ICICI Prudential Life Insurance Company
Earnings conference call
Nine months ended December 31, 2021 (9M-FY2022)
January 18, 2022

N. S. Kannan:

Good evening to you all and welcome to the results call of ICICI Prudential Life Insurance Company for the nine months ended December 31st of the current financial year 2022. I have several of my senior colleagues with me on the call: Satyan Jambunathan, CFO, Judhajit Das, who heads Human Resources, Customer Service and 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; Souvik Jash, Appointed Actuary; Dhiren Salian, Deputy CFO, and Mukesh Boobana from the Investor Relations team.

As you are aware, as a country, we are seeing a fresh surge in COVID-19 infections beginning the last week of December 2021. Our thoughts are with the families who are grappling with health issues, lost lives, and livelihood issues. We continue to follow COVID-19 safety protocols at our branches and of our employees 99% have got single dose and 92% have got both doses of vaccination. While several of our employees have been infected in the last couple of weeks, most of them are either asymptomatic or have mild symptoms, with less than 1% of them being hospitalized. We have re-emphasised the COVID-19 protocols and launched a 24x7 dedicated helpline to facilitate physical and mental health counseling, RT-PCR testing, including isolation centers, as well as provision of hospital beds, oxygen support and ambulance. Work from home and isolation have once again become the norm and our systems as well as processes are fully geared for remote working. Wherever warranted, we have also practiced proactive isolation to ensure effective business continuity. In terms of the impact of the fresh surge on COVID-19 on mortality claims, the initial sense we are getting is that though there may be a sharp spike in infections, the resultant mortality is not expected to be high given the increased level of vaccination in the country and the reported nature of the symptoms of this new variant. We have covered the details of the impact of COVID-19 on mortality claims, as well as the additional amount provided as of December 2021, later in the presentation.

So let me start by talking about a couple of developments during the quarter before moving on to our performance. I am happy to inform you that during the quarter we have won multiple awards across business functions. Our 'Customer Mobile App' has won Silver in the 'Best Mobile App of the Year' category in the Velocity Awards 2021. We also won 'ET BFSI Excellence in Innovation' award in the 'Best Use of Emerging Technology for business growth' category for our Humanoid, a voice bot for renewal premium reminder calling. Further the League of American Communications Professionals LLC has awarded us with Gold in '2021 Spotlight Award for Excellence' for our Annual Report of FY2021. We believe these awards are a testimony to our responsiveness to the environment, our ability to innovate, as well as meeting the expectations of our stakeholders, and these give us the confidence to set newer benchmarks as we move forward.

As you may know, we started our ESG journey in financial year 2020 by enhancing disclosures on our practices and have been taking various steps to incorporate ESG principles in our day-to-day business activities. During the quarter, we have become a signatory to the United Nations Principles for Responsible Investment, the first insurance company in India to do so. We are happy to note that our initiatives and progress on ESG front are now getting reflected in improvement in ESG ratings and scores given by some of the external agencies.

Moving on to products, we enhanced our product suite further by adding two new products during the quarter. We launched an income plan, 'Gift Long Term' which provides customers a guaranteed income for up to 30 years along with life cover. We also launched a term plan with return of premium. It has two innovative features. First, the insurance cover gets automatically adjusted based on the customer's life stage. Second, it provides financial cover against 64 critical illnesses which is one of the most comprehensive and widest in the industry.

I will now move on to our performance for the quarter. Our 4P strategic elements that is Premium growth, Protection business growth, Persistency improvement and Productivity enhancement continue to guide us towards our objective of growing the absolute value of new business, while ensuring that our customer is at the core of everything we do, and this as always is depicted in our slide 4.

I will talk through our performance on the 4Ps through slide 5 to 10 of our presentation, and then conclude with a commentary on the VNB.

Let me start with the first P of our strategic elements, which is premium growth. Our Annualize Premium Equivalent (APE) grew by 16% to ₹ 19.29 billion in Q3-FY2022, resulting in a 30% year-on-year growth for the nine months ended December 2021. Our total new business premium for the nine months ended December 2021 also grew by 30% year-on-year. Within this, our retail new business premium actually grew at a higher rate of 38% year-on-year. Our market share based on retail weighted received premium stood at 7.4% for the 9M-FY2022 as compared to 7.2% in FY2021.

The strong growth in premium was driven by our diversified product mix, as well as the distribution mix. For 9M-FY2022, the contribution from linked savings products stood at 50%, non-linked savings at 29%, protection at 17% and balance 4% from group savings. Within non-linked savings products, if you can look at the chart, annuity was 4% of our total APE. On the distribution front we continue to maintain a diversified distribution mix. In our 9M-FY2022 APE, the bancassurance channel share was 39%, agency share was 24% and direct business share was 13%. The share of other partnerships was 9% and the balance was contributed by group business.

Moving on to the second P of protection business on slide 7. First on retail protection, as you are aware, there has been a lot of discussion about the reinsurance price hike. In pricing the product to our customers, our approach has been to:

- Calibrate the pricing with a mortality outcomes using segmentation based data analytics
- Re-calibrate the underwriting standards based on emerging mortality experience across segments

- Review the retention limits based on our past outcomes
- And preserve the overall VNB margin of the protection segment

As a result of this approach, we have been able to limit the increase in pricing at 0% to 10% across various segments without compromising on the VNB margin of the protection business. Given this marginal increase in prices, we do not expect it to have any material impact on the demand. Over the medium term to long term, given the significant under penetration, we continue to believe it to be a multi decade opportunity, and specifically for a company like us, which has a strong customer proposition and a wide distribution network. Coming to this quarter's performance. Despite the supply side constraints, we are happy to note that the decline in retail protection has been arrested sequentially when compared to the last quarter.

Second, group term business, we continue to cater to the increased demand with a risk calibrated approach. We have significantly scaled up the business primarily driven by increase in pricing. Given the push on vaccination by large employers like us, their willingness to financially cover larger base of their employees and the early evidence of low mortality claims from the third wave, we see this to be a great opportunity. This should also give us inroads into the retail protection business over a period of time.

Third, credit life business – similar to the group term the pricing has already been revised for the credit life segment as well. Further with pickup in credit demand and improved disbursement we have seen a higher growth in this segment also.

Given the performance of these three segments, our total protection APE grew by 20% to ₹ 3.06 billion in Q3-FY2022, resulting in 22% year-on-year growth for 9M-FY2022 compared to same period last year. Also, our protection mix has increased to 16.7% in 9M-FY2022, as compared to 16.2% in FY2021. I would like to highlight that based on total new business sum assured, our market share has increased to 12.7% in 9M-FY2022 from 12.5%, in FY2021. With this, we continue to maintain the private market leadership in sum assured.

Now, moving on to the third P of persistency presented in slide 8, we continue to see further improvements across most cohorts. While a 13th month persistency ratio has been stable at 84.8%, 61st month persistency ratio improved from 49.8% in March 2021 to 52.7% at in December 2021.

On the fourth P of productivity presented in slide 9, our total expenses grew by 25% year-on-year for 9M-FY2022. The growth in expenses was lower than the new business growth which stood at 30% for the same period.

Alongside our 4P strategy framework, we continue to maintain a resilient Balance Sheet.

On mortality risk, for 9M-FY2022 gross claims on account of COVID-19 stood at ₹ 20.45 billion, a net of reinsurance the claim amount was ₹ 9.82 billion. This net claim amount includes settled as well as notified as well as in process claims. Further, at December 2021 we hold reserves of ₹ 2.03 billion towards COVID-19 claims, Satyan will talk about this in more detail.

Our solvency ratio was 202.2% as of December 2021, as compared to the regulator required ratio of 150%.

On credit risk, only 0.2% 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. Of our total liabilities, non-par guaranteed return products comprise only about 1.6%. We continue to closely monitor our liquidity and ALM positions, and we have no issues to report.

As a result of this above drivers, the VNB for 9M-FY2022 was ₹ 13.88 billion a significant growth of 35% over 9M-FY2021. Given our APE of ₹ 51.25 billion the resultant VNB margin was 27.1% or 9M-FY2022 as compared to 25.1% for the whole of last financial year.

As we have always articulated in the past, we continue to focus on absolute VNB growth, which is our stated objective. Before, I hand over to Satyan to talk us through some of the details, I would like to maintain that we continue to maintain our objective of doubling our FY2019 VNB by FY2023, which requires a compounded annual growth rate of 28% over the current and the next financial year, as we have articulated earlier. With the VNB growth of 35% for 9M-FY2022 on a year-on-year basis, we believe that we are on track to achieve this aspiration. Thank you all for joining the call.

I will now hand it over to Satyan. Thank you.

Satyan Jambunathan:

Thank you Kannan. Good evening everyone.

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

The first element of premium growth- Our product range with propositions to suit different risk characteristics of customers has been a very important enabler of premium growth. In terms of our performance on slide 15, we have registered a strong growth year-on-year across all segments except group funds business, which tends to be lumpy in nature. Within this our annuity business grew by 77%, linked business grew by 35%, non-linked savings grew by 29% and protection grew by 22% resulting in an overall APE growth of 30% year-on-year the nine months ended December 2021.

In terms of new business received premium for 9M-FY2022, annuity business contribution stood at 20% significantly higher than 15% in the same period last year. With a premium amount of ₹ 21.21 billion in 9M-FY2022, we were one of the largest pension and annuity providers in the market. Our wholly owned subsidiary ICICI Prudential Pension Funds Management Company Limited (PFM), distributes products under the National Pension System, and is registered as a pension fund manager and a Point of Presence. 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 58%, over December 2020 to ₹ 104.41 billion at December 2021. The PFM has a market share of 15.6% in the private sector AUM at December 31, 2021.

Moving on to distribution, 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 about 18,000 new agents in 9M-FY2022. Within the bancassurance channel, we have a total of 23 bank partnerships. On partnership distribution, we added 72 partnerships during the nine months and now have about 700 partnerships across traditional and non-traditional distributors such as web aggregators, payment banks, small finance banks, and insurance marketing firms. For the direct channel, the strategy has been that of upsell to our existing customers aided by analytics.

Coming to performance of these distribution channels on slide 18. We saw strong growth across distribution channels. Bancassurance channel APE grew by 21% year-on-year to ₹ 20.22 billion in 9M-FY2022. Specifically, the business share of ICICI Bank to overall APE was stable at about 28% for 9M-FY2022 as it has been in the last two quarters. The annuity business from ICICI Bank grew by 78% year-on-year in 9M-FY2022. Our new bank partnerships continue to contribute to a significant share of Bancassurance APE. Our agency channel APE grew by 32% year-on-year to ₹ 12.53 billion. Direct and partnership channels grew by 34% and 35% respectively in the same period over last year.

The second element of protection growth on slide 20. Given the pandemic environment, supply side constraints including revised underwriting guidelines continued to impact the pure term retail protection business. One of our responses to these challenges has been a system integration with a document aggregator. With the customer's consent, this integration seamlessly fetches digital bank statements and income tax returns. For the month of December when we started this, more than 1,300 applications were processed using this facility. Further as Kannan mentioned earlier, we also launched a return of premium plan in the month of December 2021. This proposition allows us to cater to a newer customer segment. For 9M-FY2022 the overall protection APE grew by 22% to ₹ 8.56 billion. In terms of new business received premium, protection contributed 28% of the total new business premium for 9M-FY2022. With this, I would like to highlight that almost half of the new business premium for the period has been contributed by the protection and annuity segments, which are significantly under penetrated parts of the market.

The third element of persistency on slide 22. We continue to have a strong focus on improving the quality of business and customer retention, which is reflected in our persistency ratios. We have seen further improvement in persistency ratios across most cohorts during 9M-FY2022. Our 13th month persistency ratio at December 2021 was 84.8%. While this ratio is stable as compared to March 2021, it has significantly improved from 82.7% to 84.8% as compared to December 2020. This makes us believe that directionally, we should end the year with a 13th month persistency ratio being better than the full year last year.

The fourth element of productivity on slide 25. On the cost side, the most significant increase has been in manpower cost. We continue to invest in our distribution expansion. Even with the cost increase, our cost to assets under management has been stable at 2.1% for 9M-FY2022. Also, we continued to leverage technology for process re-engineering, and to drive productivity. Some of the key technology initiatives that we took during the quarter include:

1) Improved User interface and User Experience in the mobile app providing simplified purchase, as well as servicing experience. We also enhanced our app to include a fitness tracker for the customer

2) We also empowered our partners to accept customer requests, including claim intimations on their platform

3) And as I mentioned earlier in the context of simplification of protection onboarding journey, leveraging the ecosystem to obtain digital Bank statements and Income tax returns for financial underwriting has been a new initiative

In terms of digital capabilities too, we have got some significant achievements. Our website is the most visited website amongst the private sector life insurance companies. Similarly, our mobile app has been rated the highest within the life insurance industry. Over 90% of service transactions, that is roughly 3 million a month are done through self-help or digital mode. In terms of insurance applications, the digital adoption rate is at 96%.

The outcome of our focus on these 4Ps as you may see on slide 27, has resulted in a VNB of ₹ 13.88 billion for 9M-FY2022, a growth of 35% over 9M-FY2021. Given our APE of ₹ 51.25 billion, the resultant VNB margin was 27.1% for 9M-FY2022 as compared to 25.1% in FY2021. We continue to focus on absolute VNB growth which is a stated objective.

Now moving on to the trend in COVID-19 claims. We continued to receive COVID-19 claims in Q3-FY2022. But most of these were claims pertaining to previous periods, i.e. delayed intimations. COVID-19 claims pertaining to the current quarter have not been significant. As a result, our COVID-19 claims net of reinsurance stood at ₹ 9.82 billion for 9M-FY2022. Every claim that has been notified at any of our touch points is accounted for in this number, even as they are being processed further.

Coming to the provision held for potential COVID-19 claims:

1) There is a declining impact of COVID-19 claims that we have seen for Q3-FY2022

2) Also, the emerging experience from other countries is that the mortality rate for the Omicron variant is significantly lower than the other earlier variants

3) Third, in India the third wave hasn't peaked yet, and we still have a section of population that is yet to be vaccinated

We therefore believe that it is prudent to continue to hold provisions for future COVID-19 claims at December 2021. We now hold provisions of ₹ 2.03 billion towards potential COVID-19 claims. These include provisions for claims that have been incurred but not reported, as well as probable claims in the future based on the emerging trends.

Under financial metrics, Profit after Tax for 9M-FY2022 stood at ₹ 5.69 billion. Our solvency ratio was about 202.2% at the end of December 2021. Our AUM was more than ₹ 2.37 trillion at 31st December 2021, a growth of 16% from December 2020.

To summarize, we monitor ourselves at the 4P framework of Premium growth, Protection business growth, Persistency improvement and Productivity enhancement to improve expense ratios. Our performance on these dimensions is what we expect to feed into our

VNB growth over time. Thank you and we are now happy to take any questions that you may have.

Arav Sangai: My first question was pertaining to the growth that we have seen in Q3. So, we have shown a little lesser growth compared to some of our private players even though we kind of had a base impact. And we have almost filled all the product gaps that we had it with respect to the non-par and everything. So, how are we seeing the things pan out for say, this quarter and specifically for the next year to meet our goal of VNB doubling. Like what products might drive this growth and why were we a little lower than industry for this particular quarter, any reason and something of that sort?

N. S. Kannan: I will ask my colleague Amit, who's the CDO, to supplement my answer. Yes, if you look at the quarterly growth rate, we had the overall growth of about 15% on a year-on-year basis. So, that is probably what we are referring to. So, the way we look at it is that rather than looking at a quarter-to-quarter number on the specific APE or anything, we would rather be focused on the full year VNB which I talked about. The fact that we have already grown the VNB at 35%. There should not be any concern at all whatsoever in terms of our VNB development for the rest of this period as well as for the next financial year. So that is the way we would plan it. Now coming to specifically to the channel side. Satyan already talked about ICICI Bank being stable between 27% and 28% during the last few quarters. So that is the way we would expect ICICI Bank to continue. All the other areas have actually grown at a much higher rate. And depending on the channel you look at, they have grown between 20%-30%. So we do have the momentum going for us and given the strategy changes in ICICI Bank that has been broadly stable at 27%-28%. That's the way we will look at the top line. But if you look at the product side, some of the steps we have taken, be it the protection product, or some of the long-term GIFT, which is our non-linked savings solutions, they have really been kicked in during the end of December. So, full benefit of those initiatives we have taken on the product side will play out in the last quarter. So we do have enough product levers available and we do have the channel momentum going with us. And finally, I would also like to say that the bank partnerships which we have tied up, they are growing at a much faster rate compared to the company average, and you know how some of these banks close in the Q4. So we do believe that also will give us a leg up in terms of the growth. And the last point I want to talk about, though we have talked about it in our opening remarks, is that on the retail protection also, while there has been a year-on-year decline, we have got our act together in terms of our pricing strategy, which has led to only 0 to 10% increase in pricing as we said. And with that out of the way, with the group term as well as credit life momentum going with us, even retail should come to our benefit. In fact, if I look at the quarterly margins and the nine-month margins, even with a little bit of slowness in the retail, we have been able to maintain and grow the margins compared to last year. Not just because of the lines of business in protection other than retail, but also because we have been carefully able to calibrate all our non-linked savings products by elongating the tenure, as well as by increasing the annuity. So, just to summarize, we have enough levers available on the product side, as well as on the distribution side to have a good closer to this Q4 and ensure that we are on track regarding the absolute VNB growth objective. With this, I would like to hand it over to Amit to see if he wants to add anything, any color on the distribution side.

Amit Palta: I just want to extend the point that you made on a healthy growth that we have been able to witness outside ICICI Bank channel. In terms of numbers, if we were to look

at excluding ICICI Bank, our growth actually has been in excess of 40%. As you know that industry has grown at around 19.5%, then private insurers have grown close to 30%. So, to that extent, excluding ICICI Bank our growth has been quite commendable and in excess of 40%. So, in terms of ICICI Bank re-calibration of strategy we have mentioned in the previous quarters as well, that they are very focused on driving VNB led products for us, which is principally driven by annuity and protection range of products. So, they continue to do well on annuity, and their growth of almost 78% over last year is testimony to their commitment to annuity range of business. But as you know that in terms of weighted business, annuity doesn't contribute to the top line. Same way, while protection still remains one of the principal driver of ICICI Bank, but the ecosystem challenges which were faced by the entire industry probably had an impact on ICICI Bank as well. Which I am sure as things pan out with introduction of new products, ICICI Bank will once again become a primary contributor to our entire journey on protection side of business as well. So, these are the things that I wanted to just talk to you from channels perspective. On the products you know that today we have linked business almost contributing close to 50% of our overall portfolio, and at times you will get upside of a good market sentiment and there will be volatility in between times. Good part is that in comparison to how we use to run unit-linked business in the past, now we have fairly diversified fund strategy also to support our unique growth, which was further supported by some of the new funds that we launched in Q3. So, at times you may see a good tailwind supporting unit-linked business which is still significant part of our overall portfolio. Then couple of months because of volatility you may see some migration that may happen from unit-linked to non-linked savings business. But good part is that, irrespective of the market volatility you may see some migration here and there, but our comprehensiveness of our product suite should take care of growth aspects, specifically in channels outside ICICI Bank. These are the two points on product and channel point that I just wanted to support.

Arav Sangai: My second question is around retail protection. So, the industry has gone through a lot of consolidation in the past year and with all the price hikes and everything done, how are we thinking about retail protection? Like with surety that this quarter we might see a pickup or say for in the next quarter we might see a pickup. And especially the second part I have in this question is regards the ROP product that we have launched. So ROP is a very famous product, and people have demand for that product. And there's one peers of ours which is very active in this segment. So, how are we looking to compete in this segment and what proportion of our overall protection do you think ROP can become given it is a favorable product amidst the audience and whether that would affect our margin at the company level but since the ticket size is also higher so the VNB overall might remain same but the margins my diluted. So any color on the ROP and the retail production demand going ahead?

N. S. Kannan: I will give my sense on retail protection as to where do you see it going from here and then I will request Amit to talk about some of the specific features of our ROP product which we believe is quite a differentiated proposition in the market. I will also request Satyan to address your concern on what kind of margin impact which could be there and how we are planning about it. The first part on the retail protection, as you know we have seen year-on-year decline in retail protection which I talked about. The good news is that between Q2 and Q3 we are broadly stable in terms of the retail protection. So, that's the first point I want to talk about. The second point is that if I look at Q3, let's say within that while we give only the disclosures at the end of the year on how much constitutes the retail protection, I can tell you that between October to November to December, we

have seen a sequential growth in terms of the retail protection growing. Again, we are looking at our VNB and the VNB margin with a lot of positive attitude, because even with this kind of retail protection we have been able to maintain the margins and grow over in VNB. So, going from here, since this stabilization has happened we do believe that on a quarterly basis, at least we can improve the retail production from here on because the increase in price has been marginal. And so, we do not expect any material impact on demand when it comes from the price elasticity perspective. So, we don't see any problem and of course, the medium to longer term we see the demand growing every day, absolutely no dearth of demand. So that way, I would say that under penetration opportunity, medium to long term opportunity is quite intact. So, what we have done given all this is that, trying to take the momentum forward by keeping the price rise to a minimum, cutting out completely undesirable profiles, focusing on desirable profile is how we have really calibrated this business. So, we are quite confident of retail protection growing. The only pinch of salt, if at all I would like to add is about the third wave we talked about. We are seeing prevalence of the disease amongst the employees as well as the distributors. And also I am sure from the customer's perspective about the fulfillment, etc. So, that we will have to sort of a little bit calibrate I feel, but I do see that more of a January issue, here and now issue, rather than even the February issue given the severity of the disease, and all the statements on the data which we are seeing will probably be. We will have to watch that physical fulfillment issues on retail protection only for probably January. So, that is how we are planning the year and that is how we believe that things will pan out from here. Now, I would request Amit to talk about ROP product early days in terms of giving you volumes is too early. But I will ask him to give a sense of product features and how he expects to take. Margin issue we have done a full analysis of margin issue before introduction of ROP, that part I would request Satyan to elaborate.

Amit Palta: So, while we have done our re-calibration of pricing post the changes that happened subsequent to reinsurer price, to ring fence our best and most desired profiles in the affluent customer segment, that is something that Satyan will elaborate further. But specifically, how we have now gone about adding to the overall target segments is by introducing this return of premium product which is appropriate for mass and mass affluent customer segments. And the insights that we were working on were two fold. One was that customer who wanted something in return and was not willing to invest on an expense towards covering his life and wanted something in return, which was the most obvious insight that everybody was working on and there were products which were available in the market addressing that insight. So, we have introduced a level cover product which returns premium to the customer at the end of policy term. What we have done as an extension is given an option to the customer to convert his return of premium lump sum into an income form. So, smartly the product can be positioned as something which covers your life till you need cover and converts into an income once you need annuity. Similarly, there is another variant, which is most appropriate for young urban, where the need for protection may not be very high when he starts, say at an age of 25 to 30. But his cover increases with the increase in liability, increase in loans that he undertakes over a period of time. So, the variant within this return of premium also for specifically urban and young customers. It allows him to have a variable cover which increases and decreases right through the life stage and also give option to the customer to take his entire return of premium much earlier than the completion of policy term. Which means that you actually get in hand your entire premium back when you are active, and when you are healthy. So, you can enjoy that lump sum payout while your cover continues right in the policy term. So that's quite a few things that we have tried to do it

differently in the return of premium variant. And I guess we will be able to go beyond what is most obvious segment which has been addressed through return of premium products available in the industry today.

Satyan Jambunathan: So, from a margin point of view you summarised it very well yourself when you said that actually in absolute VNB terms it should not have adverse impact and that's how we look at it. What we had also said is that we would disclose the volume of business that we do in the ROP category separately. It was trivial in the last quarter, but it was still disclosed in the slide. Going forward as well, we will disclose it. The most important way, I would summarize what Kannan and Amit also spoke about is, that in the short term given that we are not a one trick pony anymore, but have multiple levers of growth and VNB expansion, one segment does not hurt us so much. Second, the longer-term prospects of retail protection. Indeed our belief is that over a period of time, this will grow to become a much larger opportunity than what it is even today. Third, the new product offerings, the way Amit described it, and the way I would add to it is, by the way it also offers a return of premium. So, it's a richness of the features beyond return of premium which is important. And four from a VNB absolute point of view, given that it is an incremental market opportunity, we would like to believe that this is an incremental VNB opportunity, and not a substitution from the retail protection. So, one doesn't really have to worry about margins in that context.

Suresh Ganapathy: I have two questions. One is, you have just showed a 0 to 10% hike, that's what you are expecting on the protection side. Is it that there is a greater amount of retention on your book compared to what it is. If you can share some numbers because we just wanted to know whether you are actually willing to take a higher risk so that the protection price hikes are limited.

Satyan Jambunathan: Yes, we have increased retention. The earlier retention in the protection was ₹ 2 million, we have taken it up to ₹ 10 million. The reason we have done it is that we believe that with the underwriting practices that we have put in place, with the risk selection procedures that we have put in place and with the new price that we are offering this will indeed be a profitable business which we can choose to retain with ourselves. And therefore the main purpose of reinsurance now, it's less about risk management, more about capital management, and whatever we do on retentions will be for the purpose of capital management and not for the purpose of risk management. So, yes, we have increased it, after having been convinced ourselves that the proposition and the process that we are delivering is indeed continues to be as profitable as it was before.

Suresh Ganapathy: So, earlier anything above ₹ 2 million was reinsured. Now everything about 10 million is reinsured?

Satyan Jambunathan: That is correct.

Suresh Ganapathy: In terms of percentage, what would be, say if I were to really look at retail protection, would it be earlier 50% reinsured now it will be 70% reinsured in terms of the overall protection premiums, or how should I look at that number?

Satyan Jambunathan: Earlier it used to be almost 60%-70% reinsured, now it will come down to less than 50% being reinsured.

Suresh Ganapathy: But something I am not convinced on the risk aspect. The fact that the reinsurance where, suppose if there is going to be another big COVID-19 wave, you are taking undue amount of risk on your book, how can you say that this is only a capital management issue?

Satyan Jambunathan: The whole point of this is not just about COVID-19, the fundamental part of risk here is about price commensurate with whom we are selling it to. And that is where the underwriting norms and the target markets come into play. If you heard what Amit described some time back, the way we have now repositioned our entire product suite is that the term life which is the earlier product without return of premium, will be positioned more as a better demographic profile oriented product. The mass and mass affluent customer base to whom we were earlier selling some part of the term life, we will now seek to migrate them to the term with return of premium, which has far more relaxed or liberal or higher expected mortality outcome priced into it. So, we are now looking at operating in this spectrum of customers with a series of products, each of which from a mortality outcome point of view, we consider a suitable fit to the segment that we are offering. Particularly with respect to your question on COVID-19, will a higher retention increase exposure to single events. It may very well increase exposure to single events. But we believe that in the longer term, the higher retention is commensurate with the outcome that we are expecting the product and in the shorter term, whether it is a single event or otherwise, we would much rather manage it from a risk management point of view, through capital provision or catastrophic reinsurance to deal with non-pandemic related single events.

Suresh Ganapathy: I am going to harp on this a bit more, because this is just important for everybody in the call. The challenge here is this is not going to stop here right, so the reinsurance hike expect further happen. Is the competition really tying your hands for you to really force yourself to take a decision because nothing like this was hinted in the previous call. Suddenly you have decided to take a higher risk on your book. So, is the competition tying your hands? Therefore you have gone ahead and taken this decision. And if there are subsequent further reinsurance hikes, what is going to be a strategy? Are you going to keep retaining more because some point in time the prices have to be 25%-30% if you can't retain so much on your books?

N. S. Kannan: Yes, first I will answer on competition, and then I will hand it over to Satyan to talk about the future reinsurance approach. On competition, first I want to tell you that competition is not making us to do this at all. Because if you look at even today, if I keep out the return on premium, if you look at the pure term life, in the entire industry we are the market leaders on the pure retail. The issue of the friction on the ground in terms of medical examinations, underwriting standards, etc. has impacted everybody, all of us together. And even within that, we have been able to maintain our market leadership, absolutely no problem on that. So we will not be guided by what competitors are doing in terms of our pricing strategy. Because last time around also, when we thought that we should be increasing the price higher than others, we did it. We didn't even think about it a couple of times. So that is our approach. So I want to assure you that it is not driven by competition at all, it is totally driven by our own data analytics on what has been our experience on that book of one crore and above, and how we should be looking at it. So, with all that decision of the risk committee of the Board and the Board we have taken this call. So, I just want to assure you that it is nothing to do with the competition, because if that is the case then even before we introduced all that, we will not be showing a 27%

margin at a growth of VNB of 35% for 9M-FY2022, which is actually higher than our targeted VNB growth. So that I want to assure you. I would like to hand it over to Satyan to talk about our overall reinsurance approach.

Satyan Jambunathan: I have been harping on across the past almost now eight quarters is, it matters less what reinsurance prices, it matters more whether the mortality outcome is in line with pricing or not. And I have said this repeatedly, every time at the results call, that view exactly remains the same. And therefore, from a reinsurance price point of view to the extent that I am reinsured, if there is a price change of course I will have to reflect it in the price to the customer. But the most important part of this is to deliver an underlying mortality experience, which is consistent with what we price for and with a higher retention. We are basically standing up and saying that I have even more faith that my price will work for the underwriting norms that I have put in.

Suresh Ganapathy: Certainly with long COVID-19 and all these kinds of issues, how can one be so confident about mortality experience? Are you appropriately pricing long COVID-19 into your products and stuff so, just for us to get a bit more clarity?

N. S. Kannan: I totally agree with your concern. But, I cannot be having a different underwriting standard for retaining in my book and different underwriting standard if I have to reinsure. It will come and bite me as I will run out of capacity or they will increase the price so much in the next cycle to recover all the losses. So that is not our approach at all. Whether I do the risk management or the reinsurer does the risk management, my underwriting standards have to be the same. I cannot say that somebody is going to backstop me and because of that I can relax my underwriting standard. That will come back and bite us. That’s not the way the industry itself operates. And definitely we don’t operate that way. So, it is just that based on upto a one crore portfolio in the past how the mortality has moved, and we are getting the confidence that whether they do it or we do doesn’t matter, I would rather retain the profit in that segment. And then we will do reinsurance as capital management. And finally catastrophic cover also exists, that is not going to really create a larger problem for the company. So, I would request you to look at it from that perspective rather than saying that I will relax my standard if there is a reinsurance and then I will ignore, which is not the way we can really build the portfolio.

Satyan Jambunathan: One last point. All said and done we have been talking about percentage price hikes. But again you have seen the comparison of prices, we are still not the cheapest in the market. So, the pricing strategy still is not to be the cheapest product.

Amit Palta: Just one thing, we may like to clarify that we have segmented, through deep analytics, our entire target market for our pure term covers. And not only we are prioritizing some of our desired profiles, there are also some profiles that we have eliminated in our strategy going forward. So, which has improved our capacity to not only have the best pricing to our best customers, and also at the same time reduce risk because of eliminating some of the profiles and geographies where we had the adverse profile. So, that’s something which helped us create capacity to keep our pricing hike limited.

Swarnabha Mukherjee: First, again on the retail protection side. I wanted to understand that now that you were pressing on this multiple levers of price hike and changing the underwriting thing, so does that imply that over time your supply side constraints would then come down, and your growth will be more volume driven, as opposed to this is a

price driven growth that we expect to because of the hike. And an addition to that is in terms of again the ROP products. So, I got a little bit confused in terms of the strategy, because if you were planning to sell it through the mass and mass affluent customer segment where you also sell the individual pure product, then how would you be seeing this as incremental gain opportunity. So if you could throw some color on that, and which channels would address that; so could this be again sold by ICICI Bank largely or across channels.

Satyan Jambunathan: I will first talk about the supply side constraints. So, fundamentally, what we are seeing at supply side constraints, are driven by some of the pandemic related situations. So, as long as the pandemic is live, some of them may very well continue to be there. Only once the pandemic subsides, and the environment improves, will some of these become tailwinds, if you will from a growth point of view. And therefore, in this context what is more important is not to go after unbridled growth in volume, but to ensure that what we write, is written on terms that we are comfortable with for the 30 or 40 years that we will be retaining the risk on our books. Going forward beyond the pandemic period, of course we would expect the volume driven growth to be the big driver. That is also our entire thesis with respect to the opportunity, where at the current point of time our estimation is just about 10% of the addressable population for term life actually has term life cover. So, yes indeed over a medium to long term, it will be a volume driven business. But in the short term, there are multiple levers that we will have to operate on to ensure that we write the business in a sensible fashion. To your question on, is there confusion on the positioning of the product, we would like to think not. Because fundamentally if I were to look at myself or yourself as a consumer, typically the more affluent people will not see value in the return of premium proposition. They would much rather go for a product which may not return premium but provides a higher cover which is what they are looking at. But typically, the more mass and mass affluent customers are the people who express a view to say that look, I don't have money to spend on insurance, at least what I can do is to convert part of that into savings, but still get sizable insurance cover. And that is the customer need, which is driving into the return of premium variants. But more importantly, like Amit described earlier in the conversation, this is not just the return of premium product. It is actually a product with a host of innovative features, which also has a return of premium features. So to that extent, given the customer segments that would typically prefer a pure term, and that would typically prefer a return of premium, you can see it in the industry data already today, the average sum assured of people writing pure term is ₹ 70 to 80 lakhs. The average sum assured of people that are selling term with return of premium is probably closer to ₹ 25 lakhs. So, it's a very different customer segment, which clearly is being established even by the current people who are selling the product. And that's the reason why we believe it will be an incremental opportunity.

Swarnabha Mukherjee: Sir my second question is on the reserve side for basically the COVID-19 claims. So at the end of this quarter it is ₹ 2.03 billion in terms of provisions, while at the end of last quarter it was at ₹ 4.12 billion. So, would you kindly tell us how the flow has been in this because I just wanted to know if there has been a reserve release because I can see that the incremental claim has been ₹ 1.2 billion net of reinsurance between Q2 and Q3, so if you could explain the flow in the provision?

Satyan Jambunathan: Yes, there has been a release of reserves. So, I will talk through the numbers and when we spoke of the numbers last quarter, the way we typically tagged

claims as potentially COVID-19 is based on what submission the customer has made. Eventually, when we assess the claim, then we do the final classification of what is COVID-19, and what is without COVID-19. So, in a way, there's a bit of reclassifying of the past numbers as well. So, I will talk through some of the numbers. Of the intimations that came to us in the quarter, claims on account of COVID-19 net of reinsurance was ₹ 0.7 billion. Out of this ₹ 0.7 billion a bulk of it, which is ₹ 0.65 billion pertained to deaths which had happened prior to October 1, which means Q1 and Q2. Like you mentioned, at the end of the last quarter, we had an IBNR provision of ₹ 1.13 billion, out of which we ended up utilizing roughly ₹ 0.65 billion. So, to that extent our provision at the end of the last quarter was still more than sufficient to cover what intimations we got with delays during the last quarter. We closed the quarter with an IBNR provision of ₹ 0.24 billion. So, net-net there was some release net of claims that we saw during the quarter. On the provision for future COVID-19 claims we had a provision of almost ₹ 3 billion at the end of last quarter. During the quarter, we only got about ₹ 0.05 billion worth of claims in that context. As against claims intimated of ₹ 0.05 billion, we continue to hold a provision of almost ₹ 1.80 billion. So, net-net when I put all of this together, I indeed have a provision release net of claims that I booked in the quarter of roughly ₹ 2 billion. In the financial statements, I do have a net provision release of about ₹ 2 billion. But when I look at the Balance Sheet provision, a further ₹ 1.8 billion of COVID-19 plus ₹ 0.24 billion of IBNR which is the ₹ 2 billion plus that we spoke about is still in the context of only ₹ 0.05 billion of intimated claims that we had in the last quarter. So, we still think that is a fairly prudent level of provision to carry as we go into the last quarter.

Swarnabha Mukherjee: If I may squeeze in one further question on the non-linked savings side. So this quarter has been slightly slower on this side. Now that a new product has come with very competitive IRR, your thoughts on how do you see it panning out, at which channels you want to utilize, considering that your larger partner is not selling traditional product?

N. S. Kannan: Amit you want to talk about the new product and the new IRR?

Amit Palta: We have introduced this guaranteed product in the long-term income space. As you know that guaranteed space is segmented into three type of customer benefits. One is lump sum, where a customer pays for a specific period and then gets a lump sum after the policy term. Then there are short term income, which is five years, seven years, and ten years kind of a timeframe over which customer gets guaranteed income. And then there was a large market which was catering to long term guaranteed income requirement of the customer. That is the space where we have introduced this new product with few additional features and that is something which is a very recent phenomenon. You are right that our larger bancassurance partner is not selling traditional products. Nevertheless, we believe in customer proposition and going by what we saw is early demand from some of our other distribution channels, we found it worthwhile to complete our offering. If you recollect, we launched our guaranteed products over a period of last 15 months in a graded manner. And we built ability over a period of last 12 to 15 months to keep adding to our guaranteed product proposition. So, we want to watch it closely, it has been taken up well. This is a space and demand which is already existing, it will be competitive pricing at some point in time. It goes through a re-calibration almost every month. There are committees in various insurance companies who take stock on pricing it is as you know. It is also linked to overall policy rates and government yields as well. So, it is a dynamic world and at times it may look like competitive, at times may not. But this

is something that we will take it. It is part of this product design that you will go and see it closely. But we are happy like what Kannan mentioned almost 72% of our business is now outside ICICI. So, no longer one can say that a large part of our distribution is not contributing. So, we still have 72% of our distribution, which is non-ICICI Bank and we are very happy to take care of the product design which exclusively suits this remaining part of our non-ICICI Bank distribution.

N. S. Kannan: Your question was specifically about here and now January and Q4, I would expect it to be taken up by the corporate agents, broker shops and multi partner banks. So that is where I would see some momentum coming through during this quarter.

Amit Palta: Just one thing I want to add. Contrary to belief that a mass and mass affluent customers tend to prefer guaranteed range of products, but actually, in case of a market volatility, we have seen quite a few of affluent customers looking at guaranteed product as part of their asset diversification strategy. So even when the markets were doing well, we did not see customers going away from their asset diversification in which they were making the choice on guaranteed range of products. And that is a trend which we are continuing to see. Markets have gone up and down a couple of times in last quarter as well but the demand for guaranteed space suggests that it is going to stay and it was not temporarily only linked to a market volatility. It is a good diversification tool even for affluent customers. So, we expect this trend to continue in January, February, and March as well.

Adarsh Parasrampuria: Going back to reinsurance. If the threshold moves from ₹ 2 million to ₹ 10 million the reinsurance levels could drop a lot more than that less than 50%. It could be a much more significant drop because I believe your average retail term insurance protection tickets were like ₹ 7-8 million. So correct me if it's wrong, your retentions could fall quite a lot more than closer to being 50%?

Satyan Jambunathan: It could, but what I am looking at is, with the change in our approach to underwriting and price, we have to see what proportion of our business comes above ₹ one crore. With a new product launch which is tuned more at the mass affluent which is expected to take us some of the smaller sum assured that we were selling in the retail protection, we have to see how much of it moves into that segment. That product carries a retention of ₹ 4 million while the pure term has a retention of ₹ 10 million. So, the reason I am putting it somewhere in between is that there are too many moving parts right now. We have to see where the mix gravitates before we are able to definitively conclude but you are right. It could even end up being more retained with us.

Adarsh Parasrampuria: Satyan just continuing on the same question, the way to look at it is this should be an industry level phenomena correct, and it's broadly not a choice you have right? It's what reinsurers really would have wanted more skin in the game, broadly is that the way to look or approaches are going to be dramatically different across insurance players?

Satyan Jambunathan: They can be quite different. What you said is correct, it is indeed the expectation of reinsurers that insurers should retain more. But I don't think any reinsurer is asking for retention to go up from ₹ 2 million to ₹ 10 million. And therefore that is a choice that individual companies depending on the strength of their Balance Sheet, depending on capital position, and depending on their own comfort on the price

and underwriting, will have to make a decision individually. So, you could end up with a range of practices across the industry after the change.

Adarsh Parasrampuria: This means when you take the threshold as high as you make a choice, you are almost saying that I am quite comfortable with my pricing now. So, there should not be need for more protection rate hikes for the category that you want to underwrite over the next two-three years. Because then if it requires a hike, then it means that you had lost money somewhere?

Satyan Jambunathan: Absolutely, that is a fair inference to make.

N. S. Kannan: It does require high conviction which we have.

Adarsh Parasrampuria: But I think the only important element here is that when you cut across the categories while I agree with the long term, it's about how much tightening the system had on underwriting so that the volume recovers and when it recovers?

Satyan Jambunathan: That's a fair point to make, which is why like I said before, the approach is no longer restricted to one product with one underwriting norms. The approach is now spread across two products, with differential underwriting norms, depending on the segment of customers that we are offering it to. To ensure that at the end of the day, each of these segments delivers an outcome of mortality which is consistent with the price that we are charging for them. Therefore, to that extent, the extension of the offering through the new product that we have made which like I said has higher expected mortality assumptions actually widens the market for us.

Sanketh Godha: We at peak level did almost retail protection business of ₹ 770 odd crores in FY2020. So, if the numbers go back to those levels, and we largely retain the sum assured on that kind of a business on our books. So assuming that numbers come back and we retain large part, then likely impact on the solvency which is around 202% right now. So, just wondering given the strain it has and also the captive consumption goes up, what likely impact would be there on solvency because of the quantum of business if we do in FY2022 or FY2023 rather I would say.

Satyan Jambunathan: We will watch it as it comes. The point that you made is indeed correct. Higher retention will mean a higher capital consumption. Our own expectation at this point of time is when we are projecting into FY2023, we still see ourselves as being comfortably capitalized. Beyond the FY2023 what is the utilization of capital we will have to monitor, but the point really being that if a strategy of retention help us retain more profits within the company, at a risk that the Balance Sheet is able to take, then that is something which is worth deploying capital for.

Deepika Mundra: Just on the distribution mix, can you tell us what was the non-ICICI Bank partner mix during the quarter and also the willingness of ICICI Bank to sell ROP products along with your term and annuity?

N. S. Kannan: We have already said that ICICI Bank has been doing between 27% and 28%. The overall Bancassurance is between 39% and 40%, so, you can conclude that the non-ICICI Bank would be about 12% of the mix. So, that is broadly the numbers for the non-Banca which has started becoming very significant. On the second issue of ICICI Bank

selling ROP definitely yes, I would request Amit to supplement if anything else he want to say about ICICI Bank taking up ROP.

Amit Palta: Yes, ICICI Bank in its stated strategy will continue to look at variants across protection category of products to take care of the requirements across their customer segments, which is both value banking, which they call it for mass and mass affluent customers, privileged banking customers as well as wealth customers. It is very much in-line to be launched with ICICI Bank as well.

Avinash Singh: If you can provide some color for the 9M retail protection policy count, or trend growth and the ticket size change. And on your retention again, so have you changed your retention policy on GTI and credit life? And in the backdrop of GTI, seeing a meaningful price increase in the last two quarters, and so far I mean COVID-19 being benign in the last two quarters, do you see your GTI profitability for this year could, surprise positively.

Satyan Jambunathan: From a GTI point of view, yes we will see how the experience emerges. We have built in certain elements of pricing for expected COVID-19. To the extent that actual claims are different from that we will keep re-calibrating our pricing, because you don't want to be in a situation where you are not adding value to a customer. So, that is something that we will track. So, if indeed claims are lower than it may be a positive surprise at the end of the year with respect to profitability of that portfolio. In answer to your question on retention strategy right now our retention strategy increase is for retail protection, it is possible at some point of time in the future that we consider extending it to the other segments of protection as well. But for now, it is only on the retail protection. In answer to your question on the number of policies on retail protection, that's not something that we have disclosed publicly separately. We will have to wait till the end of the year when we give the full breakup of all of these segments to give that colour.

Abhishek: If I understood correctly, going forward our focus will be more on the ROP product in term life. So, what kind of mix should one expect for let say FY2022 and FY2023 the split between ROP kind of product and pure term product. Secondly, in pure term product how are we going to protect our margins when the retention could be higher because of higher sum assured, and that might mean the reinsurance price hikes will be flowing through more in that product?

Satyan Jambunathan: ROP, I don't think we said that we are shifting our strategy to ROP. All I am saying is, we have added another product, another proposition, another offering to our arsenal, which helps us to expand the target market. Now, quite honestly, where the mix will settle down is uncertain, because there are a number of new segments that we are trying to create with the product that we have launched. So, we will wait to see at least one full quarter, which is this quarter, to understand where the mix of that is settling down to. With respect to the question on the reinsurance price hike, if I am retaining more effectively the reinsurance price hike has a lesser pass-through effect to customers. And therefore, to that extent, by retaining more, I am actually saying that I am less exposed from an end customer price point of view and an end profitability point of view to future changes in the reinsurance price hike.

Madhukar Ladha: I just wanted to get a clarification on the COVID-19 hit number for this quarter. So I believe you said that there is a reserve release of about ₹ 2 billion. But if you

look at the net claims post reinsurance they are at about ₹ 9.8 billion. And if I were to add that number for the first two quarters, that would be at about ₹ 8.6 billion. So, there's about an additional ₹ 1.2 billion charge for this quarter. Have I missed anything or?

Satyan Jambunathan: No, you haven't missed anything. Like I said earlier on, when we talk about claim amount on account of COVID-19 initially we do it based on the information submitted by the customer as part of a claim. Subsequently when we complete the assessment of the claim, then we may very well find that something which was represented as a COVID-19 claim may not be or which was not represented as a COVID-19 claim may actually be. Therefore, to that extent, for the past period there is a bit of reclassification, which happened. So, overall, if I were to see YTD minus YTD, you are right the numbers look more like ₹ 1.10 billion. But for the quarter purely of claims that got intimated to us, only ₹ 0.70 billion was recorded as claims on account of COVID-19. So, the reason I use that number is to illustrate very clearly that the pattern of claims on account of COVID-19 has come down very sharply to Q3 compared to the prior period. So yes, there is a little bit of reclassification back to the earlier period as we have completed the claim assessment.

Madhukar Ladha: Understood.

N. S. Kannan: You would be deriving around ₹ 1.20 billion, as against ₹ 0.70 billion right?

Madhukar Ladha: Right.

N. S. Kannan: So, both are right in their own way. If you just map back the date of death, the information for which was obtained.

Manish Shukla: Going back to reinsurance, you said that at ₹ 2 million that covers 60% to 70% of your portfolio. Given your customer positioning and ticket size, I would have expected that number to be significantly higher, the proportion?

Satyan Jambunathan: No, we were reinsuring 60% to 70%.

Manish Shukla: Anything more than ₹ 2 million was automatically reinsured, or it was discretionary?

Satyan Jambunathan: It was automatically reinsured.

Manish Shukla: Your ticket size and customer segment in which you have been operating till date before ROP, I would have expected a much larger proportion of your policies to qualify at ₹ 2 million plus.

Satyan Jambunathan: We had an average sum assured of about ₹ 7 million. So, given the ₹ 7 million average with a retention of ₹ 2 million give or take this is a 1/3 retention in that sense. So between 30% to 40% is what I was retaining, the rest was reinsured. I am using broadly rough numbers.

Manish Shukla: Your change of threshold was effective what date in terms of retention, ₹ 2 to ₹ 10 million?

Satyan Jambunathan: Last week of December.

Harshit Toshniwal: The question is with respect to our targets of doubling the VNB by FY2023. So, if I just look at the ask rate standing today, even if we kind of maintain a stable margins, we would be looking for a 15% to 20%, around 20% top line growth in FY2023. Now, just want to understand that, again when we look at the recent month numbers in November, December our Y-o-Y growth rates have started moderating to a 10%-15% levels. But just want to understand the confidence levels for achieving 15%, 20% growth on FY2022 base, how you look at that target, I agree that we clearly has an aspirational target on VNB. But VNB margin is something which we would expect to be stable over there but clocking a ₹ 90 billion kind of an APE in FY2023, how do you achieve that ₹ 90 or rather ₹ 100 billion APE? how should we look at that number?

Satyan Jambunathan: Fundamentally, what we are looking at is multiple channels contributing to the growth. If you see all of the channels that we have been building out during this year, whether it is agency, whether it is new bank partnerships, whether it is non-Banca partnerships, all of them, and like Amit mentioned this in answer to an earlier question, collectively have been growing in excess of 40% this year. And particularly even in the third quarter, they have been growing closer to the 20% number that you spoke about. So, 15% to 20%, in the context of the build out that we are putting on these channels seems reasonable.

Amit Palta: Two elements, I want to just add Satyan, over to what you are talking. See, first of all this year has been, for large part of this year almost nine months has been quite muted on protection line of business. With introduction of new products and what we have now opened a new segment through ROP, one we of course have a play for entire twelve month period next year. Couple of more interventions that we did even on a non-linked savings business, which was addressing almost 40%-45% of the overall guaranteed space which we have now opened for us, which was applicable only for three-four months in this year will actually be available to us for entire twelve month periods that's the second one. Third is by organic nature of some of our distribution channels, like for instance partnership distribution, we add 50 to 100 partners every year and that is what we have seen both through organic which is efficiency-led growth and also through inorganic addition of partners, we have been consistently growing in excess of 30% in the entire distribution space of partnership distribution. That is something which gives us confidence. And other than this, banks if you ask me, we still believe that the current penetration levels, which exists in our existing banca partners and with completeness of the product profile that we have added over a period of time, I guess this is only the first full twelve months period that we have experienced with our new partners. And of course organically we expect them to grow further from where they are currently. We are seeing some of our partners actually experiencing growth in excess of 40% where the entire growth has been contributed only because of partnership with us. So, their existing incumbent partner has been able to stay at a similar level or a single digit growth, but the large part of growth has been contributed by us. And they are all fee hungry distribution channels. And we do believe that their fee aspirations will only grow from their current levels. And we will be their beneficiaries in terms of growing through our partnerships further next financial year over what we have delivered this year.

Harshit Toshniwal: The reason I just asked is to ensure that going forwards it is going to be the APE growth, which will be the key driver for us to track in terms of the achievement of that 2x VNB.

Amit Palta: It will be a mix of both. Like I just mentioned because protection, the annuity range of products as well as what I mentioned about non-linked savings guaranteed product, these were the introductions towards the latter part of this year, which will be available for entire twelve months period which may contribute towards margin expansion as well. So, it will be a combination how it pans out starting next year we will see. But of course, large part of it will be APE driven, but margin expansion has also not ruled out.

Nidhesh Jain: Firstly on the long term guaranteed products. We have been staying away from those products in the past. So what make us confident to launch these products in this quarter from a hedging perspective?

N. S. Kannan: We said that two aspects of this business can make it bad. One is assuming that guarantee will be paid for by the lapsation. So, that approach continues. So to that extent, we are not factoring in lapsation and all that. We are just mindful of the lapsation being higher and still having to deliver. So that one boundary is something which we are taking is the actual persistency experience in our past non-linked savings products. The second is clearly that we have talked about the market instruments and derivatives being available. And said that to the extent it can be manufactured well, we will be able to execute this product. That has been our approach. So, we are getting more instruments available, more counterparties are coming today. We never believed in internal hedging and all that, so we never wanted to do that. That was the second point of objection to launching this product in a big way. So, here also we look at a premium payment up to 10 years only. And each tranche of new business will have a hedging program and when the market seems to be quite liquid today. And we have locked in the yield for the future premium. And of course, we look at the underlying bonds for derivatives selected keeping in mind the liability tenure. So, those instruments are available today. And we do believe that this is something which can be executed without taking too much risk. That's why we are getting more confident today than in the past, launching and selling these products. Of course, we will review pricing based on the interest rate environment that may not be applicable for the tranches that are already sold. But in the future we will keep calibrating it to make sure that we are quite on track for that.

Nidhesh Jain: Second is on the reinsurance strategy. Just thinking about it. It doesn't look very obvious because we keep hearing that the reinsurers have been making losses, even before COVID-19 they were making losses on this portfolio. And now we are increasing our retention rate quite significantly. So, we are hinting that our portfolio reinsurers are making profits? And we believe that, we want to make that profit on our own rather than keep passing on that benefit to the reinsurers. Is the way that we are hinting?

Satyan Jambunathan: Not really. I would hesitate to say that. All I am saying is and this is something that Kannan spoke about earlier and Amit also repeated the way we looked at our experience of the portfolio. We broke it up into segments of where we were getting favourable experience and where we were not getting favourable experience. So, what we were also looking at as what was the proportion of business which was giving us the less favourable experience. So, all that we have done is to cut the tail on those segments of business which were giving us more claims so that we could bring the experience back in line with the price. Like, I have said before, whether it is my price or the reinsurers price is less relevant. What is more important is how we bring experience to line with price. And that's the reason why the offering that we are now making of the old term without return of premium product is going to be slightly different from who I was offering it to. So, there

are some segments that I am letting consciously to ensure that claims are within the limits. So, I am not saying that reinsurance has not made a loss because of me. But, I am saying that I have got enough data from segments in the past to give me comfort that for those segments, I can underwrite it in a profitable fashion.

Nidhesh Jain: In that context, doesn't it make a logical sense that pure protection, except outside of ROP will not see a very meaningful growth even next year, because we will cut down some segments which were not profitable in the past?

Satyan Jambunathan: That's the interesting part of it. The size of the tail that was contributing to the poor experience actually is not very large. The loss of business because of cutting it is really not something we would worry about in the context of the opportunity. All that we have to do is to make sure that we are disciplined about not taking undue risk. So I don't think that this will affect the growth prospects, we are not in that way restricting the target market to say half of what it was before that's not what we are doing. We are cutting the tail, it's a small tail in volume, but a big tail in terms of experience.

N. S. Kannan: That is analysis we have really made before we went to the Board committee. To look at, just a natural question by any Board member is if you cut that tail how much of business hit you are going to take. So, that was really something which is quite manageable by us. And just look at the base today of retail protection. We do believe that from here on it can only be one way which is the way up. So, those are the couple of analysis which we did we are very confident. And also one area which probably we don't focus a lot on is that even we talked about retail protection and so on, we have backfilled it quite well through the credit life and group term business, which has really helped us during this period, even as our retail was still struggling on a year-on-year de-growth, because of various reasons. We have been able to manage the overall protection growth of 22% that is something which probably we don't spend so much time. We get all of us sort of focus so much on retail protection and the price increase that we have been able to work on the other areas to significantly bring the overall or at least mitigate the risk arising out of low volumes in retail protection. Another area what we have done is if you really look at the non-protection businesses, non-linked products, there we have been able to work a lot in terms of enhancing the margins by elongating the tenures and so on. Today the confidence we have in our margin or the overall VNB story is that we have multiple levers available. And also in some of the cases, we have done an increased attachment of riders. So, while yes, we were talking a lot in the public about retail protection and the price increase because that is the flavor of the day, we worked systematically on various aspects of our business i.e. non-linked how to increase the margins, how to bring in attachments of riders to increase, in protection how do we increase our pricing in group credit life, how to increase the pricing in group term and still get volumes up. Those are five-six things which we don't discuss much because the discourse got too much carried away by retail protection during this period. So today, I would say to again, to summarize the kind of levers which are available to us both from channel perspective and the product perspective to aid our growth aspiration on VNB is much more today compared to what was there three years back, that assurance I want to give you all.

Ajox Frederick: As long as I have known, ICICI Prudential as a cautious and conservative firm because be it non-par we took our time to come in, be it long term products we took our time. Price hike on protection we passed completely last year. But right now, I am

seeing a pretty aggressive stance across board, be it the IRR rates or protection retention rates. So, what is giving us this shift in stance? If you can touch upon your capability increase or the document aggregator you are talking about. So, apart from the usual topics that you have already discussed, what else giving us the confidence?

N. S. Kannan: I would say that our approach of being cautious and especially when it comes to risk management hasn't changed at all that I want to assure you. That suddenly it's not that we have become aggressive and then doing various things. I will request Satyan to talk about the issue around the logic for retention. But I would like to say, the IRR rate which we talked about, is based on full coverage of our ability to execute this rate based on the cash instrument plus derivative. So, what we do is that every quarter we go to the Board, and we tell them that what is the rate which we are able to execute with a cash plus derivative on the book, which is being sold in that particular month versus what we have promised to the customers. Without that we don't do that business. And you have seen the rate going up and we have seen certain moments in the financial markets. Because of that we have been able to pass on the rate. Even now we may not be extremely competitive when it comes to our IRR of competitors, but so be it, that is our approach towards what IRR we want to promise in the non-linked business. Coming to retention again, the approach we have taken is that in a particular portfolio, of up to one crore. If the experience is so good that we don't require reinsurance why part the profits with the reinsurer. Reinsurers are required for an area which is like a catastrophic where there is a loss given default is very high, or in an area where we require their presence, because we are not yet sure of the full emergence of mortality. Those are the two situations where we require their presence much more. So, what we have done is that as Satyan mentioned earlier, a certain percentage of business we have cut out because the mortality experience was adverse. So to that extent, it didn't entail any cross subsidization with other businesses or increasing the pricing in the other segments. That is one part we have done and other part we have done is that we looked at the one crore above portfolio. We are very happy with retaining and because of the kind of mortality emergence which has been there in the portfolio in the past. And that is the basis on which we have done. So, any such move will continue to be guided by our framework of being cautious, and at the same time ensuring that, we take the market realities into account and ensure that we do it in a sensible manner. Satyan, you want to just elaborate anything on IRR setting, as well as the retention philosophy beyond what I mentioned.

Ajox Frederick: Satyan if you can touch upon the technology piece bit because you guys have really showcased your ability there. And I am assuming that is also helping you pricing the risk in a much better fashion. So, some color on that document aggregator, or is that helping you a lot, on that side?

N. S. Kannan: Essentially the way we looked at during this phase. There are two things, one we have some kind of friction on the ground to do the fulfillment because of the pandemic triggered environment. On the other side, we are seeing a huge transformation when it comes to payment and financial ecosystem. You have seen the payments, the way it is going, the aggregators, account aggregators, and so on coming in. We thought we should combine these two and that how we came at this. How to make it smooth? Without asking customer for too many things, how based on his approval and what is available in the ecosystem? How we can issue the policy in a seamless manner. So that customer convenience has been a motivator to come with these kind of solutions. And to answer

more comprehensively on our technology initiatives I would request Satyan to come in now.

Satyan Jambunathan: The entire technology phase has been premised on like Kannan said, at the first level from a protection business point of view. How can we analyze our book and experience better to improve the way we are doing risk management and pricing. And therefore we have been describing multiple times through the conversation today. The second part of the technology initiative has been around integrating with ecosystems, like Kannan said to reduce the friction of onboarding to the extent that it is possible. But clearly at this point of time, it is also contingent on the customer giving consent. As the entire payment ecosystem evolves, and as the account aggregator system evolves, I would expect that to further ease the entire documentation and verification process as far as our own assessment of an individual's earning capacity or demographic profile are concerned. So, as we go ahead, I would only expect the ecosystem information and integration to further ease the way onboarding happens. And clearly, as we capture more and more information about customers, our ability to segment them further, and then feed that back into a more customized pricing or underwriting process is what will actually set us apart from others.

Sujalkumar: Just coming back again to reinsurer's retention strategy. So, with our retention strategy now moving to ₹ 1 crore plus we targeting better demographic customers, so are we also changing our mortality assumption? If that so, does the current pricing takes account for that and are the pricing is marginally equal any thoughts on that?

Satyan Jambunathan: Yes, the assumption is finally an outcome. The way it is stacking up today is there is a price I am offering, there is an expected mortality for the underlying segment that is suited for that price. Given that these two are a good fit, we are choosing to retain what we are retaining and offer the price that we are offering. Assumptions eventually will be set once these elements of experience start to crystallize. If the experience emerges, as we expect it to, then from a profitability point of view, with the retention strategy, and with the pricing strategy that we have now deployed on the ground, we expect the portfolio margins to be at similar levels to what it was before and not be reduced. So, that's really the objective protect margins, ensure that the price and the expected mortality outcome are in sync given the underwriting that we want to deploy and the target market that we want to cater to.

Swarnabha Mukherjee: One quick question on the cost side. Your cost ratios, because you mentioned that additional number hiring and technology investment, is bit elevated compared to where it was last year. So, I was wondering, what has been baked in to the EV calculations at the assumption as of the end of last year? And because of these higher cost ratios do we expect to see any kind of negative impact of say operating variance or assumption changes that may happen when we get closer to the year?

Satyan Jambunathan: The expense ratios as we report them, which is the cost to total weighted receive premium, whether we like it or not is a bit of a composite measure, which has in the numerator cost and in the denominator all premium, including renewals premium. In reality, when we set assumptions for expenses, or when we measure the cost of acquisition of a business, it is more related to new business. And when we measure maintenance cost of a business, it is more related to inforce book. And therefore from what we are seeing in the current year, while this ratio that you are observing is becoming

higher, given that the cost increase is actually less than the new business growth increase, we don't expect any adverse implications from margin point of view arising out of cost.

Swarnabha Mukherjee: This is also in sync with the assumptions that have been set right?

Satyan Jambunathan: The margins that we have reported for nine months further are based on nine months of actual costs, and three months of projected cost. When we do full year reporting next quarter, it will be based on the full actual cost for the year. There will be no expense overruns.

N. S. Kannan: Thank you once again to everyone for joining the call. I do hope that my team and I have answered most of your questions satisfactorily. In case anything else is pending or you would like further clarifications, please feel to reach out my team or me anytime. Thank you once again, have a good evening.

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