ICICI Prudential Life Insurance Company

Earnings Conference call – Quarter ended September 30, 2018

(H1-FY2019)

October 23, 2018

Please note that the transcript has been edited for the purpose of clarity and accuracy. Certain statements in this call are forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors.

NS Kannan:

Good evening to all of you and welcome to the results call of ICICI Prudential Life Insurance Company for H1-FY2019.

I have with me here: Puneet Nanda, Deputy Managing Director and Satyan Jambunathan, CFO. We will walk you through the developments during the quarter as well as the presentation on the performance for H1-FY2019. We have put up the results presentation on our website. You can refer to it as we walk you through the performance.

At the outset, as you know, Ms. Chanda Kochhar and Mr. Sandeep Bakhshi have tendered their resignation as Directors of the Company with effect from October 5, 2018. Consequent to their resignations, Mr. Anup Bagchi and Mr. Sandeep Batra have been appointed as non-executive directors of the Company with effect from October 8, 2018. Further, the Board of Directors at their meeting held on October 22, 2018, have appointed Mr. Vinod Kumar Dhall, non-executive Independent Director, as the Chairman of the Company.

Moving on, I will briefly highlight the performance for H1-FY2019 along with our key strategic imperatives. Thereafter, Satyan will discuss the performance in greater detail. At the end, Puneet, Satyan and I will be happy to take any questions you may have.

Strategy & performance

Our fundamental focus continues to be to grow the absolute Value of New Business (VNB) while ensuring that our customer is at the core of everything we do. During our Q1-FY2019 results call, we had highlighted the strategic elements in the form of 4P's, namely, premium growth, protection, persistency and productivity improvement to improve expense ratios; and we believe that these 4 P's are core to the path of delivering our objective of VNB growth.

The first "P" of "Premium growth"

If you recall our Q1-FY2019 numbers, we had new business APE declining by 18.1%. Our immediate focus was to reverse this year on year decline. For Q2-FY2019, we had an APE growth of ~6% and we will continue to focus on carrying this momentum forward. For H1-FY2019, APE declined by ~5%. For H1-FY2019 we had a market share of 11.4%.

The second "P" of "Protection focus"

In the protection business, while our strength has been our retail distribution, we have also extended our focus to building partnerships with lenders who can help us reach the customers. During the half year, our protection APE grew ~77% on the back of growth across all segments of protection.

The third "P" of "Persistency improvement"

We believe customer retention is probably the most effective indicator of the quality of sale and is a barometer of customer experience. During this half year, we continued our efforts in this direction which resulted in ~15% growth of total premium and ~23% growth of retail renewal premium on a year on year basis. 13th month persistency was stable at 85.2%. I want to specifically highlight that we saw persistency improvement in the other longer buckets. I want to also mention that the 13th month persistency of 85.2% as well as the improvement we saw in all the other longer buckets despite volatile market conditions we have had in the recent past stand testimony to the kind of sale we have made and the quality of business we have written.

The fourth "P" of "Productivity gains reflecting in reduced cost ratios"

Technology and process re-engineering have been at the centre of our efforts to improve expense ratios. For the half year, our expense ratio for the savings business was at 12.7%, an improvement over 13.7% for Q1-FY2019. We continue to monitor expenses closely and we expect the ratio to improve as the premium growth picks up further.

VNB growth: Outcome of strategic elements

The outcome of our focus on these 4 Ps has resulted in our Value of New Business for H1-FY2019 being at ₹ 5.90 billion at a margin of 17.5%, a growth of ~41% over the corresponding period last year. This growth has been aided by the 77% growth in the protection business which I talked about earlier.

I would now like to highlight a few key developments since our last results discussion. We re-launched our flagship retail term plan early this month with added product features namely, limited pay option and whole-life option. For distribution, we signed a bancassurance partnership with Saraswat Co-operative Bank which is India's largest Co-operative Bank with ~300 branches. On the technology front, multiple initiatives across the product life cycle are undertaken regularly and some of these initiatives namely Natural Language Processing (NLP) aided customer service Chatbots, decision making algorithms for underwriting and customer service have been implemented during the quarter.

Moving on, the Board has approved an interim dividend of ₹ 1.60 per share which translates to ~40% of PAT (excluding DDT) for H1-FY2019. Given the growth opportunities, and more so for protection business, the Company has not declared special dividend for H1-FY2019.

I would like to conclude with my view of our prospects going forward.

India continues to be an underpenetrated insurance market based on parameters such as life insurance premium to GDP in the context of savings business or sum assured to GDP in respect of protection cover. Rise in the working population and per capita income coupled with financialisation of savings offer significant opportunities for both savings and protection businesses going forward. This opportunity, when coupled with customer centric products and diversified multi-channel reach, would lead to increased inflow for the industry. For FY2018, the life insurance industry had higher share of incremental flows from household financial savings excluding currency.

Given this, I am confident that the industry can grow ahead of nominal GDP growth in the future. I also believe that the protection business has the potential to grow well ahead of this. And particularly for H2-FY2019, we expect a continuation of the growth momentum for the industry, and we expect to be able to gain a larger share while maintaining the focus on quality of business.

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

Satyan Jambunathan: Thank you Kannan. Good evening. I will take the next few minutes to detail the Company's performance.

As mentioned earlier, our focus is to grow the absolute Value of New Business (VNB) while ensuring that our customer is at the core of everything we do. In doing so, we believe in a long term strategy focused on retail business through our multi-channel distribution, customer centric products and relentless effort to deliver superior business quality; with technology as a business enabler in each of these aspects.

Premium growth

We are a retail focused company as we expect this segment to be the bedrock of the long-term sustainability of the business. The retail segment contribution continues to be significant at ~ 96% of new business APE for the half year. For H1-FY2019, the APE decline was at ~5%. Our market share was 11.4% for H1-2019. As you would have observed, we had an APE growth of ~6% for Q2-FY2019 and we will focus on carrying this momentum forward.

The retail AUM of ₹ 1.31 trillion constitutes more than 89% of the total AUM and this share has continued to be strong during the half year.

Customer centric products

In the savings segment, Unit linked products offer transparency, lower cost and minimal persistency risk to the customer. They can compete effectively across the wider financial savings space in both offline and online environments. In protection products, benefits are paid only on mortality/morbidity events and typically there is no maturity or surrender value. For Q2-FY2019, in spite of the volatility in the markets, our ULIP APE grew by ~14%. The protection APE growth was ~77% for H1-FY2019 as compared to ~48% in Q1-FY2019.

Multi-channel distribution

On the distribution front, we have invested across channels such as agency, bancassurance partnerships, proprietary sales force, corporate agents and brokers including web aggregators. For the half year, non-promoter channels have contributed ~49% of our APE, providing us with diversification in the distribution mix. During Q2-FY2019, bancassurance APE grew by 12% and group APE registered a substantial growth over 100% driven by group protection business. Agency which in the first quarter had a significant decline of 41%, in the second quarter was almost flat with a decline of just about 2%.

Protection

With growing affluence of the working population, the need to protect their dependents from losing their family income is on the rise. This need is further accentuated by the trend of nuclear families becoming the norm. Further, as retail customers borrow to create assets, the need to secure these liabilities through suitable insurance also comes to the fore. It is in this context that our approach of providing products and solutions to meet this need of the customer sharpens our focus on this business segment.

During the half year, our protection APE grew ~77%, with the mix of protection being 7.9% of APE. In terms of volume, ~45% of retail new business policies came from protection products for H1-FY2019. New business sum assured for H1-FY2019 grew by ~40% over the corresponding period last year. We continue to focus on all the three segments of protection i.e. Individual life/health, Credit cover and Group life. All protection segments including retail protection has witnessed significant growth during H1-FY2019.

Persistency

While sales effort is normally directed towards acquisition of customers, it is the retention of these customers that delivers the full intended benefit to the customer and profitability to the Company.

Our persistency continues to improve this quarter. To reiterate, we continue to exclude group premium and single premium in the calculation of persistency. We have seen meaningful improvement in persistency across the buckets with 13th month persistency being stable at 85.2%. I would like to draw your attention to the 49th month persistency, which has improved to 63.7% from 59.8% in H1-FY2018. Beyond the premium payment term, containing surrenders are key and our retail linked surrenders have reduced by 27% as compared to the corresponding period last year.

Our retail renewal premium grew by ~23%, with 63% of renewal premium received through electronic mediums.

Productivity

Improving productivity of all parts of the organisation from sales to service to support 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 increase in cost ratios.

Our cost to TWRP ratio was 16.1% for the half year as compared to 14.1% for corresponding period last year. This is on account of investments made in growing the protection business. The cost ratio for protection products is significantly higher than saving products while it is margin accretive. Our cost to TWRP ratio for savings business was 12.7% for the half year as compared to 12.4% for corresponding period last year. The first quarter we had a savings cost ratio of 13.7% which has now improved to 12.7% for the half year. As we go through the year, growth will help us to improve this ratio. The commission ratio is stable at 5.6% on a sequential basis. While commission and distribution related expenses have been following the sales trends, other components of costs have been flattish on a sequential quarter basis.

Financial update

Our Embedded Value as at September 2018 stood at ₹ 192.48 bn. During the half year, we saw a significant increase in interest rates. This has resulted in economic variances being negative for the half year. If I however look at the value of inforce business, this has grown by over 7% during the half year. The adjusted net worth, on market value, has declined by ~5%. Excluding the impact of economic variances and dividend paid out, EV has grown ~8% during the half year.

The profit after tax for H1-FY2019 was ₹ 5.83 billion as compared to ₹ 8.27 billion during the same period last year. The drop in PAT is primarily on account of the new business strain arising from the increased protection business. Amongst the expense items, you will notice that the most significant increase in expenses has been with respect to advertisement and publicity on a year-on-year basis. However, if you look at it on a sequential quarter basis, this has been reasonably stable. Looking at the profit across segments, the drop in profit is explained by a reduction of surplus mainly in the non-par life and annuity segment. Surplus of non-par life and annuity declined on account of higher new business strain resulting from strong growth in both the protection and the annuity business.

Solvency position continues to be comfortable at 234%.

To summarize, we monitor ourselves on the 4P framework of "premium growth", "protection", "persistency" and "productivity improvement to improve expense ratios". Our performance on

these dimensions is what we expect to feed into our VNB growth over time. Value of New Business for the half year was ₹ 5.90 billion which was a growth of ~41% over the corresponding period last year.

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

Dhaval Gada: Could you just walk through the EV from March 18 to September 18, in terms of unwind, economic variances, operating variances and any dividend paid?

Satyan Jambunathan: We normally gave the roll forward of EV only on an annual basis. The reason we do this is because of the seasonality of the business, it makes it very hard to interpret for fractions of a year. But largely to summarize like I said before, economic variances have been negative and dividend pay-out was for the full year dividend of last year which is about ₹ 5.8 billion including dividend distribution tax. If I were to keep the negative economic variances and the dividend pay-out out of it, the EV for the half year grew at about 8%. This covers all the elements of unwind, VNB as well as operating variances.

Dhaval Gada: Could you just confirm were there any positive operating variances during the first half?

Satyan Jambunathan: Yes, across all parameters we had positive experience.

Dhaval Gada: Do you have any internal target on overall surrender ratios, over the next 2 to 3 years?

Puneet Nanda: There is no target on surrender ratios. Finally it is the customer's money. All we want to ensure is that customer stays as long as possible to get the benefit of the product that they bought. So from that perspective, the longer the customer stays, it is better for her and obviously it is better for the Company as well. We have been very conscious of trying to ensure that we continue to engage both customers as well as distributors about this benefit and that seems to be bearing fruit. We will see how it goes along because it gets impacted by a number of factors. For this period, it has reduced by 26.7% but we will see how it goes along.

NS Kannan: And just to supplement, if there is extremely justified requirement and extreme need for the customer, we are happy to pay that claim on time as well and we are extremely happy about the current numbers as well as in terms of surrender percentage. Those two points I want to add. We are quite happy with what we have achieved.

Puneet Nanda: And ultimately as I said it is the customer's money and the customer has the right to take the money when he or she feels his or her goal has been achieved.

Dhaval Gada: We have seen changes in terms of the TER changes for the mutual fund industry, do you think there can be a shift amongst national distributors towards ULIP? Are you seeing any benefits that would come?

Puneet Nanda: Too early to say. Conceptually one would agree that there can be benefits, but as you know it has been implemented just yesterday. I guess different distributors will weigh their options, will look at all pros and cons and evaluate what to do. Having said that, we have always felt that unit-linked products and mutual funds are not actually competing products. They are complementary products. Unit-linked products are much longer term products. They do have a significant life component built in. Yes, there are certain elements which are common but mostly

unit-linked are goal based products, so it has its own place and which as we can see continues to grow. Whether there will be some short term impact because of this, we will wait and see. But if at all there is an impact, it will be positive for us.

Avinash Singh: On your segmental surplus deficit, I understand that a large part of YoY deficit on a half yearly basis is in the non-par typically protection, but decline across the segment in the segmental surplus whereas the new business growth have been negative, so what explains this sort of negative development year on year for the first half? Second on your advertisement and publicity spend, does this include some kind of payment to ICICI Bank and if yes, then how has been the number year-on-year for the first half and thirdly, the VNB growth if I am correct that the previous year base you are using was on your tax rate applicable, the marginal tax rate rather than effective one?

Satyan Jambunathan: On segmental surplus, you are right. The biggest delta in segmental surplus is coming from the non-par segment which mainly constitutes protection. You are also right as some of the other segments have shown a decline. Specifically if I look at the unit-linked segment and within the context of unit linked if I look at Q2 vs. Q2, there was a growth of about 14% versus the same period last year. Also sequentially Q2 versus Q1 for unit linked is almost 40 to 45% up. That essentially explains the delta in the segment profit between Q1 and Q2 as far as unit linked is concerned. With respect to your second question on advertising expenses where if there is anything to ICICI Bank, there is nothing on advertising expenses to ICICI Bank. All payments to ICICI Bank are disclosed as part of related party transactions with the financial statements. There is nothing beyond that that. With respect to your third question in the base of the VNB, yes it was at the old tax rate. We changed the tax rate only at the end of the year. So in that sense, the margin of 17.5% is more comparable to the margin of 16.5%.

Avinash Singh: On the segmental thing, if I just go half year to half year, almost decline in segmental surplus in almost every line, now whereas I am seeing sort of a new business premium or the APE decline in most of the business line except the protection, protection is apart, that is non-par. Why I mean this is a segmental surplus decline across the line on a half year to half year?

Satyan Jambunathan: If I look at the segment, the broad segments are par, linked and all other non-par put together. Par, you see no surplus because that will only come at the end of the year based on declaration of bonus. Which brings us to unit linked and non-par. Non-par, I have already explained. Unit-linked, yes there has been a small drop in the new business premium, but what also happens is because expenses have grown, the average strain goes up. As growth starts to come back, the average new business strain will come down which will show up for the rest of the year. So even though there has been a small decline in the new business premium for the half year on unit linked, there is some decline in the segmental profit. You will see that the segmental profit is actually down about 10% or so, not a very large drop, but this is driven by the fact that expenses have been higher and we have not had enough new business growth to be able to offset that. That will correct itself over a period of time.

Nidhesh Jain: If you look at Q2 growth of 6%, it is also significantly lower than where the industry is operating and our base last year in Q2 was not that strong. So what is the reason for still lower growth in Q2? If I look at the product mix, the growth in the participating business is quite weak despite volatile equity environment, so what is the key reason for that? How are we strategizing in a scenario where equity markets may remain volatile given our 85% of products are unit-linked product, how are we looking at the next 6 months or the next 12 months?

NS Kannan: To answer your first question on the growth itself, our growth on the second quarter of last year has been 6.2% on an APE basis. Frankly, I really don't know what is the exact APE numbers for all our competitors to compare and conclude how does it stack up vis-à-vis our competition because some of the numbers which are in the public domain are only weighted retail received premium. Having said that, I had mentioned in the last call that the first quarter was -18% year-on-year. So our focus has been at immediately getting the growth back on the positive side and I am happy to report that we are able to reverse the trend in the second quarter. So that is how we are looking at it and then we will continue to work on it and see how it improves from here and so to me that has been very critical. If you look at the product wise, there are some silver linings which I am seeing. One, the ULIP itself has grown despite this volatile market conditions, about 14% on a year-on-year basis. If you really look at the protection as I mentioned on half year to half year basis, it has grown by about 77%. In the parts where we want the growth to happen, those are happening. That is the good news about the growth. Yes, on the par side, it is pretty much that decline in the par year on year has been quite evident from the results, but again our philosophy has been to make all the products available to the customers and the distribution and we are happy with whatever sells because we believe that each product which has been designed by us has been carefully thought through. So sometimes like this, ULIP has been selling. If the market continue to be volatile, may be tomorrow par will sell more but we are happy. Just to illustrate, if you look at our own par product, we have been able to produce a very good consistent return of about 7% plus which is really one of the best in the industry, so we would rather have that kind of approach to product mix and then whatever comes out of it. Since we are happy to take anything, we will be happy to put out the growth to any type of our product mix.

You have asked the question about the volatility in the equity market, will it affect the ULIP growth, and we do believe that the way ULIP is sold by us is really based on the goal orientation for the customer and as a long-term product. Those have been the two points. We never promise a liquidity or anything in our ULIP products and the kind of persistency we have seen despite the extremely volatile market conditions, sort of stand testimony to the way the product has been sold. Again, one of the things we should not do is to equate ULIP to equity. Our ULIP AUM has got approximately 40% debt and it is more of a balanced mix. We do believe that given this kind of an asset allocation, the long term nature of the product coupled with balance allocation should not affect the growth during volatile segments. And as I said earlier, ULIP actually grew by 13.7% on a year-on-year basis.

Puneet Nanda: I just want to emphasize again that we have seen several cycles now. This is not the first time we are seeing the cycle. That is why we get the confidence. The other thing we have to realize is, and I want to repeat what Kannan mentioned, is that we do have extremely competitive set of products across all savings platform. So it is not as if we are exposed. Our product mix is an outcome of what the customer's want, what value they see and hence what they buy. We will remain on course for that and then depending on what customer wants, the product mix will emerge.

Nidhesh Jain: And in terms of distribution mix also this first half, the growth is primarily driven by bancassurance while our proprietary channel, agency and direct have shown decline on a Y-o-Y basis, so is there any reason for that and how you see growth in these two channels going forward?

Puneet Nanda: We have always had a multi-channel distribution mix and the main reason to have a multi-channel distribution mix is a) different customers prefer buying through different channels and b) from time to time a particular channel can get impacted for whatever reason and hence having a diversified mix helps us in taking care of that. In fact, we are seeing the benefit of that right

now. If I look at last year, the agency and PSF channels grew much more than bancassurance. On that base if I see now, bancassurance is actually showing more growth and we are okay with it. Not that we want anybody to de-grow, we want all channels to grow. But in a multi-channel distribution mix, these kind of things happen. If I look at on the quarter-on-quarter basis, actually it is not as if agency has degrown. Agency is also flat, though of course banca is growing. We would like other channels also to grow but it is not as if we get really concerned. Because the whole idea of diversified channel mix is indeed this, to be able to absorb volatilities in different channels from time to time.

NS Kannan: Just to underscore that point that whether it is an agency or a direct channel, the silver lining again is that if I compare the Q2 performance vis-à-vis the Q1 performance, the negative we saw in the Q1 has been quite arrested in Agency in the second quarter on a year-on-year basis and Direct channel negative year-on-year has really come down. In fact Banca has become positive as you rightly said. We are one of the most balanced channel mix companies if you compare with some of our peers. We would like to invest in some of the channels like Agency going forward as well and so that is the approach we have as of now.

Puneet Nanda: Just to supplement, the outcome of all of this is at the end of H1, Bank is still about 50% of the mix. All other channels are still contributing 50% and while Bank is growing, we are also strengthening some of the other channels. We are adding more partnerships as Kannan mentioned in his opening remarks. The biggest urban cooperative bank we have added and these are ongoing efforts.

Nidhesh Jain: On surrenders, in our EV assumption if I am correct we are building in around 40% mass lapsation after 5th year. So what is our current experience on that front right now given that we have shown such a sharp improvement in surrenders in first two quarters?

Satyan Jambunathan: Substantially within that.

Abhishek Saraf: On the protection APE, if you can just break it down between the retail term, the credit life and the group term if any. So what percentage of it is coming from these three segments and what has been the growth across these three segments? And given that we have spent a lot in advertisements in the past two quarters, so what are your expectations going forward on the share of term life improving further from here?

Satyan Jambunathan: We haven't given a breakup between the various categories of protection, but like we said in the opening comments, all of the segments of protection business have grown quite strongly for us. So this 77% has not just come from one or the other. Obviously, the big differentiator for us this year has been some of our partnerships on credit life of last year starting to come on stream but retail as well has had a fairly strong performance. Your second question with respect to what we are investing on advertising and where we expect protection to become as a percentage mix. Again, like we have said before, where protection ends up as a mix is really about how the savings business grows and what we have seen is the nearly 8% protection mix on the first half of this year is accompanied by roughly 5% decline in the overall business and slightly higher decline on the savings business. So as the savings growth picks up, protection mix will come down but we do believe that the growth of protection business should continuing ahead of savings and we see no reason why that should not continue into the rest of the year as well. Eventually when we are looking at an objective of VNB growth, it is not just going to come from expanding protection mix, i.e., margin expansion but it will also have to come from new business APE growth on the savings business as well.

Abhishek Saraf: And one question on growth if you may. So effectively we have seen growth recovering to 6% and in the starting comment you mentioned that you see this momentum going forward, is it possible to share some number on that. Obviously in the second half, the base effect will be also playing out favourably. So you would want to share some numbers on what could be growth for the full year likely?

NS Kannan: No. Actually at this stage, we have not really given out any specific guidance on the growth. Just that we have said that we are slowly coming back to growth and our endeavor would be to keep a steady growth going forward. We will try our best. So that is the way I would like to focus and within that, I would once again say that on protection we will be happy to grow and we do believe that it will grow at a very robust rate. And the overall objective of VNB growth that will continue. So I would rather wait and watch a couple of quarters before I make an assessment in terms of the further short-term growth outlook.

Harshit Toshniwal: When I look at ULIP segment and now I am not looking at the non-par which has new business strain for a reason, but if I look at the surplus over the last 4 years, not only this particular 2 half years but over the past 4 years, our ULIP surplus has been totally stagnant at one particular level I understand and that has been the phase where we have seen a lot of positive variances and positive experiences in different expense and Opex ratios. Fundamentally I want to understand that from what point can our profitability start increasing for ULIP segment or for non-par segment?

Satyan Jambunathan: It is a hard one to put a construct on and that is the reason why we are focused so much on VNB. The challenge is if we look at our current book, we have got almost 3 or 4 generations of products each with very different profit profiles. What is relevant is that the new products that have been launched since 2010 have got a very different charge structure than the old ones and therefore the number of years to breakeven is a little longer than what it was before. What we have also had in the last 3 years is very robust growth which has meant that new business strain has been increasing and that is clearly the reason why the segment profit has been stagnant. As we continue into the next few years as well, we would expect segment profit in P&L terms will continue to be stagnant. As an objective, we have taken as a more important objective, the absolute VNB growth even if it means that the P&L is stagnant for a period of time.

Harshit Toshniwal: Generally if I look at ULIP products, life would be around 4 to 5 years, so even if the high growth phase which we saw in 2014 to 2016, so that unwinding of profit should start happening by in the next couple of years, can you explain where am I getting wrong in my understanding?

Satyan Jambunathan: No, you are perfectly right. Every year there is an unwinding of profit from the past book which is happening. What is happening along with it is that the new business and the associated strain is actually overwhelming or matching that. That is why it is stagnant. Of course there is an unwinding of profit which is happening. You are also right that if I take an average 4 to 5 years as the profit realization period for unit-linked that is how the value of in-force also unwinds, but like I said, the growth in the new business in the past 3 to 4 years has been strong enough to affect that in terms of new business strain.

Harshit Toshniwal: From the next year, even in this ULIP, if I exclude the non-par, but in the ULIP also you expect that for the next three years, at least their profitability will be nearly stagnant?

Satyan Jambunathan: Yes.

Prakash Kapadia: I had two questions. If you could address some specific challenge we have faced on the ULIP side because I remember you mentioning that our ULIP schemes have outperformed benchmarks over a period of time, then how does the business underperformance specifically on the ULIP side add up for H1, especially compared to the private sector players. And secondly if I look at the history of last 2 to 3 years when we were growing, we had APE growth but lower VNB margins and now because of higher protection we are having VNB margins but not APE growth. So given whatever we have done say in the last couple of months, are we confident of both of them coming in the second half?

Satyan Jambunathan: One thing is that if you look at various companies, different people has different proportions of unit linked. So it may not be a like to like comparison of say our unit-linked growth with that of another company because most companies are not even selling unit linked these days. It is only the top 5 which are selling some amount of unit-linked. Like Kannan described earlier as well, while in the first half, one of the areas of challenge was a very strong base. In the second quarter, unit linked for us has grown by almost 14% compared to same period last year and this is substantially ahead of our overall growth as well. So while the first quarter had at least elements of base effect in it, the second quarter seems to be suggestive that in spite of the way the environment is, ULIP growth has been reasonably strong for us.

The second question that you asked on the question of growth in top line versus profitability. Just for the record if I were to go through the last 5 years, FY12-13 onwards, we had a margin of 5.7% which has moved up to a margin of 17.5% and along the same time, new business growth has been in the late teens over this entire period. Around the same time, persistency improvement has been from 70% to nearly 87%. Around the same time, reduction in expense ratios has been from 19% to about 14.5%. Around the same time, protection growth has been in excess of 70% per annum. So I just want to place on the table that it has not really been about one or the other for us. Yes, there could be shorter periods of time when one dominates over another but even if you iron it out over a reasonable period of time, we would like to believe that at least what we have achieved has been balanced across all of these parameters, be top line related, quality related or as an outcome bottomline related.

Prakash Kapadia: ULIP is the larger contribution on the APE side so if I look at our reported first half APE numbers, the ULIP growth is far lower than what some of the leading private sectors players have reported.

NS Kannan: Split the half into the first quarter and second quarter. Yes indeed in the first quarter it was lower because of the base effect wherein the base quarter of the previous year we grew by 75%. So on that putting out any growth was quite challenging. But what I put it in perspective in the second quarter if you look at it, the ULIP alone if you look at it on a year-on-year basis, actually it has grown by 14% which is the overall industry growth rate for all the products put together including par. So we think it to be a good performance especially given the market condition. So that is why I was saying that while you are looking at H1 as a whole, I am looking at Q1 and Q2 separately, which we think is the more proper way of looking at it because of the first quarter base effect which was caused by 75% growth in the previous year. In terms of any product we are not facing any challenge.

Venkatesh Sanjeevi: We started the year with solvency ratio at 250% and now at 234% and your commentary on increasing protection will impact this further, so what you think of this ratio and at what level would you need to raise capital?

Satyan Jambunathan: Yes, Venkatesh you are right. It has come down from about 252% to about 234%. The big reason for that has been the final last year dividend pay-out which happened in the first half of this year. Keeping in mind, the pace at which we are growing and the need for capital, you could also have noticed that the interim dividend that the Board approved today is 40% of profit as against 60% that we had been paying out till the end of last year, which comprised of 40% of normal dividend and the special dividend of 20%. The special dividend has fallen off. We have always maintained that the levers of managing capital for us are first dividend; second, if necessary raising subordinated debt and third, only beyond that if necessary to raise equity. We still believe that over the medium term between the internal accruals and the dividend policy and if required subordinated debt, we should be able to manage the capital requirement for growth and we would not have to dilute from an equity perspective.

Venkatesh Sanjeevi: What sort of timeframe you are talking for the medium term?

Satyan Jambunathan: 3 to 5 years is what I am looking at the current point of time.

Venkatesh Sanjeevi: And at what level of solvency would you raise capital, what is your internal limit?

Satyan Jambunathan: The regulatory limit is 150%, so we would normally like to be in a comfort zone of let us say may be 160%, 170% so that we can support growth for the next couple of quarters and not fall at the border. So compared to that, there is a reasonable amount of leeway today. Also one need to keep in mind that if we were to measure my capital position on the risk based capital approach, we actually end up with a better capital position and therefore we don't really feel compelled to keep the capital ratio at too high compared to 150%.

Venkatesh Sanjeevi: When you say 3 to 5 years, you are building in protection growing much faster as it is going off?

Satyan Jambunathan: That is correct.

Neeraj Toshniwal: How it is looking for second half because you have already seen the impact of higher base in first quarter and little slower than industry growth in second quarter, but now what is the strategy going ahead because given the fact that ULIP surplus will be kind of stable and protection will be having the higher strain on the books. So should we see that our profitability in the back book probably be hurt and if we continue to have higher savings in the ULIP, would you be able to increase our margin either because the higher protection will be nullified higher ULIP as well?

Satyan Jambunathan: Let me address the profitability question first. Quite honestly we don't think that the P&L not growing or declining is harmful in anyway in the near term to medium term. Because quite clearly we are doing it with the objective of growing the pool of profits for the future and therefore absolute VNB is how we are continuing to manage our business. As long as protection continues to grow faster than savings, which is what our hypothesis is, and which has been borne out by reality over the past many quarters as well; systematically, we would expect protection mix to go up and that should in turn feed into the margins at an overall level.

Puneet Nanda: In terms of strategy and overall growth as we have articulated, the whole idea is to focus on all the four P's that we spoke about. Within that of course premium growth is the very important element, but equally protection, persistency, productivity we want to focus on all and it

is not one versus another, it is altogether. As far as premium growth is concerned, obviously it will be a function of several factors, how channels play out, how markets play out, how consumer sentiments play out. Honestly, we don't get too concerned by one or two quarters, couple of quarters here and there. Our intention is that in the long run, a) we should be growing ahead of industry growth rate and b) the industry itself should be broadly in line with nominal GDP. We don't see any reason why we should change our expectation on that and we certainly believe in the long run, that is how it will be. Having said that, yes in the short term there will be challenges from time to time which we will have to ensure that we continue to tackle by ensuring that we stay customer focussed, we don't deviate from our strategy and at different points of time, and different elements of the strategy will play out. So for example what we have seen in this first half is that, while the overall premium growth has been slower than what we would have liked, in quarter 2 it has been better than quarter 1. At the same time, all the quality parameters, whether it is around persistency or customer retention has improved, our protection we already discussed in great detail is improving at a pretty healthy clip and we do expect that to continue to outperform the overall savings mix and while we do that, we do want to remain a very efficient company. If we do all of these things, I think the overall perspective of trying to maximize both VNB as well as EV will play out over the long run.

Neeraj Toshniwal: In terms of persistency I know you have done a great job and the numbers are really speaking for itself, but is there any lag impact in persistency which comes up little later if anything gets kicked maybe in earlier years?

Puneet Nanda: That is where you should see all the cohorts. If you see every single cohort, we have seen decent improvement. So what is 13th month this year will be 25th month next year and so on and so forth. For us, persistency is far more to do with what is good for the customer and it is embedded in our culture and as we keep going ahead, we should continue to see improvements in all cohorts and current data itself shows you what the lag is going to be.

Neeraj Toshniwal: We have seen some 50 basis point compression in persistency in 13th month, but we are still comfortable enough to change our assumption because we had buffer if I remember it correctly at FY18 and we were at 82.5% in savings persistency. So will that pan out at year end?

Satyan Jambunathan: What we have seen so far gives us confidence, but we will really look at it only at the end of the year.

Neeraj Toshniwal: If you can disclose your ROEV?

Satyan Jambunathan: Quite honestly, we struggle to find ways of appropriately annualizing the half year return into an ROEV for the year and that is the reason why we have never put out historically the half year ROEV. I think it is more appropriate given the seasonality of the business to look at the ROEV at the end of the year. But I would actually focus on each of the elements that constitute ROEV. We are seeing growth in VNB, unwind continues to be there, operating variances continue to be positive. There is still opportunity to review assumptions at the end of the year to see if there is a change of assumptions to be made on the positive side and all of these I would actually see as positive from an ROEV angle as I go through the rest of this year.

Neeraj Toshniwal: On margin profile which was quite stable at this time, I am not able to figure it out if you had a higher share of credit protect or protection as a whole and ULIP relatively lower than in the total mix, why the margin expansion was not there, are you facing any, kind of pricing pressure?

Satyan Jambunathan: In Q1, the margin was 17.5% and we had a protection mix of 8.2%. H1, we have a protection mix of 7.9% which is flattish marginally there and I have stable margin of 17.5%, largely consistent between the two of them.

Neeraj Toshniwal: Is there anything more than that?

Satyan Jambunathan: My protection mix has remained stable. I have not made any other change in assumption.

Neeraj Toshniwal: Actually I am asking this because there has been higher proportion of group protection business?

Satyan Jambunathan: I have always said that the hierarchy of profitability would be retail protection highest and then everything after that. Therefore to that extent with my protection mix going down marginally, it is not like my margin has deteriorated.

Sumeet Kariwala: On the product committee guidelines, it is quite some time and I know the regulator was looking at, is there any update that you have received on that or any conversation that are ongoing right now?

Satyan Jambunathan: What we understand is that the regulator constituted a working group to come up with a draft set of regulations on products. I believe that group is still working on it, nothing has been exposed for comments yet, so we have to wait.

Sumeet Kariwala: In respect of persistency, are there any monthly indicators which you are tracking over the last 6 to 9 months and is there any indicator which is suggesting you that in the next couple of quarters there could be some deterioration or it is all on track?

Satyan Jambunathan: See if you look at the persistency across various buckets, you would have seen an improvement in all later buckets. The 13th month has been flattish. We will have to see how that progresses over the next couple of quarter but we are not seeing any significant negative trends to bother us as lead indicators in any fashion.

Sumeet Kariwala: This 13th month which is like 85.2% versus 85.7%, no dramatic change but that would be like equally spread in July and August or whether August was bad as compared to July versus June?

Satyan Jambunathan: Nothing specifically of that kind. Again because it is a rolling 12 months you will find it moving in a very gentle fashion in any case. But there's nothing on the monthly basis that is alarming. If you are alluding to market in September being cause of concern, I am not seeing that yet.

Hitesh Gulati: Do we participate in the PMJJBY scheme, and how has our experience been on this?

Satyan Jambunathan: We do participate in that scheme. That scheme is offered through our current key bank partner, which is ICICI Bank, to their customers. It has now been about 3 odd years that we have been running the scheme. Our own experience of this scheme has actually been a small positive and we have not had any adverse experience coming through on that scheme.

Hitesh Gulati: You said that our new business strain is increasing. I guess this is mainly because our OPEX is increasing from the past ULIP products that we used to write or is there higher reserving required for these products.

Satyan Jambunathan: Conceptually on the unit linked, it is expenses and charges, which drive the new business strain.

Hitesh Gulati: Not so much on the reserving part there, right?

Satyan Jambunathan: Not so much.

Prakhar Sharma: On this persistency change from a 13th month perspective, what I am actually looking now is the H1FY2018 presentation where you had given the five-month FY2018 persistency and for the 13th month bucket it was at 87%, which now is at 85.2%, is there a difference in this? Because now it looks like almost 180 bps change.

Satyan Jambunathan: Last year if you recollect we were reporting it including single premium. We actually moved to reporting it excluding single premium and group only at the end of last year.

Prakhar Sharma: So Satyan, would you have the comparable for 5-month FY18 number on the way you are doing right now.

Satyan Jambunathan: See the H1 in the current pack itself.

Prakhar Sharma: So, there is no big volatility that happens through September?

Satyan Jambunathan: No, if you look at slide 39 it's got five month 2019 including single premium that you can compare with five month of last time.

Prakhar Sharma: So that basically now on a five month basis, it looks a little steeper at about 70 odd bps. Do you basically think that this gets to a better from a product mix perspective or you think we have kind of hit the peak right now?

Satyan Jambunathan: I always struggle to call the product mix because it ends up being one of relativity. I suspect you are referring to protection versus savings, right?

Prakhar Sharma: So I am looking at persistency from the way the business moves and after a long time saw a little bit of a dip. I am just trying to understand your perspective of what could be the next one year sort of direction here?

Satyan Jambunathan: We have always said this that the kind of improvement we have seen on 13th month over the last 5 years, clearly the pace of that kind of improvement will slow down, so it is quite possible that you will have short periods of time where it seems flat the way it is looking now. I wouldn't read too much into that yet, if it becomes a persistent trend over a few quarters, then I would start worrying about it, but like I have replied to the previous question, there is nothing structural that we are seeing as the lead indicator which is a cause of alarm for us at this stage.

Adarsh Parasrampuria: Just looking at the 37th and 49th month persistency, you seem to have continued improvements there, so just wanted to understand the difference between what we have

been discussing on the 13th month and then probably some efforts going to change the 37th and the 49th month persistency?

Satyan Jambunathan: A lot of what you are saying on the later period persistency now is the natural consequence of improvement in 13th month that you've been seeing in the past few quarters. It is not like we focus on one bucket or the other from a business effort perspective. From a business effort perspective, it is around how I am selling it, how can I make sure that the first warning signal which is the 13th month I am able to do reasonably well and therefore how do I then continue that through into the subsequent years to ensure that what I have gained, I don't dilute out.

Puneet Nanda: For the teams on the ground, they don't think of it as 13th, 25th or 37th month, the objective is please collect every renewal premium that is due.

Adarsh Parasrampuria: If I just try doing the ratio of second by third or third by fourth that trend seems to indicate quite a pretty strong improvement versus the steady rates that you would have assumed in your margin. So I am kind of referring to the fall rate after collecting of the first year premium.

Satyan Jambunathan: Yes, as I mentioned earlier, we are seeing positivity now but this is something that we will pick up for review only at the end of the year to decide what can go into assumptions.

Adarsh Parasrampuria: I was just looking at your business mix participating numbers, and it seems to be dropping off in terms of growth, so anything specific there you want to comment?

Satyan Jambunathan: What you see as the par or unit linked product mix is largely a combination of customer preference and what the channels are selling. We have said this before we don't really drive a mix on that. It is just one of those outcomes that we are seeing now. It is not a conscious reduction of Par.

Adarsh Parasrampuria: But it's a little strange that in a higher interest rate environment in volatile equity markets, book is small, but still dropping off by like 30-40% in the first half or say 50% in this quarter, thus wanted to know is it a little conscious decision of some regulatory changes, if any?

N S Kannan: No, there is no regulatory change at all. We are free to sell and we have products which have been approved and we have also given a good return in the past in terms of delivered 7% return on this product which is better than some of the competitor's product. It is just that some channels pick up as they focus to sell to their type of customers, some other channels do not pick up. So it has got nothing to do with any regulatory issues or our own product performance issue, not at all.

Adarsh Parasrampuria: Growth on ULIP's or the saving business is obviously in the second half will pick up, but our cost base has gone up, so do you as of now anticipate negative variances or impact on margins from the Opex side given the trends that you are seeing now, that's unlikely?

Satyan Jambunathan: The endeavor is not to have any negative impact come through. If you see the first quarter, we had a substantial uptick in our expense ratio. When you see it for the half year, it has moderated meaningfully. Our endeavour is to continue on that path for the rest of the year.

Abhishek Saraf: You mentioned for EV during your opening comments that excluding the economic variance and dividend, EV for half year would have grown it around 8% and effectively it has actually now grown at around 2.4%. So is it fair to assume that the large part of it is coming due to economic variance means at around 5 odd percent or so?

Satyan Jambunathan: It is fair to assume.

Abhishek Saraf: And this would be largely on account of the higher interest rate right? So you would have factored that in?

Satyan Jambunathan: That is correct. If you look at the components of EV, which will be there in the presentation, you'll see that our VIF growth has been reasonably strong, but the adjusted net worth is what has seen the decline, that will be a combination of both dividend pay-out as well as economic variances.

Abhishek Saraf: Would you have also trued up your VNB margin based on the new yield curve, September end yield curve or would it be done at the end of the year?

Satyan Jambunathan: All of our VNB and EV as of 30th September are based on yield curve as of 30th September. That is an automatic true up each quarter. You will see that on slide 53 where the reference rates are set out.