ICICI Prudential Life Insurance Company

Earnings conference call

Year ended March 31, 2019 (FY2019)

April 24, 2019

N S Kannan:

Good evening and welcome to the results call of ICICI Prudential Life Insurance Company for the financial year 2019. I have with me here, my colleagues Puneet Nanda our Deputy Managing Director and Satyan Jambunathan our Chief Financial Officer.

To begin with, I would like to highlight that, as required by the SEBI (Listing Obligations and Disclosure Requirements) Regulations read with Securities Contracts (Regulation) Rules, the Company has met the minimum public shareholding requirements of twenty five per cent during the quarter ended March 2019. During the last quarter, Prudential Corporation Holdings Limited divested 3.71% shareholding in the company as Offer for Sale (OFS), through exchange mechanism.

I would also like to inform you that the Board has recommended a final dividend of ₹ 1.55 per share which translates to about 40% of PAT (excluding DDT) for H2-FY2019. This dividend proposal is subject to shareholders' approval.

I will now talk about key highlights of our performance for fiscal 2019 along with our key strategic imperatives. We have put up the results presentation on our website. You can refer to it as we walk you through our performance. After my remarks, Satyan will discuss the performance

in greater detail. At the end, Puneet, Satyan and I will be happy to take any questions that you may have.

As I mentioned in the previous calls, we had set ourselves the objective of growing the absolute value of new business i.e. VNB through the 4P strategy of Premium growth, Protection business growth, Persistency improvement and Productivity improvement targeted at improving cost ratios. We believe that this 4P strategy is appropriate in the context of the huge insurance opportunity in the country, coupled with our objective to grow the VNB. If you recall, at 9M-FY2019, we had spoken specifically regarding the two immediate priorities i.e. premium growth and persistency improvement. We had undertaken some initiatives to address these two priorities, even as we stayed course on our medium term strategy to take advantage of the huge insurance opportunity presented by our country.

So, the first priority we had set was to bring back the growth momentum. You would recall that our APE had declined 4.2% during 9M-FY2019. We had put in place various initiatives such as engagement with key distributors serving affluent customers; and distribution and product initiatives to widen our customer base. We believe that these initiatives are required to make our business model more resilient in the medium term, and not just to address the immediate priorities. You would have already seen some of the results of these initiatives reflect in the monthly new business trends that we reported over this quarter. I am happy to report that new business APE for Q4-FY2019 grew by 11% year on year. With this, the APE for FY2019 was ₹ 77.99 billion. During Q4 last year, we

had aligned the definition of group term APE with other industry players. Adjusted for impact of change in APE definition for base period, the growth rate was 14% for Q4-FY2019 and 15% for March 2019. While we ended the year flat on APE, we step into new financial year with a positive quarterly growth momentum.

As I mentioned, in order to set up a platform for long term resilient and sustainable growth, we had embarked on a journey of broadening our customer base. Our number of savings new business policies grew at ~19% year on year for Q4-FY2019.

Our second immediate priority was to improve persistency, which continues to be a key focus area. We had seen some decline in the 13th month persistency at December 2018. If you recall, we had mentioned that persistency of high average premium segment had been particularly impacted, given the difficult market environment. We intensified our communication to both our distributors and our customers to address any concerns about the environment that they may have had. Some of this worked well during the quarter with our 13th month persistency improving to 86.1% from 84.1% at December end 2018. We also saw our 49th month persistency improving further to ~64% at the end of March 2019.

Now, even as these immediate priorities were getting addressed, we continued to make significant progress on our protection journey. As you are aware, our country's demographics, coupled with the low insurance coverage, provide a large untapped opportunity for protection business. With our focus on retail business and building partnerships, our protection new business received premium has multiplied seven fold

within a span of three years. During FY2019, it more than doubled to ₹ 21.4 billion. Protection business now constitutes more than ~20% of our new business received premium, compared to ~11% in FY2018. On an APE basis, protection accounts for 9.3% of our overall APE.

As we have discussed in the past, the protection business, if managed well, can be more profitable than the savings business. Our focus on this customer need, along with our strong risk management practices to ensure sustained profitability, has resulted in a robust growth in our Value of New Business (VNB) over the last few years. This has also resulted in the share of VNB from our protection business in the total VNB growing steadily. With great satisfaction we see the VNB from Protection business now accounting for more than half our overall VNB.

We believe that we are now well on our way to diversify our sources of profits. With protection VNB constituting 60% of our VNB and with the growth in the protection business being robust, we now see our VNB growth being less susceptible to just the growth of our savings business. Along with our efforts to further broaden our customer franchise, we believe that we are well positioned for the future in this regard.

I would like to summarise the performance review for the quarter by saying that we returned to the growth path, made significant strides in protection business in terms of both top line & value and maintained the quality of overall business of the Company.

To briefly talk about our performance for the year, we have ended the year with a slightly positive growth of APE, fuelled by a 62% growth in protection APE. The 13th month persistency stands at 86.1%.

Consequently, our margin for the year stands at 17% with the VNB at ₹ 13.28 billion.

We have made annual disclosures on Embedded Value. Our embedded value increased to ₹ 216.23 billion as on March 2019, a growth of 15.1% over the fiscal year. Pre dividend Embedded value has grown by ~20%. Embedded value operating profit for FY2019 was ₹ 38.01 billion, with the Return on Embedded Value of 20.2%.

I would now like to conclude by articulating our agenda for FY2020.

As we begin the fiscal year, we continue on the path that we had set for ourselves. We seek to grow VNB through the 4P strategy of Premium growth, Protection business growth, Persistency improvement and Productivity improvement targeted at improving expense ratios.

On the first P of Premium growth, we have discussed our strength in the affluent customer base, which we will seek to defend. We have also discussed our desire to broaden the customer base so that we can increase penetration in under-served customer segments. We will pursue this through a variety of initiatives spanning across both distribution channels and products.

Our focus across channels will be to enhance our current distribution. We intend to do this through a closer mapping of distribution segments with customer segments and products.

We will also work at expanding our distribution network through acquisition of new partners as well investing in creation of new sourcing channels.

We believe that annuity business is a very significant opportunity as more people seek to provide for incomes post retirement. The key consideration for this business is to ensure that we do not take disproportionate investment risks. We will continue to provide solutions to customers to meet this need while ensuring that we manage Balance Sheet risk appropriately.

On the second P of protection Business growth, I spoke earlier of the progress we made on this journey over the years and that it now accounts for 60% of our VNB. We will endeavour to continue on this path during the coming year across both retail and group lines of business.

On the third P of persistency improvement, we have seen marked improvement in the early persistency buckets across the years. As we go forward, we seek to drive similar improvements across all cohorts.

On the fourth P of productivity improvement, we will continue to leverage technology to improve cost ratios. We have been an early adopter in this area and will continue to raise the bar. I believe that enhanced use of emerging areas such as Artificial Intelligence, Data Lake, and Cloud Hosting of applications will improve customer and distributor experience and bring greater risk control and efficiency to our business, as well as efficiency and productivity improvement to our distributors.

Given the opportunity that we see in the market and our 4P strategy to leverage this opportunity, we have set ourselves an aspiration to double our VNB over the next three to four years.

I thank you for your attention and now hand over to Satyan to discuss the results in greater detail.

Satyan Jambunathan: Thank you Kannan. Good evening.

Our strategy continues to be to create value for our stakeholders namely Customers, Employees and Shareholders. With our customer centric approach, we have seen improvement across the service parameters. Our Claim settlement ratio has increased from 97.9% in FY2018 to 98.6% for FY2019. Average time taken for settlement of claim was ~2.3 days in FY2019. Our Grievance ratio as well has improved to 72 per 10,000 policies sold during the year.

On the people side, we are currently a 14,000+ strong organisation. Over 90% of our top managers have been with us for more than 10 years. Our approach of building a talent pool has led to about 70% of our top managers having varied job experience within our organisation.

For our Shareholders, our primary focus continues to be to grow the absolute Value of New Business (VNB) through the 4P strategy of Premium growth, Protection business growth, Persistency improvement and Productivity improvement targeted at improving cost ratios.

On Premium growth, as Kannan mentioned, our immediate priority was to grow in Q4. For Q4-FY2019, we have registered a growth of ~11%, resulting in the overall numbers for FY2019 being flat. Also as we had mentioned earlier, we had aligned the method of measurement of Group term APE with rest of the industry during Q4-FY2018. Adjusted for this, the growth rate for Q4-FY2019 was 14% year on year. Our endeavour is to continue this Q4 growth momentum into the next year as well. We continue with our focus on retail business which contributed more than 95% of our APE.

When we look at our growth across product categories, we find that all segments have grown in Q4. For the year, unit linked products continued to be our mainstay with a mix of ~80%.

Non-participating savings segment has seen significant growth during the year, on the back of our continued focus on immediate annuity business. Our annuity business has doubled during the year from ₹ 3.11 billion to ₹ 6.85 billion of single premium. This translates into an APE of ₹ 0.69 billion for FY2019.

Protection continued to register a significant growth with an APE OF ₹ 7.22 billion for FY2019. Protection mix stood at 9.3% of APE.

On the distribution channels, we have continued to invest across channels such as agency, bancassurance partnerships, proprietary sales force, corporate agents and brokers including web aggregators. It is encouraging to note that all key channels have grown in Q4-FY2019. For FY2019, Bancassurance had the strongest growth at 7%. We have a well-diversified distribution mix with non-promoter channels contributing around half of our FY2019 APE. The growth in group business APE has been driven by protection.

Our second strategic element of protection. As Kannan mentioned, we increased our focus on protection since FY2016. Various initiatives have been undertaken resulting in the growth of the segment at a multiple of savings growth over the past few years. We are pleased to see the momentum continue during the year with a protection APE growth rate of ~62%.

Within protection business, retail contributes more than 60% of our protection APE. It is important to note that, with longer tenure and greater granularity, retail protection products tend to be more profitable.

During the year we have seen APE growth being volatile across the months. However protection APE growth was robust and consistent. Overall for 2 quarters in a row we have seen protection business contributing about 10% of our new business APE. Within the protection business, credit life is an area where we have been building partnerships over the past few years. While we gained a lot of traction in retail protection, on credit life we primarily operated with ICICI Bank. Over the past few years we have been building partnerships which has now resulted in premium received from credit life multiplying more than ~9 times within a span of three years. In fact in the last year it has more than doubled to ₹ 15.14 billion.

Even after this growth in the credit life business, the third party segment contributes under 14% of our protection APE.

In partnership with ICICI Bank, we have worked on delivering a competitive product proposition to its customers which has helped us deepen penetration in their portfolio as well.

The third element of persistency. We believe, customer retention is probably the most effective indicator of the quality of sale and is a barometer of customer experience. At December 2018, we had seen some decline in the 13th month persistency. With focus on building the confidence of our policyholders and encouraging them to pay the renewal

premiums, 13th month persistency improved during Q4-FY2019 and was stable at 86.1% at March 2019.

The 25th month persistency is marginally lower compared to last year. While it is still better than our profitability assumption, we continue to work on improving this.

All other cohorts have seen meaningful improvement in persistency. Consequent to our focus on persistency, our retail renewal premium grew by ~16% to ₹ 202 billion in FY2019. Beyond the 49th month, surrenders is a key and our focus on ensuring that the customer gets the full intended benefit, which also feeds into the improved profitability to the Company has resulted in decline of surrenders by 21% year on year. From a profitability perspective, our persistency and surrender experience continues to be better than our assumptions factored in the VNB and EV calculation.

The fourth element of cost ratios. Improving productivity within all parts of the organisation from sales to service has resulted in our cost ratios coming down over the years. As we redouble our focus on protection, we are also conscious that we will have to invest in this segment resulting in some potential increase in cost ratios. The decline of 4% in savings business against what we started the year as a planned growth, further affected our cost ratio adversely. Our overall cost to TWRP ratio moved from 13.7% in FY2018 to 15.0% for Fy2019.

Within our cost initiatives, on the technology front, multiple initiatives across the product life cycle are undertaken regularly. Some of the

industry leading initiatives namely customer profiler, instant reader, WhatsApp interface have been implemented during the year.

The outcome of our focus on these 4Ps has resulted in our Value of New Business of ₹ 13.28 billion for FY2019 compared to ₹ 12.86 billion for FY2018. The VNB margin is 17.0% for FY2019 as compared to 16.5% for FY2018.

The change in margin from 16.5% to 17% is contributed through the following.. Favourable business mix primarily on account of protection growth led to an increase in margin by 2.2%. Assumption changes led to an increase in margins by 0.9%. However, higher acquisition cost as we just discussed resulted in a deterioration of 2.6% in the margin.

Overall Embedded value increased by 15.1% to ₹ 216.23 billion at March 2019. Pre Dividend EV grew by ~20% over last year. Within in the Value of in force grew by ~21% to ₹ 142.69 billion at March 2019. The growth in VIF is primarily led by VNB as well as positive operating variances.

Embedded Value of Operating Profit (EVOP) for the year was ₹ 38.01 billion. VNB continues to be a significant share of EVOP. Operating variances namely persistency, mortality/morbidity and expense variance continued to be positive for the year. Our Return on Embedded Value (ROEV) stands at 20.2% for FY2019.

The operating assumption change described in the margin is predominantly due to true up impact of effective tax rate, reduction in maintenance expenses and reduction in surrender rates beyond 5 years for unit-linked business some of which we have reflected in assumptions.

Next Slide presents Embedded Value development for three years. We continue to maintain the positive variances seen across the operating parameters; which gives us a confidence on our assumptions built into VNB and EV computation.

If we look at sensitivity table rates in comparison with last year. Given the increased contribution of protection business VNB & EV sensitivity to mortality rates has increased significantly.. Other sensitivities continue to be fairly stable. Also VNB & EV sensitivity to acquisition expenses has increased during the year on account of higher cost ratio which I mentioned.

The profit after tax for FY2019 was ₹ 11.41 billion as compared to ₹ 16.20 billion for FY2018. The drop in profit is explained by an increase in new business strain resulting from strong growth in protection and annuity segment, which have been and continues to be our focus areas. The new business strain of protection and annuity is significantly higher than saving products while it is margin accretive.

Solvency ratio continues to be strong at 215%. The Board has recommended a final dividend of ₹ 1.55 per share which translates to about 40% of PAT (excluding DDT) for H2-FY2019.

To summarize, we continue to monitor ourselves on the 4P framework of "Premium growth", "Protection business growth", "Persistency improvement" and "Productivity improvement to improve expense ratios". Our performance on these dimensions is what we expect to feed into our VNB growth over time. Thank you and we are now happy to take any questions that you may have.

Amey Sathe: How do you measure the productivity of your advertisement and publicity expenses which is around ₹ 280 crores for this quarter and around ₹ 670 crores for the year?

Satyan Jambunathan: We have said this in our past results as well, as we are going on the path of improving our protection business, it is quite important for us to improve awareness and part of that journey is to advertise across the variety of mediums, some is above the line and a lot of it is below the line and local level so that we can increase awareness. Even at these levels of expenses, it is fully factored into the profitability for the protection business, and therefore it ends up being value accretive. I think this is an unavoidable expense because without awareness we cannot make meaningful progress under protection segment.

Amey Sathe: This current trend will continue at this level of expenditure on advertisement?

Satyan Jambunathan: Yes, we expect the advertising expense to be at these levels for the foreseeable future.

Amey Sathe: How much of your target of doubling the VNB in next three years would be driven by the margin improvement and what will be drivers of those margin improvement?

Satyan Jambunathan: We have always looked at our business growth in absolute VNB, not just with respect to margins. But having said that, a big driver of the growth in VNB will come from the new business growth.

Along with that, as our protection business mix improves from current 10% that we are at, it will be a key contributor for the margin expansion.

N S Kannan: As we said in the opening remarks that we will double the VNB in three to four years. Secondly as we have said that the path towards that will continue to be the 4Ps. We would like to press all the four levers as we move forward. As Satyan mentioned, a good part of this will be played by the premium growth as well as the protection growth, and that is the way we are looking at it in terms of expansion of our VNB.

Nidhesh Jain: In the EV can you explain why there is a very high operating assumption change and what assumptions we have changed in this year?

N S Kannan: If I remember the number, last year it was actually almost double of this number i.e. ~₹ 7 billion, so to that extent it has actually reduced from ~ ₹ 7 billion to ₹ 4.2 billion. Satyan mentioned briefly about this in his remarks and can take us through the components of where all it has come.

Satyan Jambunathan: The key elements are, one, we always true up the effective tax rate given the current year. Second, given the improvement in persistency our maintenance cost per unit have been declining, that is reflected into the future because we project it based on an actual cost. The third is that on the unit linked business beyond five years we have again spoken about it that our persistency has been improving, surrender rates have been coming down. Some of that we have taken into the assumption change. Even after the assumption change you will notice that the persistency variance has improved from the last year to ₹ 2.66 billion for

this year. So while we have taken some of it and even if we maintain the current year experience, we still think there is an opportunity over the next few years which should start flowing in margin and EV.

N S Kannan: And we are quite sensitive to the fact that we would like to keep the other operating variances in the positive territory that is something we will be factoring in terms of our assumption changes going forward as well.

Nidhesh Jain: On taxation, so have we further reduced our tax rate assumption this year versus the last year?

Satyan Jambunathan: No assumption, this is based on the trends of effective tax rate. From the financials we will be able to get that, there is some reduction in the effective tax rate this year, that is what is reflected. But that is not the biggest part.

Nidhesh Jain: On persistency, there is no change in the lapsation assumption for 13th month or 25th month, it is just a surrender assumption after fifth year where we have made a change?

Satyan Jambunathan: Correct

N S Kannan: We have seen the development of the early buckets over the last four quarters, and we would like to observe the trend for some more time. So that is why we have not really released anything there.

Nidhesh Jain: On the mortality side we have seen quite a bit of improvement in operating variance, so any thought on taking that in assumption changes over a period of time?

Satyan Jambunathan: Right now, what you are seeing is on a larger sum assured book that being reflected. So we will just wait to see mortality experience stabilize over period of time before we make any meaningful changes.

Nidhesh Jain: Because it has almost more than doubled on a YoY basis?

Satyan Jambunathan: Yes, the overall sum assured itself has grown by about 40%. So a large part of this is coming from the book expansion also.

Nidhesh Jain: I understand the higher acquisition cost has impacted margins negatively. So is the lower growth in saving business the reason for this or it's something else?

Satyan Jambunathan: Lower growth in the savings business is the main reason for this.

N S Kannan: This is what we have articulated in the last quarter also when we put out the numbers. The reason why we are marking the margin at 17% is mainly on account on that.

Nidhesh Jain: If you look at nine months margin and full year margin, again, there is no much change, while protection share has again improved. And we have also done these operating assumption changes. So how we should look at the margins for nine months and full year?

Satyan Jambunathan: If you recollect even during nine months analyst call, we had said that we were projecting for a roughly flat new business, and that is reflecting. The protection mix has improved a little bit from then to the fourth quarter, but that is what we had projected.

Nidhesh Jain: So is it to understand that basically, there is slightly higher acquisition expense versus what we have projected for the nine month?

Satyan Jambunathan: Yes in the last quarter.

Dhaval Gada: Can you please share some guidance around the protection premium like you have shared around VNB? Which protection segment and where the numbers could be? Maybe next three to four years' time, could it more than double? Secondly, what are the reason for protection margins declining from 124% in FY2018 to 109% in FY2019? Also could you comment a little bit on what is absolute level of new business strain in FY2019?

N S Kannan: The protection APE was at a little over ₹ 7 billion for FY2019. While I have talked about doubling the VNB for the company in three to four years, we have not specifically mentioned anything about a particular product mix. I would say that the expectation among us here is that the protection business APE will continue to grow ahead of the savings and the overall company APE growth. That is something which we can say. And as a result, we can also say that the protection mix in our overall APE will keep growing from there. So beyond that, we have not really put out a specific number on the protection line of business growing to a particular amount.

Satyan Jambunathan: To answer your question on the protection margin, as you would have noticed the composition of protection business, the group protection business grew faster. The margin is just a reflection of what is happening on the relative mix between the individual protection and the group protection business.

Dhaval Gada: So how much is group protection?

Satyan Jambunathan: 60% of the protection APE is retail. The rest is group.

Dhaval Gada: And this in FY2018 was?

Satyan Jambunathan: Group protection was lower.

Dhaval Gada: Okay.

N S Kannan: If you look at our slide number 21, we have given the breakout this time both for FY2018 as well as for FY2019. Since we had queries regarding this, we thought we should make this disclosure as well.

Dhaval Gada: What is the new business strain for FY2019?

Satyan Jambunathan: We have not disclosed the P&L breakup separately.

Adarsh Parasrampuria: Can you just clarify what are the assumption changes?

Satyan Jambunathan: True up for effective tax rate, reflecting the current lower maintenance unit expenses and some change in the surrender rates

beyond five years, not all of the improvement but some of the improvement that we have seen.

Adarsh Parasrampuria: And the persistency improvement from nine months, that still remains or you've not moved on that?

Satyan Jambunathan: No change to assumption on that.

Nitin Aggarwal: How much of this persistency improvement this quarter was driven by the buoyancy in markets during the quarter? I understand that you have taken efforts to educate and make customers more informed which has driven this improvement, but just want to understand that how sustainable this improvement is. And is there any scope to increase it further? And second question is on the solvency issue. That number has come off by nearly 40% this year. So what is the threshold level that we have? Will we look to increase the same?

Puneet Nanda: Persistency, we have always said is a combination of several factors. Of course, the market environment is important, but it's not the only factor. A lot of other factors come into play in terms of how we drive our own people, how we drive our agents, how we communicate to the customers etc. So in my view, the improvement is a combination of all of these things. Our persistency actually over the first 9 months was a little lower, so it’s not as if market was buoyant only in Q4. I am not saying it did not help, it did help, but I don't think that is a very significant thing. It is a combination of all the other things which have played out. And indeed, as we have been saying, our overall persistency

improvement over the last five years, is actually a combination of all of these things, and in five years, we have seen all cycles in the market.

Satyan Jambunathan: Solvency is at 215%. Some of the drop in solvency is driven by the dividend pay-out during this year. We don't have a hard threshold on solvency. But when it gets close to 200%, we will evaluate ways of conserving or maybe raising alternate capital to support growth.

Avinash Singh: If I look in your GAAP or accounting profit, as you said a large part of year-on-year decline has been driven by new business strain. So if I look at the segmental surplus, of course, non-par saw a swing of~₹ 500 crores, largely maybe on account of your strong growth in protection and corresponding expenditure. Now that base has been set and assuming your normalized growth rate of ~15% in FY2020, what kind of trend in the segmental surplus or deficit and overall accounting profit would you see on the non-par? Secondly, disclosure for margin in saving and protection is a good disclosure. But how is the acquisition cost allocated? Because a large part of your advertisement and publicity spend that you have done in the last 12 months would be more towards protection. So how common costs are being allocated while you are disclosing or calculating this margin?

Satyan Jambunathan: With respect to the segmental profit, it's very hard to say what it will be. But at an overall profit, this year with about ₹ 11.4 billion, our endeavor is to see how we can keep this stable from here on. But of course, a big part of it will be determined by how much the growth of protection and annuity business happens over next year. So it is tough

to forecast at segmental level, but at an overall level, the idea is to try to keep it as stable as possible within the growth parameters. The second question that you asked with respect to cost allocation across savings and protection. You're right, bulk of our advertising has been on protection. The way we recognize the cost is that anything which is directly attributable to a segment is recorded for that segment, and therefore, all of these protection expenses are accounted for in the protection VNB.

Sumeet Kariwala: What would be the cost growth in savings lines of business as the cost ratio has come down on a YoY basis?

Satyan Jambunathan: We haven't given that, but you can get a sense of it from the margin, the 2.6% drop in the margin is predominantly driven by higher cost ratios for savings.

Sumeet Kariwala: Actually, the question that I was trying to get an answer for is assuming the product mix doesn't change for fiscal 2020, at what level of growth do we start seeing impact of higher acquisition costs? If we assume that we are growing premium by 10% next year, does that mean the savings margin are not coming down? What is that 10% number is what I am trying to get to.

Satyan Jambunathan: At an organization level we are capacitised for a growth into next year as well. If we are able to reverse the lack of growth of last year into fiscal 2020, then we should expect to see some improvement in the cost ratio come through into the margin.

Sumeet Kariwala: On retail protection growth, which is very strong at 60%, how should we think about that number going forward? And what's driving that 60% growth? Is there a new channel? If you can elaborate that, it'll help us think about that number over next two, three years.

Puneet Nanda: As we have said, protection has three broad lines: retail, credit life and group term. 61% is on overall. Within that, of course, retail is also growing 61%, but the bigger growth, actually is coming from credit life, and the decent growth in group term. I think it is a combination of product, distribution and efficiency. All of the three things work because of the customer need and the under penetration was always there. If I look at it top-down demographically, that need remains given the level of under penetration. We can continue to grow at a good rate. Having said that, some amount of product innovation will have to continue in terms of differentiation and in terms of specific needs in the retail side. On the credit life side, it's more a B2B2C business. There, it's more a question of how many more partners we can tie up with. We did tie up with a lot of partners last year. We got that benefit this year. That, of course, will continue, but we have further tied up with several more partners this year. We will continue to get that benefit next year as well. So I will say, overall, protection growth should be higher than the savings as well as the total company growth rate.

Sumeet Kariwala: The operating variance, and that mortality and morbidity is doing very well. There's quite a bit of improvement in fiscal 2019 versus fiscal 2018. Any colour on that as to why you are doing so well?

Satyan Jambunathan: The mortality has improved because of two factors. One, the book itself has become larger and, even on a proportional basis, you will get a higher absolute variance. So this is still something that we would watch very closely to see how it develops over a period of time and then how we can reflect it.

Sumeet Kariwala: So would it be fair to assume that apart from the absolute number change because the business has grown, on the retail protection side, the percentage number is kind of stable.

Satyan Jambunathan: Our experience is largely stable.

Sanket Godha: Assumption changes of ₹ 4.2 billion which you have made, can you break down or quantify it into tax, maintenance cost and surrenders?

Satyan Jambunathan: We haven't given the breakup.

Sanket Godha: Bulk would be because of the surrenders?

Satyan Jambunathan: Maintenance expenses will be the big part which is improving efficiency because it's about actual costs.

Sanket Godha: So the assumptions which we built in EV and VNB, the persistency of up to 5-year cohort, we have not changed it from what we have been reporting in FY2018?

N S Kannan: That's correct.

Sanket Godha: On the economic variance numbers, if I see the yield curve, March 2019 is lower than the March 2018. So while there is a positive change in the bond prices, negative economic variance has been reported for the full year. So just wanted to understand any specific reason why we have an economic or investment variance negative for the full year?

Satyan Jambunathan: At a point on the yield curve, there is an improvement in the yield, but I think at an aggregate level, that shape of yield curve had changed quite significantly. And what you see as an outcome of economic variance is actually driven by each of the portfolios where the average durations are.

Sanket Godha: On the protection business, how you see this mix overall shaping up. So right now, the retail is almost 60% of total protection. Given the credit protect business, the group protection has grown at a better pace than the retail protection so the mix would be moving ahead in the favour of group protection and also within the retail protection, just wanted to understand within this ₹ 4.36 billion, how much would be the rider contributing to it?

Satyan Jambunathan: First of all, there's hardly any riders. Second, from a relative mix between these two, it's very hard to predict that. It's not as if we are setting the constraint on that. It's really about the opportunity. Reality is that retail protection is a very hard-working model. It is very granular and grows in a systematic fashion. So that, emergence, we will have to see how it goes. But overall, the protection mix being at 10% or

above over the last two quarters again gives us confidence that double digit for the full year is not difficult.

Venkatesh Sanjeevi: You mentioned the focus for credit life through the third-party channel, which is increasing. Can you name some of the new tie-ups that we have done in the recent past and how's the experience being with them?

Satyan Jambunathan: We have not put out specific names, but almost most significant lenders, we will have some kind of partnership with them.

Venkatesh Sanjeevi: But any broad categorizations in terms of which segments?

Puneet Nanda: HFCs, NBFCs and banks.

Venkatesh Sanjeevi: Yes, in terms of which ones been contributing, which is doing better.

Puneet Nanda: Just to give you a little bit more colour, a large part of our credit life still is ICICI group only. But the others are improving. We have actually given you some kind of a split on Slide 23. Beyond that, for confidentiality reasons, it's not fair to speak about specific partners.

Venkatesh Sanjeevi: The reason why I am asking this question is that some of your competitors has been quite vocal in mentioning that they are tied up to 200 partners and things like that. Just wondering is there sufficient space and sufficient business further for multiple people to be active here?

Puneet Nanda: I think most of the lenders have multiple partners, so hardly any relationship on credit life side is going to be exclusive. Because unlike the corporate agency guidelines for bancassurance where there's a limit of up to 3 tie-ups, in a group insurance product, there's no limit. So majority of lenders will have multiple tie-ups and there is no constraint.

N S Kannan: And the others thing is that we keep doing an opportunities scan and keep tying up with partners. That journey is there. As mentioned in the context of technology, one of the key plans has been to be a facilitator of business even for our distributor. So the integration of our technology thereby increasing the productivity for our distributors, that gives a powerful proposition for us to go and make a pitch and tie up with any of the partners. So our customer experience and the distributor experience is something which stands us in good shape, when we go on and tie up with new partner. So the universe is available. As Puneet said that our feeling is that we can enter if we want to give the kind of solution we have, and continuously we keep doing that.

Venkatesh Sanjeevi: As you mentioned on earlier question that the margin decline is mainly because of the shift in the mix between group and the retail segment. But within retail protection itself or group, are you seeing any trends? Can you just talk about competition, pricing pressure and things like that and also that somebody highlighted that the claim rejection ratios have dropped in the individual protection. Is that impacting margins?

Satyan Jambunathan: So within segment, it's been stable. That has not been a challenge. Competition is always intense. It is not that it will go away. A lot of our retail protection comes from our own distributor, and therefore, to that extent, whatever advantage the relationship has, helps us.

Puneet Nanda: And just to add to that, in a way alluding to what Kannan said earlier. Pricing-wise, competition is obviously there; if anything, will always increase. The way we try to differentiate whether on retail or on credit life is through superior technology and superior process, and hence greater efficiency whether it's for the customer or the distributor. It has worked for us largely, so that gives us encouragement that we can continue to differentiate on that platform.

Venkatesh Sanjeevi: Is the data right that rejections have come down significantly over the last couple of years in the individual side?

Satyan Jambunathan: The information doesn't seem to be publicly available, but I don't think the regulator is very keen to ensure that rejections come down but to ensure that people are more selective at underwriting and do not reject at whims and fancies. That is a very, very clear regulatory direction with respect to claims.

Puneet Nanda: And also, if we think from the larger perspective we speak about protection being the larger need. I think this is a trust business. And for all that, it's actually good that the claims pay-out ratios are improving for everybody in the industry. If anything, it will not just improve trust, it

will improve our ability to reach out to more people and convince more people to buy more protection.

Satyan Jambunathan: And fundamentally, if one is depending on repudiated claims to improve margins, one is putting together a portfolio for disaster.

Venkatesh Sanjeevi: I am sure it will improve the market and maybe volumes but it could have some impact on margins?

N S Kannan: Yes, but the way we are doing the underwriting and have looked at the assumptions, we don't see this particular issue which you talked about impacting our margins.

Nitin Rao: It seems the company has lost its way. Profits are down 30%, dividend is down more than 50%, we are losing market share to competition and our market valuation is very subdued in comparison to competition. So how do we plan to go back to our profit-winning days, increasing dividends and market share?

N S Kannan: As we have always told the market analysts and investors, given the nature of the industry, we believe that the appropriate profit metric to look at should be value of new business that we strongly believe in. This is because of the fact that the policies which we are writing are long-term policies and with the protection becoming a bigger percentage, the term is further increasing and we do not have any ability to amortize expenses, which should be amortized over a period of time given the benefits arising out of these policies. So given that, we believe that VNB

is the appropriate metric to look at when it comes to the profitability of the business. That, we are absolutely clear about. The challenge about the PAT is, we are doing a value-accretive business such as protection. Given the kind of expenses which we talked about in writing this business, it creates a drag when it comes to PAT. But it doesn't mean that we have to ignore the business because from a shareholders' perspective we believe strongly that it is a very value-accretive business. And coupled with that, as I mentioned in my opening remarks, the protection opportunity is huge in the country. So that is how I will stack up PAT versus VNB debate. Our endeavor which we mentioned is we want to expand our VNB and we have put out an aspiration to actually double our VNB of financial year 2019 over a period of three to four years.

Now coming to your next question regarding dividend. It is 30% pay-out ratio in the financial services industry. Actually, we are doing a pay-out of 40%. So I think that in a capital-intensive industry, we have to calibrate the dividend based on the capital requirements of the company. As far as the market cap is concerned, I wouldn't like to comment on it because it is really in the domain of the investors. But to take your point regarding our growth trajectory, we have articulated in the last analyst call also, that our endeavor would be to make our business model a little more resilient from a growth perspective by not just protecting our franchise in the highly affluent segments of the market, but also widen our customer base. So we have taken the steps and there had been a 19% growth on a year-on-year basis in terms of the savings policies sold during the quarter. So the steps towards keeping the growth less volatile would be to expand the customer base, to look at multiple products to cater to different segments

of the market. That is a journey that has been going on. And as I clearly addressed in my opening remarks the two priorities which we are focusing on. One of the key priorities is coming back to the growth which I have already articulated, which addresses your point, and we are back to a double-digit growth in last quarter. So to summarize, we monitor ourselves on the 4P framework of premium growth, protection business growth, persistency improvement as well as productivity improvement to improve the expense ratio. This will continue to be the guardrails against which we will operate in expanding our VNB, the way I have mentioned. So that is the broad story I want to articulate in the context of your question.

Nitin Rao: This year VNB grew by 3% and profit declined by 30%. Now if you are saying that you will double the VNB in the next three years, will our profit increase or will it fall further? Because like you said, it is a very competitive business, it is expensive and you are looking at the longer run. In the shorter run, which is in the next three four years from now, as you acquire new customers, acquire new products and grow the new business, will it have an impact on the profits? I would like to know that what is your official dividend policy? Are you saying that going forward 30% or 35% will be your pay-out, what is it actually?

N S Kannan: Our dividend policy says that the Board can declare a pay-out ratio of up to 40% of PAT and we talked about our solvency ratios, which we have put out at 215%. And Satyan has also mentioned in the context of a previous question on our capital that the Board will definitely consider looking at the dividend pay-out within the contours of the policy

as well as looking at alternative capital raising other than common equity shares. So the dividend pay-out guidance within the dividend policy would be determined by the emerging solvency ratio, which will be determined by the Board and recommended to the shareholders.

Nitin Rao: But surely PAT have a role to play in this. Because if you are showing a decline in PAT and you pay a higher dividend of about 35%, as a shareholder the amount of money that you get is decreasing.

N S Kannan: Yes, I agree with you. But I can only say at this point in time that our dividend policy clearly says that the pay-out ratio will be up to 40%.

Satyan Jambunathan: Again, going back to the point that Kannan was talking about earlier on, PAT versus VNB, the key really is that it is not that PAT is lower because the expense is high. PAT is lower because expenses in insurance is up fronted whereas the premium is level over a period of time. So it is a timing mismatch that causes it. So what you see as the PAT being lower is not because of lack of efficiency, it is because timing mismatch given the accounting norm between revenue and expenditure. Now that is not something that we can do anything about. Now this particular mismatch is different across different products. The relationship to VNB growth and PAT may not be as 1:1. If I were to go back, in FY2016, we had a VNB of ₹ 4.12 billion. In the last three years, it has become more than 3x. It is now ₹ 13.28 billion. That's the kind of growth that we have seen. PAT has been fairly flat for the first three years and this year it dropped. From here on, like I mentioned earlier as well, the endeavor is

to keep the PAT stable while we work on growing the value of new business. There is not much that we can do about the accounting regime which causes this kind of a mismatch, and that's why we come back to the same point that Kannan mentioned as to what is a truer measure of value creation or profitability or even operating metric in a life insurance company, and that comes back to value of new business and not profit.

Nitin Rao: If we focus on VNB and we look at the competition, they seem to be better than us. Why is that? Is this only because you are not strong in the protection segment and you are trying to rectify that now? Is that what you are saying?

Satyan Jambunathan: The difference in VNB across different companies is a function of how much of new business premium that we are doing and the margin that we are doing with that. What we have clearly focused on is to offer products which are value adding to the customers and we have used that as a way to expand the market. What you are seeing as the value of new business, therefore, is the combined impact of what we have been able to do from a growth on new business premium in the products that we are selling. Protection, like you mentioned, the mix is lower, but in absolute protection new business on the retail side, we are more than anyone else in the market. Persistency, which is a key driver of profitability, we are better than anyone else in the market. Expense ratio, which is a key driver of profitability, we are as good, if not better, than anyone else in the market. So all of the key levers that drive profitability outcomes, we have the best operating parameters. And that is our route to improving profitability.

Sachin Mittal: This particular question is regarding one of the important aspect of income from investments. How do you know if a particular AUM which is actually shrinking, particularly for the linked business, it's because of the loss or profit on the sale of redemption? Or is it because of the transfer or accretion of discount on the fair value changes?

Satyan Jambunathan: If we look at the AUM for the linked business, the AUM for the linked business actually has grown in the last year. You can see it in one of the schedule or you can even see it on the face of the balance sheet where you have linked liabilities and asset-backing linked liabilities that will give you what the AUM is. If you want to see whether the AUM change is coming from flows or market, you can see it from the segmental revenue account for unit linked. The flows will be the premium income less the benefits, wherein AUM market impact will be investment income, including all of the mark-to-market impact which comes through. So you can actually pick it up from the segmental accounts and break it up into where the growth is coming from.

Sachin Mittal: On aggregate basis, I can see that the AUM has increased, but particularly on the linked life line of business, I don't see that it is actually increasing, it is actually the erosion of the AUM has happened. How do we know that particularly for this particular line of business, linked life, is it happening because of fair value changes? Or it's because we are incurring the losses in redemption of investment at the end of the five years?

Satyan Jambunathan: It's there in the segmental. If you so desire, we can connect with you offline and take you to where you can find those respective numbers. It's all there in the segment disclosures, but I can anyway offline, we will connect with you and take you through this. If you just drop us a mail and we will connect back with you.

Hitesh Gulati: You mentioned that you've doubled the annuity business. Is there a change in strategy that you are going to look at this product more aggressively? And secondly, you also mentioned that there is new business strain in annuity. So can you just clarify on that?

N S Kannan: I just want to tell you that it's an inherent part of our strategy to be pushing the pensions and the annuity business. There is no change in strategy. We continue to be focused on this. The bulk of the annuity business we do is immediate annuity business. Maybe you are referring to the deferred annuity type of business which we have said in the past that unless we are absolutely sure about not putting any risk on the Balance Sheet, we don't want to be aggressive on that business. Having said that, immediate annuity business, we want to be doing it. We have been doing it and we will continue to do it, and so that's been part of our inherent pension and annuity strategy which has resulted in the kind of growth that we are talking about. The way the product is defined, annuity has got a strain. That's what Satyan mentioned earlier, but I want to tell you in terms of VNB and the VNB margin, annuity is definitely accretive to us. So given that, we will continue to be focusing on this business.

Hitesh Gulati: I wanted to understand because it's been a single premium product. So how does strain actually come in that sort of scenario, because you get the premiums upfront?

Satyan Jambunathan: The strain comes in because of the way liability has to be held. Liability is always expected to be in a more conservative estimate than on the pricing basis. So let's say for example, that I have to pay ₹ 100 one year from now, if I am pricing it assuming an 8% fund-earning rate, I will discount that ₹ 100 at 8% whatever today's price. However, for the purpose of the liability, the regulatory guidelines may well expect us to reserve at a discount rate lower than 8%. So the moment 8% becomes a 6%, the present value becomes higher than the premium itself, and that is what gives rise to the new business strain.

Hitesh Gulati: On protection average APE ticket size, I noticed that the average ticket size has increased from ₹ 9,000 to around ₹ 12,000. So what can that be due to?

Satyan Jambunathan: During the third quarter of last year, we started offering a limited pay option in the protection. The limited pay comes at a slightly higher average premium. What you are seeing is a portfolio average premium is that mix coming through.

Hitesh Gulati: On the tax rate, what has actually led to an effective tax rate being lower this year than last year?

Satyan Jambunathan: Flat PAT and a higher dividend income.

Neeraj Toshniwal: I wanted to understand in terms of product mix in the channel, any change in strategy because we have participation products being more from the agency now than in the bancassurance channel?

N S Kannan: In the distributor led business, we give the choice of the products to our distributors. We keep available all the products in our portfolio. And depending on the profile of the customers on the distribution where they want to sell it gets picked up. So that is the philosophy we have used and what you are seeing in terms of the mix of percentages, is a resultant on that strategy rather than pushing something to a particular channel.

Neeraj Toshniwal: On the average ticket size of ULIP, after focussing on lower ticket size and monthly ULIPs, what has been the trend and how has that been shaping up?

Satyan Jambunathan: We have put out the quarter wise average premium on Slide 47. This will show how average premiums were stabilizing over the last couple of quarters.

N S Kannan: This is what we have been telling the investors and analysts in the market that in Q3 when we have this volatility around our premium growth in the month of October, we were focused on diversifying our customer base and, more importantly activating the distributors, some of which was freezing up given the market volatility and given the high ticket sizes. As a part of our overall customer diversification strategy but, more importantly, the immediate activation strategy for the distributor we focused on monthly product. There were some concerns around that at

that point in time to say that this is going to collapse your average premium and we have clarified during our conversations that it is not going to fall off the cliff and there will be some stabilization of the average premium which has happened over a period of time. I look at this average retail APE per policy numbers, which we have put on Slide 47 with great satisfaction, but it has pretty much panned out the way we thought, that it will probably stabilize. At a particular level, this could be lower but it will not keep collapsing. So if you look at the average retail APE per policy in the fourth quarter, actually it has gone up from ₹ 134,000 in the previous quarter to ₹ 165,000. While it is less than the start of the year, we see the stabilization around that level. Similarly there was an earlier question on protection where it has gone up because of the introduction of the limited products to ₹ 15,800 in the fourth quarter. Because of this, if you look at an overall basis, while indeed the total average retail APE per policy for the company as a whole has come down from ₹ 90,000 to around ₹ 83,000, if we see that trend across the quarters, in the fourth quarter, it was about ₹ 87,700. So this has been a part of a conscious strategy of activating the distribution, at the same time average premiums stabilizing at a particular level. So we believe that the strategy which we have talked about has played out quite well on the ground.

Neeraj Toshniwal: The new business strain is higher as we move into more protection and annuity business, which is very obvious. But can you give some sense about in terms of the payback period in terms of difference between the payback from a protection business that too in a retail, in group versus ULIP, if some granular data we have? Or I can take it offline as well.

Satyan Jambunathan: We can connect offline.

Nidhesh Jain: On distribution, we have seen that we have tried to realign our strategy. We are trying to protect our market share in that affluent segment. But in the middle segment, what exactly are we doing to target that segment? Are we targeting Tier-2, Tier-3 cities? What are we doing in the channels?

Puneet Nanda: It's a multi-pronged strategy, both channel/distributor-led as well as customer-led. Of course, at the broad level, it is true that Tier-2, Tier-3, is slightly lower segment. But in reality in the top city as well you do have less affluent customers. Similarly in Tier-2, Tier-3, also, you have more affluent customers. So the idea is to actually use an appropriate mix of products as well as the right channel to reach these customers. Just to go in a little bit more detail, there's a large number of agents who are probably more tuned to selling to the less-affluent segment or the market segment, where the focus has increased through more appropriate products as well as maybe more push to the segment. But similarly, I will say in every channel, that strategy is playing out, whether it's in bank, whether it's in proprietary sales force or indeed some of our other partners. The idea is to show people the value that we can provide by product which are more appropriate to this segment and then encourage distributors who have access to it to go for it. So we are starting to see encouraging results across all channels. It's not necessarily limited to a particular channel.

Nidhesh Jain: So does that mean that the share for traditional products savings business will move upwards?

Puneet Nanda: Potentially it can, but as we have been saying, our strategy has been to have a good set of products in every segment. Then it's actually up to distributors to sell what they want to sell.

Abhishek Saraf: You had articulated earlier that in terms of product mix, that for the upcoming year that protection could be around 12% and ULIP to be around 75% from the current 80%, and the remaining 13% coming from the traditional products. Are we maintaining that kind of product mix guidance?

Satyan Jambunathan: I don't think we have ever given any guidance for the expected product mix for next year except that we are seeking to get protection mix to double-digit of the product mix as soon as we can.

Abhishek Saraf: The ULIP ticket size has again gone up so is it fair to assume that because the markets were buoyant in the fourth quarter and third quarter rather subdued, it is also a function of the market movement? Because earlier we thought that we are taking a very proactive stance in actually lowering the ticket size so that we are able to target a certain set of customers. So can we say that the high net worth customers are coming back? How will this pan out? and will this actually have some bearing on the ULIP share?

Puneet Nanda: So just to clarify the intention was never to lower the ticket size. That is actually just an outcome. The idea was and we have very

clearly articulated, we are very good in the affluent segment and we want to continue to invest in that. We want to continue to grow our business there. But at the same time in the mass affluent, our penetration was less, and hence, we wanted to widen our customer base as well as distribution base and activate distributors who are probably more appropriate for that segment. Hence through this process of widening certain segments while at the same time deepening the value segment, we hope to get growth, which is effectively what we have got in Q4. And hence the outcome is what you are seeing in terms of the average premium which is higher than Q3. So yes, markets help, but it's not just because of that. If you notice in that slide, you can see that in every category the ticket size increasing.

Abhishek Saraf: Just wanted to understand the philosophy behind the truing of the persistency assumptions. So effectively you've always run below the actual persistency experience and we have always maintained that we would keep reviewing the persistency experience and some day we will actually true that up. So what will be the trigger when we will raise the persistency assumptions? Is this some kind of spread that you want to maintain or is it some kind of duration of persistency improvement after which we can expect the formal assumptions changes in your EV calculation?

Satyan Jambunathan: I really cannot specify what will be the formula from trigger perspective but nothing has changed in terms of philosophy. The thinking still remains that experience has to sustain for a meaningful period and give us comfort before we start reflecting it in the assumptions.

Nischint Chawathe: Can you give us a number for group savings?

Satyan Jambunathan: You can back calculate these numbers as we have given total group APE and there is a group protection number. We can give it to you offline.

Nischint Chawathe: What are the reasons for higher advertising expenses?

Satyan Jambunathan: It's been consistent with what we have been seeing in the last four, five quarters, it's been no different and it is mainly for protection business.

Nischint Chawathe: Any guidance on margin for the savings business?

Satyan Jambunathan: We are not giving any guidance on margin. What we have only articulated is an aspiration on absolute VNB over a period of time.

Vinod Rajamani: Anything you are seeing from new draft product guidelines which could be of interest in terms of the future outcome as far as the product strategy and the distribution?

Satyan Jambunathan: The new guidelines are not yet public. In the last draft what we had seen, I don't think there was any dramatic change, but we will wait to see the final regulation before we make a sense of it.

N S Kannan: Thank you, once again to all of you for attending this call. Sorry for the late start, and I am sure that the bulk of the questions we have been able to answer on the call. If there are any other questions or

any follow-up conversation that you want to have, the investor relations team is readily available to take your questions offline. Thank you once again, and good night.