

ICICI Prudential Life Insurance Company
Earnings conference call
Quarter ended June 30, 2020 (Q1-FY2021)
July 21, 2020

N. S. Kannan:

Thank you very much. Good afternoon and welcome to the results call of ICICI Prudential Life Insurance Company for the quarter ended June 30th of financial year 2021. At the outset, my apologies for this delayed start by 15 minutes. The Board Meeting ended a little late, so that's why we had to postpone the call by 15 minutes.

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. So to start, in the context of COVID-19, if you recall, I had detailed our risk management approach during the last results call. I would now like to provide a brief update on our continuing response to the COVID-19 pandemic, which even now has an impact on how we operate.

The capital markets have been quite volatile during the quarter and are expected to be so until we get full clarity on the economic impact of the pandemic. With the extension of lockdowns in most parts of the country, some sectors could see a significant impact on business, resulting in increased credit risk. To reiterate, our approach to market risk has been one of not taking on a risk that we believe we cannot manage. Of our total liabilities, non-par guaranteed return products comprise only 0.4% and these are invested with minimal ALM mismatches. We continue to closely monitor our liquidity and ALM positions, and we have no issues whatsoever to report.

On credit risk, only 0.9% of our fixed income portfolio is invested in bonds rated below AA. We have also at our past results calls highlighted that we have no exposure to any of the defaults that have happened over the recent past and that continues into this quarter as well.

Moving on to insurance risk. The first risk here is of mortality. The spread of COVID-19 and the resultant death count is still rising. Out of about 27,000 reported deaths in the country till

yesterday, we have received claims from 69 lives within our portfolio. While our mortality experience continues to be better than our assumptions, we have been closely watching the developments and their impact on insured life mortality. Further, as of June 30, 2020, we continue to hold additional reserves towards possible COVID-19 claims.

The other key insurance risk is persistency. There have been concerns on the persistency experience, given the uncertain economic environment for the quarter. While we have seen some deferral of renewal payments, the persistency ratio movement has been in a narrow range.

Moving on to the expense risk. We are monitoring our expense ratios closely, while continuing with investments in the areas of competitive advantage, such as IT and digitization. The key imperative for us will be to manage the costs in line with our business growth.

To summarize from a risk management perspective, our clear approach continues to be to maintain the resilience of our Balance Sheet by offering suitable products and deploying appropriate risk management practices.

Our solvency ratio stands at 205.1% as of June 30, well above the regulatory requirement of 150%. Further, as I have mentioned in the last quarter as well, we are permitted to raise Tier 2 capital of up to ₹ 12 billion under the regulations, and we have not utilized any of it so far.

I will now move on to other developments during the quarter.

On the distribution front, we are happy to announce our partnership with IDFC First Bank. The entire suite of protection and savings products will be made available to customers of IDFC First Bank. The bank with its pan-India presence caters to the banking needs of over 9 million urban and rural customers. These customers can now leverage the bank's network to conveniently purchase life insurance products and provide financial security to their families from us.

I would like to inform our shareholders that the company's 20th Annual General Meeting is scheduled to be convened on Friday August 7th, 2020, at 3:30 pm IST, through video conference and other audio visual means, where shareholders can attend the meeting without being present in-person at a common venue. Kindly note that the remote e-voting for resolutions to be passed at the AGM commences on Monday, August 3rd, 2020, at 9 am IST,

and ends on Thursday, August 6th, 2020, at 5 pm IST. We would request shareholders to exercise the right-to-vote on the agenda items.

We have now moved our Annual Report to adhere to the “Integrated Reporting” framework. The Annual Report now covers a much wider representation of the business in addition to the financial aspects.

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 slides 6 to 9 of our presentation 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 Q1-FY2021, our Annualized Premium Equivalent (APE) was ₹ 8.23 billion and the new business premium was about ₹ 15 billion. Given the lockdown and social distancing norms, coupled with the uncertain environment, the linked business was significantly challenged. However through our focus on diversifying the product mix, the other product segments and in particular, the non-linked savings business, continued to grow during the quarter. While we began the quarter with a significant decline in April, in the month of May and June we saw healthy sequential growth, with June being almost double of April. As we go into the next quarter, it would be important for us to carry this momentum forward.

The new business premium decline for the quarter was lower at about 33% year on year, on the back of growth in annuities and some of the group business segments. In fact, in total new business sum assured, we were the market leader for the quarter. The year-on-year progression of our new business sum assured clearly indicates our continued shift in the product mix towards the protection segment.

Moving on to the second P of **protection business** growth. Despite the lockdown and the continued reluctance of customers to undergo medical tests, we ended the quarter flattish with an APE of ₹ 2.14 billion. Within this, in line with the retail disbursements by financial institutions, the credit life segment saw significant challenges with a decline of about 72% as compared to the same period last year. The protection business accounted for 26% of the overall APE, resulting in a margin expansion for the quarter. Within the protection business,

retail protection continues to dominate the mix. You will recall that at the last earnings call we had highlighted developments in reinsurance rates. We had mentioned that we had filed for a new product, incorporating the reinsurance rate changes, with an objective of protecting our margins. We have now launched the revised product in the first week of July. For Q1 however, we were still operating with the old product, resulting in lower margins for the segment for the quarter. This was a transition phase and we expect to return to normal margins for the category going forward.

On the third P of **persistence** presented in slide 8, as mentioned earlier, despite having a significant period of discontinuity in the market, our persistence ratios were range bound. Our 13th and 49th month persistence measured as retail excluding single premium stood at 81.8% and 63.9% respectively. It would be worth mentioning that within this, the persistence of protection business improved meaningfully. On the other hand, the last quarter saw a significant drop in surrenders, which is positive for VNB and EV. It may also be noted that during this quarter, keeping in mind the difficult environment, we had offered an extension of grace period for policyholders to pay due premiums, without affecting their life cover. This extension resulted in some delays in premium payments. When we analyse the persistence for the previous year and this year at the end of the grace period, we find that persistence for both periods is very similar. This gives us the comfort that while there have been some short-term delays, persistence will revert to normal level as we go through this year.

On the fourth P of **productivity** improvement in slide 9. Our cost to TWRP ratio was 14.8% for the quarter as compared to 17.0% for the same period last year. For the savings business, the ratio was 8.8% as compared to 11.3% for the same period last year. This significant reduction in cost ratios is primarily on account of higher share of renewal premium within the total premium. As you know, the maintenance cost of an insurance contract is significantly lower compared to the acquisition cost. As mentioned earlier, a key imperative for us this year will be to manage costs dynamically, in line with emerging new business growth.

To summarize, the development of VNB for the quarter has been influenced by the following three factors.

- A shift in product mix towards higher margin products, resulting in an improvement in margins

- Transition in the protection product portfolio, resulting in the segment profitability being temporarily sub-optimal
- A decline in the new business APE for the unit linked business, resulting in a lower absolute VNB for that business

As a consequence, our VNB for the quarter was ₹ 2.01 billion as compared to ₹ 3.09 billion for the same period last year. Our VNB margin for the quarter stood at 24.4% as compared to 21.0% for Q1-FY2020. This expansion in VNB margin is primarily driven by the increase in protection and non-linked savings mix for the quarter.

I would like to mention that we continue to hold on to our objective of doubling our financial year 2019 VNB over 3 to 4 years.

Before I conclude, I would like to briefly cover our approach to “the new normal” in the context of “contactless sales and service”. I would also like to spend some time to highlight the significant opportunities that exist in the protection space.

The current COVID-19 situation is testing every organization's capability to quickly adapt to the changing customer attitude and behavior. It's also pushing the organization to identify newer and better ways of reaching out to customers, distributors and employees to help and support them in day-to-day business activities. Over the last few years, we have made significant investment in the digital space and built an ‘End to End digital platform’. Not only we were an early adopter of digital technologies, but we continue to enhance our capabilities including process re-engineering, to give our customers a superior experience. These steps we think, are standing us in good stead, especially when it comes to addressing the challenges posed by the current environment.

As I mentioned, distributors are facing challenges in terms of their inability to have face-to-face meeting with customers. Therefore, our first priority was to move from ‘physical handshake to virtual handshake’. We leveraged our existing digital capabilities and integrated all our on-boarding digital enablers together on a single collaboration platform, bridging the physical and digital divide completely. The entire on-boarding journey can be completed smoothly on the collaboration platform, as highlighted on slide 14 of our presentation.

It includes:

- The ability to connect with the customer and share the screen synchronously

- Tool to conduct customer suitability analysis for a need based product
- Product details and generation of premium quote
- Flexibility to add financial consultant or an expert in the same call
- Pre-populated form for an existing policyholder

And once the application form is submitted online, the customer can review the form details and provide digital consent. During the quarter, 97% of our policies were logged-on on the online platform. Customer can also update KYC documents digitally and through WhatsApp. During the quarter, 95% of the documents were submitted on the online platform. For premium payment, customer can use multiple online payment options and can also activate auto debit for the future premiums. During the quarter, for 78% of the new business premium, online payment options were availed by the customers. With the completion of the underwriting process, policy is issued and e-welcome kit is emailed to the customer.

On the customer service architecture, you can refer to slide 15. Our digital platform empowers customers to carry out almost every service transaction for the convenience of their home. Our customers can pay their policy renewal premiums, generate tax certificates, policy statements, activate auto debit mandate, switch funds and can carry out many more such service transactions through our digital platform. During the quarter, 93% of service requests were completed through self-help modules.

Similarly, the customers can also use our new age technology options such as WhatsApp and can perform almost all service transactions through our mobile app. During the quarter, about 400,000 transactions took place through WhatsApp, and about 92,000 customers download the mobile app.

Customers can also interact 24*7 with our chatbot LiGo to get their queries addressed. During the quarter, about 138,000 interactions took place with our LiGo chatbot.

To summarize our digital capabilities, we believe we have built a truly world-class technology platform to support our customers, distributors and employees to be able to carry out all functions. This positions us very well to continue sourcing business even as the COVID-19 situation stabilises.

Moving on to slide 16. We have categorized all our concerns which I mentioned to you about, be it the customers' concerns, employees' concerns, as well as the distributors' concerns in terms of how our platform has been able to address each of the concerns of our customers.

I mentioned in my opening remark that I will talk about the protection opportunity. If you look at slides 17 and 18, we have talked about what is the kind of protection opportunity we are looking at. As you all know, India is an under-penetrated country when it comes to protection products. While the overall protection sum assured as a percentage of GDP may be higher, we thought we should be looking at sum assured as a percentage of GDP only in respect of the non-savings products. That has been detailed in slide 17. If you look at that slide, you find that when we backout the sum assured of savings products, we find that the penetration of residual sum assured as a percentage of GDP is only 19%, which gives a long leeway in terms of the potential growth of the protection business in the country. This is also substantiated by various studies on protection coverage in India, including the one done by Swiss Re in 2015, estimating a huge protection gap of 92% for India.

An alternate way to look at protection penetration is a coverage of the addressable population, which is calculated as a stock of retail protection policies against the number of individuals earning an income of at least ₹ 250,000 per annum. Based on our estimates, the coverage is just about 10%. We also corroborated our estimate of addressable population segment, which is about 57 million, with a few other data points such as the number of non-transport cars in India, which itself is about 40 million. Also, a report in March 2019 by Goldman Sachs had estimated this number to be about 68 million. Hence, with a sum assured to GDP ratio of just about 19% as shown in slide 17, and about 10% coverage of addressable population segment, the protection market in India is significantly under penetrated.

We have given a couple of scenarios of protection growth rates and even with these growth rates as mentioned on slide 18, the projected sum assured to GDP ratio as of FY 2035, that is 15 years hence for India, is still below the current sum assured to GDP ratio of many of the other countries. This demonstrates that the protection opportunity in India exists not just for a few years, but for the next couple of decades.

With these concluding remarks on the protection opportunity, I now hand over the call to Satyan to talk through some of the details of our performance. Thank you very much.

Satyan Jambunathan:

Thank you, Kannan.

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.

On the first element of Premium growth: We continue to work on diversifying our product mix through a combination of distribution buildup and product propositions. As you can see on slide 23, while APE declined by 44% during the quarter, except the linked segment, other segments had steady growth. Non-linked savings business grew 14% year-on-year and the protection business was flattish. With this, the share of non-linked products has further increased to 50% of the new business APE in Q1-FY2021, as compared to 32% in fiscal 2020. As you know, non-linked savings and protection segments are the more profitable segments.

Moving on to slide 24 on distribution. For the agency channel, our focus has been to get more of our agents “digitally active”. For Q1-FY2021, active advisor count was almost 90% of the count that we had in Q1 of last year. We added new agents despite challenges with respect to the licensing examination. With ICICI Bank, we continue to increase the share of protection and annuity business. On partnership distribution, we added seven partners during the quarter, including IDFC First Bank that Kannan mentioned earlier. Through direct channel, we further diversified our product mix with an increased share of nonlinear savings and protection. As a result, we continue to have a well-diversified distribution mix with distribution channels other than ICICI Bank contributing about 65% of our Q1-FY2021 APE. The retail business continued to anchor our new business, contributing about 85% of the APE.

The second element of protection growth” on slide 27. As highlighted by Kannan in earlier slides, protection segment continues to be significantly under-penetrated. Given the pandemic, not only are we seeing a surge in product inquiries, but also a significant growth in direct purchases on our website. While there have been challenges to conduct medical tests, we see this demand as a significant opportunity as we revert to normalcy. With an APE of ₹ 2.14 billion for Q1-FY2021, the protection business contributed about 26% of the APE, as compared to 15% for FY2020.

The third element of persistency on slide 29. We have always held that we believe that the core factor that drives persistency is the sales process, while other factors can impact at the margin. Our persistency experience during the quarter augments this belief as ratios remain range bound, despite significant challenges in the environment. In fact, 61st month persistency

improved further. We do expect the persistency ratios to revert to normal levels as we go through the year.

In fact, on the 13th month persistency that we have reported at 81.8%, given that it is a developing cohort, as we speak, this has in fact improved to over 82.2%.

The fourth element of productivity on slide 31. To manage costs in line with the business growth, we have already cut down the discretionary expenses and are also renegotiating our office rentals. As we go forward into the year, while we will get saves on optimal deployment of manpower, we are seeking to improve manpower efficiencies by realigning span using training and coaching to achieve a greater degree of digital adoption and thus higher productivity. We are also working on making our costs more variable. Our cost to TWRP ratio for savings business was lower at 8.8% compared to 11.3% for the same period last year, primarily on account of the renewal premium component.

The outcome of our focus on these 4Ps, as you may see on slide 32, has resulted in our Value of New Business of ₹ 2.01 billion, with a margin of 24.4% in Q1-FY2021.

On the other financial metrics, our profit after tax (PAT) for Q1-FY2021 was ₹ 2.88 billion, and the solvency ratio continues to be stronger to 205%. Our AUM was more than ₹ 1.7 trillion at June 30, 2020, a growth of 11.1% from March 2020, driven by recovery in equity markets. The recovery of equity markets should also enhance our Embedded Value, through positive investment variance, as we progress through the year.

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.

Suresh Ganapati: Just two quick questions. One is, this persistency of 81.8%, this is after taking into account the grace period, right?

Satyan Jambunathan: Yes, Suresh. As at 30th June grace period had normalized, so this is really the true underlying and has got no distortion of grace period.

Suresh Ganapati: Okay. So, then there has actually been a decline from the 13th month number of 82.5%, right?

Satyan Jambunathan: That is correct.

Suresh Ganapati: But this is lower, sorry, so just to understand. 81.8% is a fully normalized number, right, there is no one-off here?

Satyan Jambunathan: That is correct.

Suresh Ganapati: Okay. See, that is the case, this is lower than your 82.5% that you factor in while calculating your EV, right. So, as of now, there could be an adverse operating variance, if I were to really calculate today. Maybe it normalizes 12 months down the line, but can we assume that there would have been adverse variance, persistency variance?

Satyan Jambunathan: No, Suresh. Because when we do the persistency assumption, there is also an expectation of some revival over the balance period. And therefore, to that extent, we would allow for that in the EV development. So like I said, even as we speak today, three weeks into the month, the same 81.8% is sitting at 82.2%. So this is something which naturally develops over a period of time. And even at these levels, at this point, when we go through this year, it will settle at about 82.5%.

Suresh Ganapati: Okay, fine. So, yes, I mean, that obviously depends upon what the state of markets are. Can we be so sure that you will really cross 82.5%?

N S Kannan: Suresh, I just wanted to add a couple of points. So one is regarding your first question on whether the bases are true, then yes both the bases are correct. Because whatever the grace period issue has been there, it would have got evened out by June. Because if you remember, we had only grace period extension for April and May, and there is no extension subsequently. So as Satyan mentioned, what you are comparing are comparable. There is no change in terms of the denominator or numerator between what you are comparing for the last period and the current period.

Now, the only difference is that the cohort development is happening even as we speak, which normally would have got trailed off by now because of the extended grace period. That's the point which Satyan was mentioning. That already we have seen a 40 basis point impact. If we look at the last year at the same time, whether 40 basis points would have happened between the end of the quarter and the results, it wouldn't have happened. So the grace period has started pushing it out. The good news is that June, when we look at the collections, we are almost at the same levels as last year and we have started exceeding it somewhat. And within

that, actually year-on-year we had a meaningful increase in persistency. So on that basis, if you put the development of the cohorts, the increase in persistency, we don't see any reason there will be any negative variance. So that's the point I want to mention.

Suresh Ganapati: Okay. And any idea can you share how much would be the increase in protection prices effective July with respect to the new product?

Satyan Jambunathan: Depending on the term, sum assured and the various combinations, increases are in the range of about 10% to 25% over the old prices.

Suresh Ganapati: Across the product ranges, right?

Satyan Jambunathan: That is correct. So, between 10% to 25% is the broad change in prices from the old pricing before 31st of March.

Suresh Ganapati: Sure. And last question, VNB is down 33% this quarter. I know you guys have always maintained that three to four years doubling of VNB CAGR, I mean, and of course, the path is not going to be linear. Based on the analysis that you have done, you still are very confident that you can sustain this? I mean, you can achieve your 20% to 25% CAGR over the next three years? Because remember Kannan and Satyan, the ask rate is going to be very high next year or next two years to meet your target.

N S Kannan: Absolutely. So the ask rate is going to be high for the balance nine months of this year as well as the subsequent two year period. We are quite confident of that because in the short-term we are seeing a lot of momentum in the protection product. Even as we speak, after the introduction of the product in the first week of July, the sales year-on-year are doing quite well. So short-term product mix will lead to a margin expansion. And when the whole country returns to normalcy, over a medium-term period the top-line growth will come back. Because of those two levers as of now we are very confident of doubling our financial year 2019 VNB in 3 to 4 years time, as we have articulated.

Suresh Ganapati: And COVID-19 would not give you an adverse experience?

N S Kannan: No. Of course, as I mentioned on the call, it's a developing sort of a scenario. But given that overall our assumptions versus experience, there is a cushion there, as well as the fact that we had increased the reserving for COVID, there is no problem we are expecting at all.

Harshit Toshniwal: Congratulations for the decent results. Satyan, two questions. One, when I look at the protection. So we had a price hike, maybe we launched a different product which was, say, 10%, 15% higher than pre-March price, and that was largely what we sold in Q1. Despite that, you say that the margins were weaker than normal in this quarter. And secondly, when we look at the protection growth for the industry, I think retail protection breakup is something which you have not given in Q1. How the growth has been in the retail protection? If you can throw some light on that.

Satyan Jambunathan: So Harshit, just to answer your question on the transition period, you are right. During the transition period, in the first quarter we used an interim solution. It wasn't a different product. The old product had a set of prices for a medical process and a set of prices for a non-medical process. Because of the lockdown we could not conduct medical testing. And as all process was non-medical, we moved to the non-medical price. Eventually, the final price change is what we have implemented from the first week of July. In fact, if we had not migrated to the non-medical prices, then the margins would have been even more adversely affected. So the quarter was a bit of cushioning of a price which was somewhere intermediate, which is now getting normalized from the first week of July onwards.

The second question on the retail protection mix, we usually give the split of the protection portfolio at the end of the year, and I would expect to do that this year as well.

Harshit Toshniwal: Agreed. Sir, the only thing is that we know that for you a large part of protection comes from retail vis-à-vis the industry, and we had the protection rate hike, even though it was non-medical, but on a Y-o-Y terms we had a slight advantage. Despite that, a flat protection growth, you would say that the retail protection market share for us is similar to industry or as what it was in the majority of the FY'20?

Satyan Jambunathan: Yes. So like we said before, it still dominates the mix for us. We have always been a more of retail protection oriented company. In fact, like Kannan described, credit life during the quarter was very significantly affected with a decline of 72%.

Harshit Toshniwal: Right. Okay. Got it. And lastly, Satyan, on the expense side, so how have we dealt with the expense amortization for the year? Is it that we are going to do it over the period? And how much growth decline have we factored in?

Satyan Jambunathan: So as we normally do, our expense is based on a full year estimate of costs, which is given for a particular top-line. We haven't disclosed what the top-line that we

have taken is. But there is not a very aggressive top-line that we have taken to estimate the expense ratios.

Ansuman Deb: My first question is on the segmental surplus. So we have a negative surplus in the par life category, could you give some colour on that?

Satyan Jambunathan: So in the par life segment, the bonus is something which is only declared at the end of the year. And therefore, the three quarters in between are actually interim liability computations. You cannot take the quarterly number as a representative, it will get adjusted at the end of the year.

Ansuman Deb: Right, got it. Another question is on the protection pricing that we have taken. So this is beyond the reinsurance driven price hike, and would have an element of margin that we are kind of expecting from this product, right?

Satyan Jambunathan: No. We said this in April, and we said it again, the objective of the price increase was just to neutralize the reinsurance price change and maintain neutrality of margins, not increase margins.

Ajox Frederick: My question is regarding the non-par product which we launched recently, ASIP. How has been the traction of that? And has the Bank started pushing that product strongly in recent times? And number two is, do we have a target mix in mind for non-par products, guaranteed products basically?

Satyan Jambunathan: So Ajox, from a non-par guaranteed return product, we have never been a very big participant. We still continue to be the same way. Our focus where we offer it is still to do it for a shorter tenor of up to 15 years and that's the same approach that we have taken into this quarter as well. This product is predominantly sold through other channels and not through the Bank channel.

N S Kannan: Just to add to that, in the Bank, the focus in this product grouping would be on annuities. So the bank is selling annuities and protection as key products and that's where we have seen significant momentum during the first quarter compared to last year first quarter.

Ajox Frederick: Okay. And on the protection price hike. Are we expecting one more round after this July 1st thing is done?

N S Kannan: No. We are not expecting anything as of now. But as Satyan mentioned, this is only to pass on the reinsurance rate increases. And in an earlier question also we clarified that our endeavour is that through this new product, we will maintain the protection margin like we had last year. The first quarter margin was a bit sub-optimal. Though we tried some solutions, the margin turned out to be sub-optimal. But our endeavour is just to pass on. And the increase, as Satyan mentioned, has been between 10% and 25%, depending on which point you look at. And the endeavour is just to pass on and maintain our margins as we had last year.

Ajox Frederick: But you are not looking for one more round, this is the final hike with respect to reinsurance, so completely this will pass on?

N S Kannan: As of now, we're not looking at any further hikes.

Satyan Jambunathan: Ajox, just so that we are clear. This product that we launched in the first week of July is the new approved product that we had filed in the last quarter. So this is really the final one.

Ajox Frederick: This is the final. Okay, perfect. Some of the banca guys have been conveying that for a customer who asks a high sum assured product, the customer is being sold a bundled product with critical illness or a heart and cancer. So is that a tactical move to make sure that bundled products are being sold so that the profitability is up for Q1? Your thoughts on that? Or is it just specific strategy?

N S Kannan: Yes. If I look at probably ICICI Bank as a barometer of what you are saying, the way Bank looks at this is what we call an all-in-one product, which includes the critical illness cover which you talked about. They see it as a huge customer benefit and a proposition to add a term and health together. Because one part of the product mitigates the risk of the customer dying and the other one mitigates the risk of customer continuing to live but not a very healthy life, where he has to look at hospital expenses. They see it as a very powerful proposition. From our perspective, it makes a lot of sense. As you rightly said, it also increases the margin for us. So I think that this is a nice way of both objectives of the distributor and the manufacturer coming together and ultimately benefitting the customer. So it is not a tactical move. In fact, we would like to build on our success of Q1 and increase the attachment of such critical illness on the base plan.

Ajox Frederick: Sir, but will you not be facing pressure on the demand? Already the price hike has happened and you are almost among the top expensive players in term.

N S Kannan: I think the product features are so powerful that it is selling quite well. It is not that we are pushing that product, we are making it available and making sales teams aware of such a product's existence, and it is selling thereafter automatically.

Prakash Kapadia: I had two questions. On the protection side, you guys mentioned about the challenges which we are facing due to the medical tests not being conducted. So what is our stance, are we letting go of big-ticket policies and concentrating more on small ticket for risk mitigating? And do you think that will continue in the near-term?

Satyan Jambunathan: There are a combination of approaches that we are seeing being applied on the ground. One, in certain places where we are seeing medical testing opening up, the facilities opening up; there for some proportion of people that are applying, we are able to get them to undergo medical testing. The second part of it is if there is a reluctance in the mind of the customer to go out and get a medical test done, for those people, our pitch is now around saying that if you want to take cover immediately, take it up to a limit. When the environment opens and you can get yourself tested, then you can add on to the insurance cover by purchasing another policy, and we will help you with that. So it's a combination of both of these. Because realistically, from a risk management point of view, beyond the sum assured, I cannot underwrite cover without a proper medical examination.

Prakash Kapadia: Understood. And Satyan, on the operating expense side, you did mention about some of the levers for cost reduction. So if you could quantify the rentals, you didn't mention anything on employees, how much of our employee cost would we pay? How much would be variable? And the rental impact we would be seeing next quarter onwards, and how much can cost be controlled?

Satyan Jambunathan: Rental or even overall rent cost to us is not a very big component. So what we will get in absolute base out of that will be smaller. On the people side, given the current context, we have not actually done any manpower action so far given the difficulties in the environment. What we are starting to see now is natural attrition picking up. And in a way, we are carrying more costs than we can afford in the early part of the year, because we do not want to precipitate any manpower action. Especially since, as an organization, we depend so much on people and the way people are managed. That is something that we had

even spoken in April. Our idea there is that as we go through the year, some of the optimization on manpower will emerge. Our first port of call right now is to manage discretionary expenses, generally, sales-related expenses. For example, advertising costs or business meeting costs, these are things which even in the current environment are seeing a very, very sharp decline. On the manpower side, the only thing that we are doing right now is that we have frozen wage increases. And therefore, to that extent, with some natural attrition happening through the year, overall wage cost would be expected to come down in a meaningful fashion compared to last year. But like I said, in the short-term, we will end up carrying more costs than we can afford because we do not want to precipitate any people action, given that we are a people business.

N S Kannan: Prakash, only other thing I want to add is that there are some re-deployment opportunities also. If I broadly look at the numbers, employee numbers should be about 14,000 as of June. And as Satyan mentioned, in the immediate near-term, some of the attrition we will not replace. So it is expected to slightly trend down in terms of total manpower. And the redeployment opportunity I talked about is from the perspective of new distribution getting added, like IDFC First Bank I talked about. There is a great opportunity to redeploy some of the people into some other channels like IDFC First. So those kind of redeployments, manpower count control, wage freeze, are the things we have done. And we think that the total number of people also will trend down in the short-term as attrition picks up.

Arav Sanghei: I have a couple of questions. My first question would be, that we have like literally told for a couple of years that we are focusing on protection, but that said and given if you look at your June month, we have significantly underperformed the private industry as well because of our dependence on ULIP. So even if we are focusing on protection, what are the other areas that we might see growth from? Because if I do some calculation, protection might be very margin accretive, but it requires a lot of capital. So what might be the other areas of growth?

Satyan Jambunathan: Just to answer your question on the levers of growth, protection is very important because from a margin and VNB point of view it contributes disproportionately compared to APE. Also something which is growing well for us is non-linked savings. The participating business, a little bit of guaranteed return products, that has also been growing. And we spoke about how that has grown at 14% in the last quarter. Between these two, if you noticed for last year, they actually contributed 74% of the company's VNB. And if I look at the

top-line performance, while unit-linked did decline, the non-linked business overall grew at about 13%, and that is the segment which contributes almost 75% of the VNB. So in the near-term, we think that is going to be a very important lever of growth in VNB. But as we go beyond this year, I would expect to see some growth come back in the unit-linked. And that should also help us from a VNB point of view.

Arav Sanghei: Right. So my second question is regarding this protection only. So if we look at our company, it's mostly situated in the areas which have been most affected by COVID, if I am right, the regions of Maharashtra, Karnataka and Tamil Nadu, etc. So given that our VNB is now getting more dependent on protection, what are the new risk management strategies that we are following specifically in the protection segment? Maybe not doing business in some areas or something, if you could just give some colour on that?

Satyan Jambunathan: First of all, if I look at mortality outcome out of COVID-19, and you see the death rates and possible impact on mortality, we do not see that as being significant. What we however have to do at the time of selling a policy or on-boarding the risk, is to make sure that the customer is not already suffering from it. And this is something that we have built processes to do, to have this conversation with prospective customers in a remote fashion without having to go there. With that, we don't think we need to restrict business just because of where COVID-19 is prevalent, in whichever part of the country. You spoke about possible concentration in geographies where there is more COVID-19, but in spite of that you will see our protection APE was flat for the quarter. So in fact, that is indicative to us of a much stronger underlying demand. With even some practical constraints, we are still able to grow that business.

Arav Sanghei: Right that is helpful. Just one clarification here. I remember we have launched a Precious Life product last year for already suffering health patients. So how is that product gaining traction under this environment?

Satyan Jambunathan: It's a bit of a niche product in any case. And therefore, to that extent, it will have its own slow development. It's not the mainstream product that we sell, but it's coming along.

Yash Sidana: Most of my questions have been answered, but a couple of minor questions. One, on the protection opportunity. You have compared India to the other countries. Now obviously you have spoken about India's retail protection sum assured, what about the other

countries? Don't they have savings-linked protection component? I mean, it a like-for-like comparison?

Satyan Jambunathan: There will be some of that. But if you look at many of the other markets, their protection component is far higher than what it is in India.

Yash Sidana: Got it. And secondly, I mean, you have done a fantastic job on costs, and you spoke a bit about it. If you can, if there is more to it, like what are some of the tangible explainable areas where we sort of cut costs? And what part of it is sustainable, structural?

Satyan Jambunathan: Like I said a little earlier, the biggest immediate opportunity that we executed in the first quarter was discretionary business development expenses. Typically, these discretionary business development expenses center around advertising, distributor meets, any rewards or recognition forums that you might launch for distributors. Now given that the overall top-line itself has not been strong, many of these we chose not to execute in this period. And that is what we saw as an immediate benefit. But even then if you see overall cost, the reduction in overall cost is not as sharp as the drop in the top-line. That is something that we are conscious of, and that is what I mentioned a little earlier, that in the short-term we are carrying more cost that we can afford. It is through the year that we will have to normalize it.

Yash Sidana: Right. So whatever has happened in Q1, some of it is just a function of sales volume being down, and the fact that there isn't a lot of opportunity out in the market. But what was built in Q4, was that sustainable? Because I think Q4 was the one where you really started to sort of reap the benefit of productivity.

Satyan Jambunathan: Yes. So exactly the same approach we had in Q4 as well. Even in Q4, we attacked a lot of the discretionary expenses because in January-February itself, we saw some of our sharper declines from the unit-linked segment to start. March, of course, it accelerated a bit more. But in the quarter itself, you would have seen some of those expenses have gone down sharply. So this quarter has actually been a continuation of the same initiatives on discretionary distribution-related expenditures.

Adarsh P: Question again on cost spread. So obviously you have addressed some part of that, I just wanted to put it differently and check. Two questions here. One is, ULIP is down and given the market, it may remain like that for some time. And while the contribution of ULIP is not very large in the VNB, if I just go back to last year, its ability to take cost is pretty

high, right? So it took about ₹ 1,000 - ₹ 1,100 crores of cost last year in FY2020. So in that sense, over a full year basis and not just one quarter, I wanted to have an opinion of; one, the ULIP volume, both in context of market and also in context of what the main distributor is doing, that's ICICI Bank? And two, whether the burden of cost if ULIP is down so much, then what can pick it up, if at all?

Satyan Jambunathan: So just to quickly address the cost thing. Yes, any savings business does provide some absorbency of cost. But relatively within savings business, the non-linked savings products offer a greater ability to absorb cost. And that is a segment which has got, at least in the first quarter itself, a growth of about 14% come through. If that momentum continues through the year, and as the protection growth also starts to kick in, overall as a business, our affordability on cost will start to improve. Having said that, there will be an impact of unit-linked, which will have to be mitigated through a reduction in absolute costs. So that is something which will happen. Even for the first quarter, I don't know whether you have had a chance to see the final numbers. Our total costs are down about 21% versus same period last year. It's not going to be one or the other, it's really going to be a combination of a product mix migration with some segments growing better and a reduction in cost to mitigate any possible effect of lack of growth on one segment of the business. Now within that, from a distribution channel point of view, in the first quarter, if we see the unit-linked business across all channels, we see a similar kind of a decline. Second quarter, we will have to wait and see whether the channels recover in a different fashion. But at least for the first quarter, unit-linked decline was fairly similar across all of our channels.

Adarsh P: I could see the cost drop, which was pretty sharp. Now just wanted understand is, many times it's like because you have COVID you didn't spend a lot, and some of the ULIP may come back but you still need to cut cost when you go back to normal business practices. So I am just trying to understand how comfortable would you be on a full year basis on the cost metric?

Satyan Jambunathan: So what we have now assumed in the VNB that we have put out, we believe that is practical.

Adarsh P: And the second, very mathematical question I had was, most of all are taking a hike in term life business, right, 10% to 25%. When you look at the product, right, do you look at VNB absolute, like this sum assured makes so much money? Or we still go back to making

same VNB margin, right? So what I am saying is, if you sold a ₹ 15,000 APE product or say a ₹ 20,000 APE product, assuming you are making ₹ 20,000 VNB there, now the price is higher, would you make ₹ 20,000 APE on that or the VNB goes up now on the same sum assured, how should one look at it?

Satyan Jambunathan: The VNB will go up a little. The overall average price increase will actually settle somewhere in between, depending on where we do more business. But VNB will go up a little because we have done this pricing to neutralize on margin.

Adarsh P: So absolute VNB to sum assured actually goes up on the pricing side?

Satyan Jambunathan: A little bit. Slightly. Yes.

Saurabh Dhole: I have two questions, pretty basic ones on persistency. On slide 29, you have aggregated excluding single premium and including single premium persistency. So I just had a small doubt as to why would these numbers be different when the single premium product is just a onetime payment to you?

Satyan Jambunathan: So the thing here is that when we say single premium, a single premium product is deemed to have 100% persistency because all due premiums have been paid. But in reality, a more relevant segment of the business where one needs to measure persistency is regular pay. We have always focused on regular pay for persistency measure. We also show single premium because some of the other market participants tend not to differentiate between the two. In our mind, the most appropriate way of measuring persistency is for regular pay.

N S Kannan: Yes. I would say that we should go by the left side of that chart, which excludes single premium as that is the appropriate measure. We are forced to do the retail including single premium, because of the comparability with certain external disclosures of other companies. Otherwise, one should look at assumptions and everything what we do internally also is based on retail, excluding single premium. And mathematically, the number with retail including single premium, can always get distorted, depending on how much of single premium you do in a particular time because that gets added both the numerator and denominator being a 100% persistent product in that sense. So it is more like mathematically, it gets bloated out. Otherwise, I would go by the left side of the chart.

Saurabh Dhole: Okay. So internally also you are going by the left-hand side?

N S Kannan: Yes, because the single premium addition in the numerator and denominator showing an absolute higher number, it doesn't make any sense.

Saurabh Dhole: Correct. And the second question is on slide 67, where you have shown persistency ratios across the channels. On the direct channel, I see that it has one of the lowest persistency ratio. So intuitively, it would seem to me that direct channel customers should be the most resilient, right? So why would the persistency ratio be the lowest here?

Satyan Jambunathan: You should look at this in conjunction with the product mix and the product category based persistency. You will see the chart just above where you see that the unit-linked persistency is a little lower than the other categories. Over the years, our direct sales has been more focused on unit-linked business than the other segments. So structurally, it tends to follow the unit-linked category persistency closer. Direct here is not customer coming to our website and buying. This is our sales employees who are executing upsell campaigns that are run centrally. And therefore, it is really a product proposition that is pre-packaged that they are taking as a pitch.

Saurabh Dhole: So in short, you are saying that the direct channel is more ULIP heavy?

Satyan Jambunathan: Yes at this point of time. But that is changing over time.

N S Kannan: See, most channels have been like that in the past. So to that extent, there was a little bit of a skew in direct channel, which we have been correcting. So it's completely a function of the product mix in a particular channel. Otherwise, we do not have any concerns regarding the differential persistency development too much across channels. It is more of a function of a product mix and we do that disclosure annually. And if you can see last year, disclosures, as an example, if we look at a direct channel, it is about 67% ULIP last year as against looking at the agency, which was a 50% ULIP channel. So this kind of wide variation in the product mix can cause variation in development of persistency.

Ritesh Uppal: Sir, my question pertains to the protection business. So during the last quarter, obviously, the first two months given the scenario in lockdown and we had a significant spike in protection demand, but there was an inability to conduct medicals. So just wanted to understand how much of this demand is still not yet addressed in terms of conducting medicals or translating that into APE. And is the traction on that also consistent? Or are we seeing that more as like a onetime effect? So that's my first question.

Satyan Jambunathan: Structurally, one of the things that we have been trying to do is where we are unable to execute medicals, we don't even encourage those sums assured. So early part we did see that. Our concern is that if we don't complete the issuance quickly, we may even get customers dropping out. So increasingly, we are just going with saying that for now, take a cover up to the limit that I can underwrite you and afterwards, we can top-up your cover. So there is always some pipeline which will be there. But our focus is to continue to get in fresh log-ins to make sure that the momentum continues.

Ritesh Uppal: So basically, going forward the customer would have the opportunity or option to increase the sum assured as and when things become better, but for now we are just writing as much?

Satyan Jambunathan: That's the idea.

Ritesh Uppal: Second question is with respect to ULIP margins. Would we see some amount of challenge there given both a fall in persistency and APE, so would the margins on the ULIP business would have suffered for us?

Satyan Jambunathan: No, they would not. Because persistency, again, is still better than assumptions in aggregate. Like I said, even if at this point of time, the reading is 81.8%, assumptions are set based on what they develop to. Second, from a cost perspective, you will see that overall we have had a reduction in absolute costs. And that will also help the unit-linked business. So I don't think the unit-linked margin has worsened in any way at this point of time. But really the key will be looking at it at the end of the year, where the ultimate cost ratio is settled. And at that time, again, I think we will be in a position to highlight the category-wise margins for the market.

Ritesh Uppal: In terms of persistency, if we include the moratorium period of two months, and we view the persistency as a 13th month versus, say, 15th or 16th month persistency. So would we still see a decline in persistency?

Satyan Jambunathan: No, not at all. Actually, with just a one month of extra moratorium, so 13th in the old world is actually comparable to a 14th in the new world, and we are seeing no deterioration over there.

Ritesh Uppal: Okay. So in that sense, overall, it's better to sort of compare a 14th month versus the 13th month just for this particular year then?

Satyan Jambunathan: Correct. And that is how internally we look at it. And that's what we mentioned earlier on in Kannan's section, where we said that when we analysed allowing for the two different lags, persistency is similar. I am not seeing a decline, but reality is that there is that one month or two months of delay compared to what we would have otherwise got it in the last year. That is what shows up in the reported number because in the reported number, I don't take any credit for this.

Ritesh Uppal: And last question is with respect to slide 25, where the mix from the banca channel we see a decline. So just understandably mainly because of the ULIP heavy sale that was being done through the banca channel. So in terms of the APE that is now reported here in the banca channel, could you highlight how much of it is in specific from ICICI Bank? And how much is the protection APE from the banca channel for the quarter?

Satyan Jambunathan: So of this number, almost 95% plus will be ICICI Bank in bancassurance. Channel wise specifically, product mix we have not disclosed at this stage. We tend to do that once a year.

Jayant Kharote: All my questions have been answered, sir. Thank you.

Sanketh Godha: Just want to confirm again on the protection price hike. So in quarter one, we introduced the older product, where the effective price hike because of the older product was in the range of 15% to 20% and with refiling of the product, we are seeing the same price hike of 15% to 20% or 10% to 20% in rest of the nine months. Is my understanding right?

Satyan Jambunathan: 10% to 25% in the new product. Earlier product was a little lesser depending on the options that were being offered.

Sanketh Godha: But we had effective price hike in Q1, right?

Satyan Jambunathan: Yes. But it was not the entire price hike required to pass on the reinsurance changes. That has only got affected from July.

Sanketh Godha: So in that sense, our protection margin in 1Q would be relatively lower compared to what we might have made in FY '20 full year?

Satyan Jambunathan: That is correct. It was lesser.

Sanketh Godha: And finally, just if you can break up that non-linked business into par, non-par and annuity because you used to disclose it in the past. So I just wanted to understand that non-linked part where exactly the growth has come of 14%?

Satyan Jambunathan: So we have not disclosed that. We will see going forward whether we can disclose that. See, structurally, to us it is not as if these are completely different types of products. From a customer behaviour point of view, they tend to be fairly close. Sometimes one substitutes for the other. And therefore, we have always looked at it as one category. I can tell you that the non-par guaranteed return product that we were offering is the same one that we are offering before, up to a tenor of 15 years. And based on the yields that we are getting from underlying investments, our strategy on the guaranteed return product has not changed from what it was in the last year.

Madhukar Ladha: Can you quantify how much is the margin impact had you not worked on the lower margin in 1Q? Will that be possible for you to give us?

Satyan Jambunathan: We have not made that public.

Madhukar Ladha: Okay. And did you give a margin walk? So are there any assumption changes?

Satyan Jambunathan: There are no assumption changes. As we normally do every year, the expense in the VNB is based on a projected full year, and that is what we have done. Otherwise, there are no other assumption changes, except yield curve at the current yield curve.

Madhukar Ladha: Right. I mean, the mix would have benefited the margin, but not to the extent because of the pricing being a little low?

Satyan Jambunathan: That is correct.

Madhukar Ladha: Secondly, I did not understand when you mentioned that you used the non-medical pricing in 1Q. Wouldn't that pricing actually be higher than the medical-based pricing and shouldn't that have actually helped you even more?

Satyan Jambunathan: Yes, it did. Without that, the impacts on margin could have been far worse.

Vinod Rajamani: So one trend we have seen in this first quarter is the emergence of these, say, these broker channels, especially online brokers and so on. On your partnership distribution, there has not been a big impact in terms of the APE growth. Any steps you are taking on this specific channel, essentially because of the lockdown the number of, say, the bank sales and the agency sales would have got hampered? So maybe this channel has probably done better than other channel peers. So any views on that?

Satyan Jambunathan: This is very hard to generalize in that fashion. In contrast with a bank, a bank tends to be far more active on technology as far as its own customers are concerned, whereas different partnerships might have a very different maturity with respect to technology. On the other hand, you also have a situation where, at least with the primary banks that we operate in, we are the only manufacturer. Whereas in some of the partnerships, you might end up having multiple manufacturers present there. The third dimension that comes in, is that in a partnership, their income from insurance distribution could actually be a very large portion. And therefore, there's a very strong desire on their part to sell more optimally and efficiently in spite of the environment. So you actually have a lot of different dynamics which operates. So it's very hard to actually compare directly between two channels and say, this is how the outcome would be expected to be.

Vinod Rajamani: Okay. And on the bank channel, any metrics that you're tracking in terms of what the, say, the cross-selling ratio is and so on? Any colour you can give on how it played out in the month of April, May and June?

Satyan Jambunathan: In short-term, cross-sell ratios don't really change. The fundamental point also remains that given our penetration in the bank partners, this customer base is so small at this point of time, that multiple product selling is not really where we are focussed. The first priority is still to get the bank customers to buy their first term life product. In a way, one loose measure of cross-sell can be, how much of the term insurance sales that the bank also incorporate a critical illness.

Vinod Rajamani: Yes. So any colour you can throw on that? How many bank customers you are able to attach a critical illness product to?

Satyan Jambunathan: Of the term life that we sell there, roughly 25% to 30% of the sales, we are able to attach a critical illness.

Vinod Rajamani: Okay. And in this lockdown, have you seen any change in that ratio?

Satyan Jambunathan: No. This is actually a new focus area. Earlier, it was the plain vanilla term which used to get sold.

Mayank Bukrediwala: I just had two questions. The first one was related to bancassurance. So last quarter, Satyan, you had indicated that ICICI in the digital stack had downgraded ULIPs and upgraded protection, I just wanted to understand what's been the mathematical or the quantitative impact of that? So if you could quantify how much has the ULIP mix reduced in the banca channel? And the second question is that, of your total protection policies, what is the proportion of the Five Pay structure in this Q1 versus what it used to be earlier?

Satyan Jambunathan: It's very hard to actually start quantifying the impact of the digital stack. But clearly, we are seeing a far larger throughput on the Bank's own app coming mainly from the salaried segment. So there is some movement that we are seeing there. But I think it is too early to start calling the outcome of that. As far as the Five Pay is concerned, Five Pay is not a very large portion of the new business that we do.

Mayank Bukrediwala: In this quarter or even earlier?

Satyan Jambunathan: Earlier, it was a little bit more. In this quarter it's a little lesser, it's actually less than 10% to 15% of our retail protection APE coming from Five Pay.

Mayank Bukrediwala: For Q1 you are saying?

Satyan Jambunathan: Yes.

Mayank Bukrediwala: And just on the first question, maybe you could just give me the mix as to what percentage of the banca premium was ULIP this particular quarter?

Satyan Jambunathan: So we have not disclosed that product mix at a channel level at this stage, Mayank. We will probably consider that as we go through the year.

Manish Shukla: Sir, could you share the annuity APE number?

Satyan Jambunathan: We have not given a breakup of the annuity separately. But the annuity business has seen growth in the first quarter over same period last year.

Manish Shukla: So continuing with an earlier question, I do appreciate that while internally you don't look at par and non-par as two separate product categories, but par and non-par have different financial implications. So for us, as analysts and investors, it would make a big difference if you continue giving that disclosure going ahead, especially because non-linked

is now almost 25% of the mix. So having that breakup will be very helpful. The next question is on ULIP and retail in general, which even if you look at the June 2020 numbers for you based on our IRDAI monthly data but decline in RWRP is more than 40%. This is despite June 2019 base. So just trying to understand because my sense was, given the customer segment that you target, that segment should be more remunerable for digital channels for sales. So why ULIP or retail in general is seeing such a large decline?

Satyan Jambunathan: ULIP has actually been affected because of a combination of factors. One, the overall sentiment with respect to the capital markets has not improved in a meaningful fashion. We are seeing this flow through to other market-linked products in the financial services space. Second, from the customer segment, that typically buys unit-linked and these are large premium sizes. We used to historically have average premiums of over ₹ 200,000 on that. That customer segment in an environment like this, where there could be uncertainty around earnings, does not want to commit significantly to a long-term on a fresh contract. These are reasons why we have seen that segment being much more impacted than other segments. And that's also visible in the final outcome of the segment-wise growth. Unit-linked for the quarter declined 66%, non-linked savings actually grew at 14%. So the behaviour of the various customer categories that are buying these products are clearly different.

Udit Kariwala: My question was that you mentioned that the ULIP margins have been intact. If we see the numbers, the cost has kind of been in control and the ratio has improved. Protection for you, the last quarter contributed around 60% to the overall VNB. So considering these three facts, what is the sensitivity to the reinsurance price? Because that is the only lever, which has led to a sharper decline in VNB, if I do the math. So some colour around that would be useful because if the sensitivity is so high, then on a longer-term basis, how should we look at it?

Satyan Jambunathan: So on longer-term basis, margin for protection has already been normalized because all sales from July first week onwards are on the fully passed on price. The quarter was really about a transition because we had to get the new product and the prices approved by the regulator and that's why it is suboptimal profitability. At this point of time, I am not able to give you a colour on what is the specific impact of this. But given the seasonality of the insurance business, and that nine months of the year are still left for us in a full year scheme of things, the final margin outcome on retail protection will be driven more

by what we end up doing in the next nine months than really by what happened in the last quarter.

Udit Kariwala: Yes, but the whole thing was that the sensitivity looks very high, right? Otherwise, mathematically, the VNB shouldn't have dropped so much. That's the only point I was trying to say.

Satyan Jambunathan: All of the protection business will be highly sensitive to mortality experience and reinsurance space. That's a natural pricing approach.

Abhishek Saraf: Most of my questions have been answered in some form. Just one bit on our reinsurance, the protection reinsurance. I wanted to understand if after this price hike, we are seeing that a greater number of reinsurance players are willing to now participate in India's protection market? Or is it still like there are still few players only who are there? And secondly, if I can just understand what percentage of proportion of our protection business would we be reinsuring?

Satyan Jambunathan: So the same reinsurers continue to operate. It's not like it's brought in more people. It's the big three or four European, North American reinsurers that were operating in the market and who continue to operate. Overall for the protection business, we retain 50% and we reinsure 50% on average at an aggregate portfolio level.

Abhishek Saraf: Okay. And after this price changes, and I believe that as we expand the market also, probably our customer base will also shift. So would that kind of impact our mortality assumption, maybe not now, maybe one year down the line as we grow our market base? And are we factoring that in the pricing as well?

Satyan Jambunathan: So what is factored in the pricing is the expected mortality of the target market that we are selling to. And as long as we stay in that target market, the experience should be in line with what we priced for.

Abhishek Saraf: Currently, we don't foresee need to move out of our target market as such at current levels, right?

Satyan Jambunathan: No.

Neeraj Toshniwal: Sir, I just wanted to understand your view on the persistency going ahead, which I think savings business persistency is set at 82.5%. So how you are finding it to be right now in terms of assumption in terms of savings persistency particularly?

Satyan Jambunathan: We still see the persistency experience being in line with the assumptions. We are not seeing anything adverse emerge at this stage.

Neeraj Toshniwal: But this wouldn't include June data, right, in June FY 2021, so what have been the things that are picking up with the grace period over?

Satyan Jambunathan: Sorry, I didn't get the question.

Neeraj Toshniwal: So I think this is just two months FY '21, April and May, but it doesn't have the June data. So what things are picking up with the grace period getting over now in the June month?

Satyan Jambunathan: So what we have already reported for June is after the grace period getting over. So like we were discussing in earlier questions, that if I were to compare like-to-like, last year at the end of grace period and this year at the end of the new grace period, actually persistency is the same or better.

Neeraj Toshniwal: So what is the assumption, I mean, we are sticking to 82.5%? So basically, you are saying, in your overall assumptions, it will be?

Satyan Jambunathan: That is correct. We don't see the need to change the assumption at this point of time.

Arav Sanghei: I just had one more question. Historically, you had a high base of customers from the high ticket sizes as is evident by ULIP which you service. So I am just wondering since you have mentioned that these customers are very sensitive to equity markets, we still don't know like what direct the equity market will head. So what exactly are we doing to make this set of people less sensitive? Because these set of peoples have a high share of, like, wallet share, which we can tap into. What are we cross-selling to them? Or what we are doing to make sure that our ULIPs become less sensitive to equity markets for them?

Satyan Jambunathan: So couple of things. The first thing that we have been articulating for almost one and half years is while we have historically had a strength in the affluent customer base, we have also wanted to systematically widen our customer composition. Part of that

widening of the customer composition happens through a mix of new channels that we work with and the non-linked and the protection product categories that we are offering. What we are seeing, even as we speak, is that a customer composition is getting far more broad-based than it used to be two years back. So that de-risking is something which is progressing quite well.

Within the unit-linked customer base or people who would have a greater orientation to buy unit-linked, there are a few things that we are working on. One, we are encouraging our entire distribution to focus more on a goal based approach as opposed to an investment return oriented approach. Because at the end of the day, the insurance savings product, even a unit-linked has no liquidity for the customer in the first five years. And therefore, if a customer tries to exercise a short-term market view, this is not really the product for them to do it with. And the entire distribution orientation, therefore, we are trying to move more and more towards the goal in the longer term, and need not focus so much on short-term volatility.

The second thing that we are focusing on is asset allocation. Clearly, during this period, fixed income has done very well. In fact, if I take a five year period, fixed income has outperformed the equities by a long shot. And that is something that we are also, in our conversations with distribution and customers, encouraging more of, which is to say that the power of the product is not about one asset class, it is about flexibly allocating your savings to multiple asset classes. And if you need, having the flexibility to change it over a period of time. And that is the second proposition that we are driving to keep the interest alive in the natural unit-linked customer base. Some of these things are easier said than done, and that's the reason why you don't see all of that positive impact come through in the numbers. But as we continue to work on these approaches, we think through the year, we will start seeing some turnaround happen there.

Sanketh Godha: Just one more thing. I wanted to check on protection business. When we sold lower sum assured policies because of not being able to do medicals, it means that invariably a lower sum assured policy will have a lower margin compared to higher sum assured? And as the higher sum assured kicks in, in subsequent quarters, the margins in the protection business should normalize going ahead, is that a fair understanding?

Satyan Jambunathan: Lower sum assured need not mean lower margins. It's really about the right price for the right segment. In any case, I think as the testing opens up and the

opportunity comes back to be able to sell larger sums assured, it will help us get more coverage with the same individuals and therefore get more out of the business. It's less about margins, more about business potential.

Sanketh Godha: Finally, just on the non-linked side, whether can I safely or fairly assume that long-term Lakshya, which is a par product versus ASIP versus annuity, the margins of all three products will be broadly similar to each other? Or there is a huge difference within these products which sit in non-linked?

Satyan Jambunathan: There will be a difference. The non-par will be the highest margin followed by annuity, followed by par products.

Prateek Poddar: Satyan, I just got a bit confused. Where have we seen a margin compression this quarter? Is it the savings line of business or is it the protection line of business?

Satyan Jambunathan: Protection line of business. With the reinsurance price changes being effective early April, the fully passed on new customer prices were effective only in July. There was a timing lag in the product offering that we had during the quarter. This meant that for the quarter, the margins were lower. And this is exactly what would be the situation for every other insurer, and for as long as they do not move to a full revised price. We chose to actually do the transition far more quickly than anybody else in the market. I still see some of the others that's not having fully reflected the change in rates in the pricing. So at least, I would think that we are back to normal far quicker as far as profitability is concerned than anyone else in the market.

Prateek Poddar: Just despite the volume decline, which we have seen in the savings line of business, the margins have held pretty stable, right? Is it similar to what it was in full year of FY2020 or around those because of the cost cutting which we have done? Is that the way to think about it?

Satyan Jambunathan: Yes, savings business at a category level, the margins would have been similar to what we had for last year.

Prateek Poddar: So despite the volume decline, right, we have seen?

Satyan Jambunathan: That is correct.

Prateek Poddar: Just an extension of this question. For this FY2021, given that the product mix will further change, and you are also looking at cost, is it fair to say that savings business margins ideally would start going up now from here on? And then you would also have the tailwind from the protection line of business where now you have passed all reinsurance cost?

Satyan Jambunathan: So between the two, Prateek, I actually think that the protection margin impact will be more material in the overall scheme of things.

N S Kannan: Thank you. I once again thank every one of you for joining the call and asking the questions and have good discussions. I believe that we have answered all the questions in the queue. Thank you. Have a good evening. Bye.

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