January 24, 2024

General Manager Listing Department BSE Limited, Phiroze Jeejeebhoy Tower, Dalal Street, Mumbai 400 001	Vice President Listing Department National Stock Exchange of India Limited 'Exchange Plaza', Bandra-Kurla Complex, Bandra (East), Mumbai 400 051

Dear Sir/Madam,

Subject: Earnings Call Transcript for the quarter and nine months period ended December 31, 2023

This is further to our letter dated January 5, 2024, and January 17, 2024. The Company had hosted an earnings conference call with investors and analyst on Thursday, January 18, 2024, at 8:30 a.m. IST, to discuss the performance of the Company for 9M - FY2024.

Please find attached the transcript of the 'earnings conference call' for 9M - FY2024. The same is also made available on the website of the Company.

Please note that no unpublished price sensitive information was shared during the meeting.

Thanking you,

Yours sincerely,

For ICICI Prudential Life Insurance Company Limited

SONALI NITIN CHANDAK

Digitally signed by SONALI NITIN CHANDAK
Date: 2024.01.24 19:04:12 +05'30'

Sonali Chandak
Company Secretary
ACS 18108

Encl.: As above

ICICI Prudential Life Insurance Company Limited
Earnings conference call
Nine months ended December 31, 2023 (9M-FY2024)
January 18, 2024

Anup Bagchi:

Good morning and welcome to the results call of ICICI Prudential Life Insurance Company Limited for the 9 month - ended December 31, 2023. I have several of my senior colleagues with me on this call, Amit Palta, who heads Distribution, Brand Marketing and Products, Dhiren Salian, CFO, Judhajit Das, who heads Human Resources, Customer Service and Operations, Deepak Kinger, who handles Audit, Legal Risk and Compliance, Manish Kumar, our Chief Investment Officer, Souvik Jash, Appointed Actuary, and Dhiraj Chugha, our Chief Investor Relations Officer.

Let me take you some of the key developments during the quarter before moving on to discuss the Company's performance.

On the regulatory front, IRDAI has issued an exposure draft on product regulations for public consultation. One of the key elements proposed is the concept of a premium threshold for non-linked savings products, where beyond this threshold, no surrender charges shall be levied on the remaining premium irrespective of when the policy is surrendered. We believe that any changes leading to a better product proposition for the customers would be a great opportunity for the insurance industry. In line with the same, we have launched ICICI Pru Guaranteed Pension Plan Flexi with Benefit Enhancer, industry's first annuity plan that provides customers with an option to receive a 100% refund of premiums paid at any time starting from the day of purchase. Significantly, this product is in line with the proposed regulations, which aims to ensure that the customers receive a fair and appropriate surrender value, particularly in the event of an early exit from the policy. For distributors, while the base level commissions between both the variants of GPP Flexi are similar, in the Benefit Enhancer variant, the commissions paid have been back-ended and more level-based for initial years.

Further, IRDAI is expected to introduce BIMA Trinity for insurers, which includes BIMA Sugam, BIMA Vahak, and BIMA Vistaar, with an objective to reach the last mile coverage by leveraging technology and customer-centric initiatives. The BIMA Sugam platform is proposed to be a non-profit company, and we are set to invest in the platform as a founding member. The platform aims at providing an end-to-end digital solution for insurance purchase, service, and claim settlement in a seamless manner. This is a welcome initiative, since it could be a one-stop destination for customers to fulfill all their insurance needs, and it also gives the platform to all stakeholders to participate.

Innovation has been at the core of our business strategy. During 2023, we launched a slew of innovative products, such as ICICI Pru Gold, GIFT Pro, i-Shield, and Protect & Gain. We also launched industry's first unit linked Debt Fund, with 'constant maturity' as a theme. During Q3-FY2024, we launched 'Waiver of

Premium Rider', which allows customers to get policy benefits even if an unfavourable event occurs to them. On the protection side, we have launched 'ICICI Pru iProtect Smart Life Continuity Option', again an industry-first feature, where the customer has the flexibility to either receive the sum assured as a lump sum, or a monthly income for a duration of up to 30 years, or a combination of both.

And of course, we spoke of the ICICI Pru GPP Flexi with benefit enhancer a while back.

On the process side, with a set of capabilities encompassing digital tools and analytical capabilities, we were able to issue approximately 40% of the policies on the same day for the savings line of business in Q3-FY2024. Complementing this, we have launched an initiative of crediting commission on the same day of the policy issuance for top-tier advisors. In the last earnings call, we had detailed out the 'ICICI Pru Stack', which is aimed at making us the most partnerable insurer, and initiatives like this further add to the overall proposition provided to our partners.

Third, I would also like to talk about claims settlement, which is the moment of truth for any insurance company. As a customer first brand, I'm pleased to inform you that the Company has consistently maintained an impressive claims settlement ratio of 97.9% in Q1-FY2024, and 98.1% in Q2-FY2024, securing the top position among private sector insurers. Along with that, our average turnaround claims settlement time now stands at 1.3 days for non-investigated claims in 9M-FY2024.

Fourth, as a testament of our efforts on investing in digitalisation and data sciences, we have received awards for the 'Best use of Technology in Customer Service in Life Insurance', 'Best Transformative Security Initiative', 'Best Innovation and Diversification'. The Company's FY2023 Annual Report too, has received the 'Gold Award' at 2023 Spotlight Awards by League of American Communications. Recently, we have been ranked number one term insurer by Fortune India.

Lastly, on the sustainability front, we continue to be the highest rated insurer in India with AA rating by MSCI and have received awards for 'Best Sustainability Report' and 'Best Overall Sustainable Performance' in BFSI. Our complete list of awards won in Q3-FY2024 is presented in slide 43.

I will now move on to discuss the key performance snapshot for Q3-FY2024 and 9M-FY2024.

- In 9M-FY2024, value of new business was ₹ 14.51 billion with an APE of ₹ 54.30 billion. VNB margin stood at 26.7%. The decline in VNB margin is primarily on account of the shift in underlying product mix towards unit linked and par from non-par business, decline in group term business and higher expense ratio for the current year.

- We have registered RWRP growth of 10% in Q3-FY2024, higher than average growth rate registered by the overall industry as well as the private life insurers.

- On the proprietary business, that is direct and agency, constitutes more than 50% of our retail APE. Within this, direct business has grown by 18.8% for 9M-FY2024. We have been investing in agency channel by scaling our frontline managers and providing our agents with institutional support, complemented by data analytics and data capabilities. The agency channel has grown by 12% year-on-year in Q3-FY2024 and our efforts are directed towards driving this growth further. Partnership distribution has registered a growth of 11.2% year-on-year in 9M-FY2024.

- The bancassurance channel grew by 2.4% year-on-year in Q3-FY2024. Within that, ICICI bank channel declined by 4.8% year-on-year.

- The group channel declined primarily on account of group term business, while we saw sustained growth in the group credit life business.

- On the product side, in 9M-FY2024, linked business has grown by 5.7%, while non-linked savings business has declined by 4.5% year-on-year, primarily on account of shift in customer preference from non-participating products towards participating and unit linked products. For greater than ₹ 5 lakhs ticket size category, we have witnessed growth at the Company level in line with the overall RWRP for Q3-FY2024.

- Annuity business grew by 17.3% year-on-year in Q3-FY2024, on back of strong growth in regular premium annuity.

- The group fund business declined by 5.1% in 9M-FY2024.

- The retail protection APE continued to witness strong growth. We ended 9M-FY2024 with 55.9% year-on-year growth, and with this, we have surpassed the FY2023 retail protection APE.

- Our regular and limited pay persistency have been improving consistently. 13-month persistency stood at 87.4%, and 49-month persistency stood at 67.1%.

- Our cost to TWRP ratio for savings line of business stood at 16.3% for 9M-FY2024, as we continue to invest to deliver sustainable growth in the future.

We have always ensured that customer centricity is at the core of everything that we do, and we have been continuously working on improving the customer-related metrics as detailed on slide 7. We believe that the key to market expansion is in getting the customer-product-channel equation correct, which means the right and simplified product to the right customer at the right price through the right channel.

Additionally, we have taken major steps to become the most partnerable insurer in the industry, and with the launch of ICICI Pru Stack, we now have an array of platform capabilities available for our customers and our partners. By enhancing the distribution through acquisition of new partners and new sourcing channels, we are setting up the platform for longer-term sustainable growth.

Our product, process and distribution is completely aligned with one goal, that is, to deliver value proposition to our customers. The hard work done through all these years is expected to start bearing fruit in the shape of steady growth going forward.

Our 4P strategic elements led by 4D framework continue to play a crucial role in the growth of absolute VNB.

Thank you, and I will now hand it over to Amit to take you through the business updates. Amit.

Amit Palta:

Thank you, Anup. Good morning, everyone.

As Anup said, our 4D framework is what drives our 4P strategy. Our 4D framework has entirely been put in place by keeping in mind our core objective to deliver quality business in a risk calibrated manner.

Let me outline the important actions we are taking to further strengthen this 4D framework. The first element is Data analytics. We have been investing in data science over the years and customer-centric analytics engine has been powering our sales and distribution operations, business, and product strategy. Additionally, we are focused on extensive utilisation of AI and machine learning along with data analytics to mitigate risk in the insurance business.

Our recently developed AI and ML backed model has been assisting us to mitigate the fraud and early claims risk. This has led to ~70% reduction in cases with higher propensity for fraud and early claims for savings policies, for the period October 2023 to November 2023. The same has been detailed on slide 30. The details of our extensive deployment of analytics capabilities are set out in slides 26 to 30.

The second element that is Diversified proposition has been detailed from slide 31 to 34. We have a comprehensive suite of products and continue to strengthen our product portfolio to address changing consumer preference in a dynamic environment. During 2023, we launched innovative products across categories. We also launched industry's first unit linked debt fund with constant maturity as a theme. The launch of ICICI Pru Flexi with benefit enhancer in annuity, waiver of premium rider, ICICI Pru iProtect Smart-Life Continuity Option, as highlighted by Anup in his opening remarks, are a result of anticipating what consumer needs and delivering it accordingly.

The third element, Digitalisation, has been detailed from slide 35 to 39. We have been working extensively to integrate our digital ecosystem with central agencies to fetch KYC and income estimation details for a simplified digital customer onboarding. As a result, during Q3-FY2024, around 80% of our policies have been issued using digital KYC and nearly 40% of our saving policies were issued on the same day.

The fourth element, Depth in partnership, is presented on slide 41. We continue to build capacity and have added more than 28,750 agents during 9M-FY2024 spread across geographies. Within the bank and non-bank channels, we are setting up the platform for longer term growth. We continue to add new partnerships and increase share of shop in existing partnerships. We now have a total of 42 bank tie-ups with access to more than 20,000 bank branches and more than 1,050 non-bank partnerships with an addition of 144 non-bank partners during 9M-FY2024. Through ICICI Pru Stack, we intend to become the most partnerable insurer and we can onboard any new distribution partner in less than two weeks.

Let me now talk about the business performance update through the elements of our 4P strategy. Starting with the first P, that is Premium growth element, which is mentioned from slide 9 to 12. As you can see on slide 10, our total APE for Q3-FY2024 stood at ₹ 19.07 billion and for 9M-FY2024 it stood at ₹ 54.30 billion. While Anup has highlighted the channel and product-wise growth, let me highlight the business mix. Today we have a well-diversified distribution mix with no single distributor, excluding ICICI Bank, contributing more than 5% to our APE in Q3-FY2024. Hence, volatility in any single channel will not have any significant impact on our top line or bottom line.

As you can see on slide 12, for overall 9M-FY2024 APE, agency business contributed 27.2%, direct business contributed 14.8%, bancassurance 27.9%, partnership distribution 12.6% and group business contributed 17.5% to overall APE. This diversified distribution will enable us to grow sustainably in the long term. Along with channel mix, we continue to maintain a well-diversified product mix with 9M-FY2024 APE contribution from the linked savings product at 43.1%, non-link savings at 26.8%, protection at 20.1%, annuity at 6.2% and the balance 3.7% coming from group savings products.

The non-linked APE mix has declined from 28.6% in 9M-FY2023 to 26.8% in 9M-FY2024, whereas linked APE mix has increased from 41.4% in 9M last year to 43.1% in 9M-FY2024.

Annuity business grew strongly by 17.3% year-on-year during Q3-FY2024. Single premium annuity declined, as customers might have postponed purchases given high FD rates currently. However, the strong growth in regular premium more than made up for the decline in single premium business.

Another important focus area for us, is to serve the life protection needs of the customer. On this aspect, let me talk about second P, Protection growth on slide 14. With an APE of ₹ 10.92 billion, the overall protection segment saw year-on-year growth of 4% leading to an APE mix of 20.1% in 9M-FY2024. The retail protection business has registered a strong year-on-year growth of 55.9% in 9M-FY2024. With this, we have surpassed the FY2023 APE in the current year's nine-month itself. We expect normalized growth going ahead in retail protection.

Our total new business sum assured stood at ₹ 7.2 trillion for 9M-FY2024, and our total sum assured stood at ₹ 32.3 trillion as of December 31st, 2023. We believe given the current level of under-penetration, retail protection business growth is a multi-decadal opportunity, while credit life and group term business also offer significant opportunities as we witness growth in credit and the economy.

Coming to our third P, which is Persistency improvement, presented on slide 16. We believe persistency is the most effective indicator of the quality of sale and as a barometer of customer experience. This is reflected in the significant improvement in persistency ratios across cohorts. We have developed AI models which predict future persistency behavior of the customer at various stages, and these enable us to take appropriate interventions. This will further help us to improve the overall persistency levels for the business.

Now moving on to the fourth P, which is Productivity enhancement, presented on slide 18. Our total expenses grew by 28.3% year-on-year for 9M-FY2024. As highlighted in the previous quarter, the increase in new business commission is attributed to the redesign of commission structure pursuant to the flexibility provided in IRDAI (Payment of Commission) Regulations. This year will continue to be a transition year and we expect the rates to settle down as we move to the next fiscal year. The rise in operating expenses is primarily due to sustained investment in capacity creation to support future growth.

Our overall cost to TWRP stood at 25.3% and saving lines of business cost to TWRP ratio stood at 16.3% for 9M-FY2024. We monitor cost ratios for the savings lines of business separately. Our objective is to bring efficiency in the savings lines of business while we continue to focus on growth in the protection business.

I will now hand it over to Dhiren to talk to you through the outcome of 4P strategy and financial update for 9M-FY2024.

Dhiren Salian:

Thank you, Amit. Good morning.

We regularly monitor our experience in respect of various risks, and the diligent and prudent risk management framework we operate on is reflected in our strong and resilient balance sheet, presented in slide 19. The emerging mortality experience is within our expectation. On asset quality, 96.4% of our fixed income portfolio is invested in fixed income instruments that are rated sovereign or AAA and we continue to maintain a track record of not having a single NPA since inception. Of our liability profile, 73.9% of liabilities largely pass on market performance to customers. We use derivatives to hedge interest rate risks in our non-participating guaranteed savings and annuities portfolio. We continue to closely monitor liquidity and ALM positions, and we have no issues to report.

The VNB for 9M-FY2024 was ₹ 14.51 billion. Given our APE of ₹ 54.30 billion, the resulting VNB margin was 26.7% for 9M-FY2024. The decline in margin is primarily attributed to product mix shift and higher expense ratio for the current year.

First, let me explain the impact of the product mix shift. The market buoyancy has led to higher growth of the unit linked portfolio, which, as you are aware, has a lower margin profile compared to the Company average.

Further, we have been experiencing a shift in product mix of greater than ₹ 5 lakh non-par cases, moving towards the participating and the unit linked products. However, for Q3-FY2024, in the greater than ₹5 lakh category, we have been able to seize the market opportunity through unit linked and participating products, and we were able to grow this customer segment in line with the Company level RWRP.

There has also been an inter-se mix of traditional plans moving from non-participating to participating products, which has led to the PAR product mix to be higher than the non-PAR product mix for 9M-FY2024. Further, we have seen competitive pressure on pricing in both the non-PAR business as well as the annuity business.

Additionally, on the protection side, even though retail protection and credit life businesses have grown during the year, group term business has declined from the high base we had in the previous year. While there has been significant growth in the number of group term deals, the lower deal sizes reflecting normalization of rates post COVID has led to a decline in the overall APE of group term.

Second, the higher expense ratio for the year has also impacted margins. The growth in the top line for the 9M-FY2024 has been lower than the planned numbers. As explained earlier, the redesign of the commission structure has led to an increase in commission expenses. We have also continued investment in capacity creation to support future growth, specifically in the proprietary channels, that is agency and direct, as well as in IT and brand awareness. This has led to an increase in operating expenses for the year.

Further, from a Q4-FY2024 perspective, we are now looking at building double digit APE growth, which we believe can help absorb some of the fixed costs that have been incurred in the current year. On assumptions, we seem quite comfortable on both persistency and mortality experience, and as with the usual practice, we will evaluate them at the end of the year.

For the coming year, we believe all investment and diversification that we have made will help in delivering the APE growth, which will aid in growing VNB.

Coming to other financial metrics, our Profit after tax grew by 17.9% year on year, from ₹ 5.76 billion in 9M-FY2023, to ₹ 6.79 billion in 9M-FY2024. Our Assets under management stood at ₹ 2.9 trillion, and our solvency ratio continued to be strong at 196.5% at December 31st, 2023. To summarize, we will continue to make progress against the 4P framework of Premium growth, Protection business growth, Persistency improvement, and Productivity enhancement led by our 4D framework.

We are now well diversified in terms of product and distribution mix, which allows us to manage the impact of the external environment and respond swiftly to shifting consumer preferences.

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

Moderator:

Thank you very much, sir. We will now begin the question and answer session. The first question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh:

Yes, hi. Good morning. Couple of questions. The first one on your big dip in margins. I mean, on an as it is basis, if I look at product mix changes, they fail to explain. So that means either the product value proposition for the policyholders have changed materially for the same set of products, or the overall cost, acquisition cost plus opex, has inflated a lot, and that is leading to certain dip in the margin. So, if you can help explain this, sort of how much of the product value proposition changed for the policyholders, or and how much of it is coming out of the acquisition cost and opex?

And if the large part was due to acquisition cost and op-ex, I mean, I would expect you to have a bit guided because you know that, okay, how your opex is going to go based on a strategy. So a bit of guidance because this margin dip suddenly is pretty big. So that's question one. Second question is more around growth.

If I heard you correctly, you are saying beyond Q4, you are looking at double digits. So I mean, if you can just sort of try to explain the value constructs or what is because I mean, we are also in the era of some regulatory uncertainty going on. So what gives you confidence for double digit growth beyond Q4? And what sort of a number of growth you are looking for Q4?

And just one minor thing again, if I were to look at the retail APE, retail WRP growth, some minor gap I mean, 10%, 7%, is it largely I mean the quarterly/monthly premium payment kind of a thing that sort of distorts the number and will normalize over the quarters, or, is there something more? Thank you.

Dhiren Salian:

Good morning, Avinash. So Avinash, as I explained earlier, the shift that you see in the margins is on again two fronts. The product mix, what you've seen here is the shift towards unit link that has definitely happened. What you've not been able to see because we've not given a split between par and non-par clearly is the shift towards participating.

If you recall, we had initially spoken of last year's par to non-par mix being roughly about 1:2. That has shifted more towards the participating side where the participating actually is larger than the non-participating side. That shift in product mix also has a great part to play.

The other aspect as we also pointed out competitive action in the non-participating space as well as the annuity space clearly have led to compression of margins on that line of business. So to that extent, there is, of course, a depletion that comes through. Coming to operating expenses, yes, we've seen operating expenses that have been higher.

We had forecasted growth for the full year. We've not been in a position to deliver on that growth for the nine months so far. And you can see that it's a little over 1.5% for the nine months put together. That has impacted the unit cost for the lines of business, and which is what we're reflecting at this point.

Coming to your second question, in terms of what are we looking for quarter four, we're seeking to look at the double-digit growth in terms of APE. We're looking at this primarily from the perspective that if you look at quarter three, we do have a double-digit growth on retail business.

You saw the RWRP grow at about 10 plus percent. We expect to build that into the coming quarter as well. The initial trends that you see in the first few days of January seem to be quite positive, which is what gives us the confidence that we should be working towards this as well.

Avinash Singh:

And given that Q4, of course, you have that last-year March base effect of high-ticket policy. So what kind of growth, I mean, adjusted for that or not adjustable that you'll see for Q4?

Dhiren Salian:

See, we're seeking to build double-digit on this for quarter four, Avinash.

Avinash Singh:

On that base? On the reported base or adjusted for some kind of, you know?

Dhiren Salian:

On the reported base.

Avinash Singh:

Okay. Reported base, you are looking at double-digit in Q4. And just last, you know, kind of a bookkeeping question that was, your RWRP and retail APE, actually individual APE reported, that will be largely because of this monthly, quarterly premium-paying accounting?

Dhiren Salian:

Yes, right, Avinash. So there'll be a gap between the RWRP and APE from a monthly modal perspective.

Avinash Singh:

Okay, okay. Thank you. Thank you.

Moderator:

Thank you. The next question is from the line of Swarnabh Mukherjee from B&K Securities. Please go ahead.

Swarnabh Mukherjee:

Yes, hi, sir. Thank you for the opportunity. Two, three questions. First one, as you highlighted in terms of the mix change, I just wanted to understand also that, if I just, look at the mix in third quarter from a comparison point of view with the second quarter, then, like, unlike if we would have compared nine month to nine month, if we do it just on a sequential basis, on a quarterly basis, then the mix does not look very different in terms of, say, how much is unit linked, how much is protection. I take your point that par has increased very significantly vis-a-vis non-par in the non-linked mix.

Is it fair to understand that this change has happened more in this quarter between par and non-par? Because I think some triangulation suggests that it would have not moved that drastically in the previous quarter. So, is it a phenomenon that has happened this quarter?

And also, similarly, for, say, in the protection side, how is the margin profile of group term life now playing out post the price correction? Because I think although retail protection has increased, I think share of group term life on an APE basis in the mix have increased for overall protection. So, if you could give these granularities.

So, that is my first question. The second question is on the Banca channel. So, if you could tell us how it has been between I-Bank and non I-Bank this quarter, what is the split in the Banca APE in that?

And given that you mentioned that you are gaining market shares in your partner banks, but despite that, I think we have done a 2%-2.5% growth in APE in this quarter. So, what kind of challenges you are facing there? Is this competitive intensity or is this that banks are focusing on other product segments? If you could highlight on that, that would be great.

Also, on the margin side, I just wanted to understand that do you think that product mix will kind of change in the upcoming quarters? Or is this the margin profile to work with for the next, say, 2-3 quarters going ahead?

So, these will be my questions. And a quick question on the new product would be, sir, that if you could tell us what kind of VNB margin for the new annuity product you are building in, which has a more trail kind of a payout model, as you mentioned, and what kind of lapsation rates, etc., you are also baking in that estimation. That would vis-a-vis a similar product with the current kind of surrender charges. That would be very helpful for us to understand. Yes, sir. That's all from my side.

Dhiren Salian:

Yes Swarnabh, quite a lot of questions. Let me try and pick them up. If we miss, please remind us. So, on the first one that you spoke of, in terms of Q3 margins, please understand the way the methodology is that you look at full year nine-month margins when you do the computation, you apply it for the entire base. So, typically, when you just look at incremental Q3, it does have a catch-up impact of both Q1 and Q2 also built in.

You're right. Incrementally between Q2 and Q3, it doesn't seem to be too much of a shift on the outside from a product mix perspective. But clearly, we've seen a shift across both the quarters, in fact, all three quarters towards the participating line of business, away from the non-participating businesses.

At this point, the participating is slightly higher than the non-participating for the full nine months put together as well. The other point that I also cited was that across the year, we've had competitive pressure on both non-participating as well as annuity lines of business which have led to compression in margins. Those are the key elements that are coming through.

What, of course, we are reflecting also at this point is the expected unit cost which has, given the higher operating expenses, is adverse to the margins. That also is being reflected at this point. That's how the whole thing comes together.

However, what you rightly pointed out, group term has declined. Overall, when you look at the protection mix of roughly 20%, whatever gains that we've had on the retail protection side are being offset by losses on the group term side. Group term specifically, again, has undergone some bit of correction in terms of margins as we've gone towards post-normalization of rates post-COVID. And again, increased competitive intensity. We're working off a higher base. That itself is leading to a drop in group term APE.

Amit Palta:

I just want to add here, this is Amit Palta. See, we also need to understand the context of margins, the way it was operating on non-participating guaranteed products last year quarter. While all of us have witnessed the hysteria around the guaranteed products in the month of March, but it also led to a lot of competition activity on comparative practices in terms of pricing.

And the margin did compress during the period of February and March because of competitive pressures. And we cannot deny the fact that a lot of affluent business, last-ticket business, was pre-poned in the month of March. And there was a scarcity and there was a proposition for customers to pre-pone their purchases, which meant that naturally there was a lull in quarter one when it came to guaranteed products.

And IRR or the customer returns had to get moderated eventually. So that moderation happened in the quarter one. But however, the base level on margins had already got corrected at the lower side in last year, last quarter.

So subsequent to that, all the changes that we witnessed, whether it was mutual fund indexation benefit being taken away and relative to other investment products, unit linked attracted only a long-term capital gain tax in comparison to more than ₹ 5 lakh cases where regular tax was levied on the customers, meant that naturally the pull towards high potential returns kind of participating product and unit linked products started getting momentum.

So it was not just a quarter three phenomena. We saw it at the very beginning of quarter two itself where participating & Unit Link products started getting momentum. And slowly affluent business also, because of relative advantage that they had on tax, started giving the overall mix. And non-participating products with moderation of customer IRR in the overall industry saw a bit of a compression on demand, which actually continued right through quarter two and quarter three. Coming to group protection, see for the years where we were doing very well during COVID when we chose to participate in group-term business, the pricing was at a different level altogether. Post the experience, which was favourable, the pricing had to go through a correction.

But yes, the competitive pressure on the lower pricing meant that there was a pressure, not just on top line, but also on margins. So margin on a standalone basis is still good, but not as much as what it used to be earlier. So that is on the group-term, which I would like to add here.

Back to you, Dhiren, for the second question, which is on mix between iBank and non-ICICI Bank.

Dhiren Salian:

Yes, mix between ICICI Bank and non-ICICI Bank for this period is actually half-half. You'll notice that ICICI Bank has stabilized. It's roughly in the ₹ 80 crores to ₹ 100 crores range per month, and that's where it has settled down at. Actually, if you back out ICICI Bank from this, quarter three, ex of ICICI Bank, that business is actually grown by double digits.

Amit Palta:

There was also a question on non-ICICI Bank business and the competition practice. I just want to add there. See, broadly, the way things have played out in bancassurance business is that wherever we saw traction and prioritization in alignment to unit linked momentum and unit linked demand, we saw those channels doing relatively better. So the overall pie was witnessing a moderate growth in multi-insurer banks, barring few exceptions here and there.

But what we have witnessed is a growth which is quite reasonable and more than the growth at the individual partnership, which meant that the focused effort has actually started yielding us better share of business at the shop. So non-ICICI Bank business in terms of share has continued to look better for us.

Dhiren Salian:

So let me cover the last question that you raised in terms of the new product. What kind of margins are we seeking? This will broadly be in line with our current set of margins on the same product variant.

We're not expecting any large lapse rates out of this, frankly, because this is an offering that we're making to the customers, which is giving them the flexibility in case something does happen to them. This is not a product or core feature that we expect people to utilize.

This is a benefit that is available to them. And the 100% value that they will get or the surrender value that they will get out of it is clearly beneficial to the customer in case they need the flexibility. Please understand that this product actually is saving towards retirement.

And to that extent, if customers needed the money sometime during the initial period, then he has the flexibility to take all of that away, even though his retirement goal may get affected.

Swarnabh Mukherjee:

Understood. And if you could respond on, you know, how to think about the margin in, say, near terms of fourth quarter or maybe going into the first quarter next year. Should we expect it to remain in a similar range on a quarterly basis?

Dhiren Salian:

Yes, broadly, if the product mix holds, then I think we should go along the same lines. Shifts in product mix are something that we have to account for as it goes through the quarter and the next year as well.

Swarnabh Mukherjee:

So if the product mix remains broadly similar, so full year versus nine months, we should see even a little bit more contraction from where we are right. Would that be a fair understanding, sir?

Dhiren Salian:

Swarnabh the other thing also is we are trying to build in a double-digit growth. So to that extent, if we overshoot that, that'd be great. We should have definitely some buffer there. Otherwise, it will reflect in the cost ratio at the end of the year.

Swarnabh Mukherjee:

Understood, sir.

Amit Palta:

The primary focus will continue to be delivering on products which are good for the customer. And we'll allow ourselves to be aligned to where the customer demand is. And what we get as an outcome is something that we'll take it. That's where I would like to actually qualify and put it in.

Swarnabh Mukherjee:

Sure, sir. Very clear. Thank you so much.

Moderator:

Thank you. The next question is from the line of Supratim Datta from Ambit Capital. Please go ahead.

Supratim Datta:

Thanks a lot for the opportunity. So my first question is that if we have seen what has happened over the last nine months, it appears to be that you are going for growth. But that growth is coming at the cost of margins. And is this a function of your, you know, ICICI Bank channel not really growing, and hence you have to grow in channels where the competition is higher and which is then adversely impacting margins. So going forward, while growth is going to be double digit, the top line could grow at double digit. The margins could be materially lower than what we have seen historically. So is that the way we should think of the business going forward? That's the first question that I have.

The second question is, you know, you have made investments in your agency channel, direct channel, but just wanted to know that whether these investments, how long will these investments continue for? And what level of top line growth do you need to see before your operating leverage starts to flow through? That's the second question.
And lastly, on the new product, the Benefit Enhancer, just wanted to understand how does the margin on a Benefit Enhancer compare with a normal variant? Thank you. Those are my three questions.

Dhiren Salian:

Yes. Thanks, Supratim. On your first question, I don't think that's the right way to look at it. Each distribution channel has chosen a strategy for the insurance business, and we respect every distributor's decision along those lines. And ICICI Bank is nothing new. We've discussed it for many, many quarters now. That has been baked completely into the base. What is good that you're seeing at this point is that ICICI Bank has started to stabilize at the ₹ 80 crores, ₹ 100 crores range, and that's where we believe it will be. If there's growth out of it, we will take it. We obviously have to work beyond ICICI Bank. We can't just be stuck with just one primary channel. And one of the key things that we have spoken of in the past and that we have delivered is actually a very diversified channel as well as a product mix, which allows us to take advantage of the opportunity as it presents itself. So whenever there's an opportunity, we are in a position to take it. So if there is a market buoyancy, unit linked definitely did well for us. That, of course, the way the product mix shifts had an impact on the product margins. And that's what we explained in the past few minutes as well.

What is very critical for us is to make sure that we've got all products on the shelf and we're in a position to offer them to the distribution that is able to reach out to those customer bases. Whatever the customer chooses, that is good for them, we will offer and allow that to play out. Coming to your other question in terms of the Benefit Enhancer product that we have launched, we just discussed that margins are broadly in line with what we've seen for the other variant of the product.

Amit Palta:

Specifically, you had asked a question on agency and direct.

Yes, you had asked a question on agency and direct, I'll take it. This is Amit. First of all, this focus on non-ICICI channel, which may increase our margins, I just wanted to clarify that, of the retail business that we do, 51% of our business is proprietary, direct business which is proprietary sales force and agency. So 51% of the business is not purely a multi-insurer competitive business. It is only around 14% to 15% of our non-ICICI Bank bancassurance Business and another 15% of partnership distribution that leaves us with around 30% of our business, which is actually multi-insurer. The 70% of our business is close to being captive or proprietary, you may call it. So to that extent, impact of ICICI Bank decision on our strategy will not have an implication on margins because of business increasing on the other side of it.

Specifically on our investment in direct and agency business, we have continued to invest for at least last year and a half, we've really scaled up our capacity to start licensing more advisors through investing in people, processes and also institutionalizing on digitization support to our agents. And this is a process. This has started. As you know, that gestation period for setting up capacity to deliver productivity takes a little time in agency, because the cycle involves not only self-trained, but also hiring and then making agents productive.

And hence the cycle is a little longer. But good news is that quarter three, we saw a good double-digit growth in agency, which is close to 12% and the investment on capacity will continue at the current pace. And we don't intend to pull back our capacity addition in agency. Direct business is quite on course. It's growing at 18% to 20% for us, which includes both upsell as well as what we are doing on our website. So that business is quite on track, back to benefit on some margins.

Supratim Datta:

I just wanted to know what would be the top-line growth that is needed for the operating leverage to flow through, if you could get that.

Dhiren Salian:

Yes, that's a little difficult to estimate because we obviously would want to invest in our business as well, because clearly we don't want to let go of the opportunity. So we'll have to calibrate both along the way, both in terms of how the top-line emerges and the kind of investment we continue to make. So difficult to take a specific number to it.

Supratim Datta:

Got it. Thank you.

Moderator:

Thank you. The next question is from the line of Pankita Shrivastava from ABSLI. Please go ahead.

Pankita Shrivastava:

Thank you, sir, for the opportunity. So the first question is on so I wanted to understand like what percentage of business, the new business that has been generated, is coming out of the captive I-Bank in terms of group credit life. That is the first question.

And what are the other bank partners that they have in terms of diversification? And you mentioned about the AUM as well of the ICICI Prudential. So I wanted to understand what is the group AUM out of this? what is the percentage of group AUM out of this? Thank you.

Amit Palta:

Thank you. On ICICI Bank's share on credit life business, though we don't publish this, but it is in a double-digit share on overall credit life business. Specifically, if we were to exclude non-MFI business and look at only non-MFI business, principally mortgage, they're close to around 20% to 25% kind of range.

Dhiren Salian:

So in terms of the AUM, we're largely retail. There is, of course, some group AUM. I don't have the numbers with me at this point. We can pick that up separately.

Pankita Shrivastava:

Okay, sure. Thank you.

Moderator:

Thank you. We'll take the next question from the line of Adarsh from Enam Holdings. Please go ahead. Mr. Adarsh, I have unmuted your line. Kindly proceed with your question.

As the current participant is not answering, we'll move on to the next question, which is from the line of Ajox Frederick from Sundaram Mutual Fund. Please go ahead.

Ajox Frederick:

Hello. So thanks for the opportunity. So again, kind of a repetitive question. So from an individual product perspective, on a sequential basis, have your margins changed?

Dhiren Salian:

So, Ajox, the larger impacts have been on the non-participating and the annuity side. Sequentially, yes, the product margins have gone down because it reflected a higher cost ratio.

Ajox Frederick:

Okay. And just to validate, you mentioned that assuming the double-digit growth holds up in 4Q, for the year, we can end up with a 27% kind of margins, right?

Dhiren Salian:

We're working towards it. Where the margin finally ends up, we will see. Margin is not the primary focus for us. Absolute VNB is what we're gunning after. And again, wherever is the opportunity, we will go after it. We will offer that appropriate product to that customer segment. And we'll let the margin evolve from there.

Ajox Frederick:

And sir, from a slightly longer-term perspective, are we having any goalposts or do we intend to have any goalposts in the near term, like doubling of VNB, etc. etc.?

Dhiren Salian:

No, Ajox, we have not put out a metric of that nature. I think what we're seeking to do is to build on sustainable growth, quarter-after-quarter. The green shoots are visible at this point. You've seen the fact that we have lagged the market in quarter one, quarter two, by a large degree. And in quarter three, on the retail business, we have now come back on par and slightly above. Our focus largely is on the profitability side to work with absolute VNB. And growth in absolute VNB is all we're looking for. The margin will evolve based on the final product mix. But obviously, the biggest driver to absolute VNB will be on growth. And you're starting to see those green shoots come through.

Ajox Frederick:

Understood, sir. So that's it for me. Thank you.

Moderator:

Thank you. The next question is from the line of Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha:

Yes. Thank you for the opportunity. Dhiren, the question which I have is that you said that you will probably achieve double-digit growth in fourth quarter. So if I do a Q-on-Q growth, honestly, that is almost like doubling the APE what you have generated in third quarter. And if I look at the historical trend, we never grew at that rate on sequential basis for the fourth quarter.

So I just wanted to understand, since you're gunning for that number on a higher base, there should be some confidence in some channels which is giving you that growth will be achieved. So I just wanted to understand where this growth will come from. That's point number one. And if you manage to deliver that number in fourth quarter, then what kind of growth you can expect in FY25 given these channels will deliver growth for you? That's the first question.

And the second question is that on margins, you have highlighted that it has compressed due to a few reasons. But just wanted to understand that on margin, I think we report margin based on projected cost. And given the cost has gone probably is more, have we revisited the projected cost assumptions in the nine-month number and that is getting reflected in the margin compression?

And finally, if you give it in full year, but if you can give it now, it will be very appreciated. That VNB margin waterfall, if you give it because of the mixed change cost pressure and product level margin, which you highlighted is because of non-par and annuity, if you give that waterfall, and an assumption change if it is there any, if you can give that waterfall, it will help us to understand where the margins have led to compression. That's it from me.

Dhiren Salian:

So Sanketh, let me take your second question first. Yes, we have reflected the higher expense ratios into the nine-month numbers. And that flows into our expectation of unit cost for the full year.

Sanketh Godha:

That number is higher compared to what it was in 1H, right? I just wanted to understand.

Dhiren Salian:

Yes, the unit costs are higher than what we saw earlier at 1H.

Sanketh Godha:

Okay, perfect. That's right.

Amit Palta:

Yes, specific to your question on growth expectations in quarter four. Let me just trace back last year last quarter. If you remember, the traction in last quarter was built actually in the month of March only. Jan and Feb were quite moderate in performance. So that is what I just wanted to clarify. I remember till the end of February, we used to go to the market saying that we had not seen the impact of scarcity even till the end of February.

So to that extent, January and February were quite moderate on overall numbers and it was only the month of March. So to that extent, I do agree that March scaling up by 10% growth will relatively be a challenge. But however, January and February are expected to be much better than last year January and February.

Apart from that, your question on where the growth will come from, see it will be a combination of what we do on products and how we have invested on channels over a period of time. And we do expect some of the initiatives taken on productivity and the maturity that we are seeing on the capacity added will enhance our productivity starting January, February and March. So it's been now almost what 18 months that we have invested in capacity.

We do expect some of the productivity to unfold in our favour disproportionately in the month of January and February. So that's how the expectations are built. And of course, it is not just about channels. It is going to be a combination of what we do on products as well as specific interventions that we do with unique channels, within bancassurance as well as non-bank channels.

Sanketh Godha:

So Amit, if that is the case, then if this capacity utilization space on a benign base in FY25, we can expect a growth to be in mid-teens because we are confident to deliver 10%, 11% in the current quarter, fourth quarter, then it should trickle down to mid-teens kind of a growth in FY25?

Amit Palta:
The endeavor is, Sanketh.

Dhiren Salian:

So we will work towards that Sanketh into the coming year. The idea is to be able to build sustainable growth quarter-after-quarter.

Sanketh Godha:

Got it.

Moderator:

Thank you. We'll take the next question from the line of Nidhesh from Investec. Please go ahead.

Nidhesh:

Thanks for the opportunity. On the margin still, I'm not able to fully understand that what actually happened in this quarter because the cost pressures were already visible in H1. Operating costs actually has declined sequentially in absolute number. The growth has been better than previous quarters. So what actually has happened in this quarter, which this creates us to lower our margins. So have we lowered the pricing significantly in our non-par products or what specifically has happened in this quarter, I wanted to understand? That is one.

Second is, what will be the impact of surrender value regulation? So you mentioned the margins of GPP Flexi is probably similar to the overall margin of the company. So which means that that's how we should look at the impact of surrender value regulation or you expect any other impact?

Dhiren Salian:

Yes, Nidhesh, just to repeat the point on margins, we are reflecting the higher unit cost ratio at this point, which is where it's affecting all the previous quarters as well. And the key point is, if we were able to deliver on growth, then we should have been able to absorb the additional costs. You saw that in quarter three, the growth was roughly about 3% to 4% on the overall APE. If it was higher, then we would have been in a position to absorb that. Given our outlook, we are now reflecting some of the extra that we have into the current mathematics at this point.

With respect to the GPP Flexi new variant, the margin of this variant is similar to that of our existing variant, not that of the company average, but that of the existing variant. That's the key point. In terms of where the surrender value regulations will go, I think they're still in a draft stage. Let that evolve. However, we've decided to take a step forward and make this product variant available because we think that from a customer perspective, with the objective that the customer would have taken this product, which is to stay till maturity until the time that they want to draw their annuity, there may be situations in their lives which may necessitate a withdrawal of fund and we want to give this advantage to them.

Nidhesh:

Yes, so just to follow up on this variant, are the IRRs lower or have we reduced the payout to make the margin similar?

Dhiren Salian:

The key thing, Nidhesh, here is that we've back-ended the commission, so it's actually far more trail-based. It's not upfront, which typically is the structure with most products where it is higher in the first year and lower in the subsequent years. In this particular product, we have made it on a trail-based format.

Nidhesh:
Okay. Thank you, sir. Thank you. That's it for myself.

Moderator:

Thank you. The next question is from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani:

Thank you. Sir, I have two questions. First is on the commissions. So, for each quarter; first quarter, second quarter, third quarter, your commission, Y-o-Y growth has rapidly picked up and in the third quarter, it was up about 156% or so.

Now the only other peer of yours who has reported their numbers, they also have elevated commissions, but their year-on-year growth was sort of similar in the past three quarters. So, are there any channels or specific reasons why your commissions have picked up much more rapidly in third quarter? Or I would just want to understand where this comes from.

And second on, just continuing the point on the surrender value regulation, sir, any help if you can give us on timelines, where do you expect, when do you expect this to become applicable? That will be useful. And sir, just one last question on credit life, the APE growth number.

Dhiren Salian:

Yes. So, Shreya, on the second point that you raised, which is the surrender value regulation, it's still under discussion. So, I'm unable to share any timelines at this point. In terms of the first question that you raised, the commissions would be reflective of the channel mixes that are underlying. It will depend upon company-to-company. And again, quite difficult to draw direct comparison across each of them. Coming to your third question, credit life has grown strong double digit in this quarter as well, as it has through all the nine months of the period. We're looking at 20% plus growth on that.

Shreya Shivani:

Sure, sir. And just on the, so any channel of yours, which is causing the higher growth for you, just for you, if not, if I don't compare with any other player, any channel which is increasing this commission much faster, that you could help us?

Dhiren Salian:

So, wherever there's a multi-insurer, there is a higher commission growth there.

Shreya Shivani:

Got it. Got it. Okay. This is useful. Thank you.

Moderator:

Thank you. The next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe:

I'm actually a little confused, on your guidance. Are you sort of kind of saying that, for the month of Jan and Feb next year, you're looking at a double-digit growth? Or are you looking at a double-digit growth in the month of March, April? Because I think, as we discussed earlier, it's almost doubling of business on a sequential basis.

Dhiren Salian:

Nischint, we're looking at for the quarter, for the quarter, not just individual months, all three months together.

Nischint Chawathe:

And any specific channels where you're looking at any acceleration?

Amit Palta:

We mentioned, Nischint, that it's going to be a combination of products and channels. And some channels where we have invested in capacity, we would see productivity unfolding in the last quarter. But again, it's not specific to one channel that we are focusing on. It's going to be diversified efforts across our bank as well as non-bank partnerships along with direct distribution. And of course, there will be interventions and initiatives around products.

Nischint Chawathe:

The commission side, are we sort of saying that this is kind of redesigning of commission structures or is it, that at a realization level, probably some of your agents are better off this year versus last year?

Dhiren Salian:

So I didn't get your question, Nischint. Can you just repeat that?

Nischint Chawathe:
No, so on the increase in commission expenses, is it sort of, more of, redesigning of commissions or is it something that, agent realizations are better this year versus previous periods?

Dhiren Salian:

So it is, of course, a redesign of commission pursuant to the guidelines. That's the larger component. And in some channels, which have done well, we've seen that commission numbers grow as well.

Moderator:

Thank you. The next question is from the line of Prayesh Jain from Motilal Oswal Financial Services. Please go ahead.

Prayesh Jain:

Yes, hi, and thank you for the opportunity. Firstly, when you say the pricing or the competitive intensity in the non-par segment has increased, what would be the kind of view, how would you place yourself in terms of IRRs versus the competition? And is there any major correction that you would have done in this quarter that would have caused this?

And second question is when you talk about a 10% growth Y-o-Y in total APE in Q4, I am just trying to understand out here the macro factors will not change materially in the next, possibly next two and a half months. What gives you that confidence that, things like competitive intensity would reduce or some of the channels would really kind of pick-up momentum?

And, you alluded to the fact that you have invested in capacity and that utilization will improve in Q4. What, could you cite some examples out here as to which channels, what capacity utilization will increase some examples around it? That would be helpful. Thanks.

Dhiren Salian:
So, Prayesh, the margin question that you raised on the non-par, that's reflected through the year. It's not just this particular quarter.

Prayesh Jain:

Okay.

Dhiren Salian:

And that is seen and we discussed this earlier as well. When you've seen the overall margins of the company shift, it has been on a product mix perspective as well. So clearly it has gone away from the non-par. And wherever non-par is sold, those margins have started to fall through the year.

In terms of growth clearly, we've invested in a lot of channels. We've invested in our proprietary channels. We expect some of that to come through. We're starting to see that growth come through even in quarter three. And that's what we expect to carry through into the quarter four as well.

And again, as Amit explained, it is going to be a combination of product and channel as we play it out through the coming quarter, to be able to deliver on double digit growth for that quarter.

Prayesh Jain:

Brilliant. Thanks.

Moderator:

Thank you. The next question is from the line of Madhukar Ladha from Nuvama Wealth. Please go ahead.

Madhukar Ladha:

Hello. Morning. Just, I wanted to understand, because I'm not getting a sense, has there been a big redesign in commission structures for some channels? That's what is driving growth for you? Because if you look at the income statement, there's a steep increase in commissions. And, of that 28% growth in total expenses, what would you attribute? I know because the commission, because the whole EOM framework has also changed. So there might be some reclassification. What would you attribute to sort of fixed cost going up? And what would you attribute to commissions in that sense?

And second, what are we seeing structurally are margins going to be off? How do we see sort of VNB panning out over the next three, four years? And, also beyond FY'24, what sort of top line growth should we expect, let's say over FY'25 to '27, if we were looking at that time frame? Those would be my questions.

Dhiren Salian:

Yes, so Madhukar, on your first question, yes, commissions are being redesigned across all channels. And that is the reflective number that you see on the growth in commission levels. Outside of commission, we continue to invest in building capacity, specially across our proprietary distribution - agency and direct, as well as within IT and brand. So you've seen some of those numbers also pan out through this particular year as well.

If I look at where we stack up from the next year's perspective and then very clearly, the focus is on growing absolute VNB. This year has been a bit of a flux year, especially when you look at the entire commission changes. We expect that to settle down as we get into next year. But having said that, I think the key objective for us to be able to grow absolute VNB and again, the core driver of absolute VNB will be from APE growth.

And as you've spoken earlier, the objective is to be able to deliver on sustainable APE growth. Let's see where the final number comes at, but I think we'd want to do a steady number for the coming quarters anyway, in the range of 10% plus 15% plus.

Madhukar Ladha:

Understood, understood. And structurally, then we should start building in lower margin?

Dhiren Salian:

If I could just answer him. I think we are not looking at VNB margin guidance, we've discussed that earlier as well. It will depend upon the product mix that finally evolves. Again, it goes back to the fact that we want to offer all products that are relevant to customers. And depending upon the environment, customers will choose what products suits them best. And we are not putting a hard boundary across any of the product lines. Thanks, Madhukar.

Moderator:

Thank you, sir. The next question is from the line of Mohit from BOB Capital. Please go ahead.

Mohit:

Yes. Thanks for the opportunity. Two questions. So if I look at the agents, I mean, we have hired around 28,750 plus agents during nine months. But if I look at the net number, it's pretty much flattish. So I think that number of amount of agents has been deleted. So kind of understand, I mean, try to understand what has been going on there?

And the second question is in terms of the constant maturity funds. So I mean, you said that, it has been kind of innovative product offering. So last, I think we have launched that in May. So I just wanted to understand its response to the last eight to nine months? Yes, thank you.

Amit Palta:

Yes, see constant maturity fund was launched at a time when MF indexation benefit on debt funds was taken away. So we looked at that as an opportunity to introduce debt as an option within our unit linked portfolio. And from then on, we saw a take up from our affluent customer segments to pick it up specifically on constant maturity fund.

Since it was a quarter one when we launched it, which was a relatively muted quarter after a huge spike of business that happened in the month of March. So it was moderate to start with, but eventually now it is settled into one of our active funds that is continuing to mobilize reasonably well on a debt platform. So customers looking at debt as an option with a tax advantage on a unit linked platform continue to choose constant maturity fund. So that is how I would like to answer.

But at the same time, you will agree with me that small cap and mid cap led rally on equity did take away the focus from debt back to equity towards the second quarter and the third quarter. So hence, what looked most relevant in the month of May and June, when debt indexation benefit for affluent customers was taken away, our constant maturity became the most obvious choice as the best relative advantages product on tax efficiency. Eventually it got replaced with the buoyancy that we witnessed in equity products.

Dhiren Salian:

So Mohit, on your first question in terms of agents, yes, we've added nearly 30,000 agents. But the way we look at our agent forces that it doesn't really cost us to keep them on books. So the way we look at our reduction in agent numbers, is that we take a slightly longer view in terms of their production.

So it's only after a longer period of time when they've not produced, do we look at taking them off the rolls. So to that extent, our philosophy on agent numbers are slightly different from that of the rest of industry. But clearly, I think what you should look at rather than agent numbers and then try and do an agent productivity, the absolute number that we're generating and the growth that you're seeing out of the agency channel is we think more relevant.

So to that extent, you see that in the last quarter, we've got strong growth on the agency business and that's starting to pick up now.

Mohit:

Right, thank you. So just one question, have we done any repricing in the retail protection? I mean, if you can just quickly answer that.

Dhiren Salian:

So there is some element of repricing that happens at all points in time depending upon segments. We obviously use a large degree of analytics to figure out what are the segments that we could offer differential pricing and differential underwriting processes on. And so that's a continuous process. So you could see some tweaks across customer segments, even retail protection.

Mohit:

All right, thanks and wish you all the best.

Dhiren Salian:

Thank you.

Moderator:

Thank you. The next question is from the line of Yash Jain from CNBC. Please go ahead.

Yash Jain:

Hello, I just wanted to understand two things. I needed clarity on if I have to look at what is the ICICI Bank contribution to your APE in this quarter, how does that compare to last year's same quarter? And the share of unit linked out of your APE, where does it stand this quarter and last quarter?

Second thing, if you could give us some guidance in terms of, of course, you've spoken about APE in the fourth quarter and the aspiration to work towards mid-teens APE in FY'25. But in terms of margins, do we see further issues from the current point as well, considering there is that overhang of higher surrender value? What kind of margins do you expect in VNB that you expect as far as FY'25 is concerned?

Dhiren Salian:

Hi Yash, this is Dhiren. So the share of ICICI Bank within the quarter, like we said, is roughly about 13% odd. That's broadly been the case for the past few quarters as well. With respect to your question in terms of where the surrender value regulations are, they're still in a draft stage. So a little difficult to figure out when they would come in. I think the industry representation is still on. So the final one has not been notified yet.

Yash Jain:

Okay. And are the margins, I mean, at the current levels, if it translates in the way it's been proposed in the draft, do we see further impact on the margins and what could be the quantum? I mean, just taking the example of, if they actually come into force the way they've been proposed.

Dhiren Salian:

So I think the industry will anyway react. It's not going to be a status quo situation. You've seen the example that we have done with our own product suite. One of the products that we have recently launched, which is GPP Flexi with the new variant. The way that we've handled that is to look at it from a trail-based perspective where the commissions are far more back-ended. We're seeking to keep margins broadly constant between this variant and the variant that we had launched earlier.

So there are going to be ways and means the industry will react. In any case, our exposure is quite limited to that extent because a larger portion will be felt on the non-linked side. But we'll have to wait to see how this evolves.

Yash Jain:

And any guidance on the VNB that you grow that you expect for FY'25?

Dhiren Salian:

No, there isn't a VNB guidance at this point. Our core objective is to be able to grow APE sustainably across each of the quarters. The product mix may evolve depending upon what customers choose. There are no hard and fast guidelines as to the share of business that we want from each line of business.

The only thing that we expect is protection and annuity to be growing faster than the savings business. But within the savings business, we allow the customer to choose the product that they'd like. So there is no VNB guidance on that front. Fundamentally, what we're seeking to do is to make sure that we grow sustainably across channels quarter-to-quarter.

Yash Jain:

Okay, thank you so much.

Dhiren Salian:

Thanks Yash.

Moderator:

Thank you. The next question is from the line of Dipanjan Ghosh from Citigroup. Please go ahead.

Dipanjan Ghosh:

Hi, good morning, sir. Two questions. First, you mentioned that your high-ticket business from unit linked and par have more than compensated for the other segments. I just wanted to get some colour of let's say if I just take the non-par category, what will be the growth in the low-ticket? Less than ₹ 5 lakh, be it for third quarter specifically or nine months.

And on similar lines on the margin side, you mentioned that last year you had a par and non-par mix of around 1:2 on the non-linked side. And this time around par is more than maybe 50% for a nine-month basis. But wouldn't it be fair to assume that the ratio is more disproportionately skewed towards par maybe for the third quarter, which has led to the higher margin compression that we've seen?

And lastly, coming back to the point on competitiveness on margins in the non-par category, are you not structurally, let's say from a medium-term perspective, if rates were to go down or because of the surrender charge circular, let's say there is some categories where maybe the product becomes less relevant. Do you think that there is further headroom in terms of compression in margins for this product category, for the overall industry and for ICICI Prudential Life also?

Dhiren Salian:

So looking at the inter-se mix between par and non-par, last year it was roughly 1:2. This year it is about 50-50, but it tilts more towards the participating than the non-participating. It's not true that it has grown disproportionately in the current quarter. You've seen the shift of overall margins also come through in quarter one and quarter two, which also reflects the lower margin that you see on the non-par business.
What we have done significantly in quarter three now is actually to reflect the higher unit cost based on the expense ratio that we see at this point. That's the only difference between H1 and nine months. What is your second question?

Dipanjan Ghosh:

The other question was on the low tickets and non-par, how the growth trends have been on that?

Dhiren Salian:

The way we're looking at the more than ₹5 lakh category, I think we have really not lost any steam on that. If I put the entire ₹ 5 lakh category customer, which is an affluent customer, I think putting all our lines of business together, we've actually grown. So we've not lost that opportunity at all. In fact, that growth on that segment of business actually is in line with our company RWRP growth for the quarter.

Dipanjan Ghosh:

I was asking more from the less than ₹5 lakh ticket size on the non-par category, how growth trends have been on that part of the business?

Dhiren Salian:

Yes, that has declined, but that is lower than the decline that you see in the more than ₹5 lakh category for the non-linked business. Coming to your third question, in terms of where the margins would be for non-par going forward, if yields were to decline, if the industry does not reprice, then of course there will be impact on the margins in that segment.

Dipanjan Ghosh:

Thank you and all the best.

Dhiren Salian:

Thank you.

Moderator:

Thank you. The next question is from the line of Aagam, from Flute Aura. Please go ahead.

Aagam:

Yes, I just had one question, sir. What is the embedded value as of December?

Dhiren Salian:

We bring out our embedded value twice a year, so we had that at September and we'll bring that out at the end of the year as well.

Aagam:

Okay, okay. That's it for my side. Thank you.

Moderator:

Thank you. The next question is from the line of Neeraj Toshniwal from UBS India. Please go ahead.

Neeraj Toshniwal:

Hi. So just wanted to understand the non-linearity between the APE and VNB growth earlier. Obviously, when we had a lower APE, we were still growing on the VNB. Now, given the mix is changing and obviously having cost pressures, there have been significant impact on margins. But how do you see this going forward? Would we be able to grow in linear terms in APE? Or do you think that again, there could be some impact going forward?

Dhiren Salian:

Hi, Neeraj. So you're right. Over the past few years, we've seen the VNB margins improve fundamentally based on the product mix. At this point, you're seeing that the product mix is adverse to margins and that is how it is played out. Of course, as you look at nine months, there has not been too much of an APE growth, but the expense is being higher. The higher unit costs have been reflected at nine months. How do we see this going forward? Again, we have no margin guidance. Fundamentally, we want to make sure that we grow sustainably on the APE front quarter after quarter.

And very clearly, the idea is to be able to offer all products to customers and let them choose what suits them best. We work with our distribution channels to identify those customer segments, make sure that we have the right product market fit within those particular pools. And ensure that we work with our distribution teams to be able to deliver on growth.

Neeraj Toshniwal:

And is there any cost difference substantial between the channels? Where are we building the cost is going to be higher? So that is working adversely for us?

Dhiren Salian:

No, overall costs have gone up. I think they're not kept pace with the overall APE growth. That is fairly visible. And that is what is being reflected in the unit cost.

Neeraj Toshniwal:

So, no particular channel to kind of attribute to?

Dhiren Salian:

No, no specific channel to attribute to.

Neeraj Toshniwal:

And sorry to ask the same question on the APE. During nine months, we had a very favourable base. Last year we did very flattish APE. Now we have a higher base. So we are guiding on a double digit APE for Q4. As of next year onwards, probably the base would be normalized. But what does - I mean, Jan-Feb could be a little bit about March. I think we'll not call out for the one-off impact of the budget. So adjusted for that or without adjustment, how do we see double digit to kind of being delivered? It's still a little confusing at this point?

Dhiren Salian:

So, a couple of things. One is the base that the run rate that we're looking at seems quite favourable to us at this point. So we want to carry through that run rate as we exit the quarter into the Jan-Feb period, where the Jan-Feb period has been far more benign. Of course, March is quite large, but we hope to be able to cover everything up by the time we get to March period.

Neeraj Toshniwal:

Any road map to that?

Moderator:

Mr. Toshniwal I would request you to kindly rejoin sir for follow up question, please.

Neeraj Toshniwal:

No problem. Thank you.

Moderator:

Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala:

Yes, thank you. Just one data point. Can you tell us, say, in Q3, what would be the commission that would be paying on first year premiums in the non-linked products? My back of the envelope calculation suggests it could be as high as 70%-80%?

Dhiren Salian:

Not necessarily.

Rishi Jhunjhunwala:

Any range, sir? I mean, where would that be?

Dhiren Salian:

We have not brought out those numbers, but I don't think it's that high.

Rishi Jhunjhunwala:

Okay. Thank you.

Moderator:

Thank you. The next question is from the line of Ashwani Kumar Agarwalla from Edelweiss Mutual Fund. Please go ahead.

Ashwani Kumar Agarwalla:

Morning, sir. It's very good to know that we are very much customer-centric and we offer products. But as shareholders, we also like to know the profitability that which we can achieve. So going forward in the Q4, do we expect margins to improve from here onwards? Or the VNB growth should follow the APE growth or it should be lower than that?

Dhiren Salian:

So, Ashwani, thanks for the question. I think we're very clear that we want to drive on VNB growth, which is on the back of APE growth. The product mix will decide what the final margin ends up. But I think what we're clearly working towards is to be able to deliver on both of these parameters.

Ashwani Kumar Agarwalla:

Because a 500 basis points margin, Q-o-Q 500 basis points margin decline is much on the higher side. Life insurance is known as a steady business where things really don't move materially. So a 500 basis points dent in the margin is like never seen in the last 10 years of life insurance ever since they have been listed. That's why there is more anxiety in the markets about how the margins can go down so much and what's the way forward. And how do we see the ROEV going forward? And what are the challenges that you see in maintaining the current margins, if at all?

Dhiren Salian:

So I think we've been able to reflect our expectation of unit cost into nine months. That's why you've seen this drop across from H1 till this period, which is roughly about 2% plus. Very clearly, what we're wanting to do is to drive growth into quarter four in terms of APE. That should also reflect into what we are able to achieve on the VNB front as well. Our final numbers, of course, will depend upon where the product mix finally evolves at. But clearly, trying to build consistent growth and followed up by consistent growth in VNB is what we are seeking to deliver.

Ashwani Kumar Agarwalla:

Okay, and for FY'25, do we expect some kind of a growth in APE post the changes in the surrender value? Is there any absolute target or it all depends upon the surrender value paper?

Amit Palta:

Surrender value, again, let me just clarify, Amit this side, our exposure to products which will attract surrender value is relatively much lower. And we do believe that while the regulations are yet to be seen in totality, however, we do believe that the impact of the same will be relatively higher on non-participating guaranteed products, which actually at current levels is close to around 11% to 12% of our business.

So from that perspective, impact should be lower. But we'll see how we can still structure, manage the margins through a differentiated commission structures. But right now, I will reserve my comments and wait for the final regulations to be out.

Ashwani Kumar Agarwalla:

So my final question, how much of our profit is contributed by the surrender value from the customers?

Dhiren Salian:

I think these are all baked into the product margins itself.

Ashwani Kumar Agarwalla:

Okay. Thanks a lot. That's it from my side.

Moderator:

Thank you. The next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh:

Yes, hi. Thanks for the opportunity for follow-up. Quickly, I mean, we know that it's uncertain the timing and the final form of this surrender regulation by IRDAI. The key idea, I know the way I will read, basically, regulator consistently pushing to improve or enhance policyholder value proposition or benefits in its ambit. Of course, I mean, if you look at the three stakeholders, basically policyholder, shareholder, and your opex part, that's the distributor and employees.

Now, the IRDA regulator is focusing more on the policyholder side. Shareholder returns so far have not been that great. They were coming great, but again, one or the other problem comes. However, if you look at the distribution side of cost, it is still very, very sticky. I mean, whichever form, so I mean, your regulation changes, the line item changes, but the kind of growth the sector has seen, that distribution still remains considering it's a financial product. It still remains very, very sticky over the last five years, 10 years.

So now going forward, particularly if we are still as a company growing on the higher opex and this distribution cost, any kind of a change in future the regulation comes, probably that will again go into, impact shareholder returns. So I mean, how do you see this distribution cost emerging over the years? Because there has not been material change, barring unit linked. Of course, unit linked has seen a dramatic change, but on the non-linked side of it, the overall opex, including the payouts, has not changed.

And the regulator will consistently try to squeeze out more and more to improve policyholder benefits. In that context, how do you see this evolving, I mean, the margins of the shareholder returns?

Dhiren Salian:

So, Avinash, while we're not very certain when the regulations would come out and in what form, because they're still under discussion in the draft stage. One thing is clear that if there is no action, then it flows through in terms of profitability. But I think this entire difference would have to be borne by all stakeholders. One way to ease this whole thing out is to work with the trail-based commission format, where the higher upfront is actually spread across the multiple years, which allows the company to also offer a higher surrender value to customers if they needed to exit in the early periods.

So that is one way this can work out. There are, of course, other formats in which this can play out, but I think they're still under discussion. So we're not very certain how they will all pan out. But I don't think that the industry and the distribution will be stagnant on this. There is clearly value that each of these products provide to customers and they meet specific goals that customers have, which no other financial products can offer. So there may be, of course, a small speed bump at various points, depending upon how it finally comes through. But I think we've seen market after market, industry after industry adjust to the new reality.

And as long as there is customer demand and you're able to make your proposition available to the customer in an easy-to-consume fashion, demand will flow through. So we are quite enthused and think that if this does come through, then we know there are certain ways in which this can get managed. We have taken one step in this new product variant that we have launched. There could be other formats of taking this to market as well, but we'll let that evolve as it goes by.

Avinash Singh:

But don't you think this trail based commission will have some impact on the new business growth again? Because, I mean, recycling or churn of the customer or the policy is also part of your new business, I mean, industry's new business growth. So if the commission goes trail based, lower incentive for the distributor to sort of sell new product rather than focusing more. So don't you think that will again have some kind of second-order impact, negative impact on new business growth?

Dhiren Salian:

But if you look at it from the customer's perspective, any reservations that they would have had to the product in the current form where the surrender values aren't that high, that entire reservation goes away. And therefore, this product becomes far more attractive when you are saving for the longer term. That may itself propel demand.

Avinash Singh:

Okay, thanks.

Moderator:

Thank you. The next question is from the line of Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha:

Thank you for the follow-up. Dhiren you said that we have revised our unit economics in nine months, but when we baked in that unit economics, probably you would have factored in 10% growth in the fourth quarter. And that's why the unit economics have been baked in. So due to some reason, if that 10% growth doesn't happen in fourth quarter, then unit cost, what you will allocate to the policies will increase. And then there could be a possibility of the margin compression. Is my understanding right?

Dhiren Salian:

Yes, Sanketh.

Sanketh Godha:

Okay. And lastly, on this point, with respect to the non-ICICI bank channel growth, the growth still seems to be a little lower, relatively at 11% for the third quarter. And also I wanted to understand, do you see a material risk from IndusInd Bank? Because as you are it's a common news that Hinduja Brothers have bid for Reliance Capital, and probably it will become more open architecture than it is today. Then if third player comes in IndusInd Bank, do you see a risk with respect to some growth in that particular channel?

Dhiren Salian:

So, Sanketh, I think the ex-of-ICICI bank, that business has actually grown at 11%, which is higher than what the market delivered in quarter three.

Sanketh Godha:

Yes. But --

Dhiren Salian:

There's an alpha we've got over that. Was it what we would have wanted? We would have wanted much more, no doubt about it.

Amit Palta:

Yes, so, specific to banks, other than ICICI and Standard Chartered, actually in quarter three grew by almost 22% for us in quarter three. So to that extent, it is quite robust. And I just wanted to clarify, when you look at specific distribution partners, ICICI Bank still is the largest distributor for us at 13%-14% share. There is no other distribution partner which has crossed 5%.

So to that extent, any volatility because of one partner will not impact our top line or bottom line. So from that perspective, we are quite isolated from anything happening on one front. As long as what is happening at IndusInd Bank, it's very difficult to comment because we've not heard from them on any change in their direction on strategy. We'll cross the bridge when we come to it. Anyways in an intermediated business, partners priority always take precedence and there are enough examples of that.

And our job as a manufacturer is to keep manufacturing, keep supporting, keep enabling our partners through our partner stack and help them grow and increase their revenue pie. So we'll have new partners, we'll make existing partners more productive. If somebody has a strategic compulsion to move away and do something different, be it. We have seen it, we have witnessed it over a period of time and we'll cross the bridge when we come to it.

Dhiren Salian:
And frankly, Sanketh, that's the whole advantage of running a very diversified distribution. We are not swung by the vagaries of one particular distribution channel. And the ability for us to be able to work with each distribution partner gives us the flexibility to run with our strategies.

Sanketh Godha:

Perfect. Then last one, in individual protection, essentially on sequential basis, there is a bit of slowdown. We did ₹ 128 crores in second quarter, we did closer to ₹ 105 crores in the current quarter. So is it fair, because now you will have a decently big base in fourth quarter FY2023. So the kind of growth we delivered in H1 or nine months, can we say that it will incrementally tone down relatively because the base effect will kick in?

Amit Palta:

Yes, actually you're right, Sanketh, because if you remember last year, last quarter is where there was a turn of growth on retail protection. That was a quarter where we had grown at 27%-28% for us. So to that extent, the growth numbers will get moderated. In fact, this entire turnaround started to happen from November, December onwards. So you're right, the very exponentially high numbers that you saw in quarter one and quarter two, now those numbers will not reflect in quarter four.

However, a few months here and there, you will know that this business is very, very active business. Number of participants in protection has increased, competitiveness has increased. So one off month here and there, you will see, one of the insurers taking a lead over others, but this is all momentary. The situation, the position keep changing every month. But answering your question, growth numbers will definitely be more normal from quarter four onwards and not in line with what we saw in quarter one and quarter two.

Sanketh Godha:

Perfect, perfect. Amit, thanks for the answers.

Moderator:

Thank you. The next question is from the line of Shobhit Sharma from HDFC Securities Limited. Please go ahead.

Shobhit Sharma:

Yes, so I had a few questions. You mentioned, sir, that we will be able to grow in double digit in Q4 and years to come. So my take is, are we going to suffer onto the product mix side? Are we comfortable going beyond 50% onto the unit linked side?

Dhiren Salian:

So Shobhit, there are no hard limits on any of our product lines. We let the product mix evolve to what the customer chooses. However, we're also very cognizant that we cannot let one product line dictate the entire mix. We've seen those issues in the past, and we want to continue to maintain a diversified product mix as well as a distribution mix.

Shobhit Sharma:

Okay, so thanks. Another question is, sir, you mentioned that we have seen that business has shifted from non-par to par or to the unit linked side. So will we be able to continue to see that going forward as well?

Dhiren Salian:

That would depend upon, as you look across the coming years, that would depend upon where the final IRRs for customers are in relation to other financial products as well and the general market environment from a debt perspective.

Shobhit Sharma:

Okay.

Amit Palta:

See, our entire approach, our entire approach on managing products is by identifying the right pool of customers who may find those product categories relevant. So it's not about making a choice on a product and then going and pushing that product to whichever customer segment that our distribution is interfacing. I think the advantage of diversified distribution is that you have access to varied profiles of the customers. And we drive our product mix by reaching out to the customer profiles where the respective products are more meaningful.

That's going to be our approach. And the product mix is the outcome of the conversions that we achieve by reaching out to those profiles and see the take up on the relevant products, which are more appropriate.

Shobhit Sharma:

Okay, thanks. And the last one is that, we've had -- you said that we have witnessed a growth in a greater than ₹ 5 lakhs ticket size on the overall book. Is this because that the ₹ 5 lakhs ticket size business of the non-par book has shifted towards unit linked or is this something different?

Amit Palta:

Yes, same thing. Non-par we have seen migrating towards participating and unit linked products. See general optimism around markets gives way to unit linked business and potentially high return product in comparison to guaranteed is participating product. So in a general optimism scenario, you will actually see unit linked product followed by participating product picking up steam. So that is what migration has happened.

Within affluent segment, you know that relative to other products available in investment space, it is still most tax efficient. And that is what is bringing back more than five lakh growth from quarter two onwards. That's what we have witnessed.

Shobhit Sharma:

Okay, thank you.

Moderator:

Thank you. The next question is from the line of Madhukar Ladha from Nuvama Wealth. Please go ahead.

Madhukar Ladha:

Hi, thank you for the follow up. So my question is that sort of product level margins have come off and you've said that commissions were redesigned across channels. Now, I want to know whether when did this happen? Because, if it happens sometime mid-year, then we'll see a further impact on margins going in

Q4 and then all the way in FY'25 as well or has it been so right from the beginning of Q1? So, that's one.

Dhiren Salian:

Yes, so to answer that Madhukar, commissions have started taking shape for in the new guidelines and the new regulations all through the start of the year. As we mentioned earlier, this is going to be a bit of a flux as we try and figure out what the right levels would be. Going forward as we get into the next financial year, we believe them to be far more stable.

Madhukar Ladha:

Understood. And what would be the impact on sort of gross VNB margins due to increased commissions?

Dhiren Salian:

We don't call that out separately. It's all reflected in the cost ratio, which is what you're reflected at nine months.

Madhukar Ladha:

Got it. Okay, thank you.

Moderator:

Thank you. The next question is from the line of Supratim Datta from Ambit Capital. Please go ahead.

Supratim Datta:

Thanks a lot for giving the opportunity for a follow-up question. Again, on the fourth quarter guidance of 10% growth, assuming that March declined by around 10%, that means that you have to grow by around 30%-35% in Jan and Feb to hit that target of 10% on the APE base of 33 billion last year. So, what gives you that confidence that again, 30%-35% is not a small number? How do you plan to hit that in Jan and Feb? Is there a new product launch that you are planning or is there something that's in the pipeline that gives you that confidence?

Amit Palta:

So, Supratim, I mentioned it to other participants as well. It's going to be a combination of what we do on product, what we do on productivity, enhancement of the new capacity and what we are initiating as specific initiatives around channels. It's a combination of three. At this point in time, it's very difficult for me to divulge details about what drives how much of it, but broadly, this is going to be a combination of these three.

Supratim Datta:

Okay. Got it. Thank you.

Moderator:

Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Anup Bagchi:

Yes, thank you very much. And we will continue to balance three things, which is growth, profit and risk and prudence, as always. And keeping customer at the center and customer, I must, because there were a lot of questions on that. Customer centricity, I must again add, is not conflicted with any of the three, which is growth and profitability and our risk and prudence. Thank you very much. Thank you.

Moderator:

Thank you, members of the management. Ladies and gentlemen, on behalf of ICICI Prudential Life Insurance Company Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.
