

ICICI Prudential Life Insurance Company
Earnings conference call
Year ended March 31, 2020 (FY2020)
April 25, 2020

N. S. Kannan:

Good afternoon and welcome to the results call of ICICI Prudential Life Insurance Company for the financial year 2020. Today, I have several of my senior colleagues with me on the call: Puneet Nanda our Deputy Managing Director, Satyan Jambunathan our Chief Financial Officer, Amit Palta, our Chief Distribution Officer, Judhajit Das, our Chief of HR, Deepak Kinger, our Chief Risk and Compliance Officer, Manish Kumar, our Chief Investments Officer, and Asha Murali, our Appointed Actuary. I am also joined by a couple of my colleagues, Dhiren Salian and Mukesh Boobana from the Investor Relations Department.

It would probably be an understatement if I begin by saying that the last quarter of the financial year has been an eventful quarter. Just to highlight the key events during the quarter:

First, the COVID-19 situation started developing in some parts of the world around early January and no one quite saw it turning out to be what it has become today.

Second, early February saw some Indian Union Budget tax proposals which had an impact on the life insurance industry.

Third, there was also a lot of discussion on mortality pricing in the Indian life insurance industry, and the fact that re-insurers were increasing their pricing for the industry as a whole.

And finally, starting mid-March, we have had a near shut down in most parts of India to contain the spread of the COVID-19 infection. Even as we speak today, the country continues to battle to contain the spread of COVID-19. With the proactive steps taken by the Government and with the cooperation of the citizens, we are sure that as a nation we will emerge out of the crisis stronger. In the meantime our thoughts are with the families who are grappling with health issues, lost lives and livelihood issues. In this context, you would be aware that ICICI Group has committed ₹ 1 billion to support the nation in its fight against the COVID-19 outbreak. Of this, ₹ 800 million is being contributed to the 'PM Cares Fund' and ₹ 200 million to state governments and local authorities in their efforts to battle the pandemic. As part of our Company's CSR commitment, we have decided to contribute a part of this amount.

Further, our employees have also voluntarily decided to contribute a part of our salaries to 'PM Cares Fund' and other initiatives for COVID impact mitigation.

So, before I get to the performance of the Company and the results, I would like to spend some time talking through how these events have impacted us and how we are seeking to learn from these experiences to emerge stronger.

First "The Budget"

As a very quick recap, the Union Budget of Government of India contained two elements that had implications for the life insurance industry.

The first was the proposal to create an alternative tax regime which would have almost no exemptions and deductions but would have a lower tax rate. Given that Life Insurance premiums are one of the many instruments that currently qualify for deduction from income, there has been a concern in the minds of some, if this will structurally impact the demand for life insurance products. We had articulated at that time that given our relatively more affluent base of customers and our focus on protection as a key business opportunity, we don't expect that our business would be meaningfully impacted. We had also expressed our view that the industry as a whole over the past few years has moved significantly away from a predominantly tax exemption driven sales approach.

The second significant development was the removal of the Dividend Distribution Tax and making dividends taxable in the hands of the recipient. We had articulated that this would have an impact on Value of New Business (VNB) as well as Embedded Value (EV) as our effective tax rate would change. We had also said that we would give effect to this in our full year results. As we explain the results, we will elaborate on this further.

The second development relating to Mortality pricing

During the quarter, we saw re-insurers seeking a change to their rates. We had articulated that as the target market for the protection business is being expanded, overall underlying mortality would need to be reflected in the pricing. Such a change in the pricing would in fact make the opportunity larger by expanding the target market and hence be an enabler to the sustained growth of the product category.

We wanted to confirm to you that we have already filed our revised product with the Regulator. The revised pricing FULLY absorbs the changes in reinsurance rates while maintaining our margins at the same level.

We continue to believe that this change to pricing is not likely to have a material impact on demand for protection products, given the extent of the pricing change and since the need for protection continues to exist with significant under-penetration.

Third, coming to COVID-19

Clearly the most significant event during the quarter was the progression of COVID-19 infection in India. Please refer to slides numbered 3 to 5. During the past few weeks, we have engaged very closely with the Regulators and policy makers to ensure that our response sufficiently addresses the requirements of our customers, employees and the nation at large. While at a systemic level this has a number of implications ranging from health and well-being of the citizens to industry-specific impacts and to a larger impact on the economy as a whole, I will now spend some time on the implications for the life insurance industry and how we are dealing with it.

For the life insurance industry, the potential impact can be bucketed in three broad areas, Market related, Demographic and policyholder related and Business and business conduct related.

First, on the Market related aspect

The last few weeks have seen equity prices falling sharply. We have also seen interest rates fall, as policy measures have been triggered to deal with the economic impact of the disruption. What is also emerging is stress in some sectors that could have an impact on credit risk.

Insurers have exposure to equity in both unit linked and participating businesses. Interest rate movement impacts the liabilities and guarantees embedded in the business and credit risk can impact investments in corporates. Further, such sharp movements in markets coupled with any mismatches in ALM that companies may have, could impact the solvency of the businesses.

Our approach in this context to market risk has always been one of not taking on a risk that we cannot manage. This is manifested in the composition of our Balance Sheet. Of our total

liabilities, unit linked business constitutes 68% and participating business constitutes 13%. These product categories largely pass on the market performance to customers. Non par guaranteed return products comprise only 0.4% of our total liabilities and these are invested with minimal ALM mismatches. We have been constantly monitoring our liquidity and ALM positions, and we have no issues to report.

So, from a liability perspective: our liability profile has withstood and is capable of withstanding the severe disruption we have seen in markets, liquidity and asset prices.

On credit risk, we have traditionally been cautious in our assessment of investment opportunities. Consequently, 94% of our total fixed income portfolio is invested in either government bonds or AAA rated bonds. Only 1.0% of our fixed income portfolio is invested in bonds rated below AA. We have also at our past results highlighted that we have no exposure to any of the defaults that have happened over the recent past and that continues into this quarter as well.

So, from the assets perspective, we continue to be very proud of the fact that we have had zero NPAs in about 20 years of our existence, across cycles.

This resilience of our Balance Sheet has meant that even after the recent market shocks of more than 23% drop in BSE100 over the month of March and 24 basis point drop in 10 year government bond rates over March, our solvency ratio stands at 194.1% as at March 31, well above the regulatory requirement of 150%. In the current situation, as would be expected from a financial services sector player, we have already carried out further stress testing of our Balance Sheet over the current year, subjecting the portfolio to further shocks to both equity prices and bond yields. Our conclusion is that even with this combination of further stresses from an already stressed environment, our solvency is expected to stay above the minimum level of 150% required by regulation. It would be worth highlighting here that we are permitted to raise Tier 2 capital of upto ₹ 12.00 billion under the regulations, which is completely unutilised as of now, and which could be raised if needed, to further improve our solvency position.

So, from a solvency perspective, we continue to remain very strong, which is a great situation to be in, especially in this environment.

As we move forward, our clear approach continues to be to maintain the resilience of our Balance Sheet by offering suitable products and deploying appropriate risk management practices.

Now, on the second aspect which is Demographic and policyholder behaviour related

The spread of COVID-19 and resultant death is still rising. We have been closely watching the developments and their impact on insured lives mortality. Given the low level of insurance penetration, we have observed from the past natural catastrophes that even in situations of extensive loss of life, claims from our customer base were very negligible. Even in the current situation, out of the 723 reported deaths until yesterday, we had two claims from our portfolio. Further, at March 31, 2020, we are holding additional reserves towards potential COVID-19 claims.

We also carried out a stress test where we assumed a shock to mortality arising from COVID-19. Even under this scenario our solvency stayed well above the regulatory minimum of 150%.

The other possible impact on policyholder behaviour is a drop in persistency arising from the sharp market discontinuity, both in the past few weeks and going into the future. We have in the past always articulated that we believe that the core factor that drives persistency is the sales process. Of course as time passes, markets, fund performance, service standards and more generally, customer experience, can impact persistency at the margin. We have seen our persistency being stable even during the last quarter.

Over the past few weeks we have observed surrenders drop sharply with the fall in markets. This is positive for our VNB and EV. We will talk about these elements in greater detail later.

Overall, on demographic factors, we believe that we are well positioned to deal with the outcomes emerging from COVID-19.

Moving on to third aspect which is Business and business conduct related

Organisations generally plan for business continuity on the assumption that some parts of the country will be inaccessible. What the COVID-19 situation has tested is our preparedness to deal with the full country "outage". Clearly, this will also bring out the relative technology strengths of various organisations within the industry.

As a company, in mid-march, we moved to a 100% work from home for the entire organisation except where required to provide essential service. This effectively tested our capabilities under three dimensions.

1. Customer service

Over the years, we have built a digital platform that empowers customers to carry out almost any transaction from the convenience of their home. This has enabled us to move about 87% of customer transactions to self- service over the years. At the commencement of the restrictions, we once again started a series of communications to our customers to reiterate this. We also reiterated that all claims, including due to COVID-19, would be processed while ensuring a round the clock access to our call centre and faster settlement.

During the lockdown situation, we observed a distinct increase in digital interactions with our customers. For example, between the period March 22 and March 31 as compared to rest of the March month, daily average of interactions with our chat bot has increased by 42%, interactions through WhatsApp has increased by 61% and mobile App logins have increased by 94%.

These lessons will come in handy as we work on enhancing the level of self service to much higher levels.

2. Support functions including financial reporting functions

All support functions moved 100% to work from home. Our technology platforms are fully enabled for secure remote access which has enabled teams to function uninterrupted.

This is best evidenced by the fact that we have finalised our results within timelines that we would normally do during other years.

3. Sales processes

We believe that we have built a truly world class technology platform to support our distributors and sales management teams to be able to carry out all functions from prospecting to on-boarding to servicing from any device of their choice. This positions us very well to continue sourcing business even as the COVID-19 situation stabilises.

While the technology platform exists, there has been a general comfort for distributors to do the last mile connectivity with the customer as a “physical face to face”. And this sort of a

behaviour varies from distributor to distributor. Changing this behaviour and converting the last mile contact to a “virtual face to face” has been our key focus over the past few weeks. We are already seeing more and more distributors embracing this approach. This transition will however happen over a period of time and during that period, if lockdown situation continues, new business could be impacted.

We see this as a tremendous opportunity to redefine how sales processes operate and use these learnings to improve our efficiencies. The steps we have taken over the past two years to diversify the product mix into both, traditional products for appropriate segments and protection business, are standing us in good stead, especially when it comes to VNB development.

We will talk in some detail on how we are approaching this quarter, both from a business opportunity and cost architecture later in the presentation.

I will now move on to other developments during the quarter.

On the regulatory front there are two key developments. The first one is on the sandbox framework. The insurance regulator has approved seven proposals of life insurance companies under the Sandbox framework. We are happy that five of the seven approved proposals were our proposals. These proposals span across products and service propositions. This reinforces our desire to continue to innovate in providing solutions to our customers without compromising on our Balance Sheet strength.

The second key development is with respect to the KYC process. As per the recent notification from the Department of Revenue dated April 23, 2020, we are one of the insurance companies to be allowed by the Central Government to conduct online authentication of Aadhaar. This will be a powerful enabler in our digital fulfilment process going forward.

Coming to technology initiatives during the quarter, the Company believes in leveraging technology to deliver enhanced customer experience, scalability and cost efficiencies. A part of our technology journey is to identify key areas where artificial intelligence can make an impact. During the quarter, we have invested in a speech recognition and conversational humanoid artificial intelligence tool, which can not only converse with customers in multiple languages but can also reach out to over 50 thousand+ customers in an hour. Given the positive feedback we have received from customers and the scalability of the solution, we intend to enable more aspects of our service with humanoid capabilities.

Moving to ESG initiatives

Over the years, we have been building our organisation with a strong focus on governance and ethical behaviour. We have also focussed strongly on giving back to Society. We have been putting in place various measures to preserve the environment. We have now brought all of these together as a document which captures our initiatives across the Environmental, Social and Governance (ESG) space. We will also be talking about this later in the presentation.

Coming to other development, I would also like to inform you that the Board has amended the Dividend Distribution Policy to bring down the maximum limit of dividend ratio to 30% of PAT as compared to 40% of PAT earlier. The revision is in line with our stated objective of conserving capital, primarily to support the strong growth in the protection business.

Given the uncertain environment, IRDAI circular advising companies to be prudent to preserve capital and the fact that we had already declared interim dividend, the Board has decided not to recommend any final dividend to the shareholders for this year.

I will now move on to our performance for the year and then conclude with our approach for fiscal 2021 before I hand over to Satyan for a more detailed discussion on the results.

As I have mentioned in our previous calls, our 4P strategic elements i.e. Premium growth, Protection business growth, Persistency improvement and Productivity improvement continue to guide us towards our objective of growing the absolute Value of New Business while ensuring that our customer is at the core of everything we do.

With our customer centric approach, we have had a robust performance across service parameters as presented in slide 8. Our Claim settlement ratio stands at 98%. Very importantly the average time taken for settlement of claim was just ~1.6 days in fiscal 2020, a further improvement from 2.3 days for FY2019. The Claims for Sure initiative which I spoke about in our previous results call has helped us in reducing the average time taken. Our Grievance ratio as well has improved to 48 per 10,000 policies sold during the year.

During the fiscal 2019 result call, we had articulated our aspiration to double our fiscal 2019 VNB by fiscal 2023. This implies a minimum compounded growth rate of 19% p.a. In this context, as you can see in slide 9, our VNB grew by 21% to ₹ 16.05 billion in fiscal 2020 as compared to ₹ 13.28 billion for fiscal 2019. This growth has been predominantly achieved

through the growth in the protection and non-linked savings business. Our VNB margin for fiscal 2020 was 21.7% as compared to 17.0% for fiscal 2019. This VNB and VNB margin incorporates the full impact of change in effective tax rate due to recent change in the budget on taxability of dividend income.

More importantly, for FY2020, 74% of the VNB came from protection and non-linked savings business, which are the two fastest growing business segments for us. We believe that this also strongly reflects the diversification that we have been able to achieve over the years. The reduced reliance on unit linked business with the business accounting for 26% of the VNB reasonably insulates our VNB growth objective from any potential volatility in the new business of unit linked segment relating to market or otherwise.

I will now talk a bit more on the drivers of our VNB growth, viz. the 4Ps through slide 10 to 13.

Overall, during the year, New Business received premium grew 20.4% over FY2019.

On the first two Ps of Premium growth and the Protection growth, during the year, we saw the non-linked savings APE grow by 62% and the protection APE grow by 55%. This has resulted in the share of non-linked products increasing from 19% in fiscal 2019 to 32% in fiscal 2020, providing us with further diversification in the product mix. Unit linked business was challenged during the year with the segment actually declining by 23% year on year.

As I had described earlier, non-linked savings and protection segments are the more profitable segments. The strong growth in these segments meant that while overall APE declined 5.4% over FY2019, VNB grew by 21%.

As I had mentioned, our new business received premium grew by 20.4% year on year to ₹ 123.48 billion. Protection and Annuity business continued to drive this growth. For FY2020, over one third of the New Business premium came from protection and annuity products, reinforcing our credentials as a meaningful protection and annuity provider in the market.

On the third P of persistency presented in slide 12, we have seen our persistency being stable since December 2019. This has indeed been a period of discontinuity in the market and we get confidence from the fact that persistency experience continues to be within the assumptions inherent in the margins and VNB. I would like to mention that our persistency ratios continued to be one of the best in the industry.

On the fourth P of productivity improvement presented in slide 13, we continue to make progress. While we continued our investments across technology as well as in building distribution channels such as Agency, Direct and Partnerships, with close monitoring of our cost elements we were able to bring down the savings cost ratios further. The cost to total weighted received premium ratio for the savings business has improved to 10.4% as against 11.5% for fiscal 2019. As the cost ratio for protection segment is higher, with significant growth in protection business, overall cost ratio was 15.9% for fiscal 2020 as compared to 15.0% for fiscal 2019. I would like to mention here also that our cost ratios continued to be one of the best in the industry.

Before I conclude, I would like to briefly cover our approach to business during this quarter through slide 14 & 15. While at this time lockdown situation still remain, the expectation is a gradual easing will happen over the quarter. We would however expect some time before normalcy resumes.

So, in this context, our approach to distribution, I described earlier the challenges that distributors are facing in terms of their inability to have a face to face meeting with customers. We are therefore setting our first priority as helping distributors to transition to “virtual” face to face interactions. We are doing this through a combination of training and hand holding. Our objective in this regard is to get more of our sales employees “digitally active”. Given our strong technology platform and capabilities that we have spoken about at various times, including our Technology Day presentation, we believe that we are very well positioned to achieve this.

Secondly, during this interim period, we are redefining our channel objectives. For the agency channel, we are defining non-linked savings products and protection products as the priority, as these are also relatively easier to explain and sell. For ICICI Bank, we expect to focus on protection sales through their website and mobile application. Across partnerships, we are giving greater focus to those partners that have more evolved digital capabilities while we work with other partners to improve their digital capabilities. The focus of our direct channels will be digital campaigns and direct lead assignment to our field staff.

As we talk about our various distribution initiatives for the quarter, I would also like to briefly cover our broader distribution approach for the year.

Agency is a channel where we will continue to work on our objective of widening the distribution through growing agent count, deepening distribution through enhancing our relationships with key agents and also diversifying our product mix.

Our focus on Partnership distribution continues to be to build new partnerships and deep mine existing relationships. We also continue to focus on new categories of partnerships such as e-commerce entities.

Our direct business will continue to be focused on growing our online capabilities and use cross sell as a key lever to deepen engagement with our customers.

ICICI Bank has been a significant distributor for us, contributing about 46% of the total Company APE in FY2020 and 37% of the total Company APE in Q4-FY2020. Over the last few quarters, the Bank has reviewed its life insurance distribution and made some changes to its distribution approach to focus on the under penetrated protection segment and the increased requirement of annuities related to NPS. To facilitate their efforts in this direction, we have enabled various technology and process solutions to enhance buying convenience and distributor productivity. ICICI Bank has also added this protection offering to its ICICI Stack, which they have talked about, which is their comprehensive digital customer proposition. The results of this focus can be seen in the strong growth in APE in these two segments. For FY2020, protection APE grew by 137% and annuities grew by 70%. This also serves the Company objective of VNB growth.

As we move into FY2021, we would expect the above actions to reflect in the premium growth, the product mix and the VNB for the channel. We would continue to diversify and invest in further strengthening our non-ICICI bank distribution channels.

On the Customer side, our efforts to further migrate customers to self-service modes will continue.

On the expense management, the key imperative for us will be to manage costs dynamically even as we go through this period. The focus areas for us would be to improve the manpower efficiency through a greater digital adoption and work on making our costs more variable. Through the year, we expect to manage this process well.

In summary, on APE for the quarter, even with significant restrictions, we would expect that the protection segment would grow and do well. For the non-linked savings segment, our aim

would be to achieve some growth year on year. Unit linked business however will continue to remain a challenge and as a consequence, VNB for Q1-FY2021 could be challenged.

Even as we had events that have impacted profitability such as the tax change, and events that could impact growth such as the lockdown situation, we continue to hold on to our objective of doubling FY2019 VNB over 3 to 4 years. Of course, the slope of our path towards doubling could vary from here given the lock down situation and COVID – 19 related impact. But as I said, we continue to hold on to our objective of doubling our fiscal 2019 VNB over three to four years kind of a time frame.

Before I hand over to Satyan to go through the results in greater detail, I would be failing in my duty if I do not acknowledge the contributions of various stakeholders during this period. Apart from the financial strength I talked about, the key source of our strength is our employees and I thank my colleagues for rallying together and staying focused on serving customers in these difficult times. I would also like to acknowledge our shareholders for the patience shown as well as all other stakeholders for their continued support. Thank you.

Satyan Jambunathan: Thank you Kannan. Good afternoon.

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

The first element Premium growth: As you would have seen, our new business composition over the years was dominated by unit linked products. Over the last two years, we have been systematically working on diversifying our product mix through a combination of distribution build up and product propositions.

Through this diversification journey, the strength of our product range with propositions to suit different risk characteristics of customers has been a very important enabler. We have a complete range of product offerings ranging from unit linked products without any guarantees to fully guaranteed return products on the savings side and a range of retail and group life and critical illness products for meeting protection needs. As you can see on slide 19, during FY2020, the non-linked savings business has registered a strong growth of 62% year on year with the mix improving from 10% in fiscal 2019 to 17% in fiscal 2020. What is also worth noting is the strong growth seen in this segment across all channels. Protection continues to be a significant need of our society. With our continued focus on this need, our protection business continued to register a strong growth. The protection mix improved from 9.3% in fiscal 2019 to more than 15% in fiscal 2020. We see this as a significant opportunity going forward as well and are focussing on process simplification as a key enabler of opportunity. We continue to smoothen the process for all our distributors and have particularly focussed on this for ICICI Bank's customers.

With this, the share of non-linked products has increased from 19% in fiscal 2019 to 32% in fiscal 2020.

Moving on to slide 21 on distribution, we have continued to broaden our distribution through investments across channels with a strong focus on agency and partnership distribution. For the agency channel, the approach has been to ring fence the highly productive agents and adding new agents to tap specific customer segments, pursuing our strategy of broadening the customer base. For fiscal 2020 we added over 23 thousand agents to the distribution force. More than half of our agency business for fiscal 2020 was contributed by non-linked savings and protection products.

Within the bancassurance channel, the focus on growing protection and annuities has continued into fiscal 2020. The results of this focus can be seen in the strong growth in these two segments within channel. For fiscal 2020, protection APE grew by 137% and annuities grew by 70% for our bancassurance channel. With this, the protection and annuity mix for the bancassurance channel has increased from 4% in fiscal 2019 to 10% in fiscal 2020.

For the direct channel which comprises sales through our own website and employees on our payroll, the strategy has been of upsell to the existing customers with the help of analytics. The channel had a diversified product mix with more than one third of the business contributed by protection and non-linked savings products for fiscal 2020. In partnership distribution, the focus on protection and non-linked saving segments resulted in almost 80% of the business being contributed by non-linked savings and protection products. We continue to build on our existing partnerships while seeking to add new ones. We have also tied up with various non-traditional distributors such as web aggregators, payment banks, small finance banks and insurance marketing firms.

We believe that we have a well-diversified distribution mix with distribution channels other than ICICI bank contributing more than 54% of our fiscal 2020 APE. We have seen strong growth in non-linked products across all channels with an overall growth of 60% year on year. Retail business continues to anchor our new business, contributing more than 90% of the APE.

The second element of Protection growth: We continued to have strong growth in the protection business. With an APE of ₹ 11.16 billion for fiscal 2020, the protection business grew about 55% resulting in the protection mix growing to more than 15% of APE as compared to 9.3% for fiscal 2019.

Within the protection business, retail products tend to be more profitable on account of their longer tenure and greater granularity. As you can see on slide 25, within our protection business, the mix of retail has further increased to ~70% with an APE of ₹ 7.68 billion.

With an APE of ₹ 2.35 billion, credit life segment continued to register a strong growth rate of 50% year on year. For the past few years we have worked on building partnerships in this space. With this, credit life business through third party segment contributed to 16% of our protection APE in fiscal 2020. While credit life business through third party has grown significantly in the past few years, it does not dominate the protection mix.

The third element of Persistency: As can be seen on slide 27, during fiscal 2020, we have seen mixed trends on persistency across product segments. Protection persistency improved and non-linked savings persistency was flat. There was some decline in the linked persistency during the year. Within that however, persistency has been resilient during the last quarter with the ratios remaining stable across the cohorts even though the equity markets continued to be volatile with a sharp fall in equity prices. For fiscal 2020, our 13th month and 49th month persistency excluding single premium was stable at 83.2% and 64.6% respectively. From a profitability perspective, early period persistency and surrender experience is better than the assumptions factored in the VNB and EV calculation.

The fourth element of Productivity: We continue to make significant progress on improving cost ratios of the savings business. One of the challenges associated with the decline of the unit linked business has been on managing costs to be commensurate with the level of business. Over the year, we focussed on tighter planning and deployment of manpower to ensure that our savings cost ratios reflected the new business outcomes. The cost to total weighted received premium ratio for the savings business has improved to 10.4% as against 11.5% for fiscal 2019. Given the robust growth in the protection business, our overall cost to total weighted received premium ratio was higher at 15.9% for fiscal 2020.

Slide 30 gives you some details on how we managed to improve efficiencies on the savings business. Overall the cost ratio for savings improved from 11.5% in fiscal 2019 to 10.4% in fiscal 2020. We were able to achieve this through keeping the operating expense growth in line with APE growth. More specifically, we also managed these expenses such that we could continue to invest in areas of competitive advantage such as IT and digitization. While cost elements like manpower costs declined, it lagged the APE decline. We managed the overall cost by flexing variable sales related costs so as to keep overall cost growth in line with top-line growth.

Kannan earlier mentioned that key imperative for us will be to manage costs dynamically. As we go forward into the coming year, we are seeking to improve manpower efficiency by realigning spans, using training and coaching to achieve greater degree of digital adoption and thus higher productivity. We are also working at making our cost more variable such that we are better able to deal with any uncertainties in the business environment.

The outcome of our focus on these 4Ps, as you may see on slide 31, has resulted in our Value of New Business of ₹ 16.05 billion for fiscal 2020, a growth of 21% year on year. VNB margin improved from 17.0% in fiscal 2019 to 21.7% in fiscal 2020.

Business mix, comprising higher protection and non-linked savings mix, led to an increase in margin by 4.7%. Increase in the effective tax rate consequent to the recent change in the taxability of dividend income, led to 1.1% reduction in our VNB margin. We had 1% increase in VNB margin with higher efficiencies, mainly on the maintenance expenses. Excluding the effective tax rate change impact, our VNB margin would have been 22.8% and the VNB would have grown at 27% over the last year.

If we refer to slide 32, our Embedded Value increased to ₹ 230.30 billion at March 2020. Embedded Value of Operating Profit (EVOP) for the year was ₹ 32.88 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, with a total operating variance of ₹ 1.83 billion.

Our Return on Embedded Value (ROEV) was 15.2% for fiscal 2020. VNB contribution to RoEV was higher at 7.4% as compared to 7.1% in fiscal 2019. The operating variances contributed 0.8% to ROEV in fiscal 2020. The operating assumption change, on account of increase in effective tax rate, had a negative impact of 2.5% on ROEV. Excluding this effective tax rate impact, ROEV for fiscal 2020 would have been 17.7%.

On the market side, a sharp fall in equity prices resulted in a negative impact of 6.8% on the opening EV through investment variance and economic assumption change. As markets improve over time, this negative would be expected to be reversed.

Slide 33 presents EV development for last five years. I would like to specifically highlight the positive variances seen across the operating parameters; which gives us a confidence on our assumptions built into VNB and EV computation. Our VNB and EV have been reviewed independently by Milliman Advisors LLP and their opinion is available in the results pack submitted to the exchanges.

On slide 34, sensitivity of VNB and EV to various factors have been provided. Broadly the sensitivities are lower than last year given the diversified new business mix.

Within the financial metrics, our profit after tax (PAT) for fiscal 2020 was ₹ 10.69 billion and Solvency ratio continues to be strong at 194.1%.

Before I conclude the performance for the year, I would like to highlight our approach and initiatives around sustainability.

The past two years have seen a significant transformation of our business model and more specifically on our articulation of strategy as well as our aspiration of value creation for our shareholders. As our business model is intertwined with our sustainability objectives, we have now holistically documented our objectives and approach on ESG i.e. Environmental, Social and Governance. Our ESG framework is based on our Company's vision to build **an enduring institution** that serves the **protection and long term saving needs** of customers with **sensitivity**. Our Executive Committee comprising the senior leaders of the Company oversees the integration of ESG within the organizational framework and undertakes initiatives to balance the growth and profitability objectives whilst serving the welfare of society and the preserving the planet and thereby ensuring sustainability. Our detailed report highlighting the initiatives undertaken on each aspect of the ESG framework is available on our website.

First on the Environmental aspect. Being a financial services company our focus on the environment is primarily driven by what we consume and how we recycle. We continue to adopt environment-friendly practices around various aspects, such as energy consumption, water conservation and waste management, through a lens which is to replace, reduce, reuse and recycle. Some of these initiatives shown in the slides are around energy consumption, water conservation, e-waste management and reduction of paper consumption through **end to end digital solutions** within each aspect of our business.

On the social aspect, we are fortunate that our business is fundamentally of a social nature, as our aim is to serve the long term financial and protection needs of the society. Our success is ascribed to all our stakeholders, which includes our customers, employees, shareholders, business partners, regulators and the community at large.

Our vision is supported by our commitment to five core values, **Customer first** being primary. Each of our business activities revolves around the primacy of the customer.

Our commitment to employees is based on the three pillars of our employee value proposition namely, Fairness and Meritocracy, providing a Supportive environment and Learning and

Growth. Our Company is a **gender neutral, equal opportunity employer**. Women employees comprise about 26% of the total workforce. The Company has both leadership depth and breadth, with 85% of the senior management team having served the Company for more than 10 years and with 94% of the senior management having done at least 3 job rotations during their tenure with us.

Our Corporate Social Responsibility (CSR) policy is our commitment to provide resources and support activities focused on enhancing economic and social development. Some of our key focus areas for inclusive growth include **Skill development and sustainable livelihood, Health and education**. We also play a key role in **channelizing the household savings to provide long term capital needed for infrastructure and housing, as also investing significantly in Government bonds**. As of March 31, 2020, we had invested ~51% of our assets under management in industries related to infrastructure/ housing sector and Government bonds. Through our business, we also offer **micro-insurance products** catering to the rural and social sector, **insuring more than 3.9 million** lives as of March 2020.

On the third aspect which is Governance:

We are building upon our organization's foundation over these nineteen years by continually enhancing the structures, processes and controls in place that support and promote accountability, transparency and ethical behaviour. We recognize ethics and governance to be of paramount importance. Through the policies, processes and practices, we have built a strong governance framework. We strongly believe that success and sustainable growth of any organization depends on good governance.

The Company's corporate governance philosophy is based on **an effective independent Board and the separation of the Board's supervisory role from the executive management**. The Board has **50% Independent Directors**. **The Chairman of our Board is an Independent Director**. We have a board approved **policy on board diversity and criteria for appointment of Directors**. The Board Committees **comprise a majority of independent/non-executive Directors and are chaired by independent Directors**. We have a **Board approved Policy on Compensation &**

Benefits for all employees and non-independent directors, which also includes an employee stock option scheme.

As part of our **compliance and risk framework**, we have in place **Compliance Policy, anti-money laundering policy, Board Risk Policy, Information & Cyber Security Policy** amongst others. We have **Business Continuity Management (BCM) framework** which even as we speak today in the lockdown environment, has ensured resilience and continuity of key products and services and the health and safety of our employees.

We recognise our responsibility as insurance companies to protect the interests of the policyholders, which demands that we have in place good governance practices for sound long term investment in addition to the robust risk management framework. We have laid out the operational framework through the **Investment Policy** and **Stewardship Code**.

I would like to conclude the governance section by mentioning that our Company featured for the second consecutive year among the top three of the 50 companies that got listed between 2015 and 2017, based on its scores on corporate governance.

With this, I conclude our ESG approach and initiatives. As it was our first external disclosure on ESG aspects, we thought it to be appropriate to discuss the same in greater detail with you.

To summarize, we 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.

Prakash Kapadia: I had two or three questions. On the ULIP side, if I look at the premium trend, first year premium seems to be declining for three years in a row. This year also, so it will be four years in a row. So why is it despite that we are trying to move from a premium to a mass market, this is happening. And typically, ULIP is more sentiment-driven, so from earlier cycles. If you could give us some perspective how much time does ULIP take to come back after a rise or after three, four quarters, how does ULIP tend to get to the normal mode?

Puneet Nanda: There are two aspects to this. One is, what is the impact of market and hence on customer behaviour vis-à-vis ULIP. Second is, what is the company's own strategy for the

category. And hence it is a combination of these two, which actually determines the outcome in terms of the premium that we collect. Now in terms of the market, yes, there is certainly an impact on ULIP as a category. Even though it is a long-term product and even though the proposition from a sales perspective is that of long-term, at least 10 years. But you are absolutely right, the market sentiment does impact this category and hence whenever there is serious volatility, especially on the downside, the category does get impacted; as we have seen especially this year. Normally the improvement from market sentiment perspective happens with a lag and sometimes it can be a significant lag. That is what we have seen across cycles. The second aspect of course, is the company strategy itself. Kannan explained it and then Satyan also detailed out. As a Company, we have chosen the path of growing VNB in absolute terms. Now clearly, given the scenario where ULIP is, on a relative basis, the lowest margin product, there is greater focus on other categories from a product mix perspective. Not that we have any specific objective in mind on what should the percentage of any product category be. But clearly, if you want to use product mix as a key lever to increase VNB, there will be greater focus on other categories. Within that, of course, protection as a category is our single biggest focus and where we also see significant under-penetration. You have seen the data, Kannan has explained it, Satyan explained it, and the results are there on our website. The reality is that for us, during this year and in fact that has pretty much been the story over the last year also. As we have focused more and more on VNB, we have seen extraordinary growth on the protection side. In protection, we are the clear market leader in terms of retail protection, if I may say so. On the non-linked savings side, it is more a need of the customer; those who are risk-averse and who are willing to lock in for a longer term are taking it. This is what we are seeing in this environment. So there has been good growth. ULIP has of course been impacted both by the market as well as I have mentioned the company strategy itself.

Prakash Kapadia: You also mentioned protection growth will continue and within that, obviously, retail protection has been the driver. So here I would guess mortgage would be a big driver to this. So, is it just market share gains because these uncertain times, the outlook on mortgages could be muted in the coming few quarters, so what is going to drive the protection and specifically retail growth which we have seen?

N.S. Kannan: The larger growth in protection has been in retail protection, which is retail term insurance. So, as Satyan mentioned during his opening remarks, that actually the proportion

of retail protection in our overall mix has increased quite sharply, and it is a higher-margin product as well. So, I think that we will have to really keep in mind. Because if you look at the credit life, which is the mortgage and other areas of business, that can change from time-to-time. So, if I have to put a number to this, between FY2019 and FY2020, actually retail protection, which is the retail term life product APE, has grown by 76.1% whereas overall, we have seen the protection growth at 54.6%. Yes, credit life growth is dependent on the credit growth outlook across all players who we have tied up with. But with about 69% of our protection being retail protection, I would rather say that our protection growth is largely led by the retail term policies rather than credit life, which could vary from quarter-to-quarter depending on how our partners do on their distribution. So, I would say that what has led the growth is more on retail protection rather than the credit life or mortgages.

Prakash Kapadia: And a last bookkeeping question, what would be the number of employees as on this year-end? I think last year we were around 14,000.

Judhajit Das: It was 14,630 as of 31st March.

N.S. Kannan: In certain areas where we felt there is a recruitment required, we have done so. Otherwise, broadly, it's a stable employee base that we have had over the period.

Suresh Ganapathy: Kannan, I just wanted to check, do you guys still maintain the 19% to 25% VNB growth guidance in the current environment?

N.S. Kannan: Yes Suresh, we have deliberated it internally. When we look at the combination of our product mix trajectory as well as the productivity improvement trajectory going forward, I actually take it in two phases. The first phase will obviously be the product mix driven growth in VNB, followed by more cost rationalization which Satyan talked about and following that the top line growth on APE. That is the way I would like to take this up. When we stacked up the numbers, we do not, at this stage, see any reason for changing our aspiration of doubling the VNB between three to four years. Only thing I would say at this point in time, is that it may be closer to four years because we have a lockdown situation and there is an immediate compression of demand. To that extent, we may just push it towards four years rather than changing the aspiration altogether. So, to answer your question, yes, it comes well within the 19% to 25% range which we had talked about earlier. Then we also looked at what could be the path. The path could be a little different because of the immediate impact on APE and VNB I talked about in the opening remarks. The slope may change a little

bit. Immediately there is some pressure and then picking up slowly over a period of time. But the endpoint, we are not changing, and we are quite confident of that and we do have a lot of levers available. For example, sometime back we discussed at length on the impact on the dividend distribution tax on VNB. To put out a number of 21% growth in VNB with a 21.7% margin after taking into account the tax and other impacts, gives us a lot of confidence on the various levers we can work on. That is what gives us the confidence to say that three to four years is the time period in which we will double the FY2019 VNB; probably closer to four years than three years.

Suresh Ganapathy: Quickly two other questions. First, any initial on-the-ground feedback? Typically, during SARS 2003, once the crisis happened and there was a massive jump in new business sales in Hong Kong. I mean something in early stages, people are panicking and scared. Are they are going for more protection cover or increasing their sum assured? Anything that you can share? The second one is, the investment experience has been pretty sharply down. Is that because of the sharp revision in the reference rates on Page #78 of the presentation? Just wanted a clarification on that.

N.S. Kannan: To give a colour on what is the customer behaviour, it is a fact that we have had lots of queries around the term insurance in the recent past, eg “Can we look at group insurance for a set of groups?” There have been a lot of queries from people regarding various employer, employee groups or non-employer-employee groups asking “Can you guys look at group term cover for this set of people” and also obviously the queries to on whether COVID-19 situation is covered in our policies? To which we have replied in the ‘affirmative’ because our policies do cover death by COVID-19 also. So such anecdotal evidence is visible. Another data point is, the growth in protection. It clearly has been decent even with the lockdown. April-over-April, if I look at the protection growth, in terms of the logins or inquiries, it has been quite a decent growth I would say, despite the lockdown. Of course, we will have to see how much we are able to close from the perspective of having to shift from medical to non-medical and to see how much we can do tele-medical etc. We will have to wait for the quarter to emerge before we get the final numbers. But on preliminary numbers, we do believe very strongly, that there would be a decent growth in protection during the first quarter also, notwithstanding the lockdown. On traditional policies, some growth is what we expect, because even now we are seeing that it is flattish to a little bit of growth compared to last April. Of course, ULIP is down. Given the market situation and the market volatility that

we have seen with the index itself down by 23%, and further due to ICICI Bank's focus which has become more of protection and annuity as I mentioned in the opening call, these several combination of factors have led to a demand compression for ULIPs. But the good news is that ULIP has 7% to 8% range of VNB margin as opposed to the much higher margins in other products. So, we will take it as it comes because it can be only margin-positive in terms of our approach. On the particular issue on Slide 78, I request Satyan to clarify. If you are talking about the economic assumption change and investment variance of ₹ 14.76 billion, it is completely because of the market.

Satyan Jambunathan: The economic assumption change and investment variance is predominantly led by equity market impact on the unit-linked portfolio. There is also a slide on sensitivity where we have shown the impact of yield curve, which is on Slide 34. Actually, a decrease in the reference rate is a small positive for us. So, to that extent, the yield curve has helped us, but the equity market has had the bigger impact on market variances.

Suresh Ganapathy: Zero NPA, when you are saying that means, there is no YES Bank AT1 bonds, no IL&FS, DHFL, no NBFC. None of it has created any kind of problem on your portfolio, right?

N.S. Kannan: Yes, I do not want to go asset-by-asset. The particular bank exposure, we have said that as of 31st of March, we have zero exposure to them. On the other assets you mentioned, we never had any exposure.

MW Kim: Thank you for introducing the ESG disclosure. I want to ask about the retail protection strategy, in particular. So, what would be the specific benefit or the coverage to drive the new business value, margin and then the volume post the COVID-19? There is a lot of focus on the strategy. So, I want to know more detail. And also, how would you design this protection product, would it be as an additional rider or new term policy with a larger benefit?

Satyan Jambunathan: If you see our protection business on the retail side, it is predominantly term insurance. These are not COVID-19 specific products. All of our term life products also cover death due to COVID-19. To that extent, the coverage exists. What we are looking at doing is proceeding on similar lines to what we had before. Which is focusing on the retail protection needs of customers across life and critical illness. In terms of going through this entire journey, one of our practical challenges in a lockdown situation, like Kannan also mentioned earlier, is how we complete the medical underwriting process. That is an area

where we are taking different routes for different customer profiles. We are segmenting our applications by customer profile and differentiating who we offer non-medical processes to and therefore improve the ease of buying and who we put through a more detailed evaluation. So our entire approach to retail protection, from a pricing perspective, it is still long-term pricing, we are not doing short-term products; from a need and proposition perspective, it is still focused around the core of life and critical illness.

MW Kim: Moving forward, the strategy would be more focused on the new term policy with a relatively larger benefit or pushing more the volume on the new policy. It seems there is more strategy there. So just want to know a little bit more colour on there.

Satyan Jambunathan: In the shorter term, it will be pushing more policies because larger cover will be difficult to underwrite in a restricted environment. As the restrictions lift and we are able to resume normalcy on underwriting, then larger covers will also become a very important part of our approach.

Nidhesh Jain: I have two questions. Firstly on the protection, if I look at the ticket size, growth is almost 100% YoY which means that in policy count, probably there is a flattish or slight negative growth. Any comment on that going into next year? Do you expect policy count to grow at a material rate versus this number? And secondly, what sort of price hike we have taken on the protection to pass on the reinsurance rates?

N.S. Kannan: On the first question, Nidhesh, yes, as you can see from our presentation, clearly, on protection we have almost doubled the average ticket size. It is largely due to introduction of the limited pay product during the period which started in the second half I would say of the last year. Because of this, we had a little bit of a base effect which is coming through. So that has clearly resulted in the kind of growth we have seen. Going forward, and Puneet can supplement this answer, I have a feeling that there could be a combination of both volume as well as value. The volume will be driven by more people going for protection and with this kind of situation, I think people are getting more anxious about having to protect themselves. I think that focus will continue. That will drive the volume. And on the value side, there will be again two drivers: one driver would be clearly based on people realizing that even if a person is insured, he is underinsured. I think that realization is slowly coming along. So, we are actually seeing a very high sum assured which will increase the value. And secondly, as you said, the price increase is also going to increase the value for the year. So,

those are the two levers which will help premium increase. On the specific question about “How much price increase we are doing?” We are unable to give you the number to you at this time, obviously, because of commercially sensitive reasons. But as I mentioned to you very clearly that we have filed the product. And our own assessment is, without compromising the margin, we will be able to sell the product without any collapse of the demand. Those are the two things we can tell you at this point. So, we are not nervous about this price hike. We think that we can pass it on but we are not in a position to disclose it from a commercial sensitivity perspective.

Puneet Nanda: Nidhesh, I think Kannan covered it. I will just say there are typically three reasons. One is that we have always said that most of us do not have adequate cover. So, I think slowly people who understand the need for protection are taking higher cover. That is leading to more premium and hence higher sum assured. We have also spoken about how our overall sum insured has increased. That is one element. Second element is, as Kannan said, we introduced limited pay and it has become very popular. We feel it is a very specific customer need. In a society like ours where the vast majority of people are self-employed, whether they are white collar, blue collar, whatever, 75%-80% people are self-employed. These people actually prefer the flexibility of paying over a shorter term, but yet want cover over a longer term. That is why limited pay became a good success and we are expecting it to continue. But both these things, higher cover as well as limited pay, are for the more affluent or mass affluent segment of the customer. For the next category of customer, which is more mass, and that is where I guess penetration levels are very poor, that is where it will be driven more by more number of policies. Also to some extent, it will be driven by group covers. Kannan alluded to that earlier; and groups can be of various kinds. From our perspective, we will be covering more and more lives. So even in this year, while the number of policies may look less, actually the number of lives we are covering is actually increasing simply because a large number of people in the lower segment have been covered for group products, but which actually shows us only one policy in results.

Nidhesh Jain: Second on the assumption side. In the ULIP portfolio, the persistency is very close to our assumptions and next year we do not know how the growth scenario will pan out. So, I just wanted to understand the rationale of taking this assumption change on the expenses side and your buffers on the persistency assumptions?

Satyan Jambunathan: Just to talk through the assumption changes you are referring to the expenses. Expenses are not assumptions for me. I am only taking in what the actual expense for the year is and projecting it out to the future with inflation. To that extent, it is not like I am making a choice on an assumption change or not. This is genuinely reflecting the improving unit cost on my maintenance of the portfolio. To that extent, it is factored into it. If I were to look at the persistency and headroom, when you see the persistency variance, you are right, the variance is lesser than last year. What is quite important for us is to make sure that from here, we at least continue to protect the trajectory of persistency and if possible try to improve it. The last quarter, like Kannan also described in his opening comments, while it was a difficult market for the unit-linked segment, we were still able to broadly protect our persistency from 9M through to the end of the year.

N.S. Kannan: Nidhesh, in this kind of environment, actually putting out a higher persistency on protection on year-on-year basis, really augurs well for the kind of sale we have done and the kind of need there is in the market for protection.

Nidhesh Jain: This operating assumption changes, if I look at the numbers, I think we have taken some positive operating assumption change. If you can just give some more colour on that.

Satyan Jambunathan: Like you see on Slide 32, the total assumption change impact is negative ₹ 2.25 billion. Of this, the tax rate change was negative ₹ 5.5 billion. So, we got roughly a positive of ₹ 3 billion mainly coming from expenses. We have not made any significant changes to assumptions at all. In certain small pockets, we have made some small adjustments to reflect reality. But there is no other significant change to any of the operating assumptions.

Nidhesh Jain: Just one question on the tax. So now with this assumption, we are at complete effective tax rate, we are not taking benefit of DDT?

Satyan Jambunathan: No, I have set the effective tax rate assuming a dividend payout as per policy which is 30% of PAT.

Nidhesh Jain: So, there is very low likelihood of this going downwards further?

Satyan Jambunathan: At least at this point of time. But this year, like Kannan described in the opening comments, for the second half we did not declare a final dividend given the context. But once the context changes, hopefully, we should be back in line with our dividend policy.

Ajox Frederick: Sir, my questions are related to protection again. We have seen a good jump in protection persistency. Have we factored this in when we price the product because did you expect this jump to happen and was there any gap between the expectation and actual?

N.S. Kannan: Any product we decide, any sales process we do, we always hope for very good persistency. We do not write any policy which will sustain itself because of lapsation. That is not our approach at all. All our internal performance metrics involve persistency improvement. And to the same extent it gets included in the assumptions as well. So, we are a “high level of persistency” company. Our culture is about persistency and we want to maintain it that way and our assumptions also reflect that.

Ajox Frederick: Okay, so this is not a negative with respect to assumptions?

N.S. Kannan: Absolutely not. We want to increase it further. That is the way we would work on persistency across all products, not just protection.

Ajox Frederick: In current environment, how are you planning to weed out fraud? Because now I have observed that we have increased the minimum sum assured without medicals from ₹ 1 crore to ₹ 2 crores. So, how has the experience been earlier in such scenarios and what is the strategy now to remove frauds?

Satyan Jambunathan: If you look at the pattern of where we saw frauds, it was more in the smaller sum assured bucket, typically less than ₹ 50 lakhs. Because even offering a sum assured of more than ₹ 50 lakhs is contingent on a minimum income level of a person, which is evidenced by his own earnings capacity. Hence the profile for the larger sum assured is a naturally better demographic profile. I wouldn't sell ₹ 2 crores to someone who should have been buying only ₹ 50 lakhs. Through financial underwriting that happens at the time of onboarding, we assess the appropriateness of cover. With specific respect to frauds, one of the things that we have done as an organization, is to use data that is available in a collaborative space. For example, credit bureau data is there, insurance information bureau is there, and so we have a few of these sources of data which can be pooled together. We then overlay it with our own analytics on suspicious fraud patterns. That is how we have gone about our entire fraud management.

Deepak Kinger: Apart from what Satyan just mentioned, there are some other key initiatives we have taken where we use artificial intelligence internally to pinpoint on a case by case basis what could be more prone to fraud and look at that differently from our underwriting purposes.

Ajox Frederick: Thanks. Final question on reinsurance price hike. Across the spectrum, like Satyan mentioned, the lower ticket sizes can have a substantial hike compared to higher ticket sizes. So, my question is, was the risk not priced in earlier which is getting priced in now? Or is there any other reason behind that?

Satyan Jambunathan: The fundamental issue has been that we all thought we were selling to urban affluent. But systematically our target market was expanding to other demographic profiles. So part of this pricing recalibration is to allow for this underlying mix. The idea of differentiating price between a smaller sum-assured and a larger sum-assured is a natural differentiation between demographic profiles. Therefore, to that extent, we are trying to charge a price which is appropriate for the demographic profile. Which is why you see different implications on price for different sum assured.

Sumit Kariwala: So, first question is with respect to new business sum assured. If I can get that for the individual business and group business.

Satyan Jambunathan: I don't think we have split that out in our presentation.

N.S. Kannan: Overall, we have had an increase in new business sum assured of 29%.

Sumit Kariwala: There is some moderation in mortality variance. Can you please elaborate on that?

Satyan Jambunathan: The mortality variance is reflective of the mortality experience that the reinsurers have been experiencing. At the smaller sums assured, the experience was a little worse, which we have made an adjustment for and which is emerging as lower experience. But otherwise, at an aggregate level, it still continues to be healthy and positive.

N.S. Kannan: You can look at the chart on analysis of movement of EV which is on slide 33 of the presentation. If you see across all the five years for which we have put out, a little bit here and there, but every item being positive that we are very proud of that kind of a record. Yes, we are also putting out the results amidst the deeply stressed environment of March. Even in that situation we have been able to achieve this kind of numbers. We are quite confident and

proud of the fact that we have been able to drive it across five years, with every single item being positive in variance.

Sanket Godha: Actually just wanted to understand in the protection business growth, was it completely driven by higher contribution of LP over RP in individual business? Just wanted to understand how much LP contributes to the total retail protection? And if you really want to increase it further from the current levels, given you don't have some bit of lapse related risk not built in LP product over a RP product?

Satyan Jambunathan: We have not given the split between LP and RP at this point of time.

N.S. Kannan: But from my perspective, Sanket, the reason for introduction of LP is primarily the customer demand driven. As Puneet mentioned earlier, there is a significant demand which is coming from customers who could see probably their income going up in about seven years and so they would rather pay seven years of premium rather than waiting to pay over 30 years, though the premium is higher. We would completely go by what the demand is and it is for us to manage the profitability internally. That is the sort of approach we have taken. We will go with the demand and we did believe at that point in time that there is a huge demand and which has turned out to be what it is. Going forward, as I answered a similar question earlier, we have already said that there would be an increase in protection pricing. And there is an increase in volume also because of the heightened need for protection today. I think that should help us in continuing our journey on APE on protection going forward as well. So, in some years LP to RP shift may work, in some other years overall protection premium increase will work and at some other times like this, the overall number of policies also will work. April over April for this year over last year, we are already seeing the growth in the number of policies under protection. So, I think all levers are available, depending on the demand supply situation at that point in time and customer behaviour, we are very happy to sell anything that the customer wants. Overall what we should see is that we are very confident of the demand, we are very confident of the sales growth and we are very confident of protecting margins. Within that, what sells at a particular period of time, whatever market takes, we will be happy to manufacture and sell.

Sanket Godha: But just wanted to understand that from risk management point of view whether you want LP to be a certain percentage of your total retail protection business?

N.S. Kannan: No, not really. We are not worried about having a particular combination of LP versus RP in terms of our numbers. So whatever gets reflected we will take. In case a price increase is required, as I said we have already filed the product, we will increase it. So we will tweak it depending on the market demand and supply. But we are not working towards the target percentage ratio of LP as of now.

Sanket Godha: Okay wanted to ask another question is with respect to the persistency. We have shown it as on February 2020, but March number would be probably very different. Or is it we have shown because of February 2020 IRDAI is giving a leeway for customers to revive their policies due to the lockdown. So just wanted to understand what would be the full year persistency if I compare FY19 versus FY20 full year?

Satyan Jambunathan: We always measure persistency with a one-month lag.

N.S. Kannan: Because of the one month grace, it is February.

Satyan Jambunathan: In December it would have been 8M and when you are seeing persistency in March it is up to February. It is because we always give a one-month lag before computing persistency.

Sanket Godha: Fair enough. Okay. Finally, this is more a theoretical question. So, just wanted to understand, due to lockdown if no business happens or very low volume of business happens, what is the fixed cost per month and what is the minimum APE what we need to underwrite so that it doesn't lead to significant cost overruns? Or a theoretical scenario of margins becoming negative or significantly lower?

Satyan Jambunathan: My simple point is that I don't think you can take decisions on fixed costs of people or infrastructure, such that I shut an office today, open an office tomorrow, or I hire someone today and fire them tomorrow. I don't think that is practical. Whenever we look at cost management, and I showed this on slide 30 as well, what we have moved to doing is to evaluate our hiring strategy on manpower every month. So effectively, whatever is the pattern of business growth, we are trying to reflect it as closely as is practically possible in the fixed cost element. That is how we expect to manage it going forward. So is there a theoretical number of how much business I need? In the same way I could also say that if there is no business, I may not need to have so much cost as well. But realistically, it doesn't scale that directly. Therefore, our approach will be that as we go through the year, we will balance it out. In the first quarter can it hurt more? Yes, it can hurt more.

N.S. Kannan: Just to supplement, the way I would like to look at it is that there are certain items of the expenditure that we have listed down. For example, any of the capital expenditure which we are planning to do we have already cut it out. Any of the other discretionary expenditure expenses like sales rewards and recognition programs, etc., we have already cut it out. In terms of new people to be recruited, Judhajit is there on the call, very clearly, he has gone almost on not recruiting anybody till such time clarity emerges in terms of what is the likely demand in the medium-term. In terms of our increments, we have been either zero or very moderate. So, those are the steps at this point that we can take. But ultimately the situation will pass and we will get back to the growth, not just in terms of protection, but across all the products. I think it is very important to use this period on one side not to splurge, but on the other side to also protect the franchise. I think we will have to calibrate it very carefully because suddenly before we may realize we return to normal demand.

Puneet Nanda: You have to consider that in some ways, life insurance industry is probably best equipped to manage this. The reason is, we are used to very extreme seasonality. Even in a normal year, Q1 is normally only about 10% of the full year. So, we still carry the cost you are talking about. So you have may have instead of 10%, maybe 5% this year. But I think life insurance as an industry is used to this seasonality and is used to modelling this kind of thing. Hence, for us, the most important thing is to ensure that fixed cost stays low and we keep costs variable as much as possible. All the other things that Kannan and Satyan spoke about are obviously there. I just wanted to bring this angle that we are used to managing these kinds of extreme swings in business. It may be a little more than normal, but I think from our perspective, it's manageable.

Sanket Godha: Okay, perfect. Finally, just a small clarification, Satyan. On the VNB margin you have said after the reinsurance rate hike, are you are keeping VNB in rupees term constant or are you maintaining VNB margin as a percentage constant? So, it means that if you are keeping VNB margin as a constant, VNB itself will grow by say 19%-20%, if that is the price hike you have taken in this protection business.

Satyan Jambunathan: We have said we will maintain the VNB margin.

Ansuman Deb: Continuing on the previous question, when we look at your outlook, it is not good for linked segment while the company is targeting a small growth in linked savings. So protection becomes a very strong but a singular kind of a spot in our growth. So, in such a

situation when we have taken a price hike, is it aimed at improving margins or guarding the risk? If we have done to improve margins, is it driven by our analytics, which hints that we will not lose volumes and the customers have the ability to pay? This will be my first question.

Puneet Nanda: Kannan very clearly spoke about it that the starting point for increasing price was the reinsurer asking all insurance companies to increase price given the experience that they were seeing. We also discussed it a little later that the experience that they were seeing, which was a little adverse, was more in the lower end segment. That was the starting point. Once it was clear that the reinsurance price will increase, we had to then figure out how much, etc. We have very clearly articulated that the entire reinsurance price will be passed on to the customer. That is the way we filed the product, with no compromise on margin. So it's not as if we are using this price hike to either increase margin or to do anything else. The larger point though, of course, is that if the price increases what can happen to demand? I think I will keep pointing back to what we have been seeing consistently. I think this is a category where it is so under penetrated, demand is sometimes latent. It is our job to go and create awareness. But the under-penetration levels are so low, that we are fairly confident and obviously, we have done our scenario analysis, we are fairly confident that this is not going to materially impact demand.

In fact, I think the current crisis of COVID and one of the questions earlier was what it does given the experience that Hong Kong and China has seen, because of SARS. If anything, it may actually increase demand. It's early to estimate but it may increase demand. Already as of now, in April, we are seeing increase in inquiry, though, of course, how much of that finally translates into the APE or WRP does depend on a lot of other processes. But on an overall basis, without any compromise on margins, we do expect no impact on the demand as such.

N.S. Kannan: I want to add here that even in the past we have been used to operating at premium pricing. We are not a player who undercuts when it comes to protection, because we firmly believe that a lot of things have to come into place for success in the protection business. Obviously, apart from pricing, we do believe that there are other things which are more important. Such as the brand. Because we are promising somebody that we will pay that person's family even in the absence of that person after 40 years. So, they better be clear that the company will exist, the brand will exist, and that the financial strength of the company will support it. So I think brand is a primary consideration. Followed by the process, which is the ease of buying. That is where we believe that we have really cracked in terms of how easy

it is. The fact that today under a lockdown scenario, we are able to do some sales in protection is a real testimony to that process we have. Then technology is something which we are extremely clear. And then partner integration. Whenever we do protection sales with a partner, the kind of integration we have done has been real success for us in terms of being able to push protection sales. So, despite our pricing being premium, we have been able to push protection business. All of this gives us the confidence. Coming back to your question on whether we want to desperately decline ULIP, no, that's not so. I think when the market sort of recovers from the 23% decline seen recently, I am sure that distributors will come and ask us for our ULIP products. And given the kind of cost income ratios we have, we will be one of the best in terms of ability to manufacture ULIP in a most cost-efficient manner. I don't think many players can challenge us on ULIP pricing. So I have a feeling that, yes, ULIP in the current to immediate medium term there could be a continued drop, especially given the market situation. But it is the most transparent product that can be manufactured only by companies with a lot of efficiency. Let's see how this fares. We are not working towards a particular mix of ULIP or a particular mix of protection. What we are seeing in the immediate term is that protection growth is likely to be far higher. But we are very, very happy to grow all these segment. All of them are VNB positive segments, though with different margins and different ticket sizes. On dollar value, their VNBs maybe actually be comparable.

Ansuman Deb: Second question was that, and you kind of touched that point in some question earlier also, in disclosures by Milliman they have said that the results reflect only the condition till 31st March. So, the experience that we had from 31st March, if you can give any colour on that, kind of any assumption, any changes or surprises which can come.

N.S. Kannan: We have already talked about what has been happening in April. Now, I would like to say that April over last April, things are getting better when it comes to protection business. More volumes, more inquiries we are received in protection business. On the other areas of our business, like ULIP it is negative year-on-year. On traditional products, it is broadly stable and growing compared to last April. So, apart from the overall business being less than what it was in the last April because of the ULIP decline, which was also there in the last couple of weeks of March, I don't see any material difference in situation in April, compared to March to really challenge Milliman report.

Satyan Jambunathan: No, this is general reviewer representation that what is in the future, is not related to what they have already seen. They are not commenting upon anything else.

Vinod Rajamani: Just in terms of the lockdown, would you say that all the sales which are happening in terms of term insurance are happening via tele-medical? And are you restrictive in terms of what sum assured you can sell? Because you are not doing a proper medical check-up before actually taking the customer on board. So what kind of restrictions do you have on sum assured when you are trying to offer this product via tele-medical? And in normal circumstances, what kind of proportion of sales do you do via tele-medical, say, irrespective of the lockdown, in normal conditions? That is the first question.

Puneet Nanda: There are three kinds of ways underwriting is done. It depends on a lot of analysis done on the customer, on the distributor, on the segmentation, on the location, geography and a lot of input factors are used. But basically the outcome is that there are three categories. One will be what we call straight through processing where even tele-medicals are not required. It is based on some questions that the customer answers and that is pretty much it. Because we have done a lot of analytics on the background of the customer and we feel comfortable taking the risk on board. Depending on the customer, that level may be different. For a combination of customer, distributor, geography, it will vary; for some it may be ₹ 50 lakhs, for some it may be ₹ 1 crores or whatever. Then there is a second category where over and above this, a higher cover can be done through what we call tele-medicals, where a doctor speaks to the customer. These are going to be higher limits compared to that.

Vinod Rajamani: What kind of limits?

Puneet Nanda: I cannot give an absolute limit Vinod, because it will depend on the customer. For certain customers maybe even at ₹ 70 lakh it will be tele-medical, for somebody else it may be tele-medical at ₹ 2 crores. So it depends on many factors, and so conceptually I am just telling you. Only in the third category which will not fit into any of these, and which will typically be very, very high covers say typically beyond ₹ 2 crores for the more affluent customers, is where the actual medicals are required. So, you are right, for the absolutely high category, medicals are a constraint. But for all other categories I think the cases are going through. Even within that I can tell you that what has happened during this lockdown period is that ultimately a lot of these cases get reinsured. A lot of discussion have happened with reinsurers, we have shared our analytics with them and they have a lot of global experience.

So, through a combination of all of these element, for certain categories of customers, in comparison to the pre-lockdown era, the current tele-medical limits have indeed been increased. So we are able to use that as well. Finally, even if some category remains where medical are still required, the way we try to convince the customer is as follows. Just as an example, suppose somebody wants to take a ₹ 5 crore cover but only up to, say, ₹ 2 crores is allowed through tele-medical, the way we try to convince the customer is saying that, "Sir, please take ₹ 2 crores through tele-medical, we keep the remaining pending, and as soon as medical is possible we will then issue the remaining part." So, this is the way it is normally done. In general for us, the process in the lockdown has been reasonably smooth. And more because we have already been using a lot of analytics in the past. Yes, of course, the higher category sales are suffering.

Satyan Jambunathan: Again, at this point of time, the fundamental question that one has to answer as a customer is, do I want some cover quickly? Or am I willing to wait for an uncertain period to buy a very large cover? And therefore, a simpler way of actually dealing with that situation is to say that, at least start off with taking a cover that you are eligible for with a tele-medical process. If you want to subsequently take more cover, of course, when the environment improves you can do more.

Vinod Rajamani: Understood. Just on this dividend policy for FY21. So, this will revert back to that 30%, the new changed 30% of PAT, I mean, from FY21?

N. S. Kannan: So, the policy has been changed from up to 40% to up to 30%. That is the policy from this year onwards. Within that ceiling, the Board has an ability to decide and recommend to the shareholders what kind of dividend is to be paid. There was a specific IRDAI circular, two circulars in fact and you can see them on their website. They have urged the Board to look at the payout of dividend in the context of the environment and having to conserve capital. Considering those circulars, for this year, no final dividend has been declared. Otherwise, the policy is applicable across years. As of now it is up to 30% and within 30% they could, of course, decide whatever they want to pay looking at the capital situation, looking at investor expectations, etc.

Shreya Shivani: So, one of the bookkeeping questions that I wanted to ask was, can give us the breakup of the non-linked savings product into par and non-par savings. The second question which I wanted to ask was again, on the dividend policy. The circular which you

mentioned, which came out yesterday by IRDAI also say that till 30th of September insurers are requested not to pay out any dividends. Now, given that assumption changes have been made to up to 30%, but with no dividend payout and you still earning a dividend income, can you explain how the effective tax rate might still get impacted in FY21, keeping in mind that half of the year you will not be allowed to give out any more dividends?

Satyan Jambunathan: For FY21, cumulative tax rate can end up being higher because of the dividend payout being lower. But eventually what I am taking in my VNB is what is the average expected over the life of the policy and therefore, to that extent, it should reflect the policy of 30% dividend and not what is one year's estimation. So, to that extent, yes, next year dividend payout less could mean a higher effective tax rate for next year. But overall over the long term it should level out.

Madhukar Laddha: We have a very big negative economic variance despite interest rates actually going down. Obviously most of it is because of mark to market on equity. But my question is more that, most of the equity exposure is in the ULIPs. So how does it impact our EV then?

Satyan Jambunathan: The way it impacts EV is that my future profits are based on fees from the AUM. Therefore to the extent that the market value has dropped, my future fee stream will drop. So tomorrow if the markets recover back up again, then you immediately see the capitalized value of that come back.

Madhukar Laddha: Sir the other question is, can you give the split between individual and group protection? And also, in the group business, the split between GTI, funds and sort of protection automatically?

Satyan Jambunathan: It's all there in the pack on slide 25. 69% of my protection APE is retail and the balance is group. Within that 31%, I have a mix of three segments, one is ICICI Bank Credit Life, one is third-party credit life and one is group term.

Aarav: I just had a couple of quick questions. My first question is, do you expect that in the coming scenario the lapsation rate might go up because the people who have taken the insurance, they might be in need of money. So, your surrender and lapsation rate might go up in your coming scenario. Is there any expectation on that?

N.S. Kannan: Our experience so far has been that surrenders have drastically reduced because surrender is also a function of what is the paid-up amount one can get from the policy. And if it is linked to the market, in the current market the prices are so low in the equity markets that nobody wants to surrender. So I think there are naturally mitigating factors in terms of taking the discourse away from large surrenders. In our own sales processes, we focus on the nature of this instrument being a long-term instrument. The need for buying such an instrument should be the long-term financial need of the customer. Whatever outcome comes out of persistency, lapsation, etc., we will take it as it comes. But if you look at the trend of persistency, even in this environment the drop in persistency has been very minimal for non-market linked products such as traditional products. For protection, the persistency has actually increased. I think there are multiple factors playing here and in a stressful situation in the financial markets like it is today, normally nobody wants to surrender because they stand to lose. This is what we keep telling customers through communication from my desk and other places, to say that this is a time where people should stay invested and focus on long-term financial goals, rather than getting swayed by immediate needs. Of course, there are other instruments for them to meet with the immediate needs such as mutual funds or some liquid instruments like bank deposits. But surrendering the policy before lock-in period ends or at a much shorter than the original tenure, it ends up making a loss to the customer. So that is what we keep emphasizing to our customers.

Aarav: Just one follow-up question. You mentioned about some kind of sensitivity analysis that you have done to ensure that you are well within your portfolio limits. I just wanted to get an idea as to, you might have certain expectations of when the lockdown or the business might resume. Can you give us one particular date or one particular tenure after which you might have to revisit that sensitivity, like some near-term scenarios if you can share which you expect to play out?

N.S. Kannan: You mean the stress scenario on the solvency side?

Aarav: Yes. Like as to what extent do you expect like this scenario, you might need to revisit your scenarios?

N.S. Kannan: I wish I knew the answer. But it is a very dynamic situation. I guess the policymakers are actively focused on how and when to relax. But the way we are looking at is that we are assuming that this will be the new normal at least for the time being. So to

conduct business in a way it can be conducted which is digital, limiting physical face to face and making it virtual face to face, etc., which I described. Our Balance Sheet is so robust in terms of both assets and liabilities side, that we don't have to really be bothered about any bad assets we talked about or by any high guaranteed products, nothing of that we have sold. So we are actually in a very fortunate and a very good position to be in terms of not requiring capital, not having any quality issues on the asset side, not having written very high guaranteed products on the liability side. It's a very pristine situation to be in. The only equation is when is the top-line going to come back, and like a previous question, how to balance the cost vis-à-vis the top-line. That is actually a great place to be in as a company in this kind of environment. So to answer your question, we don't know exactly when the date will be. But we are very happy to operate in this situation and also not make mistakes exactly like we have not made any mistakes in the past. Then take the demand as it comes and cut out all the discretion expenditure, any capital expenditure we have committed we will cut out; that is only action we will have to take. I don't think in the near foreseeable future, we need to come to you with a capital requirement. We have done various scenarios and as Satyan mentioned, on an already stress scenario we have done further stress. We have also put extra reserve for COVID requirement. We have only two claims. But still we thought that we should put some additional reserves just to be on the safer side. We have done all that for mortality and market as well. With all these steps, we find that we don't require capital. As I said, ₹ 12 billion of Tier 2 bond we can always raise whenever we want, though we don't see ourselves raising them just now. So, we will see when the situation unfolds. But I am very happy that we are in a situation where the fundamental business model, the protection proposition or the Balance Sheet, none of that is really challenged for us.

Prateek: Sir, just a clarification. In one of the earlier responses you talked about that you would maintain the margins in protection after the reinsurance cost increase. Does that mean that the absolute VNB which you are earning pre this rate hike and post rate hike will increase, that's a fair understanding?

N.S. Kannan: That is the expectation as of now, that is why I re-emphasized to a supplemental question to say that yes, we said that it is the margin which is going to be maintained.

Prateek: How do you think about growth when there is concentration risk to the business model? What I mean by that is, if I look at Maharashtra plus Delhi, that is 33% of your APE, if I am not wrong and there are hotspots, and these two are hotspots. So, could you talk a bit

about how you think about growth? And also, in your PPT, there are two slides where you say way forward, is it for only quarter of FY21 or it is for entire of FY21? And lastly, when it comes to annuity, given that the interest rates are on the way down, and we have done beautifully well in FY20, will there be a customer response or will there be a customer pushback for annuity given the rates of interest which you will offer them?

N.S. Kannan: Yes. I will ask Satyan to take a couple of these questions. But our approach in this kind of environment is that we don't know exactly how and when the lockdown will be lifted. We only know one thing that in the immediate short-term and medium-term, we have to digitally enable customers, employees and distribution; that we are very clear. To that extent, the two slides we have put in there is really for the quarter. As top management all of us believe that this is a dynamic environment and one has to take it quarter by quarter. Suddenly demand may come back and there could be a heightened need for protection type of products. We should be absolutely prepared to be able to take advantage of that. To that extent what we are saying is only for the quarter. Whenever we need to revisit, we will revisit this strategy. As I said on the long-term strategy, overall the VNB doubling will continue to guide us.

On your question of the product mix, my own feeling is that if I look at our journey over two years, we have been a little bit ahead of curve in terms of tweaking our product mix. Look at protection, we saw it as a great opportunity, from about 5% about two years back, we have come all the way to 15% now. Yes, you could argue that there was a bit of a drop in the top-line, but nevertheless even if you look at the growth, there has been a huge growth in protection line of business. Then similarly, if I look at the non-linked, we had deemphasised it in ICICI Bank about a year back because of their decision. But from there we saw the opportunity earlier to say that there is a set of customers who would require a smoothed rate of return and who don't want to lose the principal. So, we said, to those customers let us go ahead and use non-ICICI Bank channels to sell. From less than 10% it has come up to 17%. So, my belief, contrary to what you are saying is that, we are much more diversified today compared to two years back. So even if there is a bit of a challenge in one or two product segments, we do believe that we have a great opportunity to be more resilient in terms of our growth.

Satyan Jambunathan: To quickly take on the other two questions of geography diversification and annuity demand. Geography diversification, you will find a very similar pattern across

almost every private sector life insurance company. So, to that extent, even if the challenge of a hotspot that you are talking about in the current context exists, we are actually trying to work around as Kannan and Puneet have said over the conversation, of how do we live a new life even in the absence of physical contact. And that's the focus areas. So, it's not so much about whether we are operating in hotspots or not. But like I said, our concentration of the geographies is not going to be very different from what it would be for others.

With respect to the demand for annuity, demand can come from two quarters, one is suddenly a person decides that I am retiring tomorrow, so I need to put a corpus to buy an annuity. The other is that a person has been saving towards retirement for a while, and that corpus is getting converted. Let's say for example, a deferred pension which matures or it could be a superannuation which matures when a person reaches superannuation age, or it could be an NPS accumulation which is due to be annuitised. Now, these parts which are retirement saving and which have to be annuitised mandatorily at a point of time will have to happen. Irrespective of what the yield levels are and therefore what the annuity rates are. So at least that part I don't think is going to be so sensitive to the level of rate. It will be more sensitive to relative rates across companies.

Nitesh Arora: Sir, we have been sort of maintaining that given the sort of strong technological background that we have, we should see a reasonably strong growth in April vis-à-vis we last year. But our experience has been that the APE in March for 15 days of lockdown sort of fell very sharply. So, what gives us the confidence that April should be a reasonably strong months in comparison?

N.S. Kannan: I never said that April would be a reasonably stronger month. What I said was that on protection we are seeing a very decent growth despite lockdown in April compared to last April. In traditional products, I mentioned that we expect to finish the quarter in the positive territory in terms of growth. Those two I had mentioned, yes. But ULIP, I said that it has continued to be challenged and continues to be declining, given the market situation and what is happening here. You should remember that ULIP is also 65% of our product mix even as we speak. So, I think we should keep that in mind in terms of assessing the situation in April as well as for the first quarter. In Q1, I don't think we are projecting ULIP to grow. We have some confidence that we would grow protection in the first quarter and on traditional we could put up a small growth. So that's the sense we can give at this time.

If we look at the March, we started off extremely well in terms of the first 10 days. Across the board we started off very well. We were very extremely confident about March. But then the next 10 days started muting and the in last 10 days it came down to a trickle because of the lockdown. That is how the month sort of panned out. It is hypothetical to just guess what would have happened if the situation had been normal. I would have think that we would have lost about ₹ 4 billion to ₹ 5 billion of APE; that is quite hypothetical as I said. Consequently, about ₹ 1 billion of VNB could have been lost in March and we would have lost another ₹ 800 million because of the tax change on VNB. Despite that, we have been able to put out ₹ 16 billion of VNB; that we look back with a lot of satisfaction.

And to answer your question of ULIP in March, we have talked about ICICI Bank's strategy. We have articulated a paragraph there which said that they also started shifting focus more on protection and annuity as against ULIP and also not doing any traditional business. So those kind of impacts do get sort of mixed up in the month of March. I would say that whatever came we took it and despite all of it, we managed VNB quite nicely. The credit goes to the team as they have delivered it. But going forward into April, traditional and protection we are quite clear on the path. ULIP will be completely dependent on the partner preference, customer preference and the market condition.

Prayesh Jain: The question was on the protection VNB margin. If I just back calculate the VNB margins for the protection business, it seems to have fallen from 109% in FY19 to 86%. So, what was the reason for the same? And could you throw some light as to what could be the future trend?

Satyan Jambunathan: Two reasons. One, the share of limited pay increased. The way we designed the limited pay products is that for the same sum assured, both limited pay and regular pay would give the same absolute VNB. Which means that margin as a percentage of APE is lesser for limited pays than it is for regular pay. Second, during the year we have seen interest rates fall. For a term life which is long-term, yield curve fall is negative on VNB. So, both of these put together is where we are. Kannan also spoke about going forward the repricing that we are doing and this repricing was in the context of the margins that we have had for full year.

Prayesh Jain: Okay. So in a sense you are saying that this current level of margins can be sustained even with limited pay further expected increase in this year? Would that be a right assumption?

N.S. Kannan: Some of the base has got really reset there. Because in last year, part of the period we didn't have limited pay. But that has all come into the base now.

Rishi Jhunjhunwala: Just a couple of quick ones. Firstly, in the ₹ 14.8 billion negative impact in EV because of economic and investment variance related changes, just wanted to understand how much of that is purely attributable to the equity market movement? And secondly, if we look at operating assumption changes and operating experience variances, just wanted to understand what have you taken in terms of persistency there, is it still 11 months itself? And if that is the case, then the drop-in persistency in March and April, would that reflect in a big amount going forward? How do we think about that?

Satyan Jambunathan: On the economic variance, the biggest part of it is actually coming from equity. So, I haven't got a specific breakup between equity and debt. But like I said, interest rate down is positive to EV, you can see that from the sensitivity.

With respect to the persistency assumption, we have said this before, for the unit linked business 13M persistency assumption is 82.5%. So, if we look at my overall experience, it is still in line with the experience, I don't think it is so much about 11M or otherwise, but it is more to do with what is the longer-term trend for experience. So, at 82.5% we are still within assumptions, not just for the 13th month, but across the board on various buckets of persistency. Overall also you can see that we are within assumptions when you see the persistency variance for the year, which is close to ₹ 850 million- ₹ 900 million.

Sanket Godha: Satyan, a small clarification, why VNB should be negatively correlated to the fall in the equity markets? Because we assume incrementally to earn our AUM to grow at a risk-free rate. So ideally the EV, I understand that it should be sensitive to the equity markets, why VNB is sensitive to the equity markets?

Satyan Jambunathan: When we are measuring VNB, my VNB comes from various portfolios. I have it on the par portfolio, I have it on the other portfolios as well. But more importantly, you will see that the VNB sensitivity to equity is far smaller than the EV. This is because what comes in sensitivity of equity in VNB is from the start of the year when I have received the money, and I have invested it through till the end of March, it builds up a corpus, that impact

is what comes out. So, you get an impact of just about 0.5%-0.7%. So, the way sensitivities have worked out on new businesses, I sell a policy on a particular date, that money, whatever it does through the rest of the financial year is sitting in the sensitivity.

Rachit Pandey: The question was on a couple of data points, could you give me your dependency on reinsurance arrangements? If you could quantify that, and in terms of your AUM, if you can give the equity and debt mix?

Satyan Jambunathan: Overall on the protection portfolio, half our sum assured is reinsured, half is retained. On the saving portfolio, we almost retain the entire risk. So, on protection we are roughly 50:50 retained and reinsured. In terms of reliance on reinsurance, even the 50% which is reinsured is actually spread across a variety of international reinsurers as well as GIC Re, that's how it is spread. What was your second question?

Rachit Pandey: Equity and debt mix.

Satyan Jambunathan: Overall on my Balance Sheet, about 40% to 45% is equity. The rest is fixed income. This is because about a little under 70% of my balance sheet is unit linked business. Within unit linked, I roughly have 60% of the money chosen by policyholders to be invested in equity. On the participating business, I will typically run about 25% of the corpus in equity, the rest will be in fixed income. On the guaranteed return business, I will have zero equity. On the shareholder front, I have about 25% in equity. The reason I hold that is some of my required capital comes from the fund value in the unit linked business. So this portion is kind of a hedge against that.

Nischint Chawathe: Just wanted to check one technical aspect. The unwinding rate for this year, does it reflect a lower interest rate or should we see the unwinding rate next year kind of going down?

Satyan Jambunathan: This year's unwind rate, Nischint, was based on 31st March, 2019. FY21's unwind rate will be based on 31st March 2020.

Nischint Chawathe: The other thing was, on the ULIP side we have seen ticket size going up, I think our understanding was that you are sort of focusing more on retail ULIP. So how should we think about this?

N. S. Kannan: The way to think about it is that this is a product which is probably ideally suited for the affluent segment in terms of their understanding of the market, asset mix, as well as

the product being very transparent and giving out NAV on a daily basis. The way I think it has turned out is that the lower end of ULIP customers have probably moved to par. So, if you really look at the average ticket size across ULIP and Par, ULIP actually went up by from ₹ 160,000 to ₹ 183,000, whereas par also went up a little bit from ₹ 60,000 to ₹ 64,000. So, yes, there could be some demand compression genuinely that has happened, but also that the lower end of our ULIP customers moved to par. That is the way we would look at it; that some demand has probably shifted to par.

Haresh Kapoor: Sir, just one question. Now for the month of March and April, IRDAI has given the 30-day grace period for premium policy payments for life insurance. Could you just kind of comment on that, what is the trend that you are seeing in your book, how many policyholders are actually taking the grace period kind of benefit. Because we are already at the end of April, so a lot of these policies which would have been due, there would have been some colour that you would have. So, in terms of percentage, etc., if you could comment would be helpful.

Puneet Nanda: I think the first aspect is that this grace period is only for renewals due in March and April. In any case, 30-day grace period was always there. So, for example, for anybody who had a premium due on the 30th or 31st March, in any case, could pay up to 30th April, that was the normal grace period and now there's an additional grace period. So, it's very early for us to assess this impact to say whether people are going to use this or not. But we must understand that this is a category of product where if people do not pay the renewal premium, it is actually they themselves who will suffer. Because it is actually in a way they are investing for the future. So, we generally think, while it is early to assess the impact, yes, some people who have serious cash flow problem may well want to use the grace period more. But we actually don't expect it to have too much impact. Overall, it may create a little bit of delay, but certainly we don't think it is going to have too much material impact on the overall persistency level over the course of the year. That's our current understanding. Having said that, it is still early days.

Satyan Jambunathan: If I may just add a couple of things there. One, our profile of customers is relatively the more affluent customers who generally have a better ability to weather these situations. And second, it is not as if people put a very large part of their cash flows into insurance savings. Normally the share of wallet which is allocated to insurance savings is fairly

small and therefore, to that extent, given that it is for a particular goal and the need, it is not as if people suddenly pull the plug from that unless it's a really desperate situation.

Udit Kariwala: Sir, I just have two quick questions, one is on the non-linked savings, and the growth has been very good. But this time you have not given the split. So, if you could give the split as to what is annuity and what is the other segment? And do you still continue to stand by no deferred annuity kind of a sales? And the second question I had was on the protection persistency, we have seen that historically the persistence in protection had dropped because the pricing had come down. Now, assuming that the price will go up, is it fair to assume that the persistency across should improve? And is it also because of limited pay that the persistency has gone up? So, these are my two questions.

Satyan Jambunathan: The annuity disclosure is already there. Slide 11 has got the absolute annuity amount for the year. With respect to persistency, the point that you make intuitively resonates with me. If prices go down, some people may consider lapsing one and rebuying it. Even though as time passes, it becomes more difficult to buy given age. So it really needs a very large discontinuity of price for persistency to drop sharply. But with price going up, persistency can be expected to improve which, like Kannan said earlier, is really a very good thing for us.

Nidhesh Jain: Sir, firstly, on the solvency margin do we see a possibility of solvency margin going below 150% over the next 12 months under various stress test scenarios and what is the minimum solvency margin at which we will like raise capital?

Satyan Jambunathan: We have said this before that the current regulatory capital regime is actually quite conservative. And therefore from a regulatory point of view, even 150% is fine. The way we would look at a capital trigger is more in terms of economic capital and on an economic capital basis our solvency ratio is actually far higher. But purely to make sure that I stay with the solvency ratio requirement of the regulator, a little above 150% is when I would trigger something if I need to, so that I can do a few months of business before that gets challenged.

Nidhesh Jain: You don't see that possibility in this financially year FY21?

Satyan Jambunathan: At least not from the stress scenario that we modelled.

Nidhesh Jain: Sir, if we raise Tier 2 capital, will that improve our operating ROEV or operating ROEV will remain constant?

Satyan Jambunathan: So, to the extent that if I am capital constrained and I am not able to do business, as against that if I raise Tier 2 and I am able to do business, it will improve. Otherwise, I don't think it should meaningfully change ROEV from where we are now.

Nidhesh Jain: Sure and lastly, I saw some reduction in CRNHR Y-o-Y in absolute amount. So, what is the reason for that in EV?

Satyan Jambunathan: So that is the cost of capital in the CRNHR, so that is changed from last year to this year. We had not changed it over the past couple of years, that's the change that we made.

Mayank Bukrediwala: On the basis of data, you presented on the presentation, it would appear that on the protection product your VNB per policy has increased to a good extent. Could you sort of give some sense on what is driving it? Is it any positive operating leverage because you are seeing very high levels of growth over there?

Satyan Jambunathan: I am not so sure if one should look at it as VNB per policy, it is probably more appropriate to look at it as VNB per unit of sum assured, because that is really where you are trying to get the margin from.

Pratik: Sir, in the first nine months of FY20, the savings line of business cost to TWRP was 11.1% and we ended the year at 10.5%. So, I am presuming that in the last quarter, there would have been a fair reduction in the cost. Could you just talk about this? Because our understanding or my understanding was that quarter four is seasonally very strong and you would build up capacities to get that kind of volume growth. Because COVID was a shock, I was under the impression you would have not budgeted this or not thought about this. Yet this cost on the savings line item coming down is a fairly positive surprise. So, could you just talk a bit about this? And also, in addition to this, about the variabalisation of cost which you are talking about, maybe you could talk a bit about that also.

Satyan Jambunathan: If you see slide 30, where we are talking about how the costs have moved Y-o-Y, you will see that the sharpest reduction was in variable cost. So, when we got to the last quarter, and we saw that actually the top-line numbers were not as we would have liked them to be. One of the things that we did straight away was on discretionary elements

of cost, which are mainly relating to distribution, we started paring it down and that is the sharp change that you see for Q4 compared to 9M. Normally, when we are building through a year, we are factoring in an expectation of some of the sales activities going up during the period. But given that in the month of March there was a lockdown for a large part, a lot of the activities themselves came down and therefore the cost was not incurred. Going into the future on variabalisation, the biggest opportunities for variabalisation for us arise from certain channels where we may have employees who are on a fully fixed basis. To the extent that we are able to move them to a more variable approach is one lever of doing it. The second is process and corporate functions. Using outsourcing as a lever to reduce fixed cost becomes a very important part of the way we are looking at bringing down the fixed cost. But predominantly, of the fixed cost, wages and infrastructure are two very large components. Beyond that, IT expenses is a very big component. So, across these areas, our way of looking at it is even if I don't fully variabalise wage cost, our management of wage cost will be far more granular and far more frequent. So even if you see for FY20, on the savings side, the fixed wage cost went down by about 8.5% and this was because, month after month we would review the trends of business, the patterns of productivity across various business units, and reallocate resources where we were getting more out of it. And therefore optimise the cost of employees, even though we kept the same level of headcount through the year.

Manish Shukla: Can you please provide the breakup of non-linked savings, APE across par, non-par as used to do till December?

Satyan Jambunathan: Par is actually the most significant part for us. You have seen the numbers till December, it's not changed materially from there.

Manish Shukla: So, I should I assume the same proportion as December?

Satyan Jambunathan: Yes.

Manish Shukla: Okay, fair point. Second, a small request, if we can have a bit more gap between the announcement of the results and the call. I think the current timeline is too short for us to go through the numbers before the start of the call.

N. S. Kannan: Sure. I understand. Thank you for the feedback.

Nischint Chawathe: This is on sensitivity. Why has the interest rate sensitivity increased this year and the persistency sensitivity going down?

Satyan Jambunathan: Interest rate sensitivity has actually decreased from last year. If I take VNB, interest rate sensitivity for 100 basis points increase in reference rate was 4.3% last year, that has now come down to 2.4%. The reason the sensitivity is dampened is because we have had a bit more of non-linked business coming in with the linked proportion going down and that's why you are seeing this moderation. So, the product mix diversification is what is moderating the sensitivity.

Nischint Chawathe: Just one more thing, I am not sure if it is discussed but on the Tier 2 bonds, are you raising it or you just said that there is a possibility that you can do that?

N.S. Kannan: We are not raising it, we said it is a possibility and we have not utilized the limit available. That's all we have said. We don't have plans to raise it just now.

Nitin Agarwal: So, you mentioned that we are seeing strong trending on the protection business during April. So, can this be because of the potential price hikes in the segment?

N. S. Kannan: Could be. Because a lot of people have talked about it, so maybe that is possible. But this has been a secular increase story quarter on quarter. Maybe there is a general heightened awareness, plus aided by the current environment. Of course, I have heard of distributors talking about the potential price increase and it could be a combination of everything. Puneet, anything else you want to add?

Puneet Nanda: Yes, you are right. It could be because of that. But I think that in itself it is encouraging. What it shows is that if people are willing to respond to a potential price hike and the impact of lockdown has linked to fructify the sale, it just shows that when there is a customer proposition, then lockdown or no lockdown, things can actually work. So, we would take it in a very encouraging manner.

Nitin Agarwal: Right and do you expect any lag buying to happen in life insurance as tax benefits were extended till June, and the especially if the COVID situation stabilizes, can this happen or it is unlikely, given the tax laws also that have changed.

N. S. Kannan: No, I think we have said that the industry itself has moved away a lot from being a tax driven first year sales. What is probably important for the customer is the maturity tax benefits, not so much an upfront tax benefit because there are a lot of other instruments in that section, including housing loan payment etc. So, I don't think there is going to be a material change.

Nitin Agarwal: Okay. And one more clarification on the transfer of funds from shareholder account to policy holder account, now that has increased sharply this quarter. So, what has driven this increase?

Satyan Jambunathan: That's a bit artificial. There is a regulation on expenses of management, which require that if any segment, even a non-participating segment, if the actual expense is more than the limit then you should show it explicitly as a transfer. So effectively, you will see two lines, one, transfer in and other, transfer out, with a net implication on P&L being neutral. So, this is more of a representation than a real movement back and forth.

Nitin Agarwal: Okay. So, the improvement in cost threshold that you have talked is including this transfer?

Satyan Jambunathan: Absolutely.

Nitin Agarwal: Okay and lastly on the margins, now that has improved during the year despite this being one of the very tough years for us, and probably because of the cost control that we have seen through. So, can this improve further, particularly as things stabilize on ULIP side? Or do you think that margins are already close to peaking out in ULIPs?

Satyan Jambunathan: Margin outlook will be driven a lot by the product mix into next year. If we end up with a situation where the unit linked business top-line continues to be challenged, and par and protection become more important, that is a natural tailwind as far as margin is concerned. What we need to be conscious of is, if overall unit linked growth slows down or the business declines, then we have to ensure that the cost also reflects that. If we are able to do that, then the overall margin should improve just because of mix change.

Nitin Agarwal: Right. But as also it looks like improvement will be more because of mix change and not because of ULIP. Because last year it's been like more than 200 basis point improvement in ULIP margins.

Satyan Jambunathan: Yes.

Harshit Toshniwal: One question on the operating assumption. So, we saw a positive assumption change in the operating variance. Can you clarify that? So, we saw a lot of cost efficiencies in FY20. The extrapolation of that number is leading for that particular positive variance. But going forward, you think that when situation improves, our cost will again be

higher than what it is? So, can you throw some colour on how exactly do we get a positive assumption leading towards there?

Satyan Jambunathan: The positive assumption change is coming from maintenance expense, it's not coming from new business expense. This is the cost of managing and maintaining the policies into the future. Now as the overall book itself grows, this is a logically reducing cost element and therefore, to that extent, next year also you may see some improvement in that. The only way in which the maintenance cost will worsen going forward is if persistency falls off a cliff and my book becomes much smaller. Otherwise, in a normal course, one would expect the maintenance cost per unit to come down year after year.

Harshit Toshniwal: Okay, alright and maybe if I can just add one more question. When we look at the protection, so our ticket size improved drastically in the current year and you are mentioning that the limited pay VNB in absolute terms is same between both limited pay and regular pay. Despite that, the relative fall in protection margin was not high. It came down from 110% to 85%. So, is it fair enough to say the limited pay is relatively lesser than even 50% of our premium term protection?

Satyan Jambunathan: We have not disclosed that split of limited pay, but I don't think that is important. I think what is important on the protection side is to look at margin per unit of some assured, because that's eventually what I am taking the risk on.

Vinod Rajamani: Sorry, my questions have been answered. Thank you.

N.S. Kannan: Thank you once again. Thank you everyone for joining on the call and staying so late. My team and I are available for any other questions you want us to answer offline. Once again, I thank your patience and my own team. Because with this environment it is commendable that we have been able to put out the results like we would do every year around the same time. Thank you and have a good evening.

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