ICICI Prudential Life Insurance Company
Earnings conference call
Year ended March 31, 2021 (FY2021)
April 19, 2021

N. S. Kannan:

Good evening and welcome to the results call of ICICI Prudential Life Insurance Company for the financial year 2021. 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 with a quick review of FY2021 in the context of one of the most pervasive pandemics in the history of mankind.

Like many other countries, the COVID-19 pandemic induced lockdown in India caused a disruption in the economic activity, resulting in a contraction of GDP by 24.4% in Q1-FY2021. Consumers faced a risk of job losses as well as fall in income. With this uncertain environment, we saw consumers unwilling to commit to a longer term savings product as well as preferring traditional products to unit linked products. The initial focus area for us as an organisation was to engage with all the stakeholders, and to ensure the resilience of the business and operations. We saw Annualised Premium Equivalent (APE) decline by 44% in Q1. The calibrated opening up of the country and economy from June 2020 led to improved economic activity. By following the safety protocols for COVID-19, we were able to operationalize all our branches. During the second quarter, our Annualised Premium Equivalent (APE) decline reduced to 23%. We also focused on creating a base for future growth by diversifying our distribution through new agents and new partnerships. This helped us capitalise on a renewed interest of consumers in unit linked products. In Q3, GDP grew by 0.4% year on year and we also arrested the APE decline in channels other than ICICI Bank, which grew 8.7% year on year. Alongside, we enhanced our product suite by introducing new products including deferred annuity. On the back of diversified distribution, the sequential momentum we saw since Q2, and an enhanced product suite helped us register an APE growth of 27% in Q4 year on year, with March being more than 100% growth year on year. As we speak, we intend to carry this momentum forward, while also being cognisant of the recent surge in COVID-19 infections in the country.

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 (VNB) while ensuring that our customer is at the core of everything we do. Our robust performance across customer centric parameters is presented in slide 6. Our 13th month persistency for non-linked savings has reached 94% at March 2021. Our Claim settlement ratio stands at ~98%. Very importantly, if you recall, for certain category of claims, we had introduced 1 day guarantee settlement promise in FY2020. I am delighted to report that for the full year 2021, 100% of all eligible claims were settled within the promised timeline of 1 day. And just to give you the context, the claims under 1 day promise were two thirds of the aggregate death claims by volume. With this, the average time taken for settlement of claims was just ~1.4 days in FY2021, a further improvement from 1.6 days in FY2020.

Now, I will talk through our performance on the 4Ps through slide 7 to 11 and then conclude with a commentary on the VNB.

Coming to the first P of our strategic elements which is Premium growth. Our new business premium for FY2021 grew by 6% year on year to ₹ 130.32 billion. As mentioned earlier, we registered an APE growth of 27% in Q4-FY2021, ending the year with an APE of ₹ 64.62 billion. Our new business composition over the years was dominated by unit linked products. As you can see on slide 8, in FY2018, linked products alone had contributed 82% to our top-line. Since FY2019, we have been systematically working on broadening our customer base through a combination of distribution build up and product propositions. As we speak today, for FY2021, unit linked products contributed less than half of our top-line with 31% being contributed by the non-linked savings products and 16% by protection products. With this, we believe, we have diversified our product mix adequately, enabling us to manage the impact of external developments in much better manner as we move forward. The testimony to this has been our recent performance on the premium growth. In Union budget 2021, high ticket unit linked products were subjected to capital gains tax since February 1, 2021. Despite this, our new business premium based on retail weighted received premium grew 48% year on year since then.

Similarly, on the distribution channels, we focused on expanding the distribution network through acquisition of new partners as well as investing in creation of new sourcing channels. With higher contribution by some of the recent partnerships, we have further diversified our distribution mix in FY2021.

Moving on to the second P of protection business growth. During the year, we saw an increase in end consumer prices for protection plans driven by reinsurer led price increase. Also given the live pandemic environment, supply side constraints including the general reluctance to visit medical centres and examinations and revised underwriting guidelines, impacted the retail protection business. Despite these challenges, through our focus on the group segment, specifically on group term products, our protection mix further increased to 16.2% in FY2021. With an APE of ₹ 10.46 billion in FY2021, we saw a steady sequential growth quarter on quarter. Further, I would like to highlight that based on total new business sum assured, we continue to be the leader in the private sector. Our new business sum assured market share significantly increased from 11.8% in FY2020 to 13.0% as of February 2021. Our efforts in encouraging customers to complement their life insurance coverage with Critical Illness cover has further aided the increase in sum assured market share.

On the third P of persistency presented in slide 10, we saw significant improvements in 13th month and 61st month persistency ratios. Our 13th month persistency ratio, for retail business excluding single premium, has increased by 160 basis points to 84.8% at the end of March

2021 as compared to March 2020. Also, our 61st month persistency ratio has increased by 230 basis points to 58.3% at the end of March 2021 as compared to March 2020. While I highlighted it earlier, this would be worth mentioning again that, 13th month persistency ratio of non-linked savings for retail business including single premium has reached 94%.

On the fourth P of productivity improvement presented in slide 11, our cost to total weighted received premium (TWRP) ratio was 14.8% for FY2021 as compared to 15.9% last year. For the savings business the ratio was 9.6% as compared to 10.4% last year. Our cost ratios are one of the best in the industry and we continue to leverage technology to improve further.

As a result, VNB for FY2021 was ₹ 16.21 billion, as compared to ₹ 16.05 billion for FY2020. Our VNB margin increased from 21.7% for FY2020 to 25.1% for FY2021. The increase in VNB margin is primarily on account of growth in non-linked savings business and increase in protection mix. The resultant product mix has helped us diversify our sources of profits as evident on slide 12. For instance, the VNB contribution of non-linked savings has increased to 24% in FY2021 as compared to 9% in FY2019. If you look at the chart of VNB contribution development, ~55% of VNB contribution comes from protection and ~45% from savings. In savings also, it is broadly equally distributed between traditional and linked products. Thus, we are able to diversify our sources of profits as well.

Along with the diversification of VNB, we continued to maintain a resilient Balance Sheet. Of our total liabilities, non-participating guaranteed return products comprise about 1%. We continue to closely monitor our liquidity and ALM positions, and we have no issues to report. On credit risk, only 0.5% of our fixed income portfolio is invested in bonds rated below AA and we continue to maintain a track record of not having a single NPA since inception.

On insurance risks; we continue to hold additional reserves of ₹ 3.32 billion towards potential COVID-19 claims. Further, operating variances on other parameters continue to be positive for FY2021.

Our solvency ratio has increased to 217% at March 31, 2021 as compared to 194% at March 31, 2020.

Way forward

I would like to mention that we continue to maintain our objective of doubling FY2019 VNB by FY2023, which requires a compounded annual growth rate of 28% over the next two years. We aim to achieve this aspiration through our 4P strategy elements-

- First, our primary driver to meet the VNB aspiration will be that of premium growth. Since FY2019, our growth lagged the overall industry growth. With diversified product mix in place and an enhanced distribution network with significant addition of new partners during the year, we expect to deliver higher growth. The results so far in terms of (a) sequential improvement through the year and (b) 27% year on year growth in Q4; give us this confidence.
- Second our protection business. Even as we calibrated our pricing and underwriting norms, we were quick to spot the opportunity in group term segment and increased

attachment of riders as well. This approach will continue. Also we have been able to build sequential momentum in retail protection.

- Third in terms of persistency, despite an uncertain environment during FY2021, our persistency ratios have improved. We endeavour to further improve the ratios across the cohorts, thereby increasing the segment level margins.
- And fourth on the cost ratios, we target a positive operating leverage given the growth in new business premium.

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

Amit Palta: Thank you Kannan. Good evening.

As part of our agenda of delivering long term sustainable growth, we have been systematically working on broadening our customer base. To achieve this, we are using three pronged strategy 1) Product propositions 2) Distribution build up and 3) Customer retention.

Coming to products. During this journey, the strength of our product range with propositions to suit different risk characteristics of customers has been a very important enabler. We enhanced our product suite and launched newer products to capitalize on opportunities in the emerging environment, without compromising on our risk management approach. We continue to look to better the product propositions for customers. On the savings side, our product offerings range from unit linked products without any guarantees at one end, to fully guaranteed return products and deferred annuity on the other end. To meet protection needs, we have a suite of retail, group and critical illness products.

As you can see a quarter on quarter performance of our savings products on slide 18, we have seen a strong sequential momentum since Q2-FY2021. Specifically for Q4-FY2021, we have registered a strong growth year on year across the product segments, including the linked segment which has turned positive during the quarter. This strong growth was achieved through a product diversification journey we undertook since FY2019. For full year 2021, our non-linked savings business grew by 56% and Annuity business grew by 120% year on year. In terms of new business received premium, Annuity business contributed about 17%, amounting to ₹ 23 billion for the full year 2021, reinforcing our credentials as a significant player in pension and annuity provider in the market. As you may know, our wholly owned subsidiary, ICICI Prudential Pension Fund Management Company Limited (PFM), distributes products under the National Pension System and is registered as a pension fund manager. This business is synergistic to our annuity offerings and is expected to support growth of the annuity business in future. The AUM managed by the PFM has increased by 74% to ₹ 75.59 billion at March 2021 as compared to ₹ 43.53 billion at March 2020. In terms of new subscriber additions, the PFM's market share increased to 18.4% in FY2021 as compared to 14.8% in FY2020. The PFM has also commenced its business operations as a Point of Presence in FY2020 and has started scaling it up. Early results are evident, as in terms of new subscriber share for FY2021, our PFM stood second among the pension fund managers registered as Point of Presence. Further, with the renewal of a certificate of registration to the PFM, and given that the AUM size is less than ₹ 100 billion, 9 basis points can be charged as investment management fees from April 1, 2021 as compared to 1 basis point earlier.

Moving on to slide 20, given the significant under penetration in India, protection segment has been another focus area for us. During the year, we saw an increase in end consumer prices for protection products, corresponding to an increase in reinsurance rates. Given the pandemic, supply side constraints including a general reluctance to visit medical centre, and revised underwriting guidelines have impacted the retail protection business. However, we saw an increased demand in the group segment, specifically for group term products. With this, while on a full year basis, protection business declined year on year, we saw a steady sequential growth across the quarters. This also led to group protection business becoming a key category for us while we continued to maintain a lead in the retail protection segment. We 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 believe it to be a multi-decade opportunity, and specifically for a company like us with a strong customer proposition and a wide distribution.

Moving on to the second aspect on slide 22. We have continued to enhance our distribution network across channels. In the agency channel, the approach has been to ring fence our highly productive agents. We also added more than 20,000 new agents, as part of our strategy to broaden our customer base.

Within the bancassurance channel, as you know, we announced multiple partnerships during the year and have a total of 23 bank partnerships. With these partnerships we have broadened our reach to 162 million bank customers with a branch footprint of about 12,000 branches. Within the ICICI Bank channel, the focus on deepening the underpenetrated customer segments has continued into FY2021. Specifically on annuity business, ICICI Bank channel grew by more than 400% in FY2021.

On partnership distribution, we added 110 partnerships during the year and have about 600 partnerships across traditional and non-traditional distributors such as web aggregators, payment banks, small finance banks and insurance marketing firms.

For the direct channel which comprise sales through our own website and employees on our payroll, the strategy has been of upsell to the existing customers with the help of analytics.

Coming to performance of these distribution channels on slide 23 and 24, first on the bancassurance channel. The new bank partnerships have gained strong momentum and are already contributing significant share of APE in a short span of time. Specifically for Q4-FY2021, banks other than ICICI bank have contributed ~16% of overall APE. ICICI Bank, which continues to be aligned to our VNB objective, also turned positive on year on year APE growth in the month of March 2021. Distribution channels other than bancassurance have also seen a strong sequential momentum and have registered a strong growth in Q4-FY2021. Specifically the agency and partnership distribution channels grew by 37% and 63% respectively year on year in Q4-FY2021.

Moving on to the third and an equally important aspect, customer retention which is 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 not only recovered but has crossed FY2020 with a significant margin and stood at 84.8% at March 2021. Also our 61st month persistency continued to make significant strides by improving from 56% in FY2020 to 58.3% now. We have seen some decline in persistency ratios of other cohorts. The decline is primarily within the linked business, while persistency of other product segments have improved.

The performance on these three aspects namely product propositions, distribution build up and customer retention make us believe that we have come a long way in our journey undertaken to broaden our customer base. This performance also positions us well to continue the growth trajectory seen in Q4-FY2021. As you can see on slide 28, we have seen strong sequential momentum during the year, and across the new business premium metrics. Based on retail weighted received premium we have gained significant market share during the year and ended the year with 8.3% market share for the month of January and February 2021. For the month of March 2021, I am happy to report that, we have delivered a highest ever monthly APE of ₹ 11 billion, since the inception of the company, recording a growth of 108% year on year.

With this positive note, I now hand over to Satyan to talk through on the financial performance for FY2021.

Satyan Jambunathan: Thank you Amit. Good evening.

Our performance on the 4P strategic elements resulted in a VNB of ₹ 16.21 billion for FY2021 as compared to ₹ 16.05 billion for FY2020. Despite an APE decline of 12.5%, we were able to grow VNB for FY2021. Our VNB margin for FY2021 stood at 25.1% as compared to 21.7% in FY2020. The contribution of VNB from non-linked savings products has increased to 24% resulting in a further diversification of our sources of profits. As you can see on slide 30, the movement in margin from 21.7% to 25.1% can be explained by the following:

- 3.9% of margin improvement on account of business mix, which includes a higher non-linked savings and protection mix
- 0.2% improvement on account of higher expense efficiencies
- 0.7% decline, predominantly on account of yield curve going down during the year. A comparison of the yield curve is provided on slide 62.

There are no significant operating assumptions changes which has improved or adversely affected us.

During the last quarter we had disclosed the impact of COVID-19 on claims and provisions. I will now talk through the updated numbers as at the end of the year.

As you can see from the chart on slide 31, the pattern of mortality development still continues on a downward slope. Since mid-March 2021, we have seen a fresh surge in COVID-19 infections. Given that there is usually a lag in reporting of claims, we may see a change in the pattern as we go ahead. For the full year, we had gross claims on account of COVID-19 at ₹ 4.59 billion. Net of reinsurance this claim amount was ₹ 2.64 billion. On examining the claims pattern, we see the possibility that some claims on account of COVID-19 may not have been appropriately reported. We will observe the development of claims through the next year as well, before we conclude on how we separate COVID-19 and non-COVID-19 claims.

Keeping in mind the current surge of infections & deaths and looking at the age specific death rates we have experienced on account of COVID-19, we feel it is prudent to increase the provision for future COVID-19 claims to ₹ 3.32 billion, as compared to ~1 billion at December 31, 2020.

Please note, claims due to COVID-19 during the year as well as the provision for future COVID-19 claims have already been fully reflected in the closing embedded value as at March 31, 2021.

Refer slide 32, Our Embedded Value at March 31, 2021 was ₹ 291.06 billion compared to ₹ 230.30 billion at March 31, 2020, a growth of 26.4%. This growth was led by a 29.0% growth in the Value of In Force (VIF).

Our Embedded Value Operating Profit (EVOP) for the year was ₹ 35.05 billion as compared to ₹ 32.88 billion in FY2020. The breakup of EVOP is as follows:

- The unwind amount is based on the opening yield curve. The reduction in reference rates during FY2020 has resulted in lower contribution of unwind to EVOP.
- Operating assumption change was a positive ₹ 3.09 billion. This is largely explained by a positive impact of ₹ 5.7 billion from the improved expense efficiencies and some improvement to later period unit-linked surrender rates, offset by about ₹ 2.6 billion on account of increase in COVID-19 related provisions for future years as explained earlier.
- The VNB of ₹ 16.21 was about 7% of the opening Embedded Value.
- We continued to see a positive persistency variance of ₹ 1.10 billion on the back of an improved persistency across most buckets higher than last year.
- Mortality variance for the year was negative ₹ 2.37 billion as compared to positive ₹ 0.42 billion in FY2020. This needs to be looked at in the context of COVID-19 related claims of ₹ 2.64 billion. With the additional provision of ₹ 3.32 billion that we have made for future, unless COVID-19 claims in next year exceed this amount, we would not expect any further negatives. When we had disclosed our Embedded Value number at September 30, 2020, mortality experience, including COVID-19 claims, was within our assumptions. As we have highlighted in the chart on slide 31, the peak of COVID-19 claims has happened in H2-FY2021, resulting in claims including COVID-19 exceeding the best estimates.
- The other operating variances are positive.

As a consequence, the ROEV for FY2021 stood at 15.2%, same as for FY2020. If not for the COVID-19 specific impact of higher claims and provisions, the ROEV for FY2021 would have been higher.

Besides EVOP, an improvement in capital markets during the year resulted in a positive impact of ₹ 25.67 billion on account of economic assumption change and investment variance put together. This compares to a negative impact of ₹ 14.76 billion for FY2020.

This overall, has resulted in the EV growth of 26.4% for FY2021. The closing EV stood at ₹ 291.06 billion at March 31, 2021.

On slide 34, sensitivity details of EV and VNB have been provided. While most sensitivities are similar or lower as compared to last year, sensitivity of VNB to reference rates has changed direction given the higher share of non-linked savings and protection put together in the VNB. I would however highlight the sensitivities to a 1% drop in reference rate is only 1.7% drop in VNB. Our VNB and EV has been reviewed independently by Milliman Advisors LLP and their opinion is available in the results pack submitted to the exchanges.

Coming to financial metrics, our profit before tax was ₹ 10.81 billion for FY2021, as compared to ₹ 10.69 billion for FY2020. Tax charge increased from ₹ nil in FY2020 to ₹ 1.21 billion in FY2021 on account of withdrawal of dividend exemption and no final dividend paid by the Company for FY2020, resulting in a higher taxable surplus. The Company's profit after tax was ₹ 9.60 billion for FY2021 as compared to ₹ 10.69 billion for FY2020. Our Solvency ratio continues to be strong at 217% at March 2021. Our AUM was ₹ 2.14 trillion at March 2021, a growth of 40% from March 2020.

To summarize the performance of the full year, despite a decline in APE, our VNB grew and VNB margin increased to 25.1%. This was on account of diversified product mix, improvement in persistency and higher efficiencies leading to lower expense ratios. Thank you and we are now happy to take any questions that you may have.

Suresh Ganpathy: Kannan and Satyan, two questions, one is on the protection business itself, right. So we are hearing one more round of reinsurance hikes likely to happen because of the adverse COVID-19 experience and I am looking at your protection margins, it has gone down from 109% in FY2019 to 83% in FY2021. And there has been 300 basis points decline from FY2020 to FY2021, right. So, how do you look at this protection margin and the role that it would play in the overall VNB margin? And the second question is, of course, the fact is that you need to have a 28% CAGR in the next couple of years. Would it be the fact that it is going to be entirely driven by growth? Or you still believe in the current backdrop of reinsurance hikes further likely to happen, you still can maintain your VNB margins at these levels? Yes, can you just expand on that please?

N. S. Kannan: First, as you know, given the nature of protection business being long-term and the values involved, reinsurers are required to be in the game. I don't think we can really do the business without the help of reinsurers. We would continue to have a strategy of reinsurers being there in the equation. So to that extent, their pricing is important. As we had told you earlier, in the month of July 2020 we had passed on the increase in the reinsurance premium to the customers, thereby, we wanted to protect the margin. So that is what we had communicated to you and that strategy broadly continues. As we speak now, to your question, whether reinsurers are contemplating an increase for us? The answer is no. We don't expect any increase arising out of the reinsurers, because that is not on the cards as we speak today.

Now, the second question you asked is about the margin, around 89%-90% margin is what you have talked about. Yes, compared to 100% plus margins, it is a lower number. But, if you really see the development of the pricing over the past year, we mentioned that in the first quarter, even as we were waiting for approval from IRDAI for the increased pricing, we had to sell the products, not with the full reinsurance premium passing on to the customers, because we did not have the approval for the increased pricing. At that time, in the first quarter, we had a drop in margins of protection products, which got pretty much set right only in the subsequent period. So, I would request you to see that 89%-90% you talked about in the larger context of weighted average of first quarter being sold with a lower margin and subsequently margins getting protected because of full passing on of the reinsurer pricing to the customers. So that is the bottom-line in terms of price increase as well as the margin. So we hope to maintain the current margins as we move forward.

Now, to your question on how do we mitigate this whole protection business in terms of margin, we do have this, including some of the margin pick up in the saving side. The strategy which I had said in my opening remarks of the critical illness riders, as well as accident death benefit rider, that has been a higher attachment as we have been able to drive in ICICI Bank as well as the other partners. So a little bit of loss on the retail protection side, we think we will be able to manage it through the riders and critical illness attachment strategy, as well as the group term business strategy.

With regard to your question on the need to pursue something actually more like a 28% CAGR in the next two years, definitely in the first year out of that, which is FY2022, we would see it largely happen on account of the top-line. So what gives us the confidence in the top-line? Clearly, the way we ended the quarter and including the month of March there is a huge momentum here. About 108% growth we had in the month of March and that is really we are going to take it forward, that momentum. Plus all the banks, which we have added during the year, they have been pretty much in operation only for a couple of months. Some of the banks have got a much better momentum and we do believe that the benefit of having them for the whole year is going to benefit us. And as you know, ICICI Bank's change of strategy has resulted in their number coming down, but that is also fully baked in the base effect.

So given the current momentum, given the levers we have added, and given the fact that we will be able to activate all the partners, we are quite confident, at least in the first year out of the two-year horizon achieving through the top-line.

Suresh Ganpathy: Sir, just one more question. I am just trying to break my head on this. I mean, whatever I have learnt about this business, the group term seems to be less profitable. And you have increased your share from 10% to 22%, but still maintained your protection margins. I mean, Satyan can you explain or Kannan, how can you have such good margins even in group term business? Because what we hear is it's really a low profitable business or low margin business.

Satyan Jambunathan: The entire group term margin outcome is a function of what is the level of pricing that we are able to sustain and what is the stickiness of the group client over a period of years. What we have been able to build as a portfolio on the group term side is a fairly sticky portfolio. What we were able to do in this year is leverage those existing group term client relationships and enhance their level of cover. So effectively, we do take a view on what group term deals to participate in and what not to participate in. And we prefer to be in deals where we are much more confident of the mortality outcome or with the price. So really, the outcome on margin of profitability will be derived by this combination of how much of pricing I am able to have and what is the level of stickiness I have with group clients, both of which have worked very well in the last year for us.

Arav Sangai: Congrats for a good end to a challenging year. So I have three questions. My first question is on the change in direction of VNB to sensitivity of interest rate. So just wanted to understand that if our protection and our non-participating book is completely hedged, how can we have a change in direction? And to what extent are we expecting this change to go ahead in the future because our protection and non-participating book might only increase going ahead? That's my first question.

Second question, a follow-up again on the protection business. So what we have been hearing is that insurance on the protection side, the cost is going to increase in the coming year. And there is a lot of competition in the industry, which I don't think is going down anytime soon because of the excess capital also, which is flowing in the industry. So do you think that we might need to increase our share of ROP products going ahead? Because with the kind of mentality that Indians have that they need something in return for something, and a couple of our peers also going aggressive in this segment, do you think this is a segment which we should focus on better in order to maintain our protection share? Because over the years it has been consistently going down. So that is the second question on the protection side.

And thirdly, sir, again on the 28% CAGR that we were expecting. I understand the fact that the next year will be good growth because of the base and because of the effort we have put in last year. But if I break it down by different businesses, ULIP again, if we go very aggressive in ULIP’s, that might affect our margins to some extent. Non-participating also is a business where there is a lot of competition which is kicking in and that might also drive some kind of restrictions from our end, in order to maintain our margins. And protection, again, we might enter into a high base period, notwithstanding the three months again in the next quarter which seems to be challenging because the second wave. So how are you foreseeing a 28% CAGR, like, I am unable to understand that if I break it down to product wise, where is that advantage that we might get and be able to grow this business? So that are the three questions. Thank you.

Satyan Jambunathan: If I were to pick up one at a time, the first question was with respect to the sensitivity of the VNB or the change in direction. Now the change in direction is a factor of two parts. The profit margin of a non-participating product is driven by two factors, one, what is the spread; and second, what is the discount rate. Now as interest rate goes down, the spread will naturally go down. Normally when that happens, what you would do is you would reprice the product. Effectively what the sensitivity tells you is, what would happen if you didn't reprice the product. So to that extent, the sensitivity of VNB is only relevant, if repricing doesn't happen. Otherwise, it is the sensitivity of the EV, which is the book which will dominate the overall outcome. Whatever you may do with respect to hedging, eventually given that your protection liabilities are extremely long-term, and this is not the first time I am saying this, I spoke about this at the last year-end results as well, as the share of non-linked savings and protection business increases, it will start to mute some of the other direction impact that we were getting from a unit-linked business. So that is natural and based on structure of the product. At the end of the day, if you see the sensitivity, it is not like the sensitivity is huge. A mismatch in hedging will give you a large sensitivity, more closely hedged portfolio should give you a lower sensitivity. But I would argue that you can never have a situation where it has no sensitivity. So, a direction which is driven, by the increasing contribution in the VNB of both the non-linked savings and of the protection, is what you should now expect. The other direction was unusual and driven by the extremely high contribution of unit-linked in our VNB in the past. I don't see it as a risk to VNB, I really see this as a demonstration that the sensitivity is low. And there is always an opportunity to reprice new tranches of business, should interest rates come down. And old tranches of business, by the hedging strategy, get locked in so they become insensitive in a way to change in interest rates.

The second question that you asked with respect to protection. There has been a lot of discussion about reinsurance premium increasing. But a lot of the conversation really ignores the fact that some reinsurers increased premium early on in the last year, while others had not yet increased. It also ignores the fact that some insurance companies increased premiums early on in the year and others did not or did not increase it significantly. So I don't know whether the answer is going to be a one size fits all to say that all companies will for sure have an increase in premium. It may really be a combination of two factors. What was their reinsurers' pricing approach then and now. And second, how much of any past increases they have been able to pass on before versus what they want to do now. So that really is going to be company specific. As Kannan also spoke about in his opening comments and in answer to the first question, at this point of time, we are not expecting the change in reinsurance prices for ourselves.

Arav Sangai: So are we looking to increase the share of ROP products in our protection share? Because given that we sell mostly pure retail. And my third question was again on the growth.

N. S. Kannan: On the ROP, Arav, are we averse to introducing ROP product? No. But will we introduce just to classify that item under protection line of business just to say that protection is going up? Don’t think so. But, if we are going to be introducing a ROP product from a customer perspective, yes, we may still do that. But given the kind of margin characteristics, it will be closer to a high cover savings product as against the protection product. In all likelihood, we will go ahead and classify it separately. But we will be alive to the market opportunity as well as the consumer preference in deciding to introduce the ROP product. If you really look at our history, during the last couple of years, you can see that whenever we saw the emergence of the demand in a particular area, we have never hesitated to introduce the products which we wanted to introduce, subject always to a hedging requirement. And by hedging we always mean external hedging. We don't get into this business of internally one portfolio hedging another portfolio. So, when we got the confidence that we are able to get FRAs and other elements so that we are able to get a good outcome for us from a risk management perspective, we have introduced products. Like GIFT, which is Guaranteed

Income for Tomorrow; and also products like Guaranteed Pension Plan, which is a deferred annuity plan. So, we will not be hesitating if we see a good customer preference and it is in the interest of the customer, I want to assure you of that. But in terms of classification of the product, in all likelihood, depending on the margin characteristic of the product, we will classify it separately and not include in the protection by which the overall margin can get messed up. So that is what I wanted to offer by way of answer to your question on ROP, Arav. Then I will pass it back to Satyan and Amit to answer your question on what the confidence of the organization is, in terms of the growth in the next year specifically and over the next two years.

Amit Palta: Kannan just touched upon the product interventions, which typically came into play in the second half of the last year. And we expect probably the new product introductions that we did on Guaranteed Income for Tomorrow, which is GIFT, as well as something that we launched on annuity products, will now have a full year to play, because those products are now available for the entire year. That is one intervention. Second is, specifically bancassurance. Which were all added towards the latter part of the year and as you know that in a new partnership, the on boarding process, typically system and process integration, do take a little longer. And virtually it was only 45-day kind of a performance or a two months kind of outcome that you could actually see in the previous year. So to that extent, I believe that now with the full year operational on these relationships, and a further investment that we have done over a period of last couple of months, both in February and March, I see a good runway available for us in the next 12 months period.

And third, one more thing I want to make a point here. Apart from bancassurance partnerships, we have also added significant number of partners in the partnership distribution space last year, which is typically your corporate agency and broker. And we have seen that typically a year or two of a new partner is where you start building up productivities. And this is one of those channels which has actually grown almost by 30% year on year basis, even in this current year. So we believe that these are the kinds of levers that are clearly available for us to scale. Apart from that the upside we expect on the distribution efficiency, which we have been able to build an agency as well as on proprietary sales force, which is our up-sell channel. So all this makes you believe that the momentum which is being built, which is a sum total cumulative impact of all the channel intervention. I guess 12 month runway will hold us in good stead.

Arav Sangai: So the margins, like we will be able to maintain the margins plus/minus 1%, even if ULIP share goes up a bit, right?

N S Kannan: That is what we are hoping. Because when I mentioned about the growth, sort of the base case is that we would broadly maintain the margins around this level.

Prakash Kapadia: I had two questions; one was on the growth aspect which you dwelled upon. So congrats on the bancassurance channel tie up and that is helpful. So if I try and dissect the APE momentum growth which we talked about over the last few minutes, can you give some more colour on channel wise? Because the recent bancassurance tie-ups if I look at, be the AU Bank or RBL or IDFC, they cater to a segment which is already feeling stress due to the second wave of COVID-19. So, will it be bancassurance channel only or is it upselling to existing customers or is it ICICI Bank which will be a bigger driver on the channel part? That was the first question. And secondly, at the customer end, how are we dealing with medical tests and reports, because most of the diagnostic chains are too busy with the second wave of COVID-19.

Amit Palta: First question, if I have understood it right is, your concern about the impact that bancassurance as channel will have in the second wave. So, I would just like to mention here that being part of the essential services, I think providing banking services to the customers would continue even in the most adverse environment. And we have seen even in last year, bancassurance in the industry, did actually hold insurance in good stead and grew phenomenally in comparison to some of the other distribution channels. And last year, if you look at the overall bancassurance space, you would have seen significant movement across category of products even in the most difficult phase of first wave of COVID-19. So I don't see that getting changed any time in wave two as well. I see the stress would be there, there will be rostering of employees which was like the way it was last year. But I am sure everybody has learnt with experience in wave one and will be as much impacted as any other channel or like the way it was impacted last year. So to that extent, I don't see bancassurance in specific getting impacted differently in comparison to any other channels or in comparison to last year. So that is something which is my answer to your bancassurance concern. Within ICICI Bank and others, we do believe that there are definitely some distinct customer segments which we are being able to reach out through some of our partners like AU Small Finance Bank. So, while IDFC Bank is reaching out to affluent customer segments, the AU Small Finance Bank gives us a very different flavour of relatively a mass affluent customer segment. There we are looking at opportunities on the product segment, which is most ideal fit for the segments that is available there. And we see also because of the different product customer segments, even the product mix which is emerging out of our bancassurance partners is very different and is aligned to the customer segments that they are serving. So to be very honest, while in ICICI Bank you can see a product mix very similar in IDFC Bank in comparison, but all the other channels customer segments are actually driving the entire product mix behaviour. So to that extent, we are not worried, we are not chasing products. We will let the bancassurance partner decide their priorities and what they believe is the most appropriate product for their customers, we will just align and serve and offer it to them and we will take the outcome the way it comes.

Satyan Jambunathan: Prakash, just one thing to add to what Amit said. The capacity building in distribution that we have focused on this year is in every channel. Amit spoke about 20,000 plus new agents added in agency, he spoke about new partners added in partnership, he spoke about new banks added in bancassurance, and he also spoke about a deeper analytics based cross-sell campaign that we are implementing through our direct channel. So it's effectively not about relying on one channel to deliver the growth but building capacity in every channel. Even in ICICI Bank, the new product offerings on annuities which have proved to work quite well, alongside protection, are giving us a lot of momentum. So that is one, from a capacity across channels and not just about one channel.

The second point that you raised about medical testing capacity, you are right, this is indeed the point that I have now been speaking for about three quarters, that during a live pandemic environment on retail protection, these challenges will exist. If I am looking at an overall long-term growth opportunity for protection, I believe the industry and the Company will look through that and will then deliver on the opportunity. But during a live pandemic environment, it is quite likely that we will have disrupted environment on some or all of these. The way we have been building around this is twofold. One, Kannan spoke very early on about the focus and advantage that we took of the group term business in mitigating some of these challenges. That is typically a business where for the sum assured that we offer, medical testing is not required. And second, as the pool of profits has diversified more into non-linked savings as well, it has actually emerged as an alternative VNB provider in the growth aspiration. So yes, you will have short-term periods of positives or negatives on one or some of these product categories. But there are indeed enough levers in our view that can absorb that over a period of time.

Zhixuan: Just two quick questions. The first one would be on the APE growth. You are commenting that you are seeing momentum, you expect momentum to continue to be strong going forward. Do you mind give us more colour on what you are seeing on the ground so far into the first quarter, are you seeing some impacts from the restrictions, especially in those States like Maharashtra or the impact was quite muted?

Amit Palta: If I have understood your question right, it is about how we take our Quarter 1 challenges forward given the wave two?

Zhixuan: Yeah. So, are you seeing any slowdown in momentum because of the second wave in terms of the top line growth?

Amit Palta: These are early days and as you know that situation is only emerging every day, every day is a new day and different from yesterday. So, to that extent, all of us are keeping a very close watch on how things pan out over a period of next 10 to 15 days. My guess is as good as yours. But what is different this year in comparison to last year April is preparedness. There were host of activities which were initiated, and the designs were to be redone all over last year in the month of April, when the effort was to be made on moving physical sales processes to digital sales processes. Now this year, having learnt from the entire last year we have actually been able to take on this challenge of wave two very differently because the entire design platform of managing sales process on a digital platform is available to us. And hence, I must tell you while it is unfair to share numbers but the early momentum that we have seen in this April is very different and much better in comparison to what it was last year in April. And I will credit a lot to the kind of investment that we had done on digital sales processes and digital capability building that we did through the year last year for which we are seeing the advantages now, benefits now in the first quarter in the month of April itself.

N. S. Kannan: Also, to supplement that, a couple of facilitators are also in place especially coming from the Regulator in terms of recruiting agents, the virtual examinations, etc., that is in play now. Last year during the lockdown we were still trying to figure out what to do on all the physical processes, that is not the case this year. Then the Regulator on its part, on all the dispensations they had given such as dispensing with the physical signatures and going for electronic signatures and policy sales on virtual platforms, etc., that time period has been extended up to September. So, I feel that some of the preparedness including the facilitation by Regulator is quite different this year compared to last year. And a final point I want to make is the base effect. Base is low last April-May that we do get a lot of space from the market in terms of the base effect. So, by that time hopefully the vaccination, I just heard today that vaccination has been opened up for everybody above the age of 18 from May 1st. So, these kinds of measures really require a little bit of space in between. That space is being provided by Regulatory facilitation, our better preparedness, as well as the base being low giving us some space to perform. So, those are the things we are banking on and hopefully we should be able to pull through this phase.

Zhixuan: My second question is on VNB margin. So, if I see quarter-to-quarter the trend is trending down this year. I think you were mentioning that you were hoping to keep VNB margin (+/-) 1 percentage point going forward. If I hear you correct. Is that referring to the Q4-FY2021 VNB margin or you are talking about versus the full year 2021 VNB margin?

N. S. Kannan: My request is always to look at the yearly VNB margin. Especially the Q4-FY2021 margin should never be looked at because it carries lots of assumptions changes impact. So, whenever we talk about VNB margin, we tend to talk about the year as a whole margin. So that would be the starting point. We also do not have any target to say that it will be within (+/-)1%. But to a question regarding whether the absolute value of VNB will be driven by growth or margins, I responded by saying that predominantly it will be growth driven in the immediate year we are talking about. And of course, that would mean that we are broadly aspiring to keep the VNB margin stable. So, that is how I would like to respond to your question. So, we will look at it as always as a yearly margin, because Q4 is a difficult thing to compare, where there are a lot of moving parts and assumptions involved in that number.

Jayant Kharote: One question was you said you took the re-insurance hikes in the first quarter while much of the COVID claims and mortality experiences come in the second half of this year. So, how are you so confident about not getting any re-insurance hikes through this year? And also, within that slightly medium-term question, is as we expand our base into newer cities and as we expand our base with protection, how will our re-insurance cost will be baked into our medium-term protection margin? Would it be a selection of customers within the urban metro segment or are we comfortable moving into newer geographies?

Satyan Jambunathan: The key point here Jayant is that nobody would ever reflect one or two years of a pandemic situation into long-term pricing because the price that I get from the re-insurer is actually a locked in price for the whole term of the policies that I sell. Just like I do not pass on a pandemic impact of one year directly into my price to customer and I take it as an impact in that year or so in provisions, that is the way the business operates. And I do not think that is going to change in a hurry. So, the most important driver of re-insurance price is actually the second part that you brought up, which is about the target market and where we are selling. That will still be a gradual process. We are still predominantly operating in the top maybe 40-50 geographies in the country. It is not as if we are prevalent much beyond that. A very large part of the protection opportunity currently also comes from these geographies. Therefore, to that extent any underlying mortality change will be a gradual change over a period of time. So, it is possible that once in two or three years there is a need to change price upwards to reflect the expanding target market, in which case that would get reflected in the price at that point of time. The only point that we are making with respect to pricing is that. Is there a disruption expected immediately? We took the disruption already in July is the point that we are making.

Sanket Godha: Just wanted to understand the assumption changes which is around ₹3.1 billion in our EV walk. What has led to such a decent positive number to get reflected in the current year? So that was on the first question. Second question, just wanted to harp on the same point of VNB growth. You are saying that if the margins remain flat or maybe hover in the range of plus or minus 1%, then you are trying to say that in FY2022 maybe 30%-35% APE growth could be possible. So, just wanted to understand that if that kind of a growth is to be achieved in FY22, then ICICI Bank as a channel should fire, so basically do you think that the things are bottomed out fully in ICICI Bank and you can still therefore can achieve a 30%-35% kind of a growth in FY22 if margins remain flat and the VNB expansion or growth of 28% is front loaded in FY22?

Satyan Jambunathan: So, I will take the operating assumption changes first, and I spoke about it in my comments as well. The operating assumption change of ₹ 3.09 billion came from two significant positives. One was with the increasing scale, my maintenance expenses went down, and this is something Sanket you would have seen in every one of the last two or three years in the assumption change. It is just a natural progression of a growing book and therefore a reducing unit cost. The second positive assumption change that we took was surrender rates in ULIP in the later durations; beyond the sixth and seventh years, experience was significantly better than what we had assumed. So, we capitalized some of that in the assumptions. So, these two put together gave me a net positive of about ₹ 5.7 billion. Against that I discussed the incremental provisions in COVID-19 that I have taken which have hit my net worth for the year. And therefore, to that extent those incremental provisions on account of COVID-19 was almost a negative of ₹ 2.6 to this ₹ 5.7, give or take some decimals, we are at ₹3.09 as a net basis. These are the three big pieces that are sitting in there. There may be a few smaller pieces but not really material. Amit, do you want to take the question about growth and the Bank?

Amit Palta: First of all on ICICI Bank, one is that as you know that they strategically prioritized their focus specifically on protection and annuity range of business. And this came from the fact that they see a lot of value in the differentiated proposition that they can offer to their customer segments apart from focusing on banking products. So, to that extent, over a period of last 12 months, I think base has been set or reset at a number from where we can actually expect a scale-up to happen in both these lines of businesses. And as you know, while on top line it could be still subdued. But being advantaged on a lower base, we truly believe that on VNB through their delivery on protection and annuity range of products, which they want to offer through a seamless process and a simple and good experience to their customers, they want to actually look at a very rapid movement in the pace of growth that they can expect in these two line of businesses. So, we do expect that ICICI Bank will continue to add value to our VNB. And of course, they will fire, as you mentioned, but probably not on pure top line but probably in lines of businesses that they have chosen as their clarity.

Sanket Godha: But given the guidance you said that margin should be broadly the same, which means that growth should translate almost like at least 30% in FY22, then just wondering where it will come from. So, you are more confident on IndusInd Bank, IDFC Bank and RBL to drive the growth or some decent positive growth coming from ICICI Bank, combination of both should result in 30% kind of a growth?

N. S. Kannan: So, what I feel is that number one, we have ICICI Bank base fully baked in. When I see the momentum sequentially ICICI Bank has been slowly sequentially increasing and all those steps they had taken in terms of not selling to NRIs or some segments where they are closing, those have been fully baked in the base. Next while we have not put the numbers in the public domain, I find that the March-to-March numbers, ICICI Bank some momentum is back. And some of the products like Amit mentioned, what we have introduced like annuity that has been taken up big time by the Bank because they feel that it is a perfectly complimentary product to their wealthy customers. So, those are the positive movements which are happening in ICICI Bank. So, I would expect ICICI Bank to grow from here, but you should know that it is only 30% of our distribution mix now. The other banks we talked about including Standard Chartered Bank, they ended the year extremely well and the momentum is with them and some of these banks were waiting for some of the products which we introduced in the later part of the year. So, given that, Amit mentioned earlier that some of these new relationships have been in existence only for 45 days in the entire financial year. I do not even want to talk about the growth. Because it will be multiples of what they did last year, is what we expect for this year in terms of the momentum from the other banks. Agency channel, we have recruited more than 20,000 agents. They will start performing because it takes a little bit of time for them to get trained and then come into production. So, that agency channel also we expect to grow. The partnership distribution again, they have been starved of our products in the past because we used to sell only ULIP in that segment also. So, the last one year we have tried to push the non-linked products. So, that has also helped us in terms of the growth. Because that was the first channel which gave us momentum in the year. So, I feel that the fact of the matter that we are a well-diversified distribution company itself, and with several parts of the distribution having hit the rock bottom in terms of the base effect or not having worked for bulk of the last year are going to be the drivers of the top line. And you are right, if not 28%, something like 25% to 28% kind of growth rate is what we will be penning down in terms of our plan for FY2022.

Sanket Godha: The VNB margin 70 basis point negative impact because of the assumption change. Because maybe if you have structural change assumptions of unit cost and are also structurally changed the persistency assumption for 6^{th} and 7^{th} year, then it should have got reflected somewhere in the VNB margins also. So, the negative impact of 70 basis points is because of what reason then?

Satyan Jambunathan: Purely yield curve. It is almost entirely yield curve.

Sanket Godha: And that 6th to 7th year better persistency it will be reflected where then?

Satyan Jambunathan: The biggest impact of that will be in EV. In VNB because it is so far out in discounted terms it does not give you much positive. It is a trivial impact on margin, but it is a reasonable impact on EV.

Sanket Godha: The ₹ 100 crores of extra provisioning which you made till December with respect to COVID-19, you have dipped into it, right? So, therefore you thought of making another 248 crores of additional provisioning?

Satyan Jambunathan: It is not so much as dipped into or not. The way to look at it is, as we stand at March, we are experiencing what could be a second wave. And therefore, the question that we have to ask ourselves is that if I have one more year of a similar claims experience on account of COVID-19 as FY21, do I have enough in the kitty set aside to be able to cover that or not? And fundamentally, that is what has driven the level of provisions that we have taken. So, our approach on this always has been, if there is an ability to take it earlier, we are better off taking it, because you are then not surprised later on, and you are only exposed to deviation from that level.

Nitin Agarwal: I have a couple of questions. One is, how do you view the share of COVID-19 claims that we have received in respect to the total fatalities at the country level and the low penetration that we have in the protection segment. Does the quantum of claims not look high in respect to the market share in the country?

Satyan Jambunathan: I do not think it is a high. Really what you have to look at is that COVID-19 is going to be an extra mortality. We have looked at studies across the world in various countries from a developed country to a not so developed country. We have actually seen at least from the last year, total claims during FY2021 or CY2020 compared to the pre-COVID-19 period being higher by anywhere between 20% to 40% depending on the country. You remember in the early part of the year, we had spoken about in the first half, claims including COVID were within best estimates. So, we actually had some compensating effect. But over the period of time there are multiple effects that can happen out of COVID-19. One, there is an impact arising out of the co-morbidity and associated mortality. Second, there is still uncertainty with respect to, for a person who has had COVID-19, how will it affect his life going forward? I do not think all those answers are done yet. When I look at it in the context of penetration, all said and done, if I were to count the number of lives that have claimed, it has only been 2,500. In the context of a larger population of all the deaths that have happened, I do not think that insurance has had a disproportionate effect. 2,500 claims on a country level mortality which is far-far-far higher than that, is actually reflective of under penetration.

Nitin Agarwal: I was asking the question, we had say 1.8 lakh casualties so far and the country level penetration at the individual level, I am not talking about the people who filed tax, say around close in the limit 2% to 3%. So, applying the same proportion to that 1.8 lakhs, the total claims that should come should be around to 5,000 odd claims.

Satyan Jambunathan: This is going to be claims on savings products as well. Everything has a mortality cover, right? All the business that we do has a mortality effect. When you take savings product included your penetration in terms of number of customers is much higher.

Prayesh Jain: The ULIP VNB margins if I look, there is a significant improvement in FY21, I think it has jumped from something like 8.8% in the savings linked business to something like over 11%. So, what drove this expansion in VNB margin for that segment and do you see this sustaining going ahead or even improving for that matter?

Satyan Jambunathan: Mainly driven by expense efficiency during the year, accompanied by increased rider attachment that we have been trying to do. From here on whether expense efficiencies will be as large, I would not expect that. As a base case, I would not really expect the unit link margin to increase dramatically in the near term, but as persistency improves and we translate some of those persistency gains into assumptions in the next couple of years, then it presents an opportunity to improve the unit link margin from where we are.

Ajox Frederick: So, we did very well in group term. What strategies did we adopt to achieve this kind of growth? And usually, group term is considered as an expense by companies? So, what are we going to do going forward given that retail protection is going to slow down a bit in FY22?

Amit Palta: On growth if you ask me we have in our group line of business for fairly long time and as you know it is all about ensuring that there is a reach out strategy through our relationship team on the ground to cover as many institutions as possible. We have been invested into this business for a very long time. During the pandemic, we have seen heightened awareness from the employers expressing lot of keenness to look at employee benefit solutions on a protection platform. Since we were present in this segment and we were anyway spending lot of time in reaching out to corporates with our employee benefit solutions.

Satyan Jambunathan: Amit, your voice is not clear. It is breaking. Ajox, let me try to answer this. The entire concept of group term being an expense is really about context. I can say this for our company and Jit is also here as the Head of HR, we have actually taken this year as a time in point where we are seeking to increase cover for our employees, and we have done that in the last year. Given the current pandemic environment and given that employers are very focused on wellbeing of employees and their families, this has actually been a natural time for all good employers to increase the cover. So, it has not been a year where people have seen this as an expense. There are lots of other expense people have cut, but not group term or group health. These are not items of expense that companies have sought to cut.

Amit Palta: I just wanted to add here, what Satyan just mentioned, see we have been invested into this business, group business in large institutions for a fairly long time. And what we go, and offer is overall employee benefit propositions as a package where group term or a protection for employees is one of them. So, since we have a fairly spread-out distribution where we understand institutions and we had been reaching out to them and spending time during these times which were difficult, we saw a lot of keenness of the employers to evaluate strengthening their employee benefit propositions. That is we were there to capitalize on what came as an opportunity and a natural pull from employers. We will continue to stay invested in this line of business because we are spending time with our employee benefit solutions which cover gratuity, superannuation, and other businesses on the group fund side as well. So, we look at capitalizing on this even in a couple of years to come.

Ajox Frederick: So, you expect this line of business to be growing at a faster pace than the term for this year at least?

Amit Palta: Yeah, I don't see any reason why it should lose any momentum. There is still even as recent as last quarter, we saw a lot of momentum, lot of expression of interest which was visible, and we hope to see those pipelines getting converted even in this financial year.

Adarsh Parasrampuria: First one more like the headwinds, we have spoken about margins for protection. Satyan, what is counterintuitive is the fact that there was full mobility and access people had in the last four or five months to March, and industry sum assured has kind of dropped meaningfully, at that time the logistical services are not there. And I would say that a pandemic hits you, people get a little more aware and then mobility increases, the variable medicals goes up. It is quite counterintuitive, so there has to be something beyond logistics, which explains why protection should have done poorly in the 5-6 months. Is that the reason why we think the next 6-8 months also remains challenging on that count?

Satyan Jambunathan: The entire challenge on retail protection and I have spoken about this before is twofold. One is logistics, you are right, as it was being opened up, the logistics clearly eased out. The second was also underwriting norms and risk appetite in a live pandemic environment. That has created a lot of friction. It has also excluded a lot of people from even potential coverage. For example, non-resident Indians are people for whom we are not able to provide risk in the current point in time. So yes, it is not only about logistics. It is also because of risk as well as segments being excluded because in a live pandemic environment, neither insurers nor reinsurers are comfortable taking on the risk. If I were to look at it from a broader industry point of view or from our side, all I can say is that no matter what the industry trend, on a new business APE decline of 12.5%, we had a new business sum assured increase of 8.0% for the full year. Not just that our market share on the new business sum assured increased from 11.8% to 13.0%. So, whatever has been the industry trend on this, all I can say for ourselves is that we have been working on alternate opportunities to be able to get to nearly the same results recognizing that there are some practical challenges in a live pandemic environment on retail protection.

Udit Kariwala: My question was if you could give some breakup of participating and non-participating savings APE. And wanted to know your thought process on the non-participating because on one side there are statements like, non-participating guaranteed is very less proportion of the balance sheet, but then a lot of growth I am presuming, correct me if I am wrong, is coming through that product. At large, what is the thought process going forward with respect to guaranteed offering? And last bit on the protection price increase, you have made it clear that you don't see that in the short to medium term for your company, but should that benefit you because in the last hike it kind of did not benefit you because others were cheaper, but now since others could increase and you'll stay where you are, the gap should narrow, and should it benefit you?

Satyan Jambunathan: Udit, on the non-participating guaranteed return we have clearly articulated what our approach is. If you see slide 54 on our presentation, we are saying, what is our comfort, how have we expanded, what we are offering and what is the premise on which we are offering. Nothing has changed. We look for an investment product that can meet a possible liability profile. We will construct a liability product which can take advantage of that, hedge it by laying it off in the market and offer it to the customer. Whatever is the flexibility and the range of investment products that are available to do this. To that extent we are extremely comfortable manufacturing liability, keeping in mind that the levels of the guarantee have to be commensurate with what I am expecting to earn on my underlying investment portfolio. Absolutely no change in our approach to non-participating from the time we started doing the business. The discomfort you have always heard us speak about is, certain parts, certain tenures that we have not been comfortable with because of availability of investment products and that has not changed. So, to that extent, at least I would like to think that our approach to non-participating business is crystal clear and has been extremely consistent over the past few years. The second point that you made about relative advantage or disadvantage. From a first principles point of view yes, it should be an advantage as the gap narrows, but sometimes I don't think the market operates in such a linear fashion. So, we will see how it goes and then figure out what is the impact that it gives us.

Udit Kariwala: On the participating non-participating breakup if you could?

Satyan Jambunathan: So that we have not given. So, we believe that, and I have also spoken about why we believe one should look at both of them as one single category.

Madhukar Laddha: I am little confused about what finally ICICI Bank stance is on selling the traditional products. So, can you clarify because until last quarter I think we heard something else whereas now we are also seeing that the Bank has become a little bit more open on doing this, is that how it is, and that has also reflected in the numbers? And second, how much do you think the other bank partners can grow going into FY22? Because I think right now on slide 23, you have indicated that other banks have done about ₹ 7 billion in business in FY21. So how high can that number go? Any guidance on that will help.

N. S. Kannan: On ICICI Bank from our side, as well as from ICCI Bank side there is absolutely no confusion on traditional products. They are very clear they do not want to do it and the answer stops there. I do not think there is any change of thinking, because their view about the traditional products is that if the persistency is not good, then the customers' money gets appropriated to other customers or the shareholders as the case may be. So, they are saying that in an industry where the 61^{st} month persistency for traditional products is something like 50%, that means that half the customer's money is getting appropriated by the shareholders or the other customers as the case may be, because as you know the surrender penalties are very steep, even if after paying 6-7 premiums. The customer if he or she lapses, they get only 50% of the principal. This has been a fundamental issue for ICICI Bank, and I do not think anything else has changed in the market in terms of the product construct for them to change the view. So, to that extent we have also stopped pursuing such opportunity of distributing traditional products in the ICICI Bank for sure. So, there is no rethink on this at all. On our part as a company, you may ask a question then how are we getting comfortable selling that product? So, we have had a discussion at our Board level to say that in non-ICICI Bank channels, if there is a good customer proposition and 80% of the market is traditional product, we cannot afford to sit out of the segment. So, as a company to the set of stakeholders we have, including the shareholders, it is unfair to say that I will not sell this 80% of the market to any channel. So, we have taken a stand of going ahead and selling. But what our Board told us was that taking into account the issue around the persistency and not paying back lot of customers money, said that you have to watch the persistency. I am happy to say, it is there on the slide 6 of our presentation, that in our non-linked savings products, actually we have a 94% 13th month persistency. Probably the best in the industry, but that is the number we have. We handle the possible customer issue, potential customer issue by actually pushing the persistency high in that product. So, with that we are quite resolved in our minds that we should go ahead and sell this product in non-ICICI Bank channels. That is our approach to this whole non-linked segment. In ICICI Bank, what has happened however, is that they are very happy to sell all the products which will not create any potential customer issues in terms of the trust or the brand issues. They are happy to sell as long as it becomes quite complimentary to their product suite as well. So, things which fit in very nicely with their approach, our products like protection products as well as the annuity products. So protection products, for example, there have been a lot of push from ICICI Bank to say that why don't you look at our customer data. Why don't you give us certain profiles, why don't you roll out the pre-qualified offers rather than making the customers go to medical examinations. So, bulk of our discussions with ICICI Bank has been there pushing us to say that how do you smoothen the process for very good customers of yours? This is a good news. As a CEO of this company, I am very happy that discussion is happening, because that is very VNB accretive for us. When we came out with this product, guaranteed pension plan while we have not separately broken out how much ICICI has done, but if you look at our annuity growth in this year, ICICI Bank growth in annuity is far in excess of the total growth of our company in annuity. So on those product lines absolutely no confusion. They are wanting to sell a lot. ULIP, yes, they are making it available and given the market conditions, if the ULIP picks up they are quite happy. So as a result of all this, I can only tell you that sequentially ICICI Bank has stabilized and slowly moving forward. Year-on-year in March, we got a good momentum from ICICI Bank. We would like to take it forward. But if we ask them to sell traditional products, they will say they will not sell the traditional products. So, I will have to be satisfied with them distributing ULIP, them distributing protection products, them distributing credit life, which has grown quite well and them distributing the annuity products. These are the 4-5 line items where we are happy to push, they are happy to push and I am hoping that given the base has got reset, we should be able to grow that franchise more going forward. On the other banks, I can give you the numbers that they have already accounted for about 11% of the APE for the financial year. We did have Standard Chartered already with us. And we had other banks which we have been added including the names we have talked about. That was pretty much, if you look at the other banks APE that was pretty much not there in the first quarter, of course we could say that the first quarter was any case a weak quarter for everybody. But if you look at the Q3 to Q4 movement in FY2021, it moved up from about ₹ 1.4 billion to ₹ 4.0 billion of APE. So, we have been able to gather a multiple of what we did in Q3 into Q4 and to say that Q1 and Q2 bulk of these banks are not even existent last year gives us a huge base. I do not want to put a target to the team, or I don't want to say that it has to be X%, but I feel that again the other banks can be a multiple of what they did last year into this year in terms of APE.

Manoj Bahety: My question is mainly on embedded value on RoEV. So, if you can give some guidance on RoEV trajectory going forward considering like we have large gap to fill vis-à-vis peers. And secondly on RoEV composition around I would say 7.2% kind of RoEV is coming from unwind. How do you see this 7.2% rate going forward in the light of low interest rates scenario?

Satyan Jambunathan: The way I would look at RoEV is that, that our RoEV has actually been very stable over the past 3 to 4 years. There have been in the last couple of years some exceptional items. Last year we had the tax charge impact, and this year has been a COVID-19 year, yet despite the one-off events, RoEV has paid above 15%. I don't think this is significantly different from the RoEV of our peers as well. We are pretty much in line with our peers with respect to RoEV. The point that you make about unwind, even I spoke about unwind going down from what it was last year. That will really follow the yield curve. There is nothing that you can do about it. So, the priority really is beyond unwind, what are the levers available. This year VNB with actually only a 1% growth was still contributing the same level to RoEV as it did last year. Therefore, as we continue to grow the VNB, that would help us in adding to the contribution to RoEV. Beyond that, to the extent that our experience on the various parameters have been consistently better than expected, there will always be a little bit of capitalization opportunity each year. I described about the ₹ 5 billion plus that we got out of those two factors in this year, and we had similar capitalizations of ₹ 2-3 billion coming through in each of the last 2 or 3 years as well. Eventually the RoEV will be driven by a combination of all of these factors. I don't think from a relative to peers, we are significantly worse off with respect to RoEV.

Manoj Bahety: Your peers are I think I believe which you have talked are in the 18% kind of range.

Satyan Jambunathan: No, I don't think so.

Manoj Bahety: Okay sir, I will recheck on this. So, you are giving a guidance of around 15% claims of RoEV going forward?

Satyan Jambunathan: We do not give guidance on RoEV. The only objective that we have articulated, our aspiration that we have articulated is at FY2023 VNB objective which was doubling the FY2019 VNB. Otherwise we have not given any guidance.

Rishi Jhunjhunwala: Most of my questions have been answered, just one data point if you can provide. On the protection side, can give us some sense in terms of what proportion of our business is getting closed online. And one of the reasons I ask is because it seems like even though the breakdown that you provide for FY2021 which includes Group business as well but seems like direct and other partnerships distribution have declined where I am assuming your own website plus web aggregators will be going. Just wanted to understand the mix coming from online and how it is trending, given that in pandemic year that in one channel it should have been doing better.

Satyan Jambunathan: Two things, one from an online business point of view, it is just single digit of our protection business. Within that during the year we have seen a direct to our website business grow and we have seen the web aggregator business decline for us. Part of the web aggregator business decline was also driven by the early pricing asymmetry across companies that we have spoken about in the past. But the fact is that our protection business is predominantly driven by our intermediary channels, no matter what the channel, whether it is bancassurance, agency, our own proprietary sales force, or other partners. Even today, if I were to look at partnership distribution, even if there has been a decline, contributed about 14% of the protection business that we did in the last year. It is an important channel for us. To answer your question on the online being a natural positive in this environment, online also create a risk management challenge that, we don't know the customer. In an intermediated business we know the customers. So, risk management in a pandemic environment is easier. So, that actually becomes much more difficult in an online business model during a live pandemic.

Rishi Jhunjhunwala: Just a clarification, so where would the web aggregator business and our own online business we categorize in the channel category?

Satyan Jambunathan: Online is in direct, web aggregator is in partnership distribution.

Mayank Bukrediwala: A couple of questions from my end, one is what is the OPEX growth outlook for the next year. Second, our total APE credit life seems to be similar this year compared to last, this is a little surprising given that I am assuming retail loan disbursements would have been weaker in FY2021 versus FY2020 and so what explains that. Third is, rough, back of your envelope calculation tells me that on non-ICICI Bank channels, the mix of non-linked savings is about 40% right now for FY2021. Would that mix sustain in the future? So, these three questions.

Amit Palta: I will start with credit life. In the first couple of quarters, as you know that we have a host of partnerships both on the banking side as well as NBFC side. We saw that first quarter the impact was across NBFCs and banks and the overall de-growth was almost to the tune of 70% plus, largely it was because of the fact that the primary product itself was not getting sold, which was loans. So, we started seeing that loans coming back by end of Q2, and the growth started returning by the time Q3 happened. So banks were the first ones to return to growth and NBFC’s followed subsequently. Now we are seeing that Q3 and Q4 which was very good for banks. Overall, on annual basis it was a single digit growth that you could manage to deliver on the credit life business. But if you asked me between banks and the NBFC partners, actually banks returned to growth earlier than some of the NBFC partners that we had and that was a trend which is quite similar to what you see on the loan side both on NBFC as well as on bank side. Next question I heard you ask about the non-linked savings business on non-ICICI.

Mayank Bukrediwala: The non-ICICI Bank, bancassurance channel. So basically, your IDFC, AU. There the non-linked savings mix appears to be close to 40% on the basis of my calculations. Could be a little bit here and there but would that relatively higher mix sustain going into the future?

Amit Palta: Yeah, it is quite close. See, our partnership philosophy always has been about letting our bank partners choose the priority that they want to focus on. They understand their customer segments the best and they make a choice on what kind of products are most appropriate for their customer segments. As you know most of these new age banks, whether it is IndusInd or AU or even IDFC, they have very clearly identified sharp customer segments where they want to differentiate their offerings through products which are very different from each other. So, the product mix actually evolves depending upon the mix of the customers and the priorities that our partner chooses for their customers. I believe your number is not very way off. It is quite close to what it is currently, but again we have quite a number of bancassurance partners outside ICICI. So, while at a cumulative basis, your number is very close, but you will be surprised that within partners, it varies quite drastically.

Mayank Bukrediwala: This year we have managed to curtail our OPEX, it is down YoY, next year what does it look like and maybe the year after that what does it look like if you have done any budgeting or any sort of estimate you guys have?

Satyan Jambunathan: In simple terms, less than new business growth.

Mayank Bukrediwala: So essentially you are talking about new business growth of around 25% is broadly what you are guiding. So, you are telling your OPEX growth is going to be less than that. If I could just ask a very quick follow-up question, two things here, one, if you are going to deliver APE growth next year and you could be at least 5% points down on opex growth. And second, if we are going to see higher growth on the AU's and the IDFC's of the world where the product mix is more towards the higher margin segments, why would you not see your margin expansion next year?

Satyan Jambunathan: It can. We are not saying that there will be no margin expansion. Kannan was very clear. He said that this year if you see from a 12.5% APE decline to a 1% VNB growth was all about margin expansion. Clearly that is not going to be the case in the next couple of years. Top line growth is going to be the predominant driver. There could very well be other levers that can fire and give us a bit of margin expansion. End objective is still to deliver the VNB, but we are just trying to explain what is likely to dominate the VNB development relative to other elements. That is where, as we speak now, given the low base, given the expansion in capacity that we have been able to create through all the channels, given the expansion of product offerings, in our view at this point of time growth is likely to be the biggest contributor to VNB expansion.

Hitesh Gulati: My question is the expense variance that you have taken as assumption change. So in the last couple of years the operating variance the expense item is we have seen is only ₹ 1 crore or ₹ 4 crore for the last 2-3 years. So how do you account for this if this variance is so small how are we able to take assumption change in expense?

Satyan Jambunathan: The way it operates is that last year let's say for maintenance of a policy, I had an average cost of ₹ 500 per policy. This year with the larger base of number of policies that ₹ 500 may very well become ₹ 450. That is a natural progression of efficiencies because for maintenance of my books, my expense is not going to grow in line with the book. Now given this, what I get from one year to the other in a way it seems like assumption, but actually it is not an assumption. What I am reflecting in my embedded value is my current year's maintenance cost at a unit level without anticipating future improvement in productivity, to the extent that I actually have an improvement in productivity year on year, it automatically gets capitalized into EV. The reason you do not see a variance is, all assumption changes are in the representation deemed to have happened at the start of the year. That is the reason why you never get in a variance out of this. Effectively the bottom line is, actual expense is what is expected. Therefore, there is no variance. To the extent that actual expense itself comes down, therefore capitalized value of expense in the EV.

Hitesh Gulati: In your case there is always the expense variance pretty close to zero and expense changes will be driven through assumption changes.

Satyan Jambunathan: The method is that Indian embedded value is supposed to be based on actual expenses. It is not an assumption of long term.

Dhaval Gada: First is related to the margin expansion that we have seen in the savings business. So, in the last two years the business has sort of halved, but we have seen about 500 basis points of margin expansion along with interest rate change a downward trajectory that could be even higher. So, if you could just break down how much comes from expenses and how much comes from, the 6th and 7th year positive persistency that you are seeing in those long duration cohorts. Just if you could explain the drivers for this. And the second question is, in the presentation you gave the ticket size of protection. I just wanted to confirm that is for the overall book or for retail. If it is for the overall book, can you give it for retail?

Satyan Jambunathan: The margin expansion is predominantly an account of expenses. In fact, the later period persistency I spoke about and surrender rates have a bigger impact on EV, it has a trivial impact on VNB at this point of time, because it is quite far into the future and we are looking at discounted effect.

N. S. Kannan: Thank you. Hope that we have taken all the questions and answered them satisfactorily. But if there are any further questions, please do feel free to reach out to me or my colleagues. Thanks once again. Bye. Good night.

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