

ICICI Prudential Life Insurance Company Limited
Earnings conference call
Nine months ended December 31, 2022 (9M-FY2023)
January 18, 2023

N. S. Kannan, Managing Director & CEO:

Thank you. Good morning to you all, and welcome to the results call of ICICI Prudential Life Insurance Company for the nine months ended December 31st of the current financial year 2023. Sorry for the early start, we had our Board meeting very late last evening, so we thought it best to schedule the call in the morning. I have, as usual, several of my senior colleagues with me on the call: Satyan Jambunathan, Chief Financial Officer; Judhajit Das, who heads Human Resources, Customer Service and Operations; Amit Palta, who heads Distribution, Brand & Marketing and Products; Deepak Kinger, who is responsible for Audit, Legal, Risk and Compliance; Manish Kumar, who manages our Investments Portfolio; Souvik Jash, our Appointed Actuary; Dhiren Salian, Deputy CFO, and Dhiraj Chugha from the Investor Relations team.

Let me start by talking about some key developments during the quarter.

The first and foremost development is on the regulatory front. As discussed in our previous earnings call, our regulator IRDAI has articulated their vision of insurance for all citizens by the centenary year of India's independence. Recently, the Authority has notified multiple regulations covering registration of Indian insurance companies, intermediaries, other forms of raising capital, solvency margin as well as regulatory sandbox. The intent of these regulations from our point of view is focused on increasing the insurance penetration, development of the insurance industry and also enabling ease of doing business.

We believe that the new regulation on registration of Indian insurance companies will potentially attract higher foreign and domestic investments and encourage new participants in the insurance industry. The increase in the number of permissible tie-ups for corporate agents from three to nine and insurance marketing firms from two to six, will provide a broader choice of products and manufacturers to the customers. Given our extensive experience in working with the 850+ partners and specifically, 34 banks, we see ourselves as a natural partner for banks and others looking for future partners as per these regulations. We view this as a key strategic focus area to expand our distribution network further. Additionally, the requirement of prior IRDAI approval to raise other forms of capital has been done away with, and the ceiling of 25% of paid-up equity capital and securities premium for Tier-2 capital has been doubled to 50%. This helps improve solvency and the ease of raising non-dilutive capital, as and when required. Further, reduction in the required solvency margin for linked business without guarantees and the Prime Minister's Scheme, PMJJBY, has resulted in improvement of the solvency ratio by about 10%. So, with our current solvency level of 212% as of December 31, 2022, and with the ability to raise further Tier-2 capital in the form of sub-debt, as and when required, as and when appropriate and the impending risk based capital norms from the regulator, we believe we may not require external equity capital in the foreseeable future.

The Authority has also proposed the creation of Bima Vahak, which is a new sales channel focused on improving penetration in rural areas, and Bima Vistaar, which is a composite insurance product intended to be distributed through the Bima Vahak channel. These initiatives are expected to boost the insurance penetration further and help companies reach out to mass customer segments by addressing their needs of bundled insurance products.

Moving on, the Department of Financial Services, Ministry of Finance, Government of India has also released a proposed Insurance Amendment Bill. The draft bill proposes to permit composite licenses for insurers, seeks to allow insurers to provide services related and incidental to insurance business and to allow insurers to distribute other financial products. These proposals are fundamental reforms in the legal framework governing the insurance industry. These proposed amendments present opportunities for companies like us to manufacture adjacent products such as health insurance and personal accident. We can also consider manufacture or distribution of other classes of insurance as well as even other financial products through our extensive distribution network. The enhancement of our customer proposition coupled with the distribution of other financial products could give us an opportunity to fulfill the customers' financial needs under one umbrella and also enable better alignment with our distribution partners. These proposed changes can also present both organic as well as inorganic growth opportunities for the industry. We will need to wait for the final approved changes to the laws and associated regulations before concluding on our specific strategic responses.

To conclude, the set of regulations, both notified and proposed by the Authority, and the proposed Insurance Amendment Bill will change the face of the insurance industry dramatically, whereby insurers will benefit immensely. We are very optimistic about the growth prospects and the opportunities for us as a Company.

Now moving on to **the second development** during this period, I am delighted to share that the Assets under management of our Company has crossed ₹ 2.5 trillion in October 2022. I once again take this opportunity to thank all our customers for their support and trusting us with the management of their long-term savings.

The third development is about the bank partnership. We have recently entered into a partnership with the UCO Bank, which is one of the leading public sector banks in the country with a pan-India presence of more than 3,000 branches. This tie-up gives us an opportunity to serve customers of UCO Bank with our comprehensive product suite as well as expand our distribution reach further. With this tie-up, our reach has expanded to over 16,000 branches of our partner banks.

The fourth development, similar to the last quarter, when the rating agency ICRA has reaffirmed the rating of our subordinated debt, I would like to share that the rating agency CRISIL has also reaffirmed the long-term rating for our subordinated debt program as CRISIL AAA/Stable.

The fifth development, I am happy to inform you that during the quarter, we have won multiple awards across business functions. I would like to highlight a few of the awards we got. We are the winner of the 'Life Insurance Provider of the Year' at the Outlook Money Awards. We have also won the "Excellence Award in innovation and customer proposition and experience" category, awarded by ASSOCHAM 14th Global Insurance Summit and Awards. Also recently, our annual report for FY2022 has been awarded the 'Gold Award' from the League of American Communications Professionals Spotlight Awards.

I will now hand over the call to Satyan to talk through our results on the 4P strategic elements i.e. Premium growth, Protection business growth, Persistency and Productivity improvements, which guide us towards our objective of growing our absolute Value of New Business (VNB).

Satyan Jambunathan, CFO:

Thank you, Kannan. Good morning, everyone. I will now talk about the highlights of our performance for 9M-FY2023. We have put up the results presentation on our website. You can refer to it as we take you through our performance.

Let me start with the **first P** of our strategic elements, which is **Premium growth**.

Our Annualized Premium Equivalent (APE) grew by 4.2% year-on-year to ₹ 53.41 billion for 9M-FY2023. APE from channels other than ICICI Bank, grew by 19.9% year-on-year to ₹ 44.36 billion for 9M-FY2023. Our focus on distribution expansion over the last few years is working as planned and the same is reflected in the growth registered across these channels.

Our total new business premium grew by 10.1% year-on-year to ₹ 112.87 billion for 9M-FY2023.

As you can see on slide 6, for 9M-FY2023, the contribution of APE from linked products stood at 41%, non-linked savings products at 29%, protection products at 20% and annuity products at 6% and the balance at 4% from group savings products. On the distribution front, we now have a well-diversified distribution mix. The retail distribution mix of 9M-FY2023 APE is 21% from ICICI Bank, 17% from other banks, 32% from the agency channel, 16% from direct business and the balance from other partnerships at 14%. Here, our focus is on investing in building existing channels and also widening the distribution to maintain the diversified distribution mix. During 9M-FY2023, we added more than 24,500 agents, 8 new banks and 66 non-bank partnerships. We have leveraged more than 13,000 bank branch network of our partners and have more than 850 non-bank partnerships today for the distribution of our insurance policies. We believe that the additional 3,000 bank branches of UCO Bank and the recent increase in tie-up limit for corporate agents and insurance marketing firms will give a boost to our distribution network further.

Moving on to the **second P**, our **Protection business**, which is presented on slide 7.

We continue to do well on the protection business, which is the second strategic element of growing VNB. The total protection APE is at ₹10.50 billion for 9M-FY2023, a growth of 22.7%, resulting in an increase in the protection mix from 17.0% for FY2022 to 19.7% for 9M-FY2023. Retail protection growth, which has been challenged for the past few quarters has now started to see sequential growth this quarter even as we continue to leverage the opportunity in group protection. I would also like to highlight that based on the total new business sum assured, our market share has increased from 13.4% for FY2022 to 14.6% for 9M-FY2023.

The **third P**, our **Persistency** is presented in slide 8.

Our 13th month persistency ratio has increased by 150 basis points from 84.6% at March 2022 to 86.1% at December 2022. Similarly, our 49th month persistency ratio has increased by 260 basis points from 63.4% at March 2022 to 66.0% as of December 2022. There has also been an improvement across all cohorts i.e. 13th, 25th, 37th, 49th and 61st month from the same period last year and the same as presented in slide 23.

Moving on to the **fourth P**, our **Productivity**, which is presented in slide 9.

Our total expenses grew by 18.5% year-on-year for 9M-FY2023. The absolute expenses are higher as compared to the same period last year due to investments in distribution capacity for future growth. Our overall cost to Total Weighted Received Premium (TWRP) stood at 20.8% and the cost to TWRP ratio for the savings business at 13.9% for 9M-FY2023. Even with the cost increase, our cost to average assets under management has been stable at 2.2% for 9M-FY2023.

For increased productivity, we continue to invest in technology, which is central to our strategy, thereby helping us to provide better value to our customers. Additionally, data sciences and analytics have enabled us to leverage data and information, which helps us in improving our various processes such as distribution, operations, etc. and to identify new growth opportunity. Some details of our extensive deployment of data sciences are set out in slides 41 to 44.

Alongside our 4P strategy framework, we continue to maintain a **resilient balance sheet**, as presented in slide 10.

We have evaluated the insurance risk and the emerging mortality experience is within expectation and we will continue to monitor it closely. Our solvency ratio continues to be strong at 212.2% at December 2022 as compared to the regulatory threshold of 150%. Our AUM stood at ₹ 2.52 trillion at December 2022. On credit risk, only 0.2% of our fixed income portfolio is invested in instruments rated below AA and we continue to maintain a track record of not having a single NPA since inception. Of our total liabilities, non-par guaranteed return products comprise about 3.1%, while 76.4% of the liabilities are primarily linked to market performance. We continue to closely monitor our liquidity and ALM positions and we have no issues to report.

On Value of New Business (VNB) the outcome of our focus on these 4Ps has resulted in the VNB for 9M-FY2023 of ₹ 17.1 billion, a growth of 23.2% over the same period last year. The VNB margin was 32.0% for 9M-FY2023 as compared to 27.1% in 9M-FY2022.

I will now hand over to Kannan for his closing remarks before we take questions.

N. S. Kannan, Managing Director & CEO:

Thank you, Satyan. We are now, as you know, in the last quarter, in our aspiration of doubling our FY2019 VNB over four years. Given this, I thought I will take this opportunity to talk about our transformation journey during this period that helped us stay on track to achieve our aspiration. The path taken to achieve this objective was to have a well-diversified product suite offered through multichannel architecture to a wide range of customer segments as well as customer needs.

- First, let me talk about products. In FY2019, the composition of our APE was highly dominated by and skewed towards linked products. Over the last few years, we worked on broadening our product propositions through a launch of annuity variants, protection products and protection variants, as well as guaranteed products. We also enhanced our focus on group term business. As a result, in the 9M-FY2023, we have a much more diversified product mix with almost 60% of the APE generated from protection, annuity and non-linked savings products. Today, we are one of the largest pension and annuity providers in the market. In fact, our annuity and protection business together contributed almost 50% of the total new business received premium during 9M-FY2023. The continued strong growth in the protection business is reflected in our sum assured of ₹ 6.9 trillion at December 2022. Satyan has already talked about the market share in this regard.
- Second, on the distribution mix, in FY2019, our dominant distribution channel was ICICI Bank. The partner priorities changed over the last four years. On our part, we in any case, focused on expanding the distribution network through acquisition of new partners as well as investing in creation of new sourcing channels. As you can see on slide 12, our distribution mix is much more diverse now with no excessive reliance on a single distribution channel.
- Third, talking about the customer segments we cater to. In FY2019, our customer base was mostly affluent individuals and that too in top tier cities. This was true even for our agency channel. Over the past four years, we have targeted the mass and mass affluent category with the launch of various products and selling of these products through appropriate distribution channels. We now have the power of a large customer base spread across various income segments.

During this four year period, you would recall that we also faced unprecedented events of the COVID-19 pandemic, rising geo-political tensions and increasing inflation and the consequent impact on the capital markets as well as our own market-linked businesses, reinsurance-led price changes in the retail protection, supply side challenges in the retail protection segment, as well as frequent changes in the retail protection process, as we were calibrating the product, the propositions and the processes based on emerging pandemic-related issues. Despite these multiple challenges, I am happy to share that our diversification journey has given us well diversified pools of profit, thereby keeping us on track on our stated VNB doubling objective. Over these past 15 quarters, we have demonstrated a consistent track record of healthy compounding of VNB and near doubling of VNB margins.

To conclude, the agenda that we had articulated four years back had resulted in substantive changes and positions us well for the next phase beyond this period. The diversified channel mix, product mix and most importantly, the customer segment has helped us create a resilient platform for growth. There is no compelling need today to tweak the business model any further in terms of diversifying our channel product or customer mix.

Given this resilient platform, the insurance opportunity around us and also the favourable regulatory environment, in fact, I would say that we are as an industry in a policy sweet spot. Given all this, we would further invest in distribution and technology to enhance our

growth trajectory, given the platform we have created. While this may lead to cost growth in the short term, we believe this will help to build sustainable growth into the future and value for our shareholders.

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

Questions and Answers

Suresh Ganapathy: So, the question is very clearly on sustainability of VNB growth. Of course, fourth quarter, then if you were to back track and calculate, you just have to deliver another 20% which is likely, but I am looking beyond FY2023 now. I mean, the challenge here is that the entire growth is coming from margins, Kannan, how long can this continue? Because ICICI Bank is down to 15% this quarter, if I look at only this quarter's numbers. And even if I look at banca excluding ICICI Bank, the growth in nine months has been 21% and previous year, it was 52%. So, the base is catching up, right? So, at some point in time, does the management realize that you cannot get margins beyond 34% and growth has to come back because sustainability of VNB margin is a big question now, and VNB growth without growth coming in?

N. S. Kannan: Thank you Suresh, for joining in and asking this most relevant question. I will ask Satyan to supplement but let me give my opening comments. The first thing while you have back calculated the third quarter number in terms of VNB, as always, I would like to say that, let us look at it as a nine month as a whole, because that will be more appropriate in terms of the metrics. For example, the yield curve, etc. gets computed at the end of the period. So, nine month over nine month would be more appropriate look at the VNB growth. But having said that, I fully agree with you that we cannot be really dependent upon the margins alone for delivering VNB. That point is well understood. At some point in time, we need the top line also to help us in terms of the VNB growth. Now let me talk about what is the plan we have in this regard. Towards the closing comments of my opening remarks, I mentioned that now that we have created a resilient platform in terms of diversification, there is no need to really tweak the product or the channels in a particular way or other and the growth can be free growth going forward. And separately, I also talked about various opportunities, including health and other things, which can come along the way. And your immediate question around the non-bank partners, I would like to respond in this manner. Yes, on a base of a 50% growth, we have grown at about 30% plus growth in this year. But I want to assure you that even the partners where we have been recently or rather in two years where we have tied up, there's still a long way to go in terms of activity and productivity enhancement. So, those levers are still available to us. By no means, we are fully saturated in terms of their branch network.

Yes, of course, quarter-to-quarter things could vary depending on the partners' priorities in terms of what they do in a particular quarter; deposits or internal priorities. But the fact that we have 34 bank partners mitigates that risk as well. And the next lever available is the future bank partners. As I said, UCO Bank came just now. We have not even started the business in January, we are just about starting the business. So, that can give a runway in terms of growth going forward. So, I think the way I look at it is that the much more runway is available in terms of growth in the partners we have tied-up recently as well as in the past.

Now future partner tie-up, Amit and team have done a full sort of a strategy around who to pitch for and where we think there is a possibility to tell the banks to add us as one of the partners for the fourth partner also and that work us going on as we speak. So, I am quite sure that when you go into the second quarter or third quarter of the financial year, there is going to be a base effect next year which would be working for us in terms of the growth lever available, because as you rightly said ICICI bank percentage distribution has come down quite sharply in the last few months. And also, at the end of the day, we have grown in non-ICICI Bank channel for nine-month period, where a 20% growth rate we have put out. And lastly, you have seen the cost going up largely because of the investment, including in the agency channel. The agency channel, as you know, takes about six months to one year for yielding benefits. So, with all this, we do believe that FY2024 would be the time where top line will really start kicking in. All the levers are available. While I will not rule out the margin expansion beyond this, because we do believe that our product mix is continuing to be in favor of margin expansion. While I do not rule that out, FY2024 will be a time when top line is going to help us achieve the VNB.

You asked the question on what kind of VNB growth one can look for? We would believe that we can grow the VNB in line with the growth of VNB for the sector, given all these levers I talked about because if you ask me what is the real number you're talking about. Our sense is that it could be anything between 15% to 20% per annum kind of a compounding of VNB we can generate, depending on the environment. So, sorry for the long answer. But I think today, also, we are in a position that so many small levers we have put together that really all of them will kick in next year is what I think anything else, Satyan you want to add?

Suresh Ganapathy: Kannan, can I ask a couple of more quick questions? So, one is, what does ICICI do now? What are the things? Would they sell even ULIPs properly or they don't do even that? And I just wanted to know what is the bank willing to do? The associated question with that here is when you do a new product launch, whether it's par, non-par, the problem is that your capital channel though it is now only 15%, the potential of the captive channel is to do 60% - 70%, right, and that is not being utilized. So, this is not a structural disadvantage? And finally, I just want to know your tenure in the company? I mean, is there a restriction, age limit, the compulsory retirement age, just for my understanding a bit better on that?

N. S. Kannan: So, first question about ICICI, I think it is a valid question on how much they do and how much further they will do. The way we and the management here look at really is that we will take it as given and then focus on what we can do within those circumstances, because the partner priority is something which we cannot influence. So, that is the first point I want to make on ICICI. Second, what they are selling? I would say that they are selling from the order of priority perspective, first, protection, second, annuity and third, ULIP products. This is the order of priority. And also, this is the sort of order of priority from most active to most passive. So, in that spectrum, these are the products. As per your question on what have we done on this regard on protection, what we have done is that both the analytics teams have worked together on algorithms, looking at the customer base of ICICI Bank, and we have been able to get a very large catchment in terms of being able to roll out the prequalified offers. They have been extremely supportive and we are grateful to them for that, where without even asking any questions based on the track record, we have been able to roll out the pre-qualified

offers. So, our focus in the next few months will be to fulfill those prequalified offers for retail protection segment. So, that is a very active part.

Similarly, annuity, as you know, we have a subsidiary of NPS fund management. They are also the point of presence for distribution of NPS. So, all those customers as well as ICICI customers on the annuity are really available to us and that is something which is doing quite well in ICICI as well as non-ICICI bank channels. And here, we have also caught more customer segments in terms of younger age group through our deferred annuity products. So, these are all the areas where there has been a lot of focus.

So, on your question about the captive channel, when they are not doing any non-linked business what is going to be the impact on the company. There, I want to say that it is quite well baked in the base. If you look at the non-linked business, ICICI not doing, it has been a two-year phenomenon. It is not current phenomenon. So, with that, we have been able to handle it. So, I don't see it anymore as a disadvantage. Your first question is probably more relevant on what they do today rather than being bothered about they are not doing non-linked because that is very well baked in the base for the last two years.

The second question is probably easier for me to answer regarding my tenure, because my current tenure is up to June and it is really left to the Board and Shareholders. So I have nothing further to say on that and I am sure that Board and shareholders will take a proper call on this.

Suresh Ganapathy: So, is there an age limit in the organization, Kannan? And 58, 60, what is the thing?

N. S. Kannan: ICICI Group has employee policy with retirement age or superannuation age of 58.

Suresh Ganapathy: But that is applicable even for the MD and CEO or they are an exception?

N. S. Kannan: Other than Bank CEO, it is applicable to all the employees, unless Board and shareholders decide otherwise.

Suresh Ganapathy: Unless Board and shareholders decide otherwise your tenure ends in June 2023?

N. S. Kannan: That's correct. That has been the empirical evidence in the organization and across the group also that is the empirical evidence.

Avinash: So, the first question is if I were to again ask, of course, it's great to hear that FY2023 doubling of FY2019 VNB is on track. More about FY2024. Now everything else remains the way they are today, whether it's the product distribution and market. If I see that okay, if industry, overall life insurance industry is to say, see X-percent growth, where do you take your growth with all this realistic situation of current times? How do you see your growth in APE terms in FY2024? Second, in terms of headcount in your

banca sales, given that it has changed, banca sales business volumes have changed over the last four years dramatically. I mean, how many headcounts we have in banca sales and how it has moved at ICICI Bank? So that is question number two. Thirdly, if you can help some bit for nine months with the back book surplus and new business strain because why I am asking is that our surplus I mean, even adjusting for transfer from of shareholders firm, has sort of for nine-month year-on-year moved at close to ₹ 500-odd crores whereas nine month and last year had a big impact of COVID-19. So, I mean it would be helpful if you can just provide some colour on new business strain and the back book surplus generation, because in the absence of that thing, it becomes kind of throwing a dart when we have to sort of look at the accounting profitability?

N. S. Kannan: So, let me take the first two questions of yours, and then I will request Amit to supplement if anything is there and the third question, I will pass it on to Satyan. So, on the first question on the APE outlook, from an opportunity perspective, we do believe that the savings business will be in line with the nominal GDP growth of the country. The protection & annuity business will continue to grow ahead of the savings business growth. So, this is broadly the opportunity set in which we are going to be working in the next financial year. So given that, what could be our derivative in terms of APE growth, I have to calibrate it based on the partner priority. That is how we approach the topline equation for the next financial year.

Now coming to the partner priorities' perspective. First, I will talk about the agency. As I said earlier, the huge deployment of people, unit manager and everything we have done, especially in the second half of the current financial year, in the last few months, they have not yet come to full capacity and as I said earlier, that takes several months in terms of training, activity, productivity equation to come up. So agency, definitely, we are seeing already from a retail business perspective, it is 30% plus in terms of their contribution and given that they have grown only at about single-digit percentage for 10% or so for the nine months over the last nine month, that base given the levers available and given the base, I think that is going to be leading the growth in the next year.

Second is on the bank partners. As I said, several of the partners we have contracted in the last two years, still productivity and activities are to pick up. Banks, as you know, are always hungry for fee income. And given our much more comprehensive product profile to date, we should be able to push that also. So, we are expecting a decent growth in the non-ICICI Bank banca, including some of the banks like UCO Bank, which we have added. And I am hoping that as we go along in the next few months, we could be looking at adding more banks. So, that will be the second big growth lever from a partner priority. The last part is when we come to the second half of the next financial year, ICICI would be probably such a small proportion of our total channel. That is not going to impact the topline as it has impacted so far. So, these are the three points I want to make when it comes to the topline.

So, my sense, as I addressed Suresh's query is that the VNB development will be a function of both sustaining the margin or if you are very lucky, if you based it on the product mix, even expand the margins, but focus on the topline for delivering VNB. From our side, I want to reiterate that our objective will continue to be to focus on absolute growth of Value of New Business to be aided by the topline growth. So, that is how I will answer the first question. We have not put out a specific APE growth target. That is why

I am shying from answer that question very specifically. But this is how the approach is going to be in terms of our topline.

You talk about banca headcount. We don't break out the headcount across channels because that becomes slightly commercially sensitive information as well as it is quite dynamic. What we have done is that wherever there are some partner's priorities changing and when we contract new bank partnerships, we have not been shy of deploying our manpower. A mix of trained and fresh manpower is what we give even to a new bank partner. So that we can kick start the business without waiting for a large manpower to be retrained or to be trained. So, that is the approach we have taken. So, to that extent to answer your question regarding ICICI Bank versus non-ICICI Bank partnership deployment, I can only say that the headcount deployed would have reflected in the partner priority. Let me answer it in that manner. So, these are the points I had, Amit, if you want to add to that, then otherwise, we can ask Satyan to talk about the back book.

Amit Palta: Just to elaborate and give the principle philosophy that we have followed on building up our capacity, both on our existing channels as well as in the new partnerships that we have stitched over the last couple of years. Our entire focus has been, of course, to align our resource deployment to channels which are growing or channel who have the potential to grow. So to that extent, all the new partnerships, have a significant capacity building exercise that we have done over a period of last nine to twelve months which started ever since we joined hands with them in the last couple of years. And two, specifically talking about our direct channels, our proprietary channel, which is agency as well as our direct upsell channel. While the entire focus was at the start of the journey to look at product diversification as the first paramount deliverable, in terms of focusing on right product to the right customer by introducing products in various categories and ensuring that our full product basket is available for distributors to sell. Hence, large part of period, which was impacted by COVID-19, we focused more on product diversification and enhancing productivity of our existing distribution. The real serious scale up is something that we started doing ever since the revival of the sentiment happened after COVID-19 issue was relatively tapering down. And hence, large part of our scale up in some of these proprietary distributions, which is now close to 50% of our business started happening from December last year. And that is something which Kannan spoke about; we will have some kind of gestation in building productivity to optimal levels and we do believe for the build-up that we have done in direct channels will start playing out over a period of next six to twelve months.

So net-net, to cut the long story short; in direct channels, build capacity, allow gestation to play out, do an early onboarding, improve productivity at the early stages and see how we can cut down on gestation period; and two, align our resources on the new partnerships that we have deployed, both on bank as well as non-bank new partnerships that we have stitched over a period of last two to three years. This is what I would like to articulate.

Satyan Jambunathan: So, Avinash to cover the question on the P&L, I would just like to reiterate that our primary measure of financial outcomes is still VNB and EV growth. Accounting still is distorted. I would like to wait for IFRS to get implemented before we start talking more extensively about P&L and impact. But for nine months to summarize,

unit-linked is strongly cash generating because of the big back book, par is small cash generating because it has no new business strain, but profits are very back-ended. Non-linked, non-par savings is a new growth engine for us. So that has higher new business strain, which will result in a deficit. Protection continues to be on a strong growth trajectory, so that will continue to be in deficit. Overall, from a profit point of view, we are seeing stability of profits. More importantly, despite this level of profit, our comfort on capital adequacy is quite high. So, to that extent, I wouldn't duly worry about where the sources of P&L profits are coming from today.

Swarnabh Mukherjee: Three questions from my side. First, on the protection piece. So, you mention sir that ICICI Bank has an order of preference of protection and annuities than linked. Now with an understanding that when you reoriented the protection strategy at the start of the year by having a higher retention and then targeting prime customers with the PFM piece, then those customers would be coming from the ICICI Bank channel also. However, when I look at how the numbers are panning out this year, that particular piece of the business so that your term continues to remain steady. And while there has been some sequential growth this time, but bulk of this sequential growth in retail protection has come from ROP, not from that part of the business. So, I wanted to understand what are the challenges there still despite you now increasing the retention levels and now have a fixed set of customers who would not maybe be wary of a higher ticket size? So, that is the first question on the term protection side. The next question was on the product mix vis-à-vis the margins that we have done for Q3. Product mix looks fairly stable. In fact, ULIP seems to have gone up by a couple of percentage points. Despite that, the margin expansion is superb and just wanted to understand that there has been some significant shift within the non-linked savings portion of the business, which is actually the reason why this has gone up at this space? So, that is the second question. And in terms of persistency, if I compare the third quarter numbers vis-a-vis the second quarter numbers, I see slight tepidness in some cohorts. So, I wanted to understand, is there anything to read in there, or is that something that's just passing and you will see an improving number next quarter onwards? So, these three would be my questions.

N. S. Kannan: So, let me take your second question first, then I would request Satyan to answer the first and third. First is on protection term, though we could not hear you very well, we will try and attempt to answer what you would have probably asked. And the third question on persistency, I don't have any concern but we will just look at the numbers and Satyan will answer.

Now coming to the product mix, you asked a question on significant changes on how margin has increased. So, I would invite your attention to the last year nine-month product mix versus current year nine-month product mix.

Swarnabh Mukherjee: Sorry, to interrupt. I was actually pointing more towards the sequential moment. So, Q2 vis-a-vis Q3?

N. S. Kannan: As I said in my opening remarks that a particular quarter's VNB is not the right thing to look at all. So, that is the first thing I want to make because as you see, we have given in our presentation, the yield curve movement, etc. So, every time at the end of the period, be it a quarter or six months or nine months, we compute the VNB based

on those yield curve parameters and so on. So, when I do that, automatically, there is an adjustment of what we have put out also in the first two quarters. For example, for the nine quarter nine months' numbers. So, I would look at this VNB number really as nine months over nine months number and that is where probably can explain the margin movement also from 27% margin, the margin has moved to 32%. And if I look at the ULIP within that, has moved from 52.5% to 43.4%. That's a good 9% plus movement, reduction in ULIP. Protection has gone up by about 3% points and non-linked has gone up by about 6% points. Obviously, this is extremely accretive to the margins and that is what explains the difference largely between 27% and 32%. That is how I would like to look at the numbers. While we have complete granularly, I am giving a reason from top-down perspective.

Satyan, you go ahead. Anything else you want to add on this question as well as the other.

Satyan Jambunathan: So, just to add on this question, so the point really is that we have said this before, for a quarter margin can always be volatile. It is driven by multiple factors like Kannan described of change in yield curve, reforecast of expenses, tenure mix within a product, inter-se product mix between par, non-par, within protection, retail, group, group term, lots of moving parts and therefore, to ever look at a quarter margin in isolation to my mind, would be misleading. We should always look at it as 9M. So, I read the nine months margin at 32% as being stable in the context of a 31% that we had for six months. It is not a dramatic shift from what we had for six months. I can confirm there are no changes to assumptions that we have made. This is purely reflecting the underlying business and estimation of expenses over the year. So, to that extent, I don't see any unusual patterns even in the context of product mix as far as margin is concerned.

On protection, you did mention that a lot of the sequential momentum has come from ROP. That is correct. In fact, we have been saying that the ROP is a new category creation and with passage of time, we would expect this to pick up momentum and contribute more. Even without ROP, we are seeing a sequential pickup. A lot of the initiatives that we have been rolling out on the ground with respect to pre-qualified offers for our bank partners are more recent. I would expect that to take some time before they find traction. One also has to keep in mind that distribution is a very-very large organization and therefore, to expect distribution to change overnight would be quite an unreasonable expectation. So, even as the protection momentum changes, it is something which will happen systematically over a period of time and not dramatically overnight. From our point of view, we are very happy with the way the protection trajectory is emerging and we see a continued progression even from here on.

Persistency, quite honestly, with the improvement in all of the buckets that we have seen, I don't quite understand where the diffidence with respect to particular quarters of persistency is coming from. I would have liked to think that this is the strongest movement in persistency that we have ever reported across periods in the history over the past 22 years. And where we are, I can confirm that persistency experience is better than what we expected. And even from where we are, we see opportunity for improving persistency going forward.

Swarnabh Mukherjee: Just a follow-up on the protection side. So, what I wanted to understand was that on the pure term piece, are there still any challenges in terms of say, supply side factors that were playing out earlier or any challenge like say, because the ticket sizes have gone up materially, you see some demand impact also coming in from customers?

Satyan Jambunathan: So, Swarnabh, on the protection side, we don't see any continuation of either supply side challenges or any sign of demand side weakness. This is purely about distribution getting used to the changes in underwriting norms, picking up the product category once again and running with it. So, we don't see any environmental challenges. This is really about distribution momentum from here on.

N. S. Kannan: And Swarnabh, if you can see slide 7 of our presentation, we have given the trajectory of retail protection development. We are now at the same level as the Q4 of the last year. I am not talking about Q3, I am talking about Q4 of the last year. So, that means that the trajectory hopefully should help us as we move forward. And we are very confident of putting out a year-on-year growth in Q4 over last's year Q4. So, that is the trajectory. So I would say that in a quarter or so from now, you would be see us completely back on track on retail protection. So, bulk of the issues you mentioned are behind us. That's what I want to confirm.

Amit Palta: Just to elaborate on what Satyan just mentioned on distribution aligning their efforts to sell protection in a different regime. Just to give you a context, the entire protection scale up in the industry prior to COVID-19 was experienced with a process which was very different from the current regime. So, there were alternate ways of evaluating income where the focus largely was built around affluent customer segment, which has now, of course changed with the change in underwriting guidelines and with the change in norms. So hence, the way protection was sold in the pre-COVID-19 levels to where it is and how it is expected to be sold now is a big shift. It's almost like Protection 2.0, which needs to be now reintroduced with the distribution ecosystem to start driving it differently now. That is the adjustment that Satyan is talking about, which is like almost looking at protection as a new product category altogether and we start the journey all over again.

Swarnabh Mukherjee: Just one last question about the solvency ratio. So, that has improved. Now I wanted to know your thoughts about how it can pan out going ahead in terms of say incremental profit generation vis-a-vis any kind of capital strain that may come out as protection or retail protection have also started to grow. So your thoughts on that please?

Satyan Jambunathan: So Swarnabh, we have already had the benefit of reduction in solvency factors for unit linked business without guarantee. That is reflecting in the improvement in the solvency ratio that you have seen for the quarter. Going forward, like Kannan described in his opening comments, we also have access to subordinated debt and enhanced limit.

So, at 212% solvency ratio, we would be one of the best capitalized amongst the large company with the additional headroom for Tier-2 and potentially with the transition to risk-based capital over the next two to three years, we really have no concerns with

respect to needing to raise equity to fund growth and we think we can be self-sufficient or at best with sub-debt raising at a suitable time to support our growth aspiration. So, we don't see capital as being a constraint as far as growth is concerned.

Supratim Datta: Two questions from my side. So starting off with the banca partnerships, you have on boarded four new banks during the quarter. You said UCO was one of the partners, if you could help us with the names of other three partners that would be helpful? Then moving on, UCO is a public sector bank, and typically, your experience has been on the private sector bank side. So, just wanted to understand how ICICI Pru as a company is going to adapt to this new customer cohort? And three, IRDAI now removing product-wise commission cap, do you see one, bank partner is demanding more commissions or two, bank partnerships that you are currently present in, the competition increasing as in, they onboarding new partners? So, that's question number one. Question number two is more on the accounting side. So, the investment income has dropped significantly in the third quarter compared to the second quarter. Just wanted to understand what are the factors driving this?

N. S. Kannan: So, I will take the first question first. Supratim, Kannan here. On the first question, apart from UCO Bank, what are the bank partnerships we have added, this would be smaller banks, including co-operative banks. So, that is the answer to the first question. Within that, you asked a question about PSU bank's partnerships and how do we approach this. I want to assure you that these are all the questions which have been part of the pitch presentation itself, because that is how they choose a partner and they look at their culture, our culture, look at how you will be able to drive the business in tune with their culture. So, all these have been factored in their choosing a partner. And I can assure you that it has been a very competitive and not a very easy process to get into this partnership. So, that is something I want to assure you. In terms of our own approach to PSUs, by now, we have got experience working with a variety of banks; a large bank like an IndusInd on one side. Then if you look at some of the small finance banks we have done, we have done co-operative banks for several years and in fact, before some of the PSU banks started floating their own life companies, we have a relationship with a PSU bank as well. It had to be terminated because they themselves promoted an insurance company. So, that is the reason why that was terminated. Other than that, we have had successful partnerships, including with a PSU bank. So, we do not see any concern whatsoever. The type of products we sell, the type of people we deploy, the type of engagement we have on the ground and with the top management, those could change. But we are very dynamic about it and the fact that we have 34 different partnerships, including foreign banks, private banks, small finance banks, then cooperative banks, how nimble we have to be in getting the best outcome. That is why we have been included as a partner as well. So we have absolutely no concerns and we are quite prepared for driving this engagement, in line with the bank's priorities.

Your question regarding the demanding of commissions? Yes, of course, this market is extremely competitive when it comes to commercials as well as the general, inter-se partner market share. So it will be competitive. But again, there has to be level playing field. We have seen these situations before. When it doesn't make sense for it commercially, we have walked out. Right now, we are not going to be extremely aggressive in terms of commercials, to cut our own development of VNB. That's not going to happen at all, I want to assure you. Yes, it will be competitive, but beyond commercial,

the banks are also looking for other parameters such as quality of business than the kind of practices, the congruence of culture and so on. I think there we score much better. So those are things which we will focus on and commercials, to the extent something which can be afforded by us, only we will be competing. I do believe that just because the regulations are changing, we are not going to change the dynamics of the industry. It will be orderly, and we will make sure that it's a win-win partnership between the banks and the insurance companies.

Satyan, you want to talk about the investment income?

Satyan Jambunathan: Supratim very clearly, if you see the performance note, you will see that the drop in investment income is coming from the unit-linked business, which is mark-to-market, and that is passed through. Other than the unit-linked business, I don't see where there is a drop in investment income.

Nitin Aggarwal: I have a few questions around distribution. Firstly, like on the ICICI Bank channel, if you can share the mix of ULIP annuity and other businesses that the bank is selling. Idea is just to understand where the floor should be when it comes to assessing a premium volume from the bank?

Satyan Jambunathan: Nitin, channel specific product mix, we tend to disclose annually. We will do that at the end of the year. We have not, at this point of time, disclosed the product mix for each of the specific channels.

Nitin Aggarwal: Satyan, I was really looking for a specific business mix from ICICI Bank, not even within the channel, it's like specifically related to ICICI Bank with banker?

Satyan Jambunathan: That's what I am saying, Nitin, we disclose channel specific only at the end of the year. We have not done it on an interim basis.

Nitin Aggarwal: Secondly, on the non-ICICI Bank channel, like though the growth rates have been relatively better, but quarter-on-quarter numbers have been in a range, in terms of the total premium volume. So, do you feel that banks are focusing on deposits rather than selling life insurance?

Amit Palta: The deposits, of course, is an ecosystem phenomena that we are witnessing in banks, and that is something which is quite natural to happen, given the macro environment and while the degree of focus on life insurance may vary from partner-to-partner. But yes, one common thing, as you rightly pointed out, is that focus on deposits is extremely high. But at the same time, we don't see any short-term impact on life insurance business, given the current levels of penetration that respective banks have on life insurance business. So to that extent, I don't see that as a worry, because even if you were to look at banking ecosystem overall deposit base, we are talking about almost ₹ 1,70,000 crores kind of a deposit base with a monthly mobilization close to around ₹ 1 lakh crores, which is happening in a month. And even one bank, one large private bank may be actually doing a gross mobilization, which is in excess of the entire life insurance industry monthly premium. So, to that extent, the quantum of life insurance versus the quantum of deposits actually is only a fraction. So, to that extent, for a ₹ 1,70,000 crores kind of deposit base with a ₹ 1 lakh crores of gross mobilizations, to have an impact on

insurance, which is a very-very small pie, is anybody's guess. So, to that extent, I don't see this as a direct impact. But yes, the focus on deposits will continue. So, to that extent, mind share moving away into one line of business by bankers is quite significant. But however, in quantum in absolute values, we don't see this impact emerging in a shorter period of time, given the penetration that we have.

Sahej Mittal: Sir, so firstly, on the Group Protection business, can you give out the split between credit life and group term protect?

Satyan Jambunathan: Sahej, we give the split across protection product categories only annually, so we would expect to give that in April.

Sahej Mittal: Sir, my question was more directed towards the group term insurance business. So given that the prices have shot up in FY2023 after the mortality experience which the industry faced in FY2022. But in FY2023, given that the mortality experience has improved significantly, but it is resulting in this kind of VNB margins? And do you expect these and given that the prices in this business will mean revert in FY2024, do you expect the VNB margins also to drop materially, and what's your strategy over there?

Satyan Jambunathan: So Sahej, already in FY2023, we have seen prices drop after the pandemic period. We saw the prices increase around June of 2021 during the second wave is when it started. Already this year, renewals are excluding an expectation of pandemic related claims. So we have already seen that. Despite that, we are seeing a growth in that business. Despite that, we are seeing the margins holding up strongly in that business. So I don't quite see a cause of concern as we go into next year.

Amit Palta: We have a design advantage in group proposition. As you know, this is a one year renewable terms. So, to that extent, our ability to reflect the actual mortality experience, is available to us within a year. So, any adverse positive or a negative, actually gets factored in, when you get the opportunity to price your product again. But what has happened subsequent to COVID-19, is that there were two reactions that happened during COVID-19 period. One, certainly corporate got extremely sensitive and got more and more employees to get folded into this group term policy. They looked at enhancing sum assured of existing employees and also at the same time, there were a certain category of companies who decided to self-insure and probably not go with a high pricing, which was available during COVID-19 period. But it has overall led to an increase in sensitization towards group term, as part of the overall employee benefit proposition. So, to that extent, what we are witnessing now, is that while pricing has come down because of as you articulated, mortality experience is relatively better and pricing came down and went back to the pre-COVID-19 levels. But also at the same time, we have seen more and more number of companies showing and expressing their keenness to get into group term. So that has been that the drop in premiums has been compensated by new customers that have got added and enrolled for group term proposition at this time. This is something which I just wanted to add on group term.

Sahej Mittal: So, do we not anticipate any further price drops going into FY2024 for this business? Because given that this is so commercialized business, commoditized business?

Amit Palta: So, like I mentioned, again, the actual experience will play out next year and upon the actual experience, the price will again get recalibrated. It will take into account the mortality experience, margin expectations and the new pricing that would emerge subsequently in FY2024. So, to that extent, group term is relatively easier to price because it's a one-year renewal product.

Sahej Mittal: So, I mean, given that we are already done with 9M-FY2023, you had to be very sure that there would be price drops going?

Satyan Jambunathan: Already all renewals that started from May, June of 2022, have started seeing a drop in price. So, to continue that, all renewals until the next May, June, you may see some drop in prices continuing. Beyond Q1 of next year, I wouldn't expect any material drop in prices, because all renewals would already have factored in post-COVID-19 pricing.

Sahej Mittal: In an answer to one of the earlier questions, you highlighted that in second half FY2024 you believe that ICICI Bank will be a materially lower portion of your overall channel mix. So, are we still not confident that ICICI Bank, given that the base will settle down or the base will reset in FY2024, are we still not confident that ICICI Bank will show 15% odd growth going into the next year?

Satyan Jambunathan: So Sahej, the way we are looking at it is, not to focus on that at all, but to focus on the growth that is being delivered by the other channels put together. The other channels put together, if I were to take the last three years CAGR, it has been a 15% per annum CAGR. More recent trend of this year has been a 20% growth over same period last year. Given that ICICI Bank's share of new business is coming down, we would much rather focus on growth, driven by the other channels into the future. Whatever comes out of ICICI Bank distribution, we will accept it and take it as it comes. In that channel, our focus will be far more on growing protection and annuity business.

Madhukar Ladha: First, the corporate agency channel actually has been doing quite well. Can you give me some colour as to what sort of business do we write there, and what is driving that business? And on agents, agency is now our largest sort of channel, but if I look at a five-year CAGR, the growth there is just about 3% to 4%. What are the steps that we are taking to ensure that this channel, which is now getting more and more material now will grow like 15%-20% year-over-year? So, these two would be my questions.

Amit Palta: Let me first answer your question on partnership distributors, which is CABR. You are right, that is one channel where over the period of last three to four years, we have been continuously adding new partners and we have added close to around 300-odd partners in our overall partnership distribution space and there is a natural diversity, which is built into these channels. So we have various category of partners that you have, partners who will be aligned to equity customers, partners who are distributing traditional savings products as their primary business, partners who are into web aggregation, partners who are into old house retail distribution, financial shops, and there are all these partners, which are contributing and the ability of this distribution channel to tide through any change in the economic environment and events; because some category of partners would always have a tailwind available in the economic

environment and hence, their ability to withstand any change in the consumer preference is well factored and designed into the distribution channel. So, adding up new partners has definitely enhanced our ability to deliver growth consistently. That is one. But at the same time, we continue to look at increasing our share of shop in some of the large distributors within the space, which we have been able to grow over a period of time. So these two things, new partners and increasing the share of pie in the large shops, is something which has contributed to our overall growth of partnership distribution space.

Coming to agency, let me just take a step back and say, share with you as to where we were and to where we are now. Four years back, when we started agency, it was very similar to what we had at the company level, which was a large dominance of unit linked business, which was close to around 70% to 80% of our overall business. And hence, the step one in this journey of four years, was about building focus and creating capability, by making products available, where we could reach out to different set of customers with products which are more appropriate for those customers. And for having sold unit linked as a primary product for two decades, this was a herculean exercise of twelve months, where reskilling was required in the entire agency channel. So instead of adding capacity without building the skill, we actually spent first twelve months into building the skill and walked the product diversification route, in the year one of the journey. Year two and year three, as you know, were impacted majorly by COVID-19. And as you know that the long-gestation period that it takes for a new capacity to start delivering productivity, would have probably added cost to us, but not the productivity in the initial period. And hence, we continue to drive productivity as a major lever, with a continued journey of diversification. So last three years, while the top line may not have grown as much, but product diversification was almost a U-turn was taken, where close to around 75% of unit linked business came down to close to around 35% to 40%, as we speak now and as the sentiment reversed and once the COVID-19 environment eased out, we have started now building capacity over a period of last twelve months from December last year to December now, that we have been able to add to new capacity and by the almost 30% in agency. But as you know, we are just waiting to play it out and see how productivities emerge, over a period of 18 to 24 months. Our experience in agency suggests that it takes around 18 to 24 months for agency's new capacity to start delivering optimal results. But what I can assure you, is that in terms of new distribution buildup, new advisor sign-ups, we are already seeing our new capacity contributing to close to around 70% of new advisor licensing that, we have done this financial year. So to that extent, early signs of expanding distribution on advisors is already visible. However, productivity will play out. But vintage employees who have delivered good productivity and held us during the COVID-19 period is something, which is sustained and it's continuing to grow even in this period. That's the reason why agency on top line, we may have seen a lower single-digit growth over a period of last four years. But while we don't share VNB by channels, but the profile, by virtue of product diversification has changed dramatically, when it comes to VNB for our agency channel.

Deepika Mundra: Just a couple of things from my side. Firstly, on the margin front, can you kindly remind us, that like every year, this year also, we will likely see a true-up in assumptions in the fourth quarter? And thus far, whatever margins are being reported, are not adjusted for any assumption change? Am I correct in my understanding?

Satyan Jambunathan: That is correct, Deepika. There may be an opportunity at the end of the year for assumption change, but I cannot confirm that now, that will only be assessed at that point of time.

Deepika Mundra: And just a follow up on that. So, what type of a top line growth or if you can just give us some context around what kind of growth should we look at, to see to maintain our current expense assumptions? Because, obviously, with going more into third-party channels and the investments being made in distribution, we are seeing the expenses move up?

Satyan Jambunathan: So, I can confirm Deepika, that as of nine months, we are factoring in the projected unit cost of higher than last year, reflecting the year-to-date growth being lower than what one might have expected at the start of the year.

Deepika Mundra: In terms of the mix in the future, potentially tilting more consecutively towards protection. Again, if some of the savings lines don't see the requisite amount of growth. From a risk perspective, what level of mix are you comfortable with on protection overall, given the higher sum assured or would you have to end up taking some sort of a pricing action on protection?

Satyan Jambunathan: Deepika, we are very comfortable with the current level of protection pricing that, we are offering. To that extent, we are very comfortable with the increase in retention that we executed in December last year. Technically, if you ask me, is there a limit to how much protection we would like to have or not want to go beyond? I wouldn't mind going to becoming a 100% protection company also.

Deepika Mundra: So, there is no thought process either from I mean, you already have sufficient capital. But even from a risk perspective, there is no hesitance in terms of continuing to ramp up the protection mix substantially?

Satyan Jambunathan: So, my answer Deepika, was mainly from a risk perspective. I don't see any challenges at all there. Practicality however will dictate how we could get to the 100% protection over a period of time. But I do not see any capacity constraints or risk management considerations stopping us from exploiting the opportunity.

Dipanjan Ghosh: Just a few questions from my side. First, just going back to the mix and within the non-linked savings business, you have historically highlighted that it depends on quarter-to-quarter strategy and the macro environment. On that context, how would you allude to the fact that the on the ground customer demand towards your guaranteed return products or the longer-tenure products? And how has that been shaping out sequentially or YTD? Second, more on the banca side of things and specifically on the non-ICICI Bank channels, you alluded to the fact that there is all this quarterly volatility when banks, maybe in some quarters, focus more on liabilities and then insurance and so on. On that context, has there been any counter share movements or is it just a natural de-growth in the banking partners, banking partners during the quarter, because of the internal strategies? And just one data keeping question, if you can give your rider attachment rates across some of the product categories or on the overall basis, and how it has moved quarter-on-quarter or year-on-year?

Satyan Jambunathan: So Dipanjan, from a product mix point of view, guaranteed return at this point of time still is very popular. We have not seen any perceptible shift out of guaranteed return products yet. But like we have said in the past, even if it were to happen into the future, we think we have a comprehensive enough suite of products across the par and the unit linked products to be able to observe whatever are the changes in customer preference. Margins will be an outcome. We would much rather focus on opportunity and let margin remain an outcome.

Second, in the context of your question on the bank, I don't think other banks have declined. They have also grown. One needs to keep in mind that the same period last year was a very strong period for those new partnerships. And you may well have periods of time, where shorter period of time where growth is a little bit more volatile. That can happen, that will happen. I don't think one should read too much into one quarter growth numbers for a channel or some channels. On the ground, we are not seeing any concerns with respect to growth from all other banks that we have been talking about.

Third, in the context of your rider attachment. I still think that the range of riders that we have is small. I still think that the product that riders will be attached to are small. Within what it can be attached to and what is available, rider attachment could be 30% to 40%. But going forward, the priority will be in expanding the rider portfolio. It will be in expanding the range of products to which riders can be attached and hopefully, if health becomes available to us, that can become a positive with respect to further protection growth into the future. But right now, while I can talk about it, as a very strong attachment, I think the practicality will really tell you that it is a small portfolio that I am attaching it on.

Neeraj Toshniwal: Wanted to understand basically, on product level, have you seen any improvement in margin? Because if we just suppose, let's say, FY2022 margins on the product mix, or probably I am not getting similar kind of a margin improvement. So, any particular product mix improvement are we looking at, or how we are seeing through? Because you haven't changed any assumption as of now?

Satyan Jambunathan: I would encourage you to compare the 31% for half year versus 32% for nine months and not look at for the quarter. Given that you will find that the margin movement is not as significant. I did mention that there are multiple moving parts in determination of margin. They can well change from a shorter term point of view. At a product level, core, if at all what has changed is, non-par product has become more competitively priced. And therefore, to that extent, for a shorter period of time there will be a pressure on margin downwards. But all said and done, what you are seeing is the net outcome of tenure mix, par non-par mix, retail group protection mix, expectation of claims on accounts of COVID-19 not being there anymore, reforecast of expense with emerging business volumes. All of this is sitting there. What I can tell you is, I don't see this as a very material or a significant movement in margins. While in a spreadsheet, I may not be able to explain it to the last ten basis points, I would like to think that broadly, it reflects the underlying mix and nothing else.

Neeraj Toshniwal: But any product level improvement also are we factoring in? Because we haven't changed any assumption per se?

Satyan Jambunathan: No, product level margin, can only improve when the term mix, renewal mix of that changes. To the extent that any product category has a change in the tenure mix, it is reflected in the margins.

Neeraj Toshniwal: Second question would be the rise in deposits. I think you partly answered that question in the last answer. But wanted to know, with the rise in deposit rates, what is the on-ground trend we are kind of seeing through, will non-par because non-linked have actually started cooling off compared to the last quarter number, and within which, obviously, non-par savings just excluding the annuities would have just grown 10% and sequentially, we are down. So, is it some bit of change towards deposits accretion by the bank is leading to some bit of impact, or how should we read that?

Satyan Jambunathan: So far, we are not seeing anything on the ground which is suggesting that. You will have some movement across month across quarters, it is also to do with the number of working days. This is a quarter which has had a lot of festivals attached to it. We are not seeing anything on the ground to suggest a concern led by banks focus on deposits.

Amit Palta: The only thing I would like to add here, like I answered already on deposits, we have not seen the direct impact on this business. But at various point in time, on a shorter-term basis, whether it is a month or a quarter, one may see some kind of movements happening from one partner to another, on account of very price sensitive nature of this product, which is on the guaranteed platform, both on annuity side as well as on the non-participating product side. So at various points in time, as you know, that we have been extremely cautious about the way we would build up our VNB and hence, we may exercise our choice to participate in some of the price interventions and may decide to stay away in an environment, which could, at times, become extremely price competitive. Given the fact that we have high focus on VNB and we would not like to compromise on the trajectory of VNB that we would like to follow by products.

N. S. Kannan: I just wanted to add only one additional aspect to what you mentioned that, based on my own observation of interest rate cycles in the banking sector, my feeling is that, as and when deposits get re-priced and start flowing through, in the cost of funds of banks, NIMs (net interest margins) do tend to plateau or even come down over a period of time. We are probably somewhere there. I can't really predict, I am not a deep analyst of a bank. But at these kinds of times, there is a tremendous pressure on the banks for fee income. So that is how the fee income has to come to help the lack of that kind of a growth we have seen in the net interest income. So to that extent, this is a time, when there will be a lot of push from the banks also for fee income. So I think we can leverage that trend a lot as an insurance company, which it gives the most fee income for any bank, for the time spent of the banks staff. So that is where we can position ourselves well. So I think there are pluses and minuses, moving parts. But net-net, we are not really worried.

Neeraj Toshniwal: If I may chip-in, is on the, just prequalified offers on protection. Who would be the target audience? Is this cross selling or upselling largely, we are seeing through and how has been the traction?

Amit Palta: So, given the penetration that we have in the banking system, I still believe cross-sell is much larger opportunity for us, when it comes to our banking partners and the pre-qualified offers that we design. Our focus is, of course, is to improve our penetration and focus on customers. We will still be part of the affluent category, the focus category for the bank. We have still not purchased retail protection as part of their portfolio and hence, these qualified offers are mostly directed towards cross-sell and not as much an upsell.

Rishi Jhunjunwala: On the ICICI Bank channel. Now given they have decided not to sell a particular segment of products to their customers. Just wanted to understand, as a partner, do we get access to those customers at all, direct access through bank, even though they may have decided not to sell, doesn't necessarily mean customers don't want to buy it and things like guaranteed returns is something which is selling a lot across the industry. So just wanted to understand whether, do we have access to that customer base directly, or is it completely shut out for us, given the massive volume that it might have?

Amit Palta: Just to clarify, not just for ICICI, but across all our partners, our philosophy for our partnership business is about us subordinating to the partner priorities and letting them choose what is most appropriate for them. So, to that extent, in line with our philosophy, we focus on what banks and partners ask us to focus on. So, to that extent, we don't encourage any access, which is not in support or in alignment with what banks would have asked us to do. So that is something not just limited to ICICI, but it is across all the partners that we have.

N. S. Kannan: As you know, we are a highly intermediated business. About 85% of our business comes through partners. The last mile of customer connect is through the partners. So given that, we have to restrict the primacy of customer ownership by the intermediates. So, to that extent, unbridled direct access to customers of any of our intermediates is something we don't encourage at all. I think that is one of the key principles of running an intermediated business. So, to answer your question, no, we don't encourage that. Not just for ICICI Bank, across channels.

Rishi Jhunjunwala: No, the only reason I asked is, ICICI Bank has a massive customer base and to a large extent, is the decision taken by them not to sell some of the products, which are otherwise getting sold pretty comprehensively by other insurers to their customers as well? So, in effect, those customers of ICICI Bank do not have access to it, through the IPRU channel, given this arrangement. So, I am just wondering, are we just losing market share as a result of that?

N. S. Kannan: I see where you are coming from. But I just want to say from my vantage point, I just wanted to say that we will completely respect the partner priority. Beyond that, we don't cross the line, we subordinate ourselves to the partner priorities and that is true across all the channels.

Sanketh Godha: Given the UCO Bank relationship you probably compete with LIC and SBI Life in that particular channel. So just wanted to understand the potential size of this channel, whether it is a couple of hundred crores and how much it can potentially add to the APE number? That's the question number one. And second, again, related to banca,

we might be having some kind of a market share in the new banca relationship, especially IndusInd, AU, IDFC, and RBL and just wanted to understand, whether we have touched the aspiration levels of market share in these channels, or you believe there is a scope for further increase in the market share, or will it grow in line with the channel growth, because already you have achieved the potential market share, you can potentially achieve in these new relationships? So these are the two questions which I have.

Amit Palta: So I will try to answer this question first, starting with UCO. The way we look at our partnerships will be on the way and how much we have scaled up on our distribution capacity. So to that extent, you must have seen us quoting our access to 13,000 odd bank branches. With UCO Bank, now we have access to 3,000 additional branches of UCO, specifically in geographies like East and North, which are most coveted for us. So to that extent, we have added almost 15% to 18% kind of capacity to our overall distribution coverage on the bank side, by having UCO. In terms of aspiration, of course, our effort has always been, during our partnership engagement as well with potential partners to work towards increasing the overall revenue pie. So, we see that the hunger of fee income is clearly visible. That's the reason why UCO has looked at a third partner and we really appreciate the white space on the opportunities that they have identified within their overall distribution and expectations from us to actually grow and leverage that white space available. To come to very specific on the opportunity, the way we see it in the next couple of years, of course, ₹ 200 crores is something we can definitely expect from UCO Bank and probably look at multiplying their revenues by 2x to 3x from where they are currently and that is what the aspiration of the partner also is there.

Coming to other partners, which is IDFC, AU, RBL that you just spoke about, of course, we on boarded these partners based on the technology integration that we did at a very fast pace. And within a very short span of time, they could gain a significant market share. The good part is that, right across these new partnerships, we have been able to contribute to the partners, growing the overall revenue pie. If you were to track performance of these banks, they have grown significantly on their overall revenue income, ever since they tied-up with us. So to that extent is objective one, of getting our partners to increase the pie is being achieved in phase one. Of course, the phase two is going to be partially linked to continued hunger and their current penetration level and their customer base. But I also believe for the stage of business scale up that IDFC, RBL, AU, IndusInd Bank are and for the existing penetration, I believe that the growth can be anywhere in excess of maybe 2x of industry in times to come. So, to that extent, we would like to be partnering that growth, and of course, at the least, aligning to the overall growth expectations of the partner and given the wish if you were to ask me, of course, we want to increase our pie and have a larger share of the incremental business from these partners. We are deploying resources, we are aligning our efforts, both on building capability as well as introducing products on a continual basis, and we will continue to stay competitive in these places through robust processes, without getting our eye off on the quality of business.

Amit Jain: As we see you have added around 25,000 agents in 9M-FY2023. So just trying to understand that do you further intend to add more agents? Or would you like to stop and see how these new agents are progressing? And any aspirational channel mix that you have, that currently agency is 30%, so where it could reach? And in terms of banca

also, how would you see the channel mix? And secondly, in terms of these pre-qualified offers, so are these specific to ICICI Bank or they have been rolled out to other larger banks as well? So that would be my two questions.

Amit Palta: So I will start with your question on agency. Of course, as you may understand about agency channel, it's a very organic buildup of distribution that is required to be done continually. If we stop hiring for a few months, is where we will start seeing the impact of overall decaying in the agency business in six months to nine months down the line. So it's almost like a treadmill business where you need to continually keep working on expanding your distribution. I mentioned in the answers to one of the questions, the capacity that we have built through our new unit heads over a period of last 12 months, they have started contributing to widening our entire agency licensing over a period of last 12 months and they have started contributing to almost 70% of the scale up. Now since this is a new capacity, which we want to intend to continue over a period of next six-months as well, we will look at focusing on licensing continually and probably improving from a current level as well. They are already on 1/3 of the business, and a large part of this journey from being 22% to 33% has been mostly productivity led by the vintage units of the agency business that we have built over a period of time and now with the additional capacity, we can expect the percentage share to go up further. But however, we are not directionally look at this becoming the most dominant and significant channel, but I would like to ideally grow almost every channel in absolutes. So I will be happier growing every channel by absolute and look at share as only an outcome. So that is how I would like to respond the agency scale-up.

Coming to pre-qualified offers, of course, given the priorities of ICICI Bank and the focus on retail protection, we have done this exercise with ICICI to start with. But at the same time, as we speak, we are working with all our bank partners to churn out similar kind of offers for their priority customer segments. So, this is not restricted only to ICICI.

Anand: Congratulations on being on the path to double the VNB you had guided for, despite all the challenges. Two questions from my end. It has been four quarters since the claims retention policy. So, if I were to calculate our VNB margin, had our retention been what it was, let's say until December 2021, what will have been the VNB margin for calendar year 2022?

Satyan Jambunathan: When we did the change in the retention limit and simultaneously, the pricing change to customer as well, it was designed to be margin neutral. So, the change in retention has not had either a positive or an adverse impact on category margins.

Anand: Second question is about capital efficiency of the VNB. So, while we have VNB is on course to double, how is the capital efficiency of the current VNB, vis-a-vis what you originally envisaged, when we had this plan for doubling the VNB?

Satyan Jambunathan: If I were to go back, I would have expected more from protection less from non-par savings. Where we are today, and it's a little bit more from non-par savings and little less from protection. Protection is the most capital intensive. So in a loose sense, we have probably done this with lesser of a strain on capital now than we would have expected to.

Anand: Also, fair to say that, because we are retaining more, even the protection VNB is more capital intensive than what we envisaged?

Satyan Jambunathan: To some extent, but the fact is, it remains that on an overall book. The retention does not change it dramatically. It's only on the incremental book. So yes, for the protection business, capital intensity has gone up a little. But overall, the VNB trajectory, because it has also been supported by par and non-par growth and group protection growth, particularly, where retention limits have not changed at all. Overall, I think, while I have not done the exact math on this, but my sense would be that the VNB has been generated in a slightly more capital efficient way than I would have expected at the start of FY2019.

Anand: My last question, if I may squeeze in. From the capital intensity perspective, can you give us a sense of what's the return on capital through the lens of VNB and capital use within the dead VNB as of today?

Satyan Jambunathan: That's a very difficult question to answer, because quite honestly, it's not like I can make an active replacement strategy of one segment with another. For example, if protection turns out to be more capital intensive from a VNB point of view, it is not as if I can replace that VNB with savings VNB. I actually have to see each as distinct opportunity. All I can do is appreciate and contrast the difference. But I don't think I will ever have an ability to replace protection VNB with savings VNB.

N. S. Kannan: Thank you all for joining the call. I hope we have answered all the questions comprehensively. So in case there are any further questions, residual questions, my team and I are available. Thank you so much and have a great day ahead.

Safe harbor: Please note that this transcript has been lightly edited for the purpose of clarity. Except for the historical information contained herein, statements in this release which contain words or phrases such as 'will', 'would', 'indicating', 'expected to' etc., and similar expressions or variations of such expressions may constitute 'forward-looking statements'. These forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. These risks and uncertainties include, but are not limited to our ability to successfully implement our strategy, our growth and expansion in business, the impact of any acquisitions, technological implementation and changes, the actual growth in demand for insurance products and services, investment income, cash flow projections, our exposure to market risks, policies and actions of regulatory authorities; impact of competition; experience with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the impact of changes in capital, solvency or accounting standards, tax and other legislations and regulations in the jurisdictions as well as other risks detailed in the reports filed by ICICI Bank Limited, our holding company, with the United States Securities and Exchange Commission. ICICI Prudential Life Insurance undertakes no obligation to update forward-looking statements to reflect events or circumstances after the date thereof.