in this environment, till things become back to normal. So we believed that the long-term thesis, as Satyan mentioned, is quite intact. We know that protection gap in the country is well documented, people will come back, so I don't think there is any problem. So we will continue this approach. Even on pricing, people have asked the question. When it comes to higher affluent, higher sum assured category, we are quite competitive in the market. When it comes to lower down the spectrum, we may be a little higher priced compared to the competition. But we have been running this business for a long time like this and the fact that we believe, based on our own estimates, that we are a market leader in the retail protection business with this kind of calibrated approach gives us a lot of confidence that we should be continuing the business in the same way we have been doing.

Having said that, to answer your question again, there will be intermediate opportunities such as the group term business. Actually, at the beginning of the year we never thought that group term is going to do so well. And because of the pandemic, there are a lot of employer-employee and other groups who want to be insured; they have been approaching us for writing the business. Credit life has also come back in a big way. So I would say that rather than looking at retail alone in the way which we do in a normal environment, we will look at the group, credit life as well as retail together as a cohort and on that basis, we are 18% of the mix today. And to answer your question on margin of retail vis-à-vis others, I want to give you an assurance that as a portfolio of protection, we have been able to hold the margins as it was in the last year. So we have been very careful in writing the group business also, without compromising on the margins. So as a portfolio, our margins continue to track, which we said at the beginning of the year, that we will be tracking the last year. So this is what I thought I will just spend a little bit of time to give a full colour to you.

The third question you asked regarding what products do you sell through the other partners. Everything. With other partners it is absolutely no holds barred approach. We don't have any constraints like ICICI Bank. We have articulated it in the April call also. They have moved to more of a VNB kind of a partnership rather than a top-line partnership. Because they are focusing on annuity also and incidentally they have done a phenomenal job of annuity in the last quarter. And with our new introduction of the GPP, it has caught on and become quite a popular product. We believe that the guaranteed pension products will further increase the momentum in ICICI Bank. So, in that shop, clearly we are not selling traditional products because of their preference. But other than ICICI Bank, in every new acquisition or every other partner, we have absolutely no constraint in terms of which product to sell. Whatever the customers want, we are happy to write. Sometimes ULIP may do well, sometimes traditional may do well, and protection and annuity will be a continuous push in those channels. So, I want to assure you that we are completely free to sell whatever we want and that is what our partners also want in each of these channels.

On the last question on non-par, I will ask Satyan to talk about the sensitivity which we mentioned.

Satyan Jambunathan: At this point of time, the non-par portfolio still comprises less than 1% of our liability portfolio. Like I described on the new products, and you will see it in the chart that I showed of our product map that is expanding. It is not that we have expanded our products to go to very long-term so that we cannot manage the risk. We have only taken one step forward, allowing for the fact that there is now a developing liquid market in derivatives and this capacity helps us extend the tenor of the product by a little bit. Our entire approach to the non-par product still continues to be one of completely matched, externally hedged, lay-off the market risk kind of an approach. Whatever yield that asset management strategy gives us, is what we then feed into the customer proposition. So, I don't see any interest rate risk profile change arising out of what we are doing now, as compared to what we were doing before.

Arav Sangai: Just one follow-up question. So, since you mentioned that we are committed to your VNB doubling target, and this year was pretty volatile in terms of margins, because the protection was like peaking and then kind of normalized. So, just wanted to, like, is it possible from your end to share some kind of narrow range or a broad range also where margins be? Because, like the way I am seeing, it's kind of stabilized, it might not increase the way it did last year. So how are we planning to get that kind of VNB doubling? Because across the industry, the competition across products has increased a lot, like we were one of the pioneers in retail protection, but now a lot of other people are also getting into that. And while we understand that the penetration is very low, the quality penetration also, there is some doubt around it. So any comment on that aspect will be helpful. And that's it from my end. Thank you.

Satyan Jambunathan: So if I can quickly talk through this and we said this at the Q1 call, we said this at the Q2 call too, what we are seeing in the short-term as an increase in the protection mix on the back of decline in savings is not necessarily the kind of improvement in margins that we would like to see. We said, we would like to grow

VNB with the savings business growing, protection business also growing but possibly at a faster pace than savings business. And therefore, consequently, over a period of time, the mix of protection improves. So I will go back and frame my point of reference to FY2020. We closed FY2020 with a protection mix of 15%. I would actually expect that over a three to five year period or thereabout, the 15% can progress systematically to over 20%, and that is really the trajectory. So I wouldn't get in a way disturbed by what is happening in a quarter; as either a super normal improvement in mix or a drop in the mix and that really, to my mind, will drive the margin outcome. But most importantly, like both Kannan and I have been saying, our approach has been about growing absolute VNB, which means grow the unit-linked business and the VNB on that, grow the non-linked savings business and the VNB on that, and grow the protection business and the VNB on that. Relative growth term, it is quite likely that protection growth will be the highest of all of these three categories. And that should define where the margin settles over a period of time.

N. S. Kannan: Just an additional point. While doing that, as I mentioned in my opening remarks, we have also been looking for opportunities to sell riders along with the base product, be it the critical illness rider or other health riders. So that also is addition to the margins, which is a lever which is available to us; and which we have been managing, especially in a shop like ICICI Bank, to push attachments in a much more aggressive way compared to the beginning of the year. So, we do have levers available to hold the margins, so that should not be any concern at all. At this stage of the company, I would rather be focused on the overall sales APE movement, which I think hopefully things will get better because you know that there is a base effect operating from February onwards. So that is how we will plan in terms of our absolutely VNB development.

Udit Kariwala: So just two quick questions. One is that you mentioned that annuity, credit life and group term, these are three products, including and in fact the fourth one, non-par guaranteed is doing well. Could you give some colour in terms of where this could be in nine months this year versus last year, some colour that would be helpful?

Second is, I missed your commentary on the persistency on ULIP, which you mentioned. So if you could highlight these two things.

Satyan Jambunathan: So talking through the key segments of protection and annuities. The annuity APE has been growing quite strongly for us, in the nine months it's has a 70% growth over the same period last year. And within this, I specifically mentioned that ICICI Bank has actually been able to grow this segment at over 400% during the quarter. So that's been a very strong growth. Of course the base is fairly small, but clearly this is illustrating early signs of success when we have started focusing on this segment. We do think that the new product launches that we have now come up with, will aid this going forward, because the proposition is quite strong. I hope you will also notice that the new product that we have launched is again very risk calibrated from an investment risk point of view. The maximum deferment period is 10 years and it's a single-pay product. We have done this also keeping in mind the underlying investment instruments and the investment risk. We are actually seeing that the annuity market for us will continue to develop quite strongly, as we have been seeing for the first nine months of this year.

Non-par savings, again, we have spoken about this in the past results. We actually see non-par savings and par savings as interchangeable from a customer segment point of view. There are, of course, some quarters where customers might prefer one over the other. But over a longer period of time, we see these two as almost fungible customer needs and that's how we look at this entire segment. That segment combined, as you have seen from the numbers, both for 9M as well as Q3 has been growing at about 35% over the same period last year and that growth continues to be quite healthy. As we have gone ahead and added many more partners, and this expands our ability to distribute some of these products to customer segments where they are more suited to. This is a segment where we would expect to continue seeing strong growth, even going forward.

From a protection point of view, like Kannan said, I think in periods like pandemics where there will be very, different risk selection philosophies operating in retail business versus group business, we are quite content to manage the business in aggregate as total protection, retail plus group. As the pandemic situation stabilizes and we get out of it, we will get back to the same sharp focus of each of those underlying segments such as retail, group term and credit life, and start showing how we can leverage on those opportunities. But I think through this pandemic environment, at least we are not getting very fixated about one versus the other as long as at an aggregate level the VNB development that we expected out of protection is indeed emerging through the focus of this segment.

Udit Kariwala: So just one thing in terms of nine months number, even if you can't give the number, for credit life and group term, would it be higher than last year or how it would be?

Satyan Jambunathan: So group term has been actually very strong growth for nine months. Credit life in the first quarter was a big decline, we spoke about that. In the second quarter, we said it had become flat, in the third quarter credit life standalone is a modest growth.

Moving on to your other question on persistency. As I spoke about it in my opening comments, non-linked savings, strong; protection, stronger than last year; ULIP is the one where the catch up is still happening. We do see the environment improving. We have seen the fund performance also show dramatic improvement over the past few quarters. We still have one more quarter before we close the year. We are indeed closing the gaps with respect to persistency with the same period last year across multiple cohorts. So our endeavour continues to be, even from where we are today and as we go through the last quarter, to get unit-linked persistency as close as we can to the last year.

Sanketh Godha: My question is on individual protection. So if I do a back calculation, the decline in individual protection seems to be 36% in the quarter, and even on sequential basis it is almost like flat from second quarter to third quarter. Sir, our decline seems to be a little more acute compared to other peers, which have also shown decline. So, just wanted to understand, is it something with respect to more of a reinsurance capacity constraint rather than the supply side factors of hospitals or medical centres not working or something more to do with the little extensive compared to the peers is impacting our growth? Just wanted to understand, if you want to give weightages to different reasons, whether it is more to reinsurance capacity or the pricing or supply side constraints? So that is my first question.

And the second question I have is that you started doing deferred annuity, while initially you were very reluctant to do that business. I just wanted to understand that the dynamics of that business, do you have any particular target in your mind so that it doesn't come and hit your Balance Sheet? And second thing is, what is the preferred deferment period you will be looking at to do deferred annuity in, let's say, two years, three years from where you start doing that businesses? And in deferred annuity, you would be preferring using FRA's (forward rate agreements) or you will make a longevity call and accordingly do the business activity? So, these are broadly two questions. It will be great if you can share the mix of par, non-par and annuity of total.

Satyan Jambunathan: So let me talk through the protection attribution first. I don't think it is so easy to kind of back work what those segments results are. But I will go back to what I said a little earlier. Realistically, I am not talking about it now. I spoke about it exactly one quarter before, where I spoke of some of the things that have changed in the protection market. First, I said that there was a challenge with respect to testing capacity. Second, I said that there was a change in the process. Given the pandemic environment, non-medical processes for underwriting were no longer prevalent and we had to do some kind of a medical or a tele-medical assessment before we could complete a case. Third, I had also said that capacity for large sum assured was not very high, because there was a reluctance to take on large risks in this kind of a pandemic environment. Fourth, I had also said that in overseas markets where COVID infections have been very volatile, the normal non-resident Indian business that I could do, I have far less capacity to do today.

Some of those things haven't really changed and so I don't think the capacity has changed. The challenge still continues to be that in a live pandemic environment, risk management will have to take priority over top line. And that's the point Kannan made about it being a long-term business and therefore you cannot compromise that and the margin for error is not very high. So I go back to what I said, that in periods of this kind, therefore, how do you look at the opportunity and get the most out of the opportunity? The group term business has actually presented itself as a very meaningful risk calibrated and appropriate approach to growing the protection business and that is exactly what we have focused on. If indeed we were doing so much worse than competitions, on all of the metrics that you spoke about, I would find it very hard to understand how our market share would have improved on sum assured; from overall sum assured market share of 11.8% at the start of the year to 13%, keeping in mind that LIC is at only 14.5% to 15%.

This clearly establishes that in relative terms, I don't think we have been worse off from the market. One also needs to keep in mind that retail protection growth for us has been the strongest in the past three years compared to anybody else in the industry. So on a year-on-year basis, are there slightly different patterns across companies, quite possible and I would expect it to be that way. But the reality still remains that from not even being the leader in protection in the last year, we have emerged as a leader in the overall protection space. Not just that, we have also been able to grow our market share. So I would at least like to think that while the environment has been difficult, we have been in our own way trying to navigate the environment without compromising the risk outcome and without losing sight of the opportunities that this environment presents.

Moving on to the second question on deferred annuity. Our entire approach to deferred annuity is and I have spoken about our annuity approach in the past, where I said that if I take an immediate annuity, I typically have a liability duration of about 12 to 13 years from an interest rate sensitivity. And from a bond investment, you effectively would have to buy a 30 year plus government bond to be able to match the interest rate risk on that. Over the last few quarters, and you have also referred to it in the past, capacity for FRAs has been growing, the yield curve has been conducive to that market as well and all we are doing now is using that as a way to extend the duration availability on the asset side. So what we have now extended it to is a maximum deferment period of 10 years. So, effectively, I can break it down into two parts; almost like saying a zero coupon bond investment for 10 years, followed by a 30 year bond investment at that point of time when my deferred annuity converts to an immediate annuity. Today, with the combination of an FRA, and an underlying 30 year plus government bond, I think we can execute this kind of an investment for the liability profile. So we have no fixation about whether we are going to do two years, three years, four years. But we are very clear about one thing, investment risk is best managed if we lay it off externally. We determine what the yield is that we expect to get and from that, we decide what the proposition is that we are able to offer to our customers. Eventually, we look at each of these businesses on its standalone merits; what it adds in terms of risk, what is the add in terms of value, what it drains in terms of capital, and therefore, on a risk adjusted basis, does it make sense to do this business or not? With the instruments available, and we have had discussions in the past on this, we do believe that there is some extension in tenor that we can do without getting unbridled about the expansion of tenor.

Sanketh Godha: Finally, if you can share the traditional product APEs into par, non-par and annuity, that would be very useful.

Satyan Jambunathan: I still believe very strongly that from the target market point of view, both of these are fungible. I would like to look at it that way. Hopefully, at the end of the year, we will give you splits which are in more detail to help you understand it. But I think through the year one should look at it more as an opportunity and not get caught up between one or the other.

Parth Gutka: Can you just share the individual protection growth for the nine month period, and also the share of individual protection in the total protection APE, if you can give these two numbers?

Satyan Jambunathan: We have been looking at it as aggregate protection at this point of time. We normally give disclosures about breakup between retail, group and credit life at the end of the year. But I think I will go back to what I said, at the cost of repeating myself. The most important priority in this environment is to reach out to pools of opportunity in a fashion that doesn't compromise risk and that doesn't compromise profitability. Therefore, given that our portfolio margin for protection, even with the mix that we are seeing now, is consistent with what we had for full year last year and we are quite comfortable pursuing the approach that we are following.

Deepika Mundra: Just a couple of questions from my side. All the new banca tie-ups, how would you rate the competitive intensity? And do you foresee an impact to cost ratios coming through because of more of higher commercials in these new tie-ups? And secondly, sir, I just missed the number of ICICI Bank's share in the APE and the year-on-year trend on that. Thank you.

N. S. Kannan: Let me start off. I will also ask Amit Palta, our Chief Distribution Officer to give a commentary on the relative competitive dynamics in each of the recent shops. To start with, the ICICI Bank percentage is 34% for the current nine month period, which has come down from a much higher level in the previous period. And all the other banks put together in banca would be only about 8% as of now. The ICICI Bank, from a top-line perspective, continues to be sharp decline on a year-on-year basis, whereas the other banks have grown at a very sharp pace because of the base not being there. That is the first aspect. The second aspect regarding how the banca tie-ups are coming regarding the economics, we do believe that each of the banca tie-ups have come with good economics and we don't have to really compromise on anything. Our philosophy continues to be that the fee income the bank makes or the profit we make is a function of the product mix which gets sold in the respective bank shops. So there is no change in our outlook regarding this. If they want to earn more income, they distribute more and earn the income that has been very clear in our dialogue with each of the banks. If you really look at the overall cost dynamics, we had some opportunity to redeploy our manpower also. So if we look at the overall headcount of the company, it has been actually down compared to last year. So we have an opportunity, given the kind of channel dynamics we have seen. You have looked at ICICI Bank, you have already asked the question. Given that, we have been able to redeploy our people into the new shops, thereby not really exploding our cost base. So I think all in all, I would say that this is a good development from a top-line perspective, not only that, it is also from a VNB perspective. So with this introduction, I will ask Amit to give a general colour on the partner dynamics, because in some cases we are the third partner, in some cases we are the second partner, so he can talk about the partner dynamics.

Amit Palta: So, as you know that we have partnered with some of the large banks, which are IndusInd, IDFC, AU and RBL in recent past. First of all, as a philosophy, we get governed by what are the partner objectives at their shop and of course, it has to be about increasing the pie, increasing the pie for our partner, as the first objective that we start with. From that perspective, along with the partner, we take a look at where those white spaces are, which those customer segments are, where they may have a natural advantage for the proposition being made available. And hence, we work out a joint strategy to see how we can look at our product structures to suit and take care of their prioritized customer segments. We are guided by our partners to see where they can look at opportunities together with us with our product portfolio and our natural advantage, which can help them increase the pie and maximize revenues for them. So with some of these partners, of course, on priority, we have actually spent a lot of time in our process and technology integration. So we have gone through that as a top priority. Second, of course, is about the way we have gone about building capabilities of both our people as well as our partner employees to get used to the new products that they have got introduced to through our tie-up. Third is, what we have been able to manage very innovatively is something called iSolutions, which is our ability to structure and customize solutions based on a very unique insight that a partner may share with us. And that is something that we have been using very effectively to our advantage to create that competitive differentiation in all these shops. That's how broadly we are working. Of course, while there is a competition, but at this point in time with the stage that we are in, it still very early days in the partnership. We are still in the process of looking at which those whitespaces can add value both to our partner as well as us. I hope I have answered the question.

Deepika Mundra: Yes, thank you so much. If I can just follow-up on that. So do you think this essentially, given the fact that new partners are open to all products, it could provide a floor to the ULIP decline as we have seen this far?

N. S. Kannan: Yes, because even in this quarter we have seen sequential improvement in ULIP. It would probably provide a floor.

Ajox Frederick: My question is with respect to the philosophy of non-par guaranteed. So earlier, we used to have a slightly conservative view, and then we launched ASIP and now we are coming with GIFT. Phenomenal products, but two things. One is, what is driving the change in philosophy towards guaranteed business? And two is, will we be focusing on this more in future? So that's on non-par side. On the protection side, we are seeing competition entering return of premium space. And they also have the view that return of premium will be a faster growing product versus pure term. Again, now we have a philosophy that the return of premium is not a protection product and pure term is what serves the customer the best, which I do agree. But are we seeing two quarters, three quarters down the line, when competition is ramped up pretty strongly in return of premium, we see an opportunity there and we start focusing on that again? So two questions, but primarily the argument is with respect to the philosophy and other business.

Satyan Jambunathan: So if I may put our thought process in context. First of all, on non-par, we have had only one philosophy, and that is to say that I first have to find a suitable asset product that I can get. From that I have to construct the liability product to ensure that my interest rate risk is laid off externally. It has never been different; it has never changed from before to now. What has evolved over a period of time is the kind of investment products that have been available in the market, and the scale and capacity for those investment products in the market. If I were to sit on it and say that look, irrespective of the way these asset markets are going, I will sit with only one kind of investment product and use that to manufacture non-par liabilities, then I will be behind time. So the philosophy is exactly the same. What can be manufactured in the context of investment market is what is being manufactured. Which is why I will take you back to that slide 14 on the presentation, where I am illustrating that the expansion of the product arena is much calibrated. It is keeping in mind the underlying emerging opportunity provided by some of the forward rate agreement kind of derivative products in the market, in conjunction with the cash market instruments that we already had. So I just want to frame this again, our approach to investment guarantees has always been one where I need to be able to lay off the investment risk through suitable asset products, it has not changed.

On your second question of return of premium, we really don't have a philosophy about what term is or what is not term. We simply use that expression to say that if it is a pure term product or a pure protection product, the margin is one order of magnitude. If it is a return of premium term, the margin order of magnitude is similar to a non-participating guaranteed return product. So if I have to count something and represent something as pure term, because eventually you as market commentators will want to look at it in the context of what is a margin it yields. In that if I mix the return of premium product and tell you, it is quite likely that you will misunderstand the margin that I am likely to deliver. That is the reason why we have always kept it separate. I have no problem with return of premium. Even today, we sell a bundle of our pure term with a savings product to mimic a kind of a return of premium option. It is quite possible that we will go ahead and manufacture a return of premium product as well. But when I do that, my pure term protection portfolio is this much, my return of premium portfolio is so much, so when you are looking at an expectation of a margin from my portfolio, you can suitably take that into account. I have absolutely no philosophical view of one versus the other. Both of them have their place. Both of them have a customer segment to which there is an appeal and both of them are and will remain opportunities from a business point of view going forward. I hope I have been able to clarify our frame at least where we are coming from, because I think it's important that we understand this because this is really the foundation on which you will see our approach. And I don't think either of these has changed in even the minutest fashion in the past four years that we have been talking to each other.

Ajox Frederick: Just a question on ICICI Bank. So we are just hearing that ICICI Bank is being more focused on its core business, and slightly reducing its focus on delivering products, be it life or non-life. So what has been your sense with respect to that?

N. S. Kannan: No, if you look at our April call transcript, very clearly that lays out the ICICI Bank approach. If you look at that, what they have clearly told us is that they will not be focused so much on our top line. They will, however, be very happy to support our development of VNB. That hasn't changed even today. To that extent, the protection products, they have been lot of engagement with ICICI Bank. In fact, they have been pushing us very hard on giving out products such as protection by invitation, which in their terminology essentially means that why don't take our entire customer base, you wash it based on your underwriting standards and tell me X million customers to whom I can offer without any underwriting and straightaway I can go and sell the protection. Which we have just about rolled out. We have carefully looked at their database and we have rolled out what we call protection by invitation. They have also pushed us very hard to say that if the customer of the bank has got very affluent over the last three years, should we not sell a top-up product because his protection requirements have gone up today. They call it dynamic underwriting, which also we are in the process of rolling out. So their capacity to sell protection has only increased. As you know, they sell only ICICI Prudential among the life insurance companies. So we actually feel that it is sort of, yes, we would have liked them to focus on top-line. But the kind of push they are doing on protection and on the other products has at least given us visibility regarding the VNB. For example, on annuity, they have seen a growth rate of 400% in terms of year-on-year. So to that extent, I don't think they are saying that they will not distribute ICICI Prudential. They are only saying that a protection product or an annuity product is complementary to their line of products. So we are very happy to open up. Unit-linked products, yes, we will keep it on the shelf and we will do whatever we can and on traditional they are saying, they will not distribute it at all. Even today ICICI Bank sells 34% of our product mix, which is a good place to be in. Hopefully, come February where their base also gets it right, we should hopefully get this at a normalized level for ICICI Bank distribution. So there is no other rethink of ICICI Bank in the last couple of quarters on this issue.

Vinod Rajamani: Just a couple of questions, first on this guaranteed pension plan. I remember in the past you had stated that you will not be interested in doing deferred annuity. So, has that thinking slightly changed, in the sense that now deferred non-par as well as deferred annuity is also a segment you will look at? And secondly on this product standardization move by the regulator, what is your view on that, is it something that the sum assured on the standardized products are likely to be lower than that of your general offering. So, there might not be cannibalization, but then how do you view that in terms of pricing and so on? Also, is it possible that there could be other products which the regulator says that you have to standardize and so on? And is customer loyalty likely to be less on such products because people can compare across companies and so on? So, your philosophy on deferred products and also on this standardization initiative by IRDA.

Satyan Jambunathan: On deferred products, guaranteed return products, nothing has changed in our approach to it. What has changed is the systematic improvement in the availability of underlying hedge instruments from the market, which helps me in a calibrated fashion expand the scope of the products that I am offering. That is what has changed. All that we are trying to do is to take advantage of that. Yes, FRAs have been existing in the market for a time, but this is probably at that point of time where the yield curve also makes the FRA a suitable and an attractive product to invest in.

Therefore, I can use that to provide a meaningful yield to my customers. There is always this two fold thing of how can I offer a good yield, where typically the yield is lower in the government bond, higher in a corporate bond. But on the flip side, the government bond gives me duration, the corporate bond doesn't give me duration. So to construct a meaningful return proposition to the customer was more difficult before. Now it becomes more possible, more manufacturable, there is more capacity and therefore, we are going into that. Again, I will repeat myself, the tenor of the deferment is a maximum of 10 years. You can effectively break it down into two parts, a 10 year zero coupon bond and a 30 year government bond after that, and there are enough ways to execute this in the market using an FRA. So nothing has changed in our approach. We are only responding to the availability of instruments in the market.

Standard products have their own place in the sun. I don't know at this point of time how successful any of them could be. But to our mind, what it creates is a market that may possibly not be existing today. When the PMJJBY was launched, it actually catapulted insurance awareness into a completely different game. It is quite possible that some of these new proposed standard products achieve the same purpose. Eventually, I think insurance companies will choose their own path of where they offer the standard products and where they create their own niche. Eventually, they will have to find their level about saying, am I competing on price for something or am I competing on service and differentiation. Even if I were to look at the U.K. market, and you are probably quite familiar with that, there was the concept of stakeholder pension which came in. It is not as if stakeholder pension meant that no other pension product existed; you still had both coexisting. Somewhere, I think there is a place in the sun for every kind of these products. It is very early days yet. We are very supportive of the regulatory approach to do this, because we believe that it can actually catapult insurance awareness meaningfully. For some categories of products such as term insurance or annuities, it is more amenable. For certain other categories it becomes not so easy to create a standard product. Effectively what are we trying to address through the standard products. In the term product if you were to see, the PMJJBY caught the bottom, the normal retail products are catching the cream, the standard term products, for all we know, might actually catch the missing middle.

Vinod Rajamani: Yes, but what about pricing and so on?

Satyan Jambunathan: I think eventually people will sell it where it makes sense to price it. I don't think anybody's in the business of charity.

N. S. Kannan: IRDA is also not tariffing this item, it is more of a standardization of terms and conditions and the product name. It is not saying that suddenly life insurance industry is going to come under a tariff regime. No, that is not the point. But they are also not saying that trespassers will be insured. We should have our own underwriting norms, and we can have our own pricing. Your point is that if you are completely out of line with the pricing, will you be able to survive? But it is the missing middle. So far we have missed it, probably we think that at that price we had to miss that market. Maybe it will open up a market. But that doesn't mean that anybody will go and sell at a loss in this segment. So also going from the newspaper reports, I also see that the prices which have been filed are far higher compared to the products which have been approved earlier. So I think it will find itself. I don't think we need to be nervous about it. If you want we can sell, if you don't want we don't have to sell. But I feel that it will not only create a market, it will also increase the awareness just like PMJJBY did it to the term industry. So we would welcome it at this stage. To answer your question on what else can follow, I think annuity can follow. Those are the two areas where there could be standardization. We will see how the market goes and I don't think anybody will write it at a loss.

Manoj Shah: Can you comment on the protection premium rate of our company versus the industry? And how they have fared over last 12 months and how do you see it going forward? And the second question is with respect to that market has rallied over the last nine months, and we are focused more on the traditional and the savings products. And now we have launched a guaranteed product and we are at the bottom end of the interest rate cycle. So at this juncture, we are launching a guaranteed product, does it make sense or we should have launched it when the interest rates were very high, so that it would have given a very high guaranteed return to the product which would appealed more to the customers? Thank you.

Satyan Jambunathan: Actually, from a guaranteed return product point of view, it's better to manufacture a product at lower interest rate and not be caught out rather than manufacturing at a higher level and be caught out because yields fall. So I would much rather be in this position. As yields increase, I can keep recalibrating the rates that I offer to my customers systematically over a period of time. So I don't think that needs to be a point of concern.

On your question on the relative pricing of protection, I think in the first couple of quarters there was a significant difference. But if you see now, almost everybody has started changing prices and they again have converged to a similar cluster that it used to be up to last financial year; which is top brands in one segment and then a set of brands in the second segment and then the cheaper one. We also have seen over the years that it's not necessarily the cheapest brands which do the most business. So in our own way, and I said this again in our opening remarks, and Kannan also spoke about it, what is very critical is to ensure that the price at which I am selling is consistent with the target market that I am selling it to and with the underwriting process that it takes to make a profitable business outcome out of that price. That is the most important combination that we have to establish.

Manoj Shah: I do understand your focus on the protection business being because it offers the highest VNB margin. But in the sense, like, do you expect that the premium rates are going to harden further from here, because it has hardened over the last 12 months? And most of the companies, some have already increased it, some are in the process. How do you see it going forward, let's say, over next 12 months?

Satyan Jambunathan: So, let me put it this way. Companies that have fully reflected their experience in their price may not need to change it anymore; we fall in that bucket. Companies that may not necessarily have reflected all of their experience in the price would have taken a middle ground, and may very well feel the need to do it again at some point of time.

Manoj Shah: So you are saying that those companies who have like not increased the rate, maybe they may not be making that much margin as compared to what we have fully reflected in our product, is that assumption correct?

Satyan Jambunathan: I would think that is the most logical conclusion I can arrive at. Because realistically, we are selling to a similar target market, we are using similar underwriting practices, similar reinsurance terms and therefore, if the price is dramatically different, the only place where it goes into for balancing is the margin.

Manoj Shah: Coming back to that guaranteed products, as you said that in a low interest rate environment, as interest rates move up you will keep on revising the returns on the guaranteed product. Like when the interest rates were higher, at this time you can lock in and buy or protect your liability with buying longer term bonds. Does it make sense there?

Satyan Jambunathan: No, absolutely it does make sense. But again, I will caveat it with what I said before. If I offer a guaranteed return product, for example, which offers an income for life, it becomes extremely difficult to construct an asset portfolio to hedge that risk. However, if I am manufacturing a product where I have to lock into a yield for a 15- or 20-year period, given the combination of bonds that are available in the market today, plus the ability to enter into a forward rate arrangement, you can still reasonably hope to lock into those rates. This is what we have said historically. We have only two objectives in risk management; one is to manage the level of the guarantee; and two is to manage the tenor of the guarantee. As long as we are able to do that, we are happy to do the product. We have always had non-par products, there has never been a period in our history where we have not had this. But the rates that we have offered on that have always been calibrated to what we have believed we can realize from the market.

Manoj Shah: Yes, because current products basically are offering somewhere less than 6%, maybe 5.5%, in that range kind of it.

Satyan Jambunathan: My only point is that I don't think you can take that kind of an absolute return view on this. Reality also is that we offer 10x of premium as life cover. So it's not really comparable even to a pure investment product.

Manoj Shah: And how do you see the share of protection in your overall next year, any target number you have in mind for the protection businesses so that you reach a certain level of VNB margin over there for the overall company?

Satyan Jambunathan: Like we said before, we believe that the relative under penetration is such that we expect protection to grow faster than savings. Now, I don't know whether the relative rates will be 10% for savings, 20% for protection or what it will be. But we do think that the relative growth rate for protection will be higher. We have seen this in the past three years now. This year has been a bit of an aberration, because we have seen savings business decline. Going forward, I think that 15% mix that we had for protection in FY2020, I would quite reasonably expect that to grow to become 20% or more over a three to five year period.

Manoj Shah: Just wanted to go back on the protection premium rates, like over last two years, my understanding is that the premium rates have not changed, it was because of more of competition between the players that premium rates for the protection business were at that level? And because of the pandemic as well as because of that higher demand, the premium rates have hardened up?

Satyan Jambunathan: No, I think the way the premium rates have moved in the past have been a combination of pricing strategies of companies, as well as the pricing strategies of reinsurers. What it has also been led by, is the target market. When everybody started selling, they were selling to urban affluent. Now, as the penetration of protection is widening, one would expect underlying average mortality to increase. The prices today are actually reflecting that, and in fact should make growth more sustainable than it was in the in the past.

Nidhesh Jain: Can you share some trends on ULIP sales through ICICI Bank and credit life sales through ICICI Bank? Because we understand on credit health sales ICICI Bank has gone slow. So are we seeing some trends on credit life? As well as if you can share some sequential trends from ULIP sales from ICICI Bank.

Satyan Jambunathan: Sequential credit life for the bank has actually been strengthening, it's been improving. So that is something that is clearly coming out.

N. S. Kannan: Just to clarify, we don't have those issues of health what you mentioned at all with the Bank.

Satyan Jambunathan: So we are clearly seeing credit life grow sequentially in the Bank. With respect to unit-linked in the Bank as well, Q3 versus Q2 we have seen a reasonable sequential improvement. So it is very positive trend even sequentially. And like we have discussed in the past, towards the end of January or February onwards, as we see the base effect for the Bank to kick in, the year-on-year growth situation also should kind of correct itself over a period of time.

Nidhesh Jain: Second question, when we sell critical health insurance, in the segmental data is it classified under health or is it classified under non-par?

Satyan Jambunathan: In the segment it will be in the protection segment, individual non-par.

Nidhesh Jain: So what will be there in the health segment?

Satyan Jambunathan: Only standalone health products. We have a heart and cancer product; that will be in individual health. Standalone health products come there. Products which are a health cover as an attachment to a life product, because these are not two products but really an option in one product, will be sitting in the non-participating category.

Neeraj Toshniwal: In terms of understanding the credit benefit, basically critical illness benefit product attachment, where are we currently? And where we see the scope of that extending in terms of how margin accretive is that? It is our understanding that it is a higher ticket comparatively to a relative protection product.

Satyan Jambunathan: Some of the channels such as ICICI Bank specifically, we have been speaking about how focused they are on that. We are now seeing critical illness attachment in close to 55% to 60% of the term life sales that happened there. That's the kind of attachment we have been able to get it to. Again, from a margin point of view, I am not quite looking at it as margin percentage, it's really about an incremental opportunity and therefore, to that extent, it should help me get an absolute VNB. We have not specifically disclosed the margins, including and excluding that. So as we get to the end of the year, maybe we can get a bit more colour. But I can say this for sure, attachment of critical illness significantly improves the margin of the protection product.

Neeraj Toshniwal: Second is on your group term, which has improved meaningfully, compensating the loss we had in the retail, which we already discussed. What would be the margin you would be making in terms of group term? If you can give that, that will be very helpful in terms of understanding the trend because it is very meaningful in terms of the contribution.

Satyan Jambunathan: I would like to think that the level of granularity with which we are giving margins between savings, protection, linked, non-linked is much more than anybody else in the market. Please don't ask me for more details than that. But I can confirm what Kannan told us before, which is to say that even with the current mix, protection margin as a whole for nine months is in line with full year protection margin for last year.

Neeraj Toshniwal: In terms of persistency, though 13 month have picked up vis-à-vis last quarter sequentially the trends are encouraging, but the 25th and 49th month is seeing some stress. I think you mentioned the stress is coming from the linked business, but if you can elaborate more on that, that would be helpful.

Satyan Jambunathan: So it is not where we would like it to be yet. Like I said, we are working towards improving it. The things that we have going in our favour are that the market environment has been improving and typically, we find that as favourable for persistency. Our fund performance also has been sequentially improving meaningfully. Again, we see that as favourable for persistency. Given these two positive factors, we are actually working towards getting our persistency to close to last year's levels. Whether we will get there or not, I am not sure at this stage. But at least as far as the positive effects are concerned, it seems to be in the right direction. Again, I will go back to something that I have said before. The most sensitive persistency bucket to VNB, margin, EV and variances are possibly 13th month persistency and surrenders beyond five years. Of course, every other bucket also has an impact, but relatively it has a lesser impact than these two buckets. What we are seeing as a good sign today is that the two most sensitive buckets, from a financial implication, are probably getting much closer to where we would like them to be. Other buckets, still some work to be done. But we do expect to get closer to last year's levels on those as well. Overall, even as we speak now, I think our persistency variance is not going to be negative.

Santanu Chakrabarti: Many congratulations on your results. I have two questions, the first one is a housekeeping one. In relation to the forward rate agreement market that you are talking about, which has precipitated the change of your product strategy a little bit, which has enabled it, if you could give us some sense of what is the term up to which you are seeing liquidity in this product? And put some numbers as to how much is actually doable in terms of principal, who all are your counterparties to these transactions, some colour essentially around what that product market looks like. And the second question relates to, savings products particularly unit-linked. While the capital markets have certainly corrected a little bit in the last week, it's very clear that there has been such a large rally from the bottom. So would you expect your unit-linked sales to pick up? And what role do you see ICICI Bank playing in it?

Satyan Jambunathan: So to go back to your question to the entire interest rate derivative thing. We have already started doing transactions in forward rate agreements. What we are finding as capacity for is, forward rate agreements up to a tenor of 10 years. Beyond that we are not seeing any meaningful capacity. So any product structure where we need to elongate or lock into yields over the next 10 years seems to be possible under the current structures. Today, predominantly our counterparties are the foreign banks. We do expect this to expand over a period of time, but current transactions are with the foreign banks.

Your second question on unit-linked business, both in terms of possible business momentum as well as persistency, you are right, improving capital market is indeed a positive tailwind. But one must keep in mind that unlike an asset management product, with high liquidity, it typically takes a little bit of time in both directions for the market to reflect into sales for the life insurance industry. So to that extent, directionally positive, whether it will come through in the next quarter, the quarter after that or the one after that, I can't say with certainty today. But we do see this as a positive momentum from both a new business as well as a persistency point of view.

Nitin Agarwal: So one is, structurally how do you think the opportunity size is for these guaranteed and annuity products versus the protection business that we have built over the years? And also if you can share your thoughts on the expected cross-sell rate when it comes to selling these products? As typically, I think customers who have realized the need of insurance and bought protection with us are typically better suited to sell these savings cum retirement products. So does this mean that we can like pick up on these products faster?

Satyan Jambunathan: The first point is, the market size relative to protection, I don't think it's a fair comparison. Because these are really very different needs that we are talking about. I would actually break up the savings target market more into, let's say, the affluent customers and the mass affluent or the mass customer. Typically, what we have found that the unit-linked product is the more natural fit in the affluent customer segment. Therefore, the market size is defined by the size of their affluent customer base. Where we see the participating or the non-participating product being more popular, is the mass affluent and the mass segment. Or maybe at times some part of the affluent customers who want to do some asset allocation and lock into a yield for a period of time. So, in that sense, the opportunity for the par and the non-par put together is probably more along the lines of the middle India, and what you would expect that to grow into over a period of time. So slightly different target market. I would like to believe that each of these are very distinct opportunities. From a relative growth rate, the growing middle class of India probably will give it strength to the par and the non-par business going forward. But very different target markets is the way we look at it.

Nitin Agarwal: Secondly on the cross-sell rate?

Satyan Jambunathan: Cross-sell, I can stand up and say that I would like cross-sell to be at a far higher level than what it is today. But somewhere the reality of life also is that in a market when new customer acquisition or the penetration is so low, focus tends to be more of new customer acquisition. Cross-sell is something which probably starts kicking in only when the market gets more and more saturated. So even today, I think cross-sell rates are actually fairly low and trivial for the industry. But actually, the priority is acquisition of a new customer, cross-sell will become a priority only over a period of time.

Nitin Agarwal: My second question is, if you can share the number of COVID claims in both group and individual business. I know that you have shared the amount of claims, but if you can share the numbers of claims also.

Satyan Jambunathan: Number of claims, I don't know how relevant it is. It's more from a financial impact point of view. The proportion of deaths that happened to the insurance industry's claims or our company's claims in relation to where we are in the market, versus the population, we are actually quite trivial, that is a reality. Really, the meaningful thing for us is the size of the claim, and that's what we have tried to disclose. Specifically highlighting that even the size of claims that we have had, it is in line or actually better than what we had provided for in our liability basis and therefore it doesn't hurt the P&L. We still have a large COVID provision, which is completely untouched and given that we are seeing the deaths already peaking, we will assess as we go along, whether we may even need to use that additional provision or not.

Nitin Agarwal: So approx. how much is the size of this COVID claim, approximately?

Satyan Jambunathan: Total amount, ₹ 3.5 billion of total COVID claims.

Nitin Agarwal: Average per claim.

Satyan Jambunathan: Then you are basically asking me to tell you a number of claims.

Nitin Agarwal: I thought you were indicating that average is like close to the overall levels, so I thought maybe I will ask the average.

Satyan Jambunathan: Now I know that how people are interrogated.

Nitin Agarwal: No problems. Thanks so much.

N. S. Kannan: Thank you, once again, for participating on the call. I hope that we have answered all the questions in an exhaustive manner. But if there are any residual questions, my team and I are available for answering. Thank you and Good Night.

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