ICICI Prudential Life Insurance Company Limited
Earnings conference call
Half year ended September 30, 2023 (H1-FY2024)
October 17, 2023

Anup Bagchi – M.D. & CEO:

Good evening and welcome to the Results Call of ICICI Prudential Life Insurance Company for the Half Year-ended September 30th, 2023.

I have several of my senior colleagues with me on this call; Amit Palta, who heads Distribution, Brand Marketing and Products; Dhiren Salian, CFO; Judhajit Das who heads Human Resources, Customer Service and Operations; Deepak Kinger, who handles Audit, Legal Risk and Compliance; Manish Kumar – our Chief Investment Officer, Souvik Jash, Appointed Actuary; and Dhiraj Chugha, Chief Investor Relations Officer.

Let me take you through some of the key developments during the quarter before moving on to discuss our strategy and performance:

First Development: On the regulatory front, as a step towards moving to RBC regime, IRDAI has directed insurers to undertake a quantitative impact study to assess the impact of the proposed framework for quantification of capital and solvency requirements following a risk-based approach. Additionally, with the objective of aligning India with global accounting standards, the Regulator has notified the phased implementation of IFRS/IndAS in the insurance sector starting April 2025.

Second development: A recent development in the fixed income market is the introduction of 50-year GSec in the H2-FY2024 borrowing calendar of the Government, a long-standing demand, particularly by life insurance companies. The introduction of these ultra-long-term bonds is a positive move for the entire industry.

Third development: We had our 23rd AGM through the video conference on July 28, 2023. All the items specified in the notice of the AGMs were approved by the shareholders of the Company.

I'm also pleased to inform you that the members of the Company have approved the item of special business pertaining to the appointment of Mr. Solmaz Altin as Non-Executive Director nominated by Prudential Corporation Holdings Limited w.e.f. August 22, 2023, in place of Mr. Benjamin Bulmer by way of an ordinary resolution through the postal ballot.

Fourth development: I would also like to share that ICRA and CRISIL domestic rating agencies have reaffirmed the long-standing rating of our subordinated debt program as [ICRA] AAA (Stable) and CRISIL AAA/Stable respectively. The outlook on the long-term rating is given as stable by both these agencies.

Lastly, I'm happy to share that our Company has received an award for the "Best Sustainability Report" from CMO Asia. Additionally, the Company has also been bestowed with the "Best Overall Sustainable Performance" and "Best Sustainability Report" at the 10th Edition of the National Awards for Excellence in CSR and Sustainability from World CSR Congress.

I'm also pleased to inform you that MSCI, a leader in ESG research and index provider, has upgraded our ESG rating to AA, which places us as a 'leader' among life insurance globally on ESG front. In fact, among all the listed insurance players, we have the highest ESG rating. FTSE Russell has also improved our ESG rating score, which is higher than the life insurance sector average.

Lastly, Sustainalytics has retained our Company as low-risk status, ranking us among the best among all Indian insurers. These awards and rating upgrades are a testimony of our commitment to the ESG practices.

I will now move on to discuss the key performance snapshot for H1-FY2024 presented on Slide #7:

- Our VNB for H1-FY2024 stood at ₹10.15 billion with a margin of 28.8%. Our total APE is at ₹ 35.23 billion for H1-FY2024. Our market share based on RWRP has been increasing every month, growing from 5.2% in April 2023 to 6.3% in September 2023.
- In Q2-FY2024, multi-partnership channels have delivered a strong year-on-year growth with partnership distribution growing by 25.1% and Banca (excluding ICICI Bank) growing by 13%. Direct Channel has delivered 19.3% and agency channel grew by 4.2% year-on year in Q2-FY2024. We have been investing in our agency channel over the past few quarters and we have started to see the benefit coming through in our monthly business performance where we have registered double digit year-on-year growth except for the month of September 2023. In Group business, credit life has continued to witness very strong growth in Q2-FY2024 as well.
- Group Term business growth has been challenged due to decrease in rates post COVID-19 and increased competitive pressures. We are among the largest players in this segment and understand it well and will underwrite business only if it matches our risk/reward expectations.
- Our protection APE stood at ₹ 7.34 billion in H1-FY2024. The retail protection APE witnessed strong growth of 73.7% year-on-year to ₹ 2.38 billion in H1 2024.
- Our persistency improved significantly across quarters; our 13th month persistency stood at 86.9% and 49th month persistency stood at 65.8%. Our cost-to-TWRP for savings line of business stood at 17.2% in H1-FY2024.

When we look at the H1-FY2024 performance, let me now talk about the strategy and framework adopted by the Company:

With a customer at the heart of everything that we do, our 4P strategic elements comprising of premium growth, protection business growth, persistency improvement and productivity enhancement continue to play a crucial role in the growth of absolute VNB while we integrate ESG with business management.

As detailed in Q1-FY2024 Earnings Call to drive our 4P Strategic Elements, we have a "4D Framework -Data Analytics, Diversified Proposition, Digitalization and Depth in Partnerships" with focus on quality business in a risk calibrated manner.

The framework has been presented on Slide #5. The “4D Framework” ensures that the products are aligned with the customer needs, are developed with the highest quality standards and are delivered through the most appropriate distribution channels. The aim is to provide simplified and hassle-free processes to our customers across the product life cycle.

In line with our “4D Framework”, we have recently launched first-of-its-kind ICICI Pru Stack, a suite of platform capabilities encompassing digital tool and analytics to significantly enhance customers life and create a differentiated experience throughout their journey. The seven layers of ICICI Pru Stack have been presented on Slide #6, right from identifying target segments, crafting value propositions as per the customer needs, building capabilities through digital and physical modes to serve the proposition, integrating partner ecosystems and sales processes to deliver a frictionless experience, to provide best pre- and post-sale services, our capabilities allow us to deliver value across the customer lifecycle.

Our intent is to be the most customer-friendly and partnerable insurance for our distributors. And we have anchored our outcome focused on growth, quality, productivity around the “4D Framework”.

I would also like to talk about claim settlement, which is really the moment of truth for any insurance company. I'm pleased to inform you that ICICI Pru Life had a class leading claim settlement ratio of 97.9% in Q1-FY2024. This is a strong testimony to our customer-first philosophy, which is engrained in the business practices that we follow at ICICI Pru Life.

I would like to reiterate that the entire “4D Framework” has been put in place by keeping in mind our core objective to deliver quality business in a risk calibrated manner.

Thank you. I'll now hand it over to Amit to take you through the updates on our “4D Framework” and our results on a 4P Strategic elements, after which Dhiren will take you through the financial highlights. Over to you, Amit.

Amit Palta, Head – (Distribution, Brand, Marketing and Products):

Thank you, Anup. Good evening, everyone. As Anup highlighted, the strategic importance of a “4D Framework” in his opening remarks, let me highlight the key initiatives we are undertaking towards strengthening this framework.

The first element is “Data Analytics”:

Over the years, we have invested in data science, integrated insights from our own customer data with macroeconomic household data to develop deeper understanding of customers across live stage and income segments. The details of our extensive deployment of analytic capability across the customer lifecycles are set out in slides 30 to 34. A specific example of how we use AI across policy live stages to manage persistency is presented on slide 34. This has helped us to increase persistency across all cohorts.

The second element, "Diversified Propositions":

The diversified propositions has been detailed from Slide #35 to #37. Our Company's strategy has been centered on continuously expanding the product portfolio to suit the varied customer needs. This enables us to cater to a wide range of customers spread across income segments, age, affluence and other demographic aspects. Our endeavor to continuously innovate is exhibited through the three unique propositions launched in H1, namely, "ICICI Pru GIFT Pro, iShield and Protect and Gain."

On the fund side, we launched "Constant Maturity Fund" which was industry's first ULIP debt fund with constant maturity in H1-FY2024. The details of the same are presented in Slide 37.

The third element, "Digitalization:

Digitalization has been detailed from Slide #38 to #42, across the customer life cycle starting from policy purchase to claim settlement, digitalization has underpinned our journey. We have been working extensively to integrate our digital ecosystems with the central agencies to fetch KYC and income estimation details for customers smooth onboarding experience. In September 2023, around 80% of our policies have been issued using digital KYC. Further, ICICI Pru Stack has enabled the Company to issue 20% of the policies on the same day for the savings lines of business. Also, customers income estimation can now be completed through digital integration of various documents, such as through Perfios, GST, CAS, EPFO, VAHAN and Account Aggregator.

The 4th element "Depth in Partnerships:

Depth in partnerships is presented on slide 44. We are committed to building long-term relationships and we continue to invest across channels by building existing channels and adding more distribution partners. Through ICICI Pru Stack, we intend to become the most partnerable insurer and our partner integration team has the capability to onboard any new distribution partner in less than two weeks' time. Our strategy in the agency channel is to leverage our strong relationship with agents and with their customers while we provide institutional support to agents in terms of data analytics and processes. We continue to build capacity by adding more than 18,000 agents during H1-FY2024 spread across geography.

Within the bank and non-bank channel, we continue to add new partnerships and increase the share of shop in existing partnerships; we have 40 banks and more than 1,000 non-bank partnerships with an addition of 105 non-bank and one bank partner during H1. We will continue to strengthen our distribution by onboarding additional partners and by investing in our own proprietary channels.

Let me now talk about the "Business Performance Update through the elements of our 4P Strategy."

Starting with the "First P," that is **"Premium Growth"** element which is mentioned from Slide #9 to #12:

As you can see on slide 10, our total APE for Q2-FY2024 stood at 20.62 billion and for H1-FY2024 it stood at 35.23 billion.

Our retail business excluding ICICI Bank grew by 12.9% year-on-year in Q2-FY2024, giving us confidence that the business is on a growth trajectory. The headwinds we have faced in key distribution channels over the past few years have been carefully mitigated by the distribution diversification we undertook. We have no dependency on any single distributor, and we believe our diversified distribution mix will enable us to grow sustainably in the long term.

While Anup spoke about the channel wise growth, let me focus on the agency channel. A few years back, the agency business mix was skewed towards ULIP products and thus the first step in this channel was about building capabilities to distribute multiple product categories to multiple customer segments. In the last 1.5-2 years we started building capacity in this channel by scaling up the frontline managers who manage advisors with them. Additionally, we are investing in demand generation tools to expand the agents' natural market and our analytics backed digital product nudges are aligned to the right customer segments, which are the underlying segments served by our advisors. We continue to provide agents with institutional support, complemented by data analytics and digital capabilities to drive our business. Considering these investments being made, we expect the agency channel to contribute a larger proportion of the top line going forward.

As you can see from Slide #11, our APE from savings business stood at 16.72 billion for Q2-FY2024. Linked saving products contributed 44.9%, non-linked savings products contributed 25.8%, protection products contributed 18.9%, annuity 6.1% and group savings contributed 4.3% of the overall APE. The non-linked APE mix has declined from 28.8% in Q2 last year to 25.8% in Q2 current year, whereas linked APE mix has increased from 41.1% in Q2 last year to 44.9% in Q2 this year. One of the reasons for the shift in a mix is a significant proportion of more than ₹ 5 lakh ticket size, non-par business shifting to linked and part guarantee products, and this trend has been increasing month-on-month in Q2-FY2024.

The annuity business has declined by 6.7% year-on-year in Q2-FY2024, primarily on account of customer preference shifting to fixed deposits over single premium annuity products in Bancassurance channel given the attractive FD rates offered by banks. The decline in the single premium category has been mitigated to a large extent by the strong growth that we saw in regular premium annuity products during the year. We are well diversified in terms of distribution mix and product mix, which allows us to manage the impact of the external environment and respond swiftly to shifting consumer preference.

Another important focus area for us is to serve the life protection needs of the customer. On this aspect let me talk about the "Second P" which is **"Protection Growth"** on Slide #14:

With an APE of ₹ 7.34 billion, the overall protection segment saw a year-on-year growth of 3.4%, leading to an APE mix of 20.8% in H1-FY2024. Retail protection business, which had seen supply side constraints in the post COVID-19 era, has come back on track. The retail protection business has registered a strong year-on-year growth of 73.7% to ₹ 2.38 billion for H1-FY2024.

Our total new business sum assured stood at ₹ 4.9 trillion for H1-FY2024 and our total sum assured stood at ₹ 31.67 trillion as on September 30th, 2023. We believe given the current levels of under penetration, retail protection business growth is a multi-decadal opportunity, while credit life and Group Term business also offer significant opportunities as we witness growth in credit and the economy.

Coming to our "Third P" which is **"Persistency Improvement"** is presented on Slide #16:

We believe persistency is the most effective indicator of the quality of sales and is the barometer of customer experience. This is reflected in the significant improvement in persistency ratios across cohorts. Our 13th month persistency ratio improved by 100 basis points to 86.9% and our 49th month persistency ratio improved by 220 basis points to 65.8% for five months 2024.

Now, moving on to the "Fourth P" **"Productivity Enhancement"** presented on Slide #18:

Our total expenses grew by 27% year-on-year for H1-FY2024. This increase in new business commission is attributed to the redesign of our commission structure pursuant to the flexibility provided in IRDA Regulations 2023 issued on March 31st, 2023. The operating expenses increase is primarily on account of continued investment in capacity creation to support future growth.

Our overall cost-to-TWRP ratio stood at 26.2% and savings lines of business cost-to-TWRP ratio stood at 17.2% for H1-FY2024. We monitor cost ratios for the savings line of business separately. Our objective is to bring in efficiency in the savings lines of business while we continue to focus on growth in the protection business.

Our 4P strategy together with our "4D Framework" has been put in place by keeping in mind our core objectives of increasing the absolute VNB while delivering value to our customers. I will now hand it over to Dhiren to talk to you through the outcome of 4P Strategy and the Financial Update for H1. Over to you, Dhiren.

Dhiren Salian - Chief Financial Officer:

Thank you, Amit. Good evening. We regularly monitor our experience in respect of various risks and the diligent and prudent risk management framework we operate on is reflected in our strong and resilient balance sheet as presented in slide 19. Our mortality experience is within our expectation.

On the asset quality 96.4% of our fixed income portfolio was invested in fixed income instruments that are rated sovereign or AAA and we continue to maintain a track record of not having a single NPA since inception. Of our liability profile, 73.8% of liabilities largely passed on market performance to customers.

We use derivatives to hedge interest rate risks in our non-participating guaranteed savings and annuities portfolio. We continue to closely monitor our liquidity and ALM positions and we have no issues to report. As a result of our 4P strategy, the VNB for H1-FY2024 was ₹ 10.15 billion. Given our APE of ₹ 35.23 billion, resultant VNB margin was 28.8% for H1-FY2024. The shift in VNB margin is primarily on account of the shift in the underlying product mix towards unit-linked and the decline in the non-participating business.

Coming to the financial update:

- Our Profit After Tax grew by 27% year-on-year from ₹ 3.55 billion in H1-FY2023 to ₹ 4.51 billion in H1-FY2024.
- As presented on Slide #22, the adjusted net worth grew by 21.8% year-on-year to ₹ 95.66 billion and the Value of Inforce business grew by 16.8% year-on-year and stood at ₹ 289.63 billion on September 30, 2023.
- With this, our Embedded Value grew by 18% year-on-year and stood at ₹ 385.29 billion at September 30th, 2023.
- Assets under management stood at ₹ 2.7 trillion and our solvency ratio continues to be strong at 199.4% at the end of this quarter.

To summarize:

Our financial strength coupled with our diversified product, distribution, and customer mix makes us resilient and allows us to take advantage of new opportunities in a fast-changing business environment. We will continue to make progress against the 4P strategy through our “4D Framework”. We expect that our performance in these aspects will translate into an objective to grow absolute VNB without compromising on our risk management approach.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: A couple of questions. First one is on your shareholders account. If I see for the quarter close to ₹ 420, 425 crores of investment income and for the first half is more than ₹750 crores. I mean annualized yield of close to 15%-odd on shareholder investment. So, I mean why such high kind of probably investment gain booking, what is driving this, is it coming from some equity or fixed income and why sort of the trend is very unusual when you park? Second one on the margin profile, I do acknowledge that there is shift from I mean towards ULIP and probably within non-ULIP maybe some kind of a lowering of non-par guarantee towards par. But at the same time if I see the most profitable retail or protection has gained for the first half YoY, it has gained material share there, so somewhat, it should have sort of offset. Is it also the margin also a fact of your cost because the growth is not coming, but if you look at the commissions and OPEX also both sort of gone up, is it also coming because of the kind of an issue with cost absorption? And as far as OPEX is concerned, you kept saying the capacity building for future growth, but that is what, I mean, we have done for last few years that we have been creating capacity to grow, but the growth has not been coming. So, I mean what are the areas where still we need to sort of expand to our capacity building because the growth has been slower?

Dhiren Salian: Thanks, Avinash. So, on your first question of shareholder, yes, we've been able to use the markets to be able to realize some yields. The holding in the shareholder fund is not typically in line with what we hold for the policyholder portfolio, and so in this period we saw an opportunity to book some gains. That explains the heightened outcome of that line that we have. With respect to the margin question that you have, there has been a shift of the underlying product mix. Unit-linked has grown. Within the non-linked portfolio there has been mix between non-par going towards par, that has had a part to play. You also have noted that on the annuity portfolio, annuity has declined. We spoke about the fact that there's been a shift away from single premium to regular pre-annuities. But by and large, the overall annuity book also has declined. All of which has led to the shift in the product mix, which has resulted in this margin. We rightly continue to invest in capacity building and that capacity building outcome is quite visible when you look at the growth in business. Net of ICICI Bank, especially on the retail side, we saw that 13% growth. That clearly is an outcome of all the efforts that we've been making in stepping up our capacity and building out our distribution there. We will continue on this path because it's quite clear that we want to our distribution to be quite diversified and not concentrated. To that extent, some of the newer channels that we have added, the newer distribution partners that we added, we continue to invest in those and build out the channel there.

Avinash Singh: If you can just help me that your ex-ICICI Bank APE of ₹ 5.2 billion for the first half, what would be the contribution for say the top three in that?

Dhiren Salian: So by and large across our entire APE, we really don't have channels that contribute beyond 5% if I take out ICICI Bank from a Banca perspective or I take out agency. No single distributor typically contributes more than the 5%, 6% range. This would be the largest distributor outside of ICICI Bank. If you look at the distribution, we set out in slide #10, the mix is fairly clear; you've got agency at 25% for H1, you've got direct at about 14%, Banca net of ICICI Bank is at 15%, partnership distribution at 14%. So, if you look at this is fairly well diversified. We don't have large partnerships in the Banca space.

Avinash Singh: Yes, yes, I just gather that, within that 14.8%, if at all there is some kind of an indication around top three you will have, you have a pretty deep Banca partnership, but the banks are of different sizes and scale. So that's why –

Dhiren Salian: You would also note that we've got close to 40 banks that still gives us a quite large enough spread.

Amit Palta: Avinash, if I could just add here, the protection impact you spoke about while there is a very decent 70%-plus growth on retail protection, but in absolutes, if you see, of the overall ₹ 35 billion in H1 APE that we have, in absolutes, it still remains ₹ 2.38 billion, which is a very small percentage, so a very high margin on a low absolutes will have its reservation about compensating for a big shift that you may have on savings business. So that is just one point that I wanted to add and leave it there.

Moderator: The next question is from the line of Swarnabha Mukherjee from B&K Securities. Please go ahead.

Swarnabha Mukherjee: I have two, three questions. So, I'll start first on the channel side. If you could explain, say the difference in how growth is panning out across different channels, say for example in direct what we are selling, which has resulted in such strong growth in the last couple of quarters with the base effect or is that we are cross selling more ULIPs which is resulting in that vis-à-vis that agency growth is yet to pick up despite the investments we are putting in that channel? And on the partnership distribution side, what I am seeing is sustained growth momentum. So, is it coming from adding new partners or is its organic growth that is happening, if you could give some color on these individual channels, what is driving these different growth trajectories, that is on the channel side? On the product side, if you could give us some color on how the non-par margin has been vis-à-vis what it was last year given the shape of the yield curve and the availability of the hedging instruments that were there? And the fact that you have mentioned that there has been a shift in the non-linked portfolio from non-par to par, I was just wondering, we have launched a new product that is the GIFT Pro product, how is the pickup in that and whether it is compensating for some amount of this move? These are the two questions on channels and products. And thirdly, a bookkeeping question, if you could call out the impact of economic variance for the first half?

Amit Palta: So, on channel front, let me just take the question. So, you spoke about the fabric of our performance across channels. So first of all, let me just share with you. On proprietary business that comprises our agency and direct, constitutes close to 50%, 51% of our overall retail business. And on this direct business, which is showing a growth of 20%-odd for Q2 and almost 23% for entire H1, is largely led by the upselling efforts that we make continually on our existing base. This is one channel which has really invested a lot on digital platform over a period of time and is one of the largest upsell channels in the industry. And this is not something which has happened now, but yes, the market sentiment, the buoyancy that happened on unit-link has contributed to growth coming from unit-linked business across channels and direct channel was no different. But, also this channel is really backed with a lot of analytics on the next best product that can be positioned to our existing clients and is approached very systematically through our distribution team to offer most appropriate wealth solutions to our existing customers because of the changing life stage that we experience with our existing customers based on data that we have. One part of our direct business also is what we do through the traffic that we have of our customers on our website. So, there is a lot of effort that has been taken in improving customer experience and also navigating and recalibrating our customer journeys based on insights that we pick up on our online channels. So, that is also something which in line with the overall ecosystem support that we have on retail protection has contributed to the overall growth in direct business. In partnership distribution, which is a combination of very, very diverse kind of partners on corporate agency and brokers, has an overall net impact which is positive. The overall business in this segment we have experienced has not grown at the partner level, but by virtue of our focus individually with our partners, and by institutionalizing ICICI Pru Stack, which is a seven-layer support program that we have for our diverse partnerships, we have been able to work towards increasing our share over a period of last six months. And that increase in share has led to what you see here as a growth of 17.9% in partnership distribution. Coming to agency, yes, growth relatively is muted at 4%, but this is largely on account of what we saw in the month of September. If we were to look at performances right across May to August, we were seeing a good consolidated 15% to 20% kind of growth month-on-month. However, September, we do understand that this was one area that we could have done better. However, we are applying our analytics to see deep cohorts of our advisor segments where we can improve our performance going forward. But net-net, most of our diversified channels actually are on growth path. That is the message that I wanted to give. Even Bancassurance partnerships, other than corporate agency and broker, other than partnership distribution, right across, while the overall pie may have been constrained because of more than ₹ 5 Lakh ticket sizes coming down drastically in the industry, but by virtue of increasing share in many of our bancassurance partnerships, we have been able to see a growth which is close to around 13% in Q2 and close to around 7% in H1.

Swarnabha Mukherjee: Just a follow up on the partnership distribution, what I understand is that you are saying that it is basically a function of increasing counter share and not like any kind of additional inorganic growth that is coming through new partner additions which maybe we have done over the last six months which is now kind of becoming more productive.

Amit Palta: We continue to add 70 to 80 partners almost every year. This year in fact we have added hundred-odd partners. But as you know there is always a gestation of new partners from getting onboarded and getting to start business. So, it is very difficult to figure out and single out only those 100 additions as to how much they have contributed. It happens over a period of time. So, what you added last year has contributed to business this year and what you probably added two years back has contributed relatively in a higher proportion. So, if you ask me, is it because of new partners added this year, which has contributed to growth, answer is at this point in time, no, but it will pan out over a period of time.

Dhiren Salian: On your question on margins, through this year, we have not seen any movement on margins on the non-par portfolio. So that continues the way it is. With respect to your question on economic variances, we have not broken the EV walk at half year. We will do that at the full year.

Swarnabh Mukherjee: Can you give some colour whether it is a positive or a negative?

Dhiren Salian: Yes, it's quite positive given the way the markets have moved.

Swarnabh Mukherjee: How is the pickup on the GIFT Pro product, how should we think about this mix between par and non-par moving going ahead with new product launches?

Amit Palta: See, what we observed going into Q2 and while exiting H1 is that large proportion of guaranteed products have started gravitating towards part guarantee which has potentially higher upside if we were to deliver a good investment management performance on the participating products and on unit-linked products. So, what we have seen is that high mix of non-participating has moved some part into part guarantee as well as some part in unit-linked products. So, to that extent within non-participating product, there's GIFT Pro was an addition which recognizes the fact that customer is not probably looking only at IRR end of the day, but it also appreciates the features and benefits that we offer to our customers. So, GIFT Pro is unique, in the sense that beyond IRR, it offers specific proposition to the customer which addresses the specific need of inflation adjusted income over a long period of time. That is something that we have seen as really a success. Of the 14% of non-participating business that we deliver as a Company, almost 22% of this was GIFT Pro in month one of launch and today it is close to around 40% of our overall non-participating business. So, we have seen this gravitating towards benefit rich products and not really customer yielding IRR-linked products. So, that is something that we have seen as a trend.

Moderator: The next question is from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: I have two questions, Sir, first is on the Group Protection side. You spoke about how the GTI, specifically within Group Protection has seen challenges. Can you help us understand, given that GTI is like 50% of the entire protection which is about 20% of your APE, whether this is an incremental drag on our APE target that we've been speaking about that we will be able to deliver industry level growth in the second-half, will this be a negative or will this be a drag? My second question is on the performance in the month of September. While I understand that you guys are trying to understand the performance of agency channel better in September, but can you give us some colour on whether this could be because of higher drag from high ticket policies, some of your peers have spoken about certain channels seeing more drag from high ticket policies, etc., if you can give us some colour on how much drag you guys are seeing on high ticket policies and which are the channels which are getting more impacted and could that be one of the reasons why September was weaker?

Amit Palta: To address this question on Group Protection, first of all, if I were to look at overall protection, you can broadly say the way contribution is, you can assume that one-third of it is retail protection, one-third of it is what you do on Group Protection on credit life platform, and one-third is what Group Term for us is. So, when it comes to retail protection, we've already articulated; it is close to around 74% growth for us. Credit life growth also is well ahead of the overall credit growth in the economy. That is largely on account of partners that we are adding over a period of last few months and the effort to increase line of businesses within our existing partners and also working on increasing attachment. So, credit life growth is part of Group Protection. So, to that extent, it is well on course. Coming to Group Term, we articulated that separately Group Term as you know for the large period during COVID and immediately after COVID, there was a time when ICICI Prudential was virtually present with a proposition to our clients for that period and we were one of the very few insurers who were quite prominent in our offering to our corporate customers. To that extent, we obviously had a very large base up for renewal and hence what we have seen after the COVID experience turned out to be much better than what we had anticipated, the pricing went through a big correction subsequent to the experience turning out to be favourable. So, it is good for the customers, good for corporates, but eventually it was not very good for APE. So, if I were to share with you in terms of number of schemes and number of deals that we have closed as fresh/new customers, actually, there is a growth of almost 38% on the number of deals that we closed last year H1 against what we did this year. But, however the deal size in comparison to what was last year has actually come down significantly by almost 40% to 50%, which has led to overall APE looking suppressed. So, we don't want to lose our sleep on this because this is an impact of a better experience leading to a better proposition for the customer. In the interim during the cusp period, we may have a little bit of a stress on overall APE, but that's fine, that's how it turns out. So, we would not have kept the price at a higher level than the experience turned out to be favorable. So that is the color on Group Term. We are as much present in Group Term like the way it was earlier. And we are one of the largest players in this segment and understand it very well and we will underwrite this business only if it matches our risk/reward expectations, that is something that we are very, very clear about. So, even the cases which are coming up for renewal, they're coming up for renewal at a much lower price now. We are happy to offer it to our corporate clients as long as it is making sense both from risk as well as profitability perspective.

Dhiren Salian: On your question on September performance, while yes, on a YoY perspective it seems low. But if I look at it sequentially, I think we're quite at divergence to the market; we've actually grown quite well compared to some of our larger peers and actually had positive growth, which is not what most of the other companies have been at. So, it's a little mixed bag when you look at September, but by and large, I think our clear focus is that we continue to work at it granularly and keep growing this business from month-to-month, quarter-to-quarter. In fact, our market share has been continuously increasing; it was actually 6.3% for the month of September on RWRP basis, higher than what it did in the previous period.

Shreya Shivani: Just coming back to the last question that I had asked, so our guidance on APE growth in second half at industry level that gets challenged, right, because of Group Protection, that thesis is correct or am I reading it wrong?

Dhiren Salian: We have not given guidance on APE growth. I think what we have mentioned in our previous calls is that from a phase wise perspective, step one would be to move the total APE growth in line with the market. We've not given a timeline to that. We want to get to that as soon as possible. And once we get there, step two would be to create an alpha over that. That's the trajectory that we want, but I'm not able to give you a timeline when we'll get there, but we've been working hard at getting to these objectives, get to the phase-one first and then to phase-two.

Moderator: The next question is from the line of Supratim Datta from Ambit Capital. Please go ahead.

Supratim Datta: I have three questions. The first one is we have a thousand partners now on the partnership distribution channel. So just wanted to understand the partners of scale are there, still which you could add, then continue growing this channel. The next question that I had was on product innovation. In the first half we did not see a lot of new products. So, going forward and on the second half, do we expect to see more product launches happening and which segments would those product launches be targeting? And lastly, recently there was an article in the press talking about capping commissions for credit life policies at 30%. Just wanted to understand your views about what kind of discussions are you having with your partners on the commission structure post this new guideline which has been applicable from 1st April?

Amit Palta: Let me start with your question on partnership distribution with the 1,000-odd partners. See, first of all, let me confess here, the natural advantage that we have with our partnership distribution is the diversity of partners that we have. So, we have partners of very, very different, diverse types, someone who's cross selling to a captive customer base/ multiple financial products/ large partners, that is one cohort. Then there is a cohort, which is essentially working on a POS model, looking at secondary distribution to reach out simpler propositions to their customers coupled with some of the other general insurance products that they are selling. Then there are partners which are largely equity and mutual fund distributors, who are also looking at life insurance as an upsell product. So what happens is this diversity allows us to play out in varying or a dynamic economic environment. So at any point in time, any environment favoring any specific type of distributor helps us being at a natural advantage to take benefit of the positive tailwind there. And at the same time, we may have a disadvantage depending upon the kind of environment which may be impacting certain kind. Good part is that we have been net positive because there are some category of partners doing better in the given environment while some other partners are getting impacted. But net positive is what we continuously keep working upon. If the environment favours, we get positive and if not, then we work towards working deeper with our partners through our ICICI Pru Stack, work on seven layers of development and work on increasing share. If the overall environment constrains growth, then we look at increasing share to keep ourselves on a growth path. So, that is how the partnership distribution outlook is and that is what has kept us with the sustained growth over the period of last four to five years. If you were to trace back the performance of partnership distribution, this is one channel which has consistently grown at 25%-plus over a period of the last four to five years just because of the kind of diversity that we have in our partnerships.

Dhiren Salian: Your question on product innovation. I think we've got this detailed out on Slide 37 as well. If I could just take a minute to refer back to slide 36, what you can see very clearly is that we've got products for every lifestage across each of those opportunity segments. And the objective is to deliver value proposition to all of our customer pools. But specifically, if you look at innovation, there are four items that we have called out. One, of course, is the GIFT Pro that that was launched this year. iShield is another product that we have launched. Protect N Gain is the third product that we launched, and in fact we've got a new fund in the form of a Constant Maturity Fund that was launched during the year as well. So, if you want to look at innovation, I think you've got enough examples of innovation on the product side that we've been able to demonstrate.

Supratim Datta: I was more interested in what is going to come in the second half. If you could give some colour on that?

Amit Palta: That is competitive information. I can't divulge it. So, of course we are at it, we keep picking customer insights and there is always something which is WIP and we're working on it. So, we'll let you know as soon as we launch those products.

Dhiren Salian: On your other question on credit life, the way we're looking at commissions, of course, with the relaxation in commission levels that have been enabled by regulation, we'll keep working with our distributor to see what is the appropriate and sustainable level of commission through the year. That’s what we had to add to this.

Supratim Datta: Just one follow up. So, are you seeing pressure from distribution partners for higher commissions or is it still at a negotiation stage?

Dhiren Salian: This will always be in WIP stage, but you've seen some evidence of increased commissions across all lines of business. It's not unique to us, it's across the industry as well. So yes, after the relaxation in commission levels, commission rates have gone up. Have they settled to a final equilibrium? I think not, it's still a bit of a flux at this point.

Moderator: The next question is from the line of Raj Saya from Agam Capital. Please go ahead.

Raj Saya: I just wanted to know your strategy in terms of Tier-2 and Tier-3 distribution and business contribution. Where do you stand currently and what's the strategy because this is the competitors stress on this asset, so just wanted to know?

Amit Palta: Tier-2, Tier-3 strategy actually dovetails into our multi-distribution structure. As you know, if you were to look at the texture of our distribution, they have very good presence right across the geographies across the country. When we look at our product structures, we look at affluence, we look at life stage, we look at geographies, and we keep turning out products which are most appropriate for the distribution channels who are present in those geographies. So, to that extent through our distribution partners, we believe that we are fairly representing Tier-2, Tier-3 markets today through small finance banks, small banks, new age banks, existing large banks. Even to that extent of large banks like ICICI also have almost 40% to 45% of the distribution in rural. So, to that extent, our presence in Tier-2, Tier-3 market has been there. If you were to look at agency which is the most micro and diverse distribution structure that we have, a one-third of our distribution in agency actually is in Tier-3, one-third of our distribution is in Tier-2, and one-third of the distribution is top cities. So, to that extent, I think we are fairly well represented when it comes to Tier-2 and Tier-3.

Raj Saya: Thank you. Another thing on annuity, just wanted to know, do you divulge information on the split between corporate and retail annuity and what coming from NPS at this stage?

Dhiren Salian: Raj, no, we've not broken that split out.

Moderator: Thank you. The next question is from the line of Madhukar Ladha from Nuvama Wealth Management. Please go ahead.

Madhukar Ladha: First on the GTI bit again, you mentioned that one-third is, so the total protection, one-third is from GTI, one-third is Credit Protection, and then one-third is a Retail Protection. For what period is this? Is this for FY '23? Or is it for the first half of FY '24? I understand that these are rough numbers. And given the pressures that we are seeing in GTI in terms of pricing, how much do we really see this business to grow this year, if you could help us just get a sense of what sort of growth we could get here? And given the pressure in pricing, are we seeing also margins come off substantially over here is another question that comes to my mind.

And frankly, I also know that VNB development of the business that we had written earlier, are we seeing any negative variances due to this pricing pressure currently in this business? Are we seeing any negative operating variants over here? So, on the GTI, these are some of the questions and you mentioned that on the more than 5 lakh rupees ticket size, there is certain movement towards ULIP and then you also mentioned another category. Can you just explain that? And finally, if you could quantify how much is the more than 5 lakh ticket size in the first half versus second half of last year and how much have we done in the current year, that would also be helpful.

Dhiren Salian: So, at one level, the first question that you had is what is the period - broadly for this current year, it is one-third, one-third, one-third. Your second question on GTI and the outlook on growth. I think we called this out earlier as well. Given the set of challenges in the market, given the increased competition, we are not looking at a growth out of this particular line of business and we continue to seek to defend whatever business that we have and ensure that we deliver adequate profitability out of that business. That's something that we kept very clear.

As we have pointed out earlier also, we are one of the largest in this group term space and quite clearly, we understand the texture of the customer that we have onboarded. We understand mortality and we will take on business only if it meets the risk-reward framework that we set out. By and large, I think margins on this continue to be stable. There are, of course, calls that we take when we look at where the business is at, but we're quite clear that we wouldn't want to write negative margin business there.

In terms of where this stacks-up therefore as variance, clearly, there's one element of business which was written during the COVID period and in the latter half of the COVID period whose renewals at this point are obviously netted off for all the COVID loading. So, that clear has a variance element when we look at the EV walk. Beyond which we are not really seeing any drop in mortality outside of that. You asked a question around the ₹ 5 lakh.

Madhukar Ladha: Just one thing Dhiren, can you give me the GTI number for FY2023?

Dhiren Salian: GTI numbers for FY '23 is slightly higher than this broad split that we had given out. What Amit was also referring to earlier when he spoke of the more than ₹ 5 lakh ticket size migration, one level of migration was towards unit-linked plans. The second migration is towards participating plans. I think that was your question that you had asked.

Madhukar Ladha: Yes. And if you could give us some sense on what is the split between first half and second half of last year and how much are we doing in more than ₹ 5 lakh rupees ticket size in the first half of this year?

Dhiren Salian: Yes, Madhukar, we haven't called that split out, but I think the way we look at it, we do understand where the segments are at and what are the relative advantages of each of the proposition that we have got for below ₹ 5 lakhs and more than ₹ 5 lakhs and we continue to build out those propositions through a variety of our new product launches for them. Let us see how that particular segment emerges through the year, but I think we are fairly clear that irrespective of whether it be a more than or less than ₹ 5 lakhs, the objective is to be able to build on growth and broad base our customer segments. So, we continue to work on that line.

Amit Palta: See, Madhukar, this H1, Amit this side, H1 has been a story of two halves. Okay, the first half was impacted because of the preponement of demand that happened on large value cases in the month of March for obvious reasons and the second impact was the fact that another story of wealth preservation around debt products on mutual fund went through a change starting quarter one.

So, if you ask me that was the reason why quarter one impact was quite obvious and was visible. Eventually for relatively lesser number of choices available on investments, part guarantee and unit-linked products is where the acceptance started growing while the markets were doing well as well as part guarantee, as you know, since it's also a function of how well you manage your funds and potential returns would be actually higher than what you one can offer on Guarantee Platform. The preference started moving towards part guarantee products, preference started moving towards unit linked.

If you ask me as recent as last month, we have started seeing that more than ₹ 5 lakh cases more or less is quite similar to what it was last year. The only thing is it was all skewed towards one category of products last year. Now it is split between participating products, unit-linked products and also some element of it still continues to happen on guaranteed products.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities Limited. Please go ahead.

Nischint Chawathe: Just one or two points. Any sense that you could give in terms of the business trajectory at ICICI Bank? And how do you see the second half playing out here?

Amit Palta: Amit this side once again. So, ICICI Bank as they have articulated their priority on focusing on protection and annuity range of business, on protection ICICI is showing a growth of close to around 45% over last year for the first half. So, to that extent, in alignment with what they have stated as their preferred approach, we are seeing a growth on that side.

On relative degrowth month-on-month we are seeing on the overall APE coming down, so what it was close to around 35% degrowth in quarter 1 came down to 15% degrowth in Quarter 2. We will have a base effect playing out in Quarter 3. We will see how it goes.

Nischint Chawathe: And if I look at the overall VNB growth for the Company, I guess, obviously, we discussed the challenges in the first quarter or for the quarter in the first half. In the third quarter when I really look at the margin base for nine months, I think it's still kind of a slightly demanding base. So, in the backdrop of that, how do we really look at VNB growth for the year? I know you have a sort of a plan for doubling VNB in a four-year period but how do you really look at this year?

Dhiren Salian: So, Nischint, we don't, we haven't put out a plan of doubling VNB. I think we are fairly clear that we want to build on absolute VNB as we go through this particular period. Yes, VNB growth has been challenged for the first half. It is down. But as we look at the base into Quarter 3 and into early part of Quarter 4, I think the APE bases are a little more benign and we would want to build upon those APE bases into the coming year. Quite clearly, what we have also spoken of is that VNB development would be largely driven by APE development with some movement at the margin based on the product mix. So, our key focus is to continue to deliver on growth and as Amit pointed out earlier also with some of our channels, we should start to see a more benign base going forward.

Amit Palta: See, Nischint, also let me give you a context. If you were to look at overall distribution composition of ours, while all other businesses, whether it is partnership distribution, our direct business, our Bancassurance business other than ICICI, they seem to be on growth path and the large path part of investment that we have done over a period of last year and a half or so is about creating enablement for our new partnerships, one, and two, about scaling up agency. And as you know, that agency scale up is a little longer and has a gestation period which we need to be patient and watch out for. Close to 4,200 odd frontline managers that we have who manage close to 200,000 agents, we still believe is a smaller number and this is one area which has reached to this level only after having hired people over a period of last year and a half or so.

Our experience, our analytics says that it takes almost 18 to 24 months for a frontline manager to start hiring, build capability with advisers, understand customer segments being served by advisers, understand their natural markets, build capability on demand generation and eventually start turning out productivity. So, our singular focus at this point in time without diluting it with any margin pressure at this point in time is to get our capacity to start turning productive and that is where agency and our new partnership enablement will take primacy over anything else at this point in time.

Nischint Chawathe: On the partnership side and as well as on the agency side, in terms of product profile, I believe the initial thought was that you probably focus more on traditional products through these channels, but is there a change in the strategy? And are you kind of also kind of looking at doing ULIPs through these channels?

Amit Palta: No, let me clarify, Nischint, we don't have a product to channel strategy just by based on what we want. Actually, we allow our partners to choose based on the kind of customer segments that they have. So, we have not mandated our agency channel to sell only traditional and not ULIP because ULIP is low margin for us. It depends on the customer segment they are serving. So, the approach that we have is simple. We decide on what customer segments we believe are priority segments, are the growth segments for us, where the quantum is, and then we identify which kind of distribution channel has the ability to take the right product and reach out to that customer segment.

Now, if somebody has access to an affluent customer and if I control him and not get him to offer unit-linked products, it will be completely against the customer philosophy. So, there is no channel which is mandated to follow any product strategy specific to traditional or non-linked savings or protection.

Dhiren Salian: So, Nischint, as Amit also explained earlier when we had a question on partnership distribution, he explained about the various types of partners that we have as part of this pool and you would have understood that there are different strategies that would follow for each and every one of these segments. So, an equity broker segment, for instance, would have a slightly different approach than a more traditional broker that we have. So, clearly, the idea is to be able to marry the product with the customer segment and the distribution and create that product market fit that's appropriate for that particular segment there.

Amit Palta: Actually, it is reflective of the fact that different distribution partners and within distribution partners, different cohorts and geographies and channels within channels actually have very, very different product mix, and in fact none of the distribution partners have a product mix which is similar to what ICICI Prudential's overall product mix is. So the colour of product mix is drawn from the customer segments of our partners.

Moderator: Thank you very much. We will take the next question from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: The retail protection growth has been reasonably strong. So, can you speak about what is driving back? You mentioned that ICICI Bank growth is around 25%, which means that non-ICICI Bank protection, retail protection growth maybe upwards of 100%, and what is driving that in sustainability of that? And also post-COVID, we have changed the reinsurance strategy where we were retaining up to 1 crore of risk on our balance sheet. Has there been any change in that strategy now?

Dhiren Salian: So, Nidhesh, let me take the second one first. No, we have not made a change in our reinsurance strategy post what we discussed last. We continue to monitor the experience and it's all within our expectation at this point. Growth within retail protection across channels has been quite strong. Overall, as you saw, for the period was about 84% for Quarter 2. Of course, this is on the fact that last year's base was quite benign. As we go through into the coming quarters, specifically when you get to Quarter 4 onwards, this should start to normalize back to more lower levels, but we will continue to record growth across channels and keep it broad-based through the period.

Nidhesh: So, is there any specific channel which has shown such high growth? Is it an online channel etc., if you can give some color on that?

Dhiren Salian: Yes, so some of our online channels have done quite well, but we are seeing strong momentum across all our offline channels as well.

Nidhesh: And just one follow-up is on the product level margins. How are the trends on product level margins on a Y-o-Y basis?

Dhiren Salian: So, the shift that you saw in the overall margin has been obviously because of the product mix. That's been the large contributor towards movement in the margin. By and large, at a segment level, we have not seen too much of a change.

Moderator: Thank you. The next question is from the line of Vivek Khanjode from Aditya Birla Sun Life. Please go ahead.

Vivek Khanjode: So, I wanted to know, you discussed about group term and group credit life. I wanted to know what is the growth story on the group funds for H1-FY'23 versus H1-FY24?

Amit Palta: Group fund for us is flattish, but we are fairly confident because these are lumpy businesses. We have done close to what, 550 odd deals have contributed to our group fund business this year and a few large deals have got deferred and we are not losing our sleep there at all, because we are quite confident of what we have put as a plan for group fund business, it will pan out eventually in the remaining six months. So, the number of deals, number of customers that we are engaging in is almost showing a 25% growth over the number of customers that we got our group fund participation last year. So, to that extent, our distribution has been fairly strong, very vintage and not just in group fund but even on group term, we are fairly present right across and our participation is among the highest when it comes to group fund and group term opportunity across the corporate sector.

Vivek Khanjode: Also and on the annuity front group, annuity front, so the pressure from the fixed deposit, do you have growth on the group annuity funds from H1-FY2023 versus H1-FY2024?

Dhiren Salian: So, Vivek, this would all be part of the single premium annuity pool. Quite clearly, as we called out, a lot of folks are looking to defer single premium annuity given that bank FD rates are quite high at this point and competing rates at this point. However, we are seeing good growth come through on the regular premium annuity and we continue to push the regular premium annuity business at this point.

Moderator: Thank you. The next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Most of the questions have been answered. Just on the protection bit, what would be the share of ROP products? And could you highlight whether ROP products are margin dilutive for you with regards to the entire protection margin and also, how is the ROP kind of moving, say, this year versus last year?

Dhiren Salian: So, the return of premium variant of the product is roughly about 15% to 20% of the Retail Protection business.

Prayesh Jain: And from profitability perspective, is it any different from the pure term?

Dhiren Salian: It depends upon the tenure that you choose. So, longer tenure gives you higher margins. Shorter tenure gives you lower margins.

Amit Palta: See, let me just share the fundamental that propositions are not changing from non-ROP products to ROP products. It is only the customer behavior that decides whether he is okay to let go of a premium as an expense or he would like to take his premiums back. Otherwise, the underlying profile of the customer really doesn't change.

We have seen this kind of a behavior more prominent in mass, but we have seen even affluent customers at times preferring the return of premium products and alternate products where they can get high covers with probably even a higher return of premium by choosing a high cover on a unit-linked platform. So, from that perspective, margin really doesn't change by nature of ROP or a non-ROP because underlying customer and the cover that you offer is quite similar.

Moderator: Thank you. The next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Just one question. Are you seeing any change in payouts to any of your distribution partners or any of the segments for this for any particular partner out there post the guideline changes?

Dhiren Salian: Dipanjan, yes, we discussed this earlier. We have seen commission rates rise for us and understanding is this is not just specific to us. It's for the industry as well. Has it settled down? I am not so sure. I think we will continue to work through this into the coming quarters as well.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala: Just one question. I mean, even apart from commissions, if I look at other OPEX has gone up substantially for us on a H1 over H1 basis as well, whereas the premium growth, of course, has not been that strong. So, just trying to understand what is driving that ex of commissions also and in the backdrop of that, do you think that given that seems like a lot of these commission increase are going to stay here for a while, do you think that VNB growth in this year will be possible?

Dhiren Salian: So, Rishi, outside of commission, some of the larger expense items are, of course, employee costs. Part of it is the capacity creation that we have invested in and we continue to invest in given some of the newer channels that we have added on. There are, of course, some of the advertising and sales-related costs that are elevated at this point. Given that commissions are going up, we would seek to kind of keep the overall expenses broadly where they are. This year, of course, will be a bit of a flux. So, we will have to manage it through this coming quarters to see how we can keep that stable at this point.

Amit Palta: Also, I just want to clarify that while there has been a question on commission increase, but let me share with you that we are well within the guard rails and the direction given to us by the regulator in ensuring that we align our commission structures to promote long-term business, protection business, renewal business and not at the cost of customer proposition. so, since we have not let the customer proposition get impacted, for a short period of time, you are actually seeing that OPEX swelling up. Directionally, this entire increase in cost needs to get compensated through better OPEX management and that is what we are intending to do. That is the cusp period is where probably, you know, it will take some time before it settles, but we are very clear that whatever is the increase in the cost, it will not come at the cost of customer proposition.

Rishi Jhunjhunwala: And so, views on VNB growth this year?

Dhiren Salian: I think let it emerge, Rishi.

Rishi Jhunjhunwala: Just on the commission part, right, so wanted to understand you mentioned about the industry is witnessing an increase in commissions. What are your thoughts in terms of how does that dynamic play out given that even for us agency's proprietary ICICI Bank is exclusive and we have direct and group businesses as well which are possibly within our control. So, what kind of pressure is there for commissions to be increased across the board? And what is the risk in case that wouldn't have gone up? Do you really think that the premiums would have severely gotten impacted or the growth around that?

Dhiren Salian: So, Rishi, the way we manage each channel is to look at the overall cost of the channel for which commission is only one aspect of it. So, yes, this year is a bit of a flux. We have got other operating expenses that are slightly elevated, but on the steady state, the way we seek to manage each channel is to see whether for a product line that it finally delivers, whether the overall cost that it incurs is in line with what we would want to deliver from a VNB perspective. So, it's a balance that comes through. I don't think this has impacted growth at all and commission is essentially only one aspect of the overall spend that each channel does.

Moderator: Thank you. The next question is from the line of Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha: Just one on the margin. If I want to draw a waterfall, the margin compression, how much you would attribute to product mix change and to the cost ratio? Whether the real problem is cost which has dragged the margins or is more the product mix? That's my first question.

Dhiren Salian: Mostly product mix.

Sanketh Godha: And second on cost, just wanted to understand, EOM was expected to move the cost line items between commissions and advertisement, but it was expected to remain on the similar lines, but still our OPEX ratio has moved up, but just wanted to understand that EOM is structurally increasing the commission cost and other expenses are not going to cut and therefore, going ahead, we are going to see an elevated cost ratios which could have an impact on the margins?

Dhiren Salian: So, Sanketh, like we mentioned earlier, this is a bit of a flux year. So, at that level, we are managing across these multiple line items. We are well aware that we will have to keep overall costs in control to be able to deliver on margins.

Moderator: Thank you. The next question is from the line of Neeraj Toshniwal from UBS India. Please go ahead.

Neeraj Toshniwal: Wanted to understand that this quarter looks like ULIP heavy for everyone. So, what are the early trends you are picking up for the Q3 and going ahead, what we can expect? And are we okay to increase the ULIP share again back to a certain level? We do have certain mix in mind that we need to kind of maintain to have a positive VNB by the end of the year?

Amit Palta: Neeraj, I think we have spoken about this earlier as well. We are not guiding each channel to a product mix. If ULIP is the flavour of the season, we are quite happy to take that on board. Of course, we are quite cognizant that we are looking at delivering absolute VNB and to that extent, we will have to deliver additionally on APE as well.

Neeraj Toshniwal: On that only, what are the trends you are picking up in other segments apart from ULIP? Can we see because one of you called out that non-PAR savings is possibly return back or might see a uptake from now? Are you also in a similar camp or it's too early to call out?

Dhiren Salian: It's a little too early to call out with this last 15, 16 days, but as we mentioned earlier, we constantly are looking for proposition that could work with the various customer segments even in the non-linked space.

Amit Palta: So, let me add here. Like I have articulated earlier as well, within affluent customer segments, we have seen a trend of wealth preservation story which has been running so well over a period of last couple of years giving way to unit-linked and part guarantee products towards the second half of this H1 which is a clear trend that is visible. Of course, it varies from partner to partner and the composition of these customers at a partner level decides the mix of what kind of products are selling there, but if you were to look at these set of customers eventually on an overall household that you look at the urban centers, these are only 10% to 15% of the overall number of households that you have. Almost 80% of the households actually are ranging between an income segment closer to around ₹ 3 lakhs to ₹ 25 lakhs means that there the simplicity of the product and simplicity of the proposition actually takes precedence over any complexity or differentiation that you want to create. There the demand for simpler propositions continues and as you know, it is about our ability to reach out to these customer segments, identify which distributors have access to these customer segments. That degree of success is a function of how we will convert this opportunity on simple products, non-linked products or participating products find its way into the overall product mix. That's how it will eventually pan out. There, if you ask me, trends have not changed drastically.

Neeraj Toshniwal: And how does digital stack will help us to achieve this growth? Can you elaborate more on that which you have created a seven-layer stack which will help you?

Amit Palta: Yes, so seven-layer stack is our thought process, our enablement framework for our partners. Over years we have spent lot of time in analyzing our own data as well as the data which is available in the ecosystem on understanding customers, on geography, on demographics, on income, on life stage and we have fairly been able to segment customers which are there in the market and customers which are part of the partner ecosystem and based on the natural advantages of the customer segments of our partners, we have actually worked together and co-created value propositions which are most meaningful to the customer segments and then convert those value propositions into a capability framework for their team both on digital as well as non-digital platforms.

And of course, we do believe that when it comes to life insurance, the best of value propositions and capability eventually need to be supplemented with demand generation model and that is where our entire focus is to cut across all distribution channels to work exclusively on demand generation coupled with sales process integration and network integration with a partner gives us the ability to onboard our customers, give them the experience, give partner the empowerment to manage the entire policy life cycle is what we have split as a seven layer process for us. This is something that we are doing in a workshop mode with all our partners, and it actually changes partner to partner and it's largely a function of the customer base and the primary model of business of our partners.

Moderator: Thank you. The next question is from the line of Yash Jain from CNBC. Please go ahead.

Yash Jain: So, most of the questions which I had have been answered. One thing that I wanted to understand, and this is with respect to distributions, especially ICICI Bank. We have a setup where, I mean, your peers, the closest peers, HDFC, Max get about 50%, 60% of their APE from their main banking partner that is Axis Bank and HDFC Bank. For us, it's come down significantly. It's kept coming down over the quarters. It's about 13.5%. Just last year same period, it was about 20%. I have three very specific questions on this one. One thing at ICICI Pru Life, do you have an intention to sort of increase your sales across product categories through ICICI Bank? If yes, then my second question is, are you doing something about it, looking at ways in which this can be done? This will help growth come back as well for the Company. Just wanted the perspective from the management on this one.

Amit Palta: So, Amit this side, Yash. So, one principal partner philosophy that we follow across the new potential partners that we meet and the way we take up our partner stack to other partners both with banks as well as non-banks is to give the decision of what to do and what to propose to their customers, leaving that question entirely with our partners. We do believe that their brand is supreme, and we are subservient to provide services in terms of manpower, technology, product to our partners.

We don't play a role in influencing that decision because we do believe and respect the decision taken by partners on what they believe is most appropriate for what they want to do and which fits into their overall scheme of things. To that extent, we appreciate that ICICI Bank does look at annuity and protection as two complementing products which is not competing on investment space with banking and we do appreciate that they prioritize banking products, they prioritize SMEs, they prioritize lending, they prioritize deposits, and we have complete appreciation for that. We will take it as and when they have any priorities which are aligned to any specific proposition that we have in the basket. We will be more than happy to offer it and put it on the table. At this point in time, we do see a value in what we have on offer, which is retail protection and what they want as a proposition for their customers and that's where we are seeing growth of 45% in retail protection with ICICI.

Yash Jain: One final question. I mean, since earlier you had one guidance on the VNB side which was doubling VNB in four years. Under the new leadership, I just want to understand, is there one large guiding ambition in terms of quantification that you have, let's say for the next two to three years for a slightly longer period that you would want the markets to look at and you would want to work towards?

Dhiren Salian: So, Yash, Dhiren here. No, we have not put out a target as we have done earlier. I think what we are very clear on is that our objective is to work within each of our partners, look at it granularly, look at their customer segments that they operate in and ensure that we have got appropriate products that can be delivered to those customer segments. And so to that extent, we would go deeper into each of those partnerships and as Amit articulated, help them grow those particular segments using the partner stack that we just discussed. The idea is that if we are able to sustainably grow each and every one of the diversified channels that we have at this point, then we should be able to look at sustainable growth into the coming years. The fact that we don't have any large distributor outside of ICICI Bank in our distribution mix gives us the confidence that we are able to sustainably build out this particular pool of business by looking at it very, very granularly and looking at it with a deep lens of analytics as well. That is the core focus and that's what we would continue to work towards.

Amit Palta: See, an overarching theme which has been articulated over a period of last six months is a customer to product to right distribution channel who has access to that customer and taking the appropriate product. So, customer to product to distribution is the overarching theme and to support this theme is these 4D framework that we have created which is power of analytics, data analytics, diversified propositions on product and taking it to diverse geographies and diverse partners, digitalization by making an experience which is differentiated for the customers and eventually converting it into a depth of partnership becoming an inspiration for us to come up with this seven layer ICICI Pru Stack to enable our partners. Eventually, the strategic direction is to become the most partnerable insurer in the industry.

Moderator: Thank you. The next question is from Aditi Joshi from JP Morgan. Please go ahead.

Aditi Joshi: So, my question is on the agency side, and I actually wanted to understand if we are targeting a further increase in the head count of the agents in the second half of this year, and I'm sorry if I missed it previously. I just wanted to understand, what portion of this new agents are split between Tier-1 or Tier-2 and Tier-3? And just one more question, if I may, on the rider side, we have a pretty good, impressive suit of rider available to us. So, just wondering how much is the push from the management or what is the strategy across the channel on moving the rider attachment?

Amit Palta: Amit this side. On the distribution side, an agency, like I mentioned earlier as well, we are fairly spread out across all types of geographies, whether it is top cities, Tier-1, Tier-2, Tier-3, the way we spell it out internally. So, we have fairly distributed representation of advisers as well as our business. The outcome as well as our advisor count is quite spread out across type of geographies and on new acquisition as well, new advisor licensing also is fairly in line with our spread of business.

So, to that extent, going forward, even in H2, I don't see that being different from what we have been following in agency for some time. Idea in agency is about the capacity that we have built to manage this advisor force, not just the existing ones, but also to acquire new ones. Like I mentioned earlier, for some period during COVID, we had refrained from adding cost through capacity addition of frontline managers. That is something that we started doing some 18 months back and that is something that we are going through a cusp period of building capacity there to manage our advisers better and improve efficiency and productivity over a period of time. I think we are in a cusp. It is expected to improve, and we want to accelerate it and try to cut the learning curve and reduce attrition so that we manage our advisor force even better.

Coming to the second question that you had which was on riders, see, first of all, riders, we don't see riders as an attachment product first of all. So, riders need to really add value to our customers and the proposition. We do believe that riders make our proposition very distinct in comparison to anything which is available across financial industry on the investment space and accident, or disability or critical illness add value. So, from that perspective, the fabric of attachments are quite similar which cut across health as well as accident and disability and we would like to offer it as part of our protection as well as savings proposition. You know that these riders are not available standalone in the industry, and we want to offer it as a value add to our customers on the savings platform and that is what we have been doing. Even on protection, we look at riders as a very specific strategy to convert a protection solution into a wholesome mortality and morbidity solution which we offered through our flagship protection product where the customer has an option to choose critical illness, accident disability and actually both as well which we call it as an all-in-one proposition to give a most wholesome proposition on protection for our customers.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon Asset Management. Please go ahead.

Prateek Poddar: Sir, I have just one question. You called out about the kind of mix shifting, right, in the ₹ 5 lakhs plus policy ticket sizes from entirely non-par to par or ULIP and then you also called out higher investments as well as higher commissions. In that backdrop, how should we think about VNB margins for the full year? Is it fair to say that that given the mix shift we are seeing towards ULIP/non-par and the higher investments which you need to do because of growing your agency/other channels, margins would be under pressure this year and next year is where APE growth as you have alluded earlier?

Dhiren Salian: So, Prateek, Dhiren here. A little difficult to call. I think, let it emerge through the year. There are of course product mix shifts that can emerge and that can drive where the margin would be. That would be one of the core components within which, of course, we will look at some of the expenses and see how we could manage them through this year as well. A little difficult to call. I think we will look at the way the product mix evolves over the second half of the year. You anyway know that the larger portion of the business happens in the second half. So, that can kind of dictate where we end up.

Prateek Poddar: And you also talked about wallet share gains across other co-op agencies, I mean, partnership distribution side and Banca side in ICICI Bank. How much more potential is there for you to gain further wallet share or bulk of the wallet share whatever we could have done have been done this year?

Dhiren Salian: No, I don't think there is an end to wallet share as such. I think the key point is while we look at wallet share as an outcome; I think the one clear thing is we are looking at how we are able to deliver value to our partners and that's where some of the partner stack elements that Amit spoke of come into frame. The idea is that if we are the most partnerable insurer, then naturally we should have bulk of the business flowing to us and that ends up as a higher wallet share. Because very clearly, as we spoke of earlier, we are looking at the product, we are looking at the customer, we are looking at the distribution channel and each of those subs segments are the ones where we have to ensure that we have got the highest, the best fit in and that naturally will give you the move towards our sets of products and our set of distribution rather than some of the other partners that may be there in the short term.

Moderator: Thank you. The next question is from the line of Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha: See, I have two questions. One, yesterday in ICICI Securities call, they also said that they are focusing on protection and annuity which is very similar to what ICICI Bank is thinking of. So, just wanted to understand how big is ISEC as a channel for us and if they continue to follow the way ICICI Bank follows, what likely impact in near term will we have on the growth? That's point number one. And the second, honestly, the question still remains for me is on non-ICICI Bank channel because the growth for H1, if I look, seems to be around 7 odd percentage seems to be very weak. Is it largely driven because of the macro factors because people are deploying, making or putting money in deposits? It's macro related or something somewhere we are struggling with market share in the existing channels and that is leading to some muted growth in the banking channel, non-ICICI banking channel?

Amit Palta: Sanketh, Amit this side. First of all, let me answer the question on ICICI Securities. You are right. ICICI Securities also is looking at augmenting their proposition to their clients on protection and annuity. However, unlike ICICI, they are a very small part of our overall pie. They contribute close to around 2.5% to 3% of our business and as I mentioned earlier as well, we allow our partners to choose what they think is most appropriate for their customers. I think we will be more than happy. Even if the top line is lesser and the protection is higher, it is value neutral for us. To that extent, that is fine. We appreciate and respect the decision and direction taken by securities, but they are a very small part of our overall business.

Second, you spoke about overall growth momentum in non-ICICI channels and let me just stitch it together once again. First of all, let me give you a number of 13% growth of non-ICICI in Quarter 2. So, 13% growth is what you witness in Quarter 2. I did mention that loss of share was not the problem for us because while the overall pie at a multi-insurance shop was severely impacted, more severely impacted because of guaranteed products becoming relatively unattractive in comparison to what was available in the H2 of last year on the regular ticket size and also on large ticket size for obvious reasons, tax proposition. So, all the multi-insurance shops were severely impacted because of this change in the environment. However, we still grew in partnership distribution by close to around 25% in Quarter 2. So, this is largely on account of increasing share. Otherwise, the overall pie was almost similar or slightly lower than what it was last year. So, this increase or this growth that you see in partnership distribution is largely on account of the increase in share. And by the way, Sanketh, let me also mention to you that partnership distribution what you see here actually factors in ICICI Securities as well. So, despite that 2%-3% business that we have which is part of our partnership distribution having a change in direction actually did not have any impact on the overall partnership distribution growth which still stayed at 25% for quarter two. Banca, very similar situation. Direct business, like I told you, both online as well as upsell, we are growing well. Agency, I have already articulated. We are still at a cusp stage. We are very confident that capacity will turn into an outcome for us very soon.

Moderator: Thank you very much. That was the last question in the queue. I would now like to hand the conference back to Mr. Anup Bagchi – MD and CEO of ICICI Prudential Life Insurance for closing comments.

Anup Bagchi: Thank you for staying back late evening. Thank you very much. Bye.
