ICICI Prudential Life Insurance Company
Earnings conference call
Quarter ended June 30, 2021 (Q1-FY2022)
July 20, 2021

N. S. Kannan:

Good evening and welcome to the results call of ICICI Prudential Life Insurance Company for the quarter ended June 30th of financial year 2022. I have several of my senior colleagues with me on the call. Satyan Jambunathan – CFO; Judhajit Das, who leads Human Resources, Customer Service and Operations; Amit Palta, who heads Distribution, Brand and Marketing and Products; Deepak Kinger, who is responsible for Audit, Legal, Risk and Compliance functions; Manish Kumar, who manages investment; Asha Murali, Appointed Actuary; Dhiren Salian, Deputy CFO of the company; and Mukesh Boobana from the Investor Relations team.

At the outset, the intensity of the second wave of COVID-19 infections has been quite sharp in the country. Our thoughts are with the families who are grappling with health issues, lost lives, as well as livelihood issues. While the country continues its battle to contain the spread, we saw significant recovery in the last few weeks. Also, the vaccination drive has started to gain momentum. We continue to follow COVID-19 safety protocols at our branches and 82% of our employees have got at least one dose of vaccination. For the safety of our customers, employees as well as distributors, we continue to promote and adopt digital means for policy sale, as well as servicing.

During the quarter, we saw significant increase in death claims on account of COVID-19, the impact of which we will talk through in the later part of our opening remarks. I would actually like to start by talking about a couple of developments during the quarter, before moving on to our performance. As you know, we had our 21st Annual General Meeting through video conference on 25th of June 2021. All the items included in the notice for members have been approved by the shareholders of the Company. The items included reappointment of three directors; Mr. Anup Bagchi, nominated by ICICI Bank; Mr. Wilfred John Blackburn, nominated by Prudential and Mr. Dilip Karnik, an Independent Director. Also, an amendment to the aggregate number of shares issuable pursuant to the exercise of options granted under the Company's Employee Stock Options Scheme was approved by the shareholders, which will further enable alignment of senior employees' interests with that of the shareholders.

Moving on, during the quarter, we have released our financial year 2021 ESG report. You would recall that we made disclosures on our ESG practices a year ago, and we have now put in place several additional steps to address areas of improvement. We have also been interacting with stakeholders to understand their expectations in this regard. Accordingly, our ESG report for financial year 2021 incorporates various initiatives we have put in place towards responsible investing, diversity and inclusion policy, privacy policy and enhanced disclosure on human capital, environmental impact and ethical aspects. This report is available on our website; we will also be talking about this later in the presentation.

Moving on, we have always focused on developing innovative products that meet needs of our customers. I am happy to mention that our recently launched retirement planning product, ‘ICICI Pru Guaranteed Pension Plan’ has been voted the ‘Product of the Year 2021’ in a consumer survey conducted by Nielsen IQ. Product of the Year, as you may know, is the world's largest consumer voted award for product innovation in their respective categories. Our unit linked plan, ‘ICICI Pru Signature’ has been awarded the best unit linked plan for the financial year 2021 by Business Today - Money Today Financial Services Award.

Considering the pandemic enrolment and the needs of our customers for Corona specific insurance coverage, we launched two riders - Corona Protect and Corona Protect Plus, during the quarter.

I will now move on to our performance for the quarter. Our 4P strategic element, i.e. Premium growth, Protection business growth, Persistency improvement, and Productivity improvement, continue to guide us towards our objective of growing the absolute value of new business, while ensuring that our customer is at the core of everything we do. I will talk you through our performance on the 4P's through slides 5 to 10 of our presentation, and then conclude with a commentary on the Value of New Business (VNB).

Let me start with the first P of our strategic element, which is Premium growth. Continuing the growth momentum of the previous quarter, our annualized premium equivalent (APE), grew by 48% to ₹ 12.19 billion in the Q1-FY2022. Based on the total new business premium, the growth was actually higher at 71% for the quarter to ₹ 25.59 billion. Our market share based on retail weighted received premium increased to 7.7% for Q1-FY2022, from 6.2% in Q1-FY2021. We continue to maintain a very well diversified product mix, with the contribution from linked savings products at 44%, non-linked savings at 29%, protection at 22%, and the balance 5% coming from group savings products. Through our focus on acquisition of new partners and investment in creation of new sourcing channels, we continue to diversify our distribution mix as well. In our Q1-FY2022 APE as can be seen on Slide 6, bancassurance channel share was 39%, agency share was 23%, direct business share was 13%, the share of other partnerships was 8%, and the balance was contributed by the group business.

Moving on to the second P of Protection business growth in slide 7. As you know, protection products are available in retail, group term as well as credit life platforms. Given the continued pandemic environment, supply side constraints, including revised underwriting guidelines, and general reluctance to visit medical centres, continued to impact the retail protection business. On the other hand, we saw an increased demand in the group term segment. Credit life business has also returned to pre-COVID levels. We continue to take a risk calibrated approach and our underwriting practices are commensurate with the prices offered. As a result, our protection APE actually grew by 26% to ₹ 2.7 billion in Q1-FY2022. I would like to highlight that based on the total new business sum assured, our market share has increased to 14.7% for Q1-FY2022 from 12.5% in FY2021. With this, we have not only increased our market share lead within the private sector, but we have achieved overall market leadership as well. Our efforts in encouraging customers to complement their life insurance coverage with critical illness cover have also contributed to the increase in sum assured.

On the third P of Persistency presented in slide 8, we saw improvements in the 13th month and 49th month persistency ratio. Our 13th month persistency ratio for retail business, excluding single premium, has increased by 60 basis points to 85.4% at the end of June 2021, as compared to March 2021. Similarly, our 49th month persistency ratio has further improved to 63.1% at the end of June 2021.

On the fourth P of Productivity, which is reflected in cost ratios, is presented in slide 9. Our cost to TWRP ratio was higher at 20.1% for Q1-FY2022. For the savings business, the ratio was at 11.9%. While the absolute expenses are higher as compared to the same period last year, the cost increase is in line with the new business growth. That has also been mentioned on slide 9. Our cost ratios continue to be one of the best in the industry, and we leverage technology to improve our efficiencies further. Satyan will be talking about our technology initiatives during the quarter later in the presentation.

Alongside our 4P strategy framework, we continue to maintain a resilient Balance Sheet.

On mortality risk, death claims arising out of COVID-19 second wave was significantly higher than trends seen in the beginning of the quarter. As a country, in a very short span of time, we have lot more lives in the second wave as compared to the first one. Also, compared to the first wave, the impact of the second wave has seemed to be more pronounced in the age group below 45 years. Given that our book has a higher proportion of customers from this age group, the resultant claims are naturally higher. Our focus, as would be expected from a large responsible life insurer, has been on helping the families of our customers in their hour of need by paying genuine claims on time. From a financial perspective, we are focused on resilience of the Balance Sheet, including making additional COVID-19 provision. Our solvency ratio was 194% at June 2021, as compared to the required ratio of 150%. For Q1-FY2022, the gross claims on account of COVID-19 stood at ₹ 11.19 billion, and net of reinsurance, the claim amount was ₹ 5 billion as presented in slide 10. The net claim amount includes settled as well as all notified, and in-process claim. I just wanted to clarify that the net claim amount not only includes settled claims, this includes notified as well as in-process claims. Further, at June 2021, we hold reserves of ₹ 4.98 billion towards COVID-19 claims. Our approach to claim provision, just to summarize, and the reserving there of is three fold:

1) Recognize all notified claims at our touch points as our financial liability and not just the settled claims
2) Provide for IBNR, which is for claims against deaths which may have happened in the country, but which have not been notified at our touch points
3) Provide for future possible mortality claim on account of COVID-19 in excess of normal mortality expectations, and take the possible future impact upfront.

This is the approach we have used in creating these provisions and reserving.

While the above development had an adverse effect on profit for the quarter, we would highlight that our mortality experience, excluding COVID-19 claims, continues to be in line with our liability provision. Satyan will talk about this in more detail.

On credit risk, only 0.4% of our fixed income portfolio is invested in bonds rated below AA, and we continue to maintain a track record of not having a single NPA since inception. Of our total liabilities, non-par guaranteed return products comprise only about 1%. We continue to closely monitor our liquidity and ALM position, and we have no issues to report to you.

Now coming to VNB, as a result of the above drivers, the value of new business for Q1-FY2022 was ₹ 3.58 billion, a significant growth of 78% during the corresponding quarter last year. Given our APE of ₹ 12.19 billion, the resulting VNB margins was 29.4% for this quarter, as compared to 24.4% for the corresponding quarter last year. While this increase in VNB margin is primarily on account of shift in underlying product mix, we from our side continue to focus on absolute VNB growth, which is our stated objective. Before I hand over to Satyan to talk through some of the details, I would like to mention that we continue to maintain our objective of doubling FY2019 VNB by FY2023, which requires the compounded annual growth rate of 28% over the current and the next financial year. With a good start to this period, with a VNB growth of 78% for the first quarter, we believe we are on track to achieve this aspiration.

Thank you all for patiently listening to me. And I will now hand over the call to Satyan. Thank you.

Satyan Jambunathan: Thank you, Kannan.

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

The first element of Premium growth: We continue to leverage on our innovative and comprehensive suite of products, distribution strength, robust technology and strong risk management architecture. Coming to product performance on slide 15, we have registered a strong growth year-on-year across all product segments. For the quarter, our annuity business grew by 164%, non-linked savings grew by 66%, linked savings grew by 49%, and protection grew by 26% year-on-year. With this, our overall APE saw a strong growth of 48% year-on-year to ₹ 12.19 billion for Q1-FY2022. In terms of new business received premium for Q1-FY2022, annuity business contribution stood at 21%, significantly higher than the 13% in Q1-FY2021. With a premium amount of ₹ 5.59 billion in Q1-FY2022, we were one of the largest pension and annuity providers in the market. Our wholly owned subsidiary, ICICI Prudential Pension Fund Management Company Limited, distributes products under the National Pension System and is registered as a pension fund manager. This business is synergistic to our annuity offerings and is expected to support the growth of the annuity business in the future. The AUM managed by the PFM has increased by 65% over June 2020 to ₹ 83.69 billion at June 2021. The PFM has a market share of 15.8% in the private sector AUM at June 30, 2021.

Moving on to distribution, we have continued to enhance our distribution network across channels. In the agency channel, we have added more than 4,500 new agents. Within the bancassurance channel, we have a total of 23 bank partnerships. On partnership distribution, we added 24 partnerships during the quarter and have about 700 partnerships across traditional and non-traditional distributors such as web-aggregators, payment banks, small finance banks and insurance marketing firms. For the direct channel, the strategy has been that of up sell to our existing customers, aided by analytics.

Coming to performance of these distribution channels on slide 18, we saw strong growth across distribution channels. Our bancassurance channel APE grew by 45% year-on-year to ₹ 4.71 billion in Q1-FY2022. Within this, ICICI Bank continued with the growth momentum seen since March 2021, specifically the annuity business from ICICI Bank grew by more than 195% in Q1-FY2022. Our new bank partnerships continued to contribute to a significant share of bancassurance APE. Our agency channel APE grew by 35% year-on-year ₹ 2.74 billion. Direct and Partnership channels grew by 58% and 44% respectively, in Q1-FY2022 over the same period last year.

The second element of Protection growth on slide 20, with an APE of ₹ 2.7 billion, the protection segment saw a growth of 26% over Q1-FY2021. Our total new business sum assured stood at ₹ 1.77 trillion for Q1-FY2022, a growth of 89% year-on-year. We had the highest market share of 14.7% for the quarter, a significant improvement over 10.7% market shares in Q1-FY2021. As mentioned by Kannan earlier, while we continued to have supply side challenges in the retail protection segment, with increased demand in the group segment, group protection business has also become a key category for us.

The third element of Persistency on slide 22. We continue to have a strong focus on improving the quality of business and customer retention, which is reflected in the 13th and 49th month's persistency ratios. Our 13th months and 49th month persistency ratios improved to 85.4% and 63.1% respectively at June end. The persistency ratios of other cohorts have been range bound, and we expect them to improve as we progress through the year.

The fourth element of Productivity on slide 24, our overall cost to TWRP ratio stood higher at 20.1% for Q1-FY2022, as against the 14.8% for the same period last year. Similarly, our cost to TWRP ratio for the savings business stood higher at 11.9%. While the increase in absolute expenses is in line with the growth in new business, the increase in cost ratio as compared to the same period last year is on account of three factors:

1) If you recall at the beginning of the pandemic last year, we had significantly cut down on discretionary expenses, and deferred certain expenses to subsequent quarters, including annual increments to our frontline and junior employees
2) With business activities returning to normal, we have incurred higher spends on advertising and employee cost to support the business growth momentum
3) With a strong growth, share of new business premium within the total premium has increased. As you know, the acquisition cost of an insurance contract is significantly higher than the maintenance cost, and hence the overall cost ratio has increased.

I would like to reiterate that our cost ratios continue to be one of the best in the industry, and we continue to leverage technology to improve. Some of the key technology initiatives during the quarter include,

1) Intelligent and cognitive tools deployed for end-to-end process automation, rather than an activity-based approach. This is aimed at helping us reduce turnaround time, eliminate multi-team dependency and handoffs, and provide robust risk management controls
2) As part of the pre-sales suite of tools, we launched a platform to empower both employees and partners to self-generate and nurture leads. This platform can be further extended to provide an optimized on-boarding journey with a pre-approved sum assured offers

3) Towards customer convenience, we are the first life insurance company to offer UPI auto-pay facility, which allows for instant registration of recurring e-mandates that should further help improve persistency.

The outcome of our focus on these 4P's, as you may see on slide 26, has resulted in the VNB of ₹ 3.58 billion for Q1-FY2022, a growth of 78% over Q1-FY2021. Given our APE of ₹ 12.19 billion, the resultant VNB margin was 29.4% for Q1-FY2022 as compared to 24.4% in Q1-FY2021. While this increase in VNB is primarily on account of the shift in underlying product mix, we continue to focus on absolute VNB growth, which is a stated objective. As product mix evolves over the rest of the year, the VNB margin is expected to move in line with the underlying product mix.

Coming to the financial metrics, firstly to spend some time on COVID-19 claims. As you can see from the chart on slide 28, since mid-March 2021 we saw a fresh surge; let us call it the second wave of COVID-19 infections. In a short span of about three and half months till June 30, 2021, we have seen higher infections and deaths as compared to the full financial year 2021. As you may know, the impact of the second wave was seen to be more pronounced in the younger age groups. This has resulted in a proportion of claims to overall country deaths increasing by about 27% over FY2021. Also, with younger customers and the underlying product segments, our average claim amount has increased to 137% of what it was in FY2021. As a result, our COVID-19 claims net of reinsurance stood at ₹ 5 billion for Q1-FY2022, which is about 2.5x of the FY2021 claims of ₹ 1.98 billion. Every claim that has been notified at any of our touch points is accounted for in this number, even as they are being processed further. We have also used preliminary information in the intimation of claims to classify them as COVID or otherwise.

Further, at June 2021, we hold reserves of ₹ 4.98 billion towards potential COVID-19 claims. These include provisions for claims that have been incurred but not reported, as well as new claims over the balance nine months of the financial year.

With the provision of ₹ 4.98 billion, and the net claims of ₹ 5 billion for Q1-FY2022, unless COVID-19 claims in this year exceed ₹ 10 billion, that is 5x the net claim amount in FY2021, we would not expect any further negative impact. Against this, as we have said earlier, the actual claims so far have been 2.5x in Q1-FY2022.

As a reiteration, claim and provisions on our books at June 30, 2021, include the following:

1. All claims notified at our touch points for COVID-19 or otherwise. This corresponds to a gross death claim amount of approximately ₹ 20.4 billion for Q1, compared to ₹ 7.36 billion in Q4-FY2021. This can be seen in our financials in the benefits paid schedule, which is Schedule 4 of the revenue account. This amount includes settled claims, acknowledged claims where all necessary documents are received from claimants, as well as notified claims where we have only received preliminary intimation, supported by preliminary documents such as claims intimation form, and/or death certificate. This is recorded as a financial liability.
2. A provision for expected claims in the future on account of COVID of about ₹ 4.98 billion, which includes two components. First, provision for incurred but not reported claims (IBNR), specifically for deaths due to COVID that have not been notified at our

touch points. And second, a provision for expected future claims where deaths have not yet happened by June 30, but could happen in future time periods. This is an actuarial liability

3. Beyond COVID claims, a further provision of ₹ 3.84 billion has been made for IBNR on non-COVID claims that are yet to be intimated at our touch points; this is also an actuarial liability

As you can see on slide 30, we are starting to see a decline in the daily average number of deaths in the country. Specifically for the month of July till date, the daily average number of deaths are even lower than the peak of the first wave. This is also reflected in the slowdown in the intimations on our portfolio that we are seeing during the month of July. With the vaccination drive starting to gain momentum, we expect to see a further recovery in the coming months. As a result of the COVID-19 claims and provisions, we incurred a loss for the quarter of ₹ 1.86 billion, as compared to a profit of ₹ 2.88 billion for Q1-FY2021. As I mentioned earlier, unless COVID claims in this year exceed ₹ 10 billion, which is 5x the net claims of 2021, we would not expect any further negative impact. Our Solvency ratio continues to be strong at 194% at June 2021.

Before I conclude, I would like to give a brief update on our ESG initiatives for FY2021. Given the nature of our business, we have focused on ESG themes of human capital, responsible investing, governance and business ethics, data privacy and security, access to finance, environment, and CSR.

As you can see on slide 34, given the pandemic, we undertook several initiatives to support the physical as well as psychological well-being of our employees. With the help of our structured learning and development framework, about 1 million digital learning hours were completed across employee roles and levels. We promote an inclusive culture and have instituted a diversity and inclusion policy to encourage diversity and promote a safe, secure and supportive work environment.

Moving on to slide 35, we have incorporated responsible investing in our investment processes by adhering to Stewardship, ESG integration, and exclusion criteria for certain industries. For Stewardship, we engage with an investee company on material matters and disclose our voting actions publicly. Recently, we have instituted a framework for ESG integration in our equity investments. We have also outlined a list of restricted industries such as coal and thermal power, which focus on climate change risk.

Another focus area for us has been governance and data privacy, slide 36. Our Board comprises majority of Independent Directors. The Board and all committees are chaired by Independent Directors. We have a policy on diversity of the Board of Directors, and criteria for appointment, as well as a framework for their evaluation. The compensation of Whole-time Directors is aligned to both financial and non-financial indicators of performance, including risk parameters. Our risk governance structure consists of the Board, the Board Risk Management Committee and various subcommittees. Apart from our privacy policy covering handling of data and related aspects, we undertake employee awareness programs. As a part of our business ethics and compliance framework, we have formulated various policies as mentioned in the slide.

Towards financial inclusion, we have specifically designed micro insurance products, targeting underserved customer segments. As a part of our CSR activities, we have supported COVID-19 relief measures, along with a voluntary contribution of ₹ 26.5 million by employees. In terms of reducing environmental impact, we saved about 2,700 tonnes of carbon footprint during financial year 2021.

With this I conclude our ESG approach and initiatives. We believe ESG integration is an ongoing and evolving process, and we are committed to progress on it. To summaries, we will monitor ourselves on the 4P framework of Premium growth, Protection business growth, Persistency improvement and Productivity improvement to improve expense ratios. Our performance on these dimensions is what we expect to feed into our VNB growth over time. Thank you. And we are now happy to take any questions that you may have.

Nidhesh Jain: Congratulations for a very strong set of numbers, especially in the VNB group. Sir, firstly on the bancassurance, can you split the growth that we have seen in this quarter? I want to understand how much growth we have seen from ICICI Bank and non-ICICI Bank.

N. S. Kannan: The ICICI Bank, out of that 39% what we have shown is about 28%. All the other banks constituted the balance 11%. That has been the break-up for the quarter.

Nidhesh Jain: ICICI Bank has also grown on a Y-o-Y basis?

N. S. Kannan: They have started growing and they have started stabilizing. And as Satyan mentioned during his opening remarks, especially the annuity segment of ICICI Bank has shown triple digit growth.

Nidhesh Jain: I understand that we do not focus on VNB margin, but our VNB margin has improved quite significantly. And still, we are having one of the highest share of ULIP, which is the lowest margin product, which means that probably the product level margin for us may be higher than the other peers. So, do you see further reduction in share of ULIP going forward, which may mean that VNB margins may improve even from these levels?

N. S. Kannan: Since February, we have seen decent momentum when it comes to ULIP. And particularly during this quarter when the markets stabilized, we are seeing the momentum back in ULIP. So, I guess that it will probably stabilize at around this level is what I feel as a proportion. But the growth prospects will be there, both in ULIP as well as non-ULIP is the feeling we get. But the way we look at it is that it is a great product from customer perspective and probably our yield reduction in terms of cost will be probably the best in the industry. Given that and the fact that we are one of the low cost income ratio companies, we are happy to get the scale economies work for ULIP profitability and continue to do that. So, I would say that ULIP proportion will continue to be around this level, and it will continue to grow. So, our approach is that keep all the products. If you look at about two years back and today, we have the entire set of products now, depending on the consumer preference. So, we would present everything, and whatever is taken at that particular quarter or a particular year, we are happy to sell. So, we are quite neutral, we are not pushing a particular segment ahead of the other.

Nidhesh Jain: On the group term business. The nature of the business as a B2B business, and I believe it to be very competitive, so in that business how are we able to generate reasonable profitability? What is your strategy that we have adopted, which is ensuring that we are able to generate reasonable profitability?

N. S. Kannan: I will ask Satyan to supplement, but primarily I want to answer it by saying that there is a lot of demand for this business now. Responsible employers, especially large employers are getting very anxious about the coverage which has been provided to their employees; be it the amount of coverage or the number of employees being covered; both sides there is a lot of demand which is coming through. And here, I would say, that people are more focused on getting the cover rather than haggling on the price that is a trend we are seeing currently. And we believe that it is a great opportunity, especially to sell it to the large employers. Because as you know, some of these large employers are vaccinating their own employees much more disproportionately compared to the country average. Example, I mentioned in my opening remarks, that in our own case 82% of our employees have got vaccinated at least once; I mean, first dose at least has been administered through various camps and tie-ups. If that is happening, it is a great opportunity for companies like us to sell to these employers a group term. And of course, it is a one-year product, which is renewable; you can always adjust the pricing depending on the reinsurance pricing. So, we do see it as a great opportunity. And so far, what we have done in this space has really been accretive to us from a VNB perspective. So, with these remarks, I would give it to Satyan to answer any other aspects of this group term business.

Satyan Jambunathan: Just one thing to add. We are still very selective about what schemes we pick up. We have lost schemes as well, and we have won many schemes as well. So, pricing to our expectation, is a clear expectation before we get into a scheme.

Suresh Ganapathy: I am very confused on this provisioning that you have done, so I just want to understand this a bit better. So, you made ₹ 3.3 billion of COVID reserves as of FY2021, which was taken through the embedded value for FY2021, right?

Satyan Jambunathan: Yes.

Suresh Ganapathy: And if suppose there was an EV walk, I know you do not give in quarterly EV walk, it would have meant that your EV would have gone down by another ₹ 4.98 billion because of the additional provision done over and above the ₹ 3.3 billion?

Satyan Jambunathan: So, let us break this up into two parts. I had a COVID provision of ₹ 3.3 billion at the end of last year, which has moved up to ₹ 5 billion by June. So, there would be an additional ₹ 1.7 billion on that account. Second, the actual claim expense in my books, which was net ₹ 5 billion in this period, is also in my books at this point of time. So, what has gone through my P&L, allowing for par and non-par bit of adjustment, is ₹ 5 billion worth of claims, plus ₹ 1.7 billion worth of increase in provisions is what has gone into my books through this quarter.

Suresh Ganapathy: Why this bifurcation? I do not think your competitors give this bifurcation.

Satyan Jambunathan: It is important and I will just use something to highlight this. I think the simplest thing to do is to look at the claim numbers in Schedule 4 of financial statements of various companies. You will find the patterns are a little different, which would suggest to me that different companies are using slightly different approaches of what they are calling a claim, and what are they calling a provision. I am noticing certain companies who are calling a part of intimated claims also as a provision. And that is the reason why I am clearly stating every element which is in the book.

Suresh Ganapathy: So, this ₹ 5 billion is what?

Satyan Jambunathan: ₹ 5 billion is every claim which has touched our touch points, whether processed or not processed, is sitting on my books. I can take this offline with you later, but I would just suggest this. Look at the Schedule 4 numbers of the top four companies through last year and through this quarter as they are emerging, the patterns will be obvious.

Suresh Ganapathy: We will look through that. The second part is, can you share what is the individual protection APE growth? You have given the total protection APE growth; I want the individual protection APE growth.

Satyan Jambunathan: It is a decline. We have not disclosed the number. It is like we have said in the past as well, our approach in this period is not about retail or group, it is really about saying wherever is an opportunity, and we take it. As long as the overall outcome on margins, and you will see this in the margins as well given the mix is consistent, it does not matter too much to us in the short-term period. I would much rather, like Kannan said, in this COVID related environment work with an organization which has an 80% vaccination rate compared to a population underwriting on retail protection, where I may have more concerns and questions with respect to health.

Suresh Ganapathy: Finally, on bancassurance thing, I mean, look, your ICICI is still 28% of the overall business, by far the largest distributor. I mean, I know this year is going to be a good year because of the base effect and everything, but when your largest distributor does not want to sell par and non-par as normal products, of course they are okay doing single premium, don't you think it is a structural disadvantage, Kannan and Satyan, over the longer term? I mean, at some point in time it is going to hurt you when 30% of your distribution says we will not do a certain kind of products.

N. S. Kannan: No, I do not think so. Why I say that is because it is not that they are selling single premium, they are selling regular premium ULIP that is the bread and butter of the business. Along with that, they are giving lot of thrust for annuity, which is not getting reflected too much in APE because annuity is a single premium ticket. And we have protection on retail side, as well as credit life, which has really comeback big time to pre-COVID levels. So, there is still about three, four streams which are there in ICICI Bank. And as you rightly said, the base has got set and from here they have been growing. And finally, they are more focused on the VNB delivery is what I feel from our perspective. Not from their perspective but from my perspective, they are adding to bottom line in terms of VNB. So, I have a feeling that, yes, this was a question which was relevant probably about a year, year and a half back. But now things have stabilized and in fact we have a lot of conversations around how to underwrite, what kind of PASA product or pre-approved sum assured product we should be rolling out, how to use their app platform to give pre-qualified offers to the customer. Engagement is of highest order, and I feel that the product mix morphing there is going to really be accretive to us on VNB which we are very happy to take. Incrementally, I do not see too much of risk what you are highlighting, which was probably an issue about a year back.

Suresh Ganapathy: Maybe one last question can I squeeze in? Now, again, a very conflicting signal from one of your larger peers, as they clearly say, I know you addressed this, but the fact that the group business is a very heavily competed business where margins are very fine, very difficult to make money and one group goes bad then your claims can go through the roof, right? So, we just want some qualitative aspects, Satyan or Kannan, because this looks intuitively that group is supposed to be a lower profitability business and a high-risk business or a heavily competed business, whereas the signal that you are giving is completely conflicting to our intuitions. So, can you give us a more qualitative feature? Thank you so much.

Satyan Jambunathan: I do not think one can generalize the character of group term profitability in a manner of speaking, because at the end of the day, the competitive dynamics are different across large groups, small groups, relationships where groups have a firm relationship with that organization. It is also a function of what is the level of price where you draw a line and say that thus far and no further. Also, very important is what is the kind of reinsurance support that I have and how far do I deviate from a reinsurance pricing. Last but not the least, it is also about how long I retain a customer. Because if I am looking at a group client on a one-year basis, you are right, profitability will be nothing to write home about. But if I can retain a group customer for an average of three to five years, suddenly it multiplies my profitability. And our approach to this has been a combination of all of this. And you will see this, and you have seen this in the numbers, you have seen in the last two years our group term business grow quite dramatically. FY2021 it grew at 100% over FY2020, Q1 of this year it has grown at 80% over the last year. But fundamentally when I look at my profitability outcome, it is not adversely affected in any fashion because of this. To that extent, clearly, I do not know about the others, I cannot speak for them. But I can say this for ourselves, we are as willing to walk away from a deal if we are not comfortable with the price, as we are to compete for it for groups that we are comfortable about.

N. S. Kannan: I would just add, Satyan, to what you said to answer Suresh's question. Yes, we have seen ourselves walking away from some deals, and there are lots of deals available in the market, we are not price sensitive also. I would just add two points, one, to answer your question about peers. At least the middle level players when I see Suresh, I am seeing a significant pickup on sum assured market share by some of those players. So, this may not be true for all the players, what you are saying, mid to large players I am seeing them picking up sum assured market share, and it cannot be out of retail protection, so it has to be largely driven by some other group businesses. And the second point I want to make is that, yes, you are handicapped by the fact that we do not give out the retail protection numbers every quarter. But if you really look at the product mix, and you know by rough sense of margin across the products, when you do the back of the envelope calculation you would see that we are broadly okay on the margins on the entire protection perspective. So, just wanted to assure you that we are not compromising on our margins in trying to get to this business.

Arav Sangai: Congrats on a great set of numbers. So, I had few questions, I will just go one by one. My first question is on the VNB margins. So, I know that you do not disclose a VNB trajectory, but qualitatively if I had to break it down, the whole margin improvement is it because of product mix or do we have some kind of persistency improvement also that we have factored in? Or since our expense ratios have gone up, any kind of negative assumption changes that we have also factored in, in the VNB margins? Just to get a sense of how the VNB margins would emerge throughout the year if the protection part of it normalizes.

Satyan Jambunathan: If we just use my last year's disclosed segmented margins, linked, non-linked savings, protection applied to product mix, you will roughly arrive at the margin that we have actually achieved for the quarter. There is no assumption change, we always use the current yield curve. There is no expectation of deterioration in cost ratios. Like I said, a cost to total weighted is also a function of new business and renewal premium, it is a kind of a composite metric. Unit cost that feed into expense assumptions for VNB have not been adversely impacted at all during the quarter, so it is consistent margin from last year, it is a mix effect which is dominating what has happened there, no change in assumptions.

Arav Sangai: Just to follow-up on this, I know again that this question has been asked that we do not look at the margins, but if I see the protection demand going up, like a share going up to almost 22% and the industry channel checks also which I had they suggest that ULIP demands are getting back, they are coming with a lag, but they are coming back. So, I know that we do not look at the margins, but if we have very high volatility in our product mixes, the margins are also getting very volatile. So, at the company level is there a broad range within which we are comfortable, or we are letting the margins go flow wherever it is, in order to ensure that we are satisfying the customer need, be it with any product?

N. S. Kannan: We will absolutely look at the demand, as I said earlier to a question, we will look at the consumer demand and we are happy to present all the products whichever sells is good from our perspective. And the second part I want to clarify is that we are not working for margin, we are working for growth in absolute VNB that is very clear. Both from our own internal targets as well as KPI perspective, the VNB growth is an important metric to track. And depending on the product mix, I would say that the margin is an outcome of the mix, rather than a goal. So, to that extent, we are happy to take any margin which comes. But our goal is to double the VNB of FY2019 by FY2023. From that perspective, we believe that we have had a good start and built some cushion in the first quarter itself in terms of that trajectory. So, if I were you, I will look at only the VNB growth as a single metric.

Arav Sangai: Sir, just last question from my end. Again, I know the group term insurance question has been answered, and you said that if we are able to maintain the relation for maybe say three or four years, then the profitability starts coming in. So, it is highly dependent on the persistency which we experience from this segment.

Satyan Jambunathan: That actually true not just for this business but for every product that we sell.

Arav Sangai: Sir, like whatever I have understood from industry checks is that, this demand, which is being very strong demand, this has been there this year. But what gives us the confidence that maybe after one or two years we will have the same level of demand and same level of persistency with corporates that we have engaged this year? I am just not too sure about the persistency of this business, so if you could clarify that.

Satyan Jambunathan: Most of the group term relationships that we have on our books have already been with us for a number of years. Our book at any point of time is a mix of old relationships which have got renewed, and new relationships that we are seeking to acquire. So, that is the mix that we manage. So, again, I cannot say definitively what will happen later on. But like the rest of our business, we have to manage persistency on this block as well.

Arav Sangai: Sir just one last question if we could squeeze in, one bookkeeping question. So, in other banca channels what might our market share be? Is it improving or are we able to maintain a stable market share compared to last year?

N. S. Kannan: We do not disclose. But what I would do is that I have the benefit of having our Chief Distribution Officer, Amit Palta, he can give you a colour of how we are doing in multi-partner banks which we have acquired recently.

Amit Palta: What we are trying to do is, as a primary philosophy behind our partnership distribution agenda that we are driving through our newly acquired partners, is about working towards increasing the overall pie. And increasing the overall pie is typically worked upon by looking at whitespaces, both in terms of geography as well as customer segments, to see how we can look at our ability of combining product solutions under a platform that we have created over a period of last few years, which we call it as iSolution, to create differentiation and help our bank partners to grow the overall pie. I think with that as a primary objective, what we have seen is that four new partners that we added in the last financial year, they have actually started growing on overall business. So, ever since we started doing bancassurance business with them, we have seen their overall pie improving. And our share as a consequence is now quite significant. And within a space of two to three months we have been able to become quite a significant contributor to the overall growth that these bancassurance partners are seeing. So, if you ask me, if I were to simply put it, this improvement is sequentially getting better every month. So, the percentage share that we had at the shop in the month of March, has further improved in quarter one. That is something which I can tell you. But of course, these numbers are not disclosed at this point in time, but I can give you a trajectory which is on the improving trend.

Prakash Kapadia: Any updates from the reinsurer side in terms of product price changes, if any, given the current environment?

Satyan Jambunathan: Price changes have already happened in the group term business, that is short-term business and therefore we have to quickly respond to that. In the shorter term, credit life business also we are seeing some price changes. But in the long-term business we have not seen a price change. Because fundamentally for a price change in the long-term business, everyone concerned has to be convinced that the lasting impact on mortality is for a long period of time and not just the pandemic effect.

Prakash Kapadia: Few months ago, you were facing operational challenges in terms of medical tests, how is the situation now with the vaccination drive, is that a bigger challenge or now it is much more manageable?

Satyan Jambunathan: I think this quarter, has been a bit of a blow hot, blow cold on that. Early part of April was okay, then we had multiple kinds of lockdowns in various parts of the country, which affected movement in a particular way. Through May we had challenges, June it started improving again. So, this has been something which has been a blow hot, blow cold through this quarter. You are right, vaccination is picking up. In fact, it is encouraging that people are going out and getting themselves vaccinated. And I think the relevant number is what Kannan spoke about, that in the adult population, which is our target market, there is almost a 40% vaccination rate so far. As that expands, I would think that in the next couple of quarters I would expect this to start easing.

Prakash Kapadia: Lastly, on the employee expense. Obviously, last year there was a lot of uncertainty and on a low base we have seen an increase in employee expenses by around 37%. So, is it a combination of annual increment as well as new recruitment and will this trend of ₹ 2.8 billion - ₹ 2.9 billion sustain on a quarterly basis for the balance of the year?

Satyan Jambunathan: In absolute terms, what you are seeing as for the quarter charge, you should expect it to continue through the rest of the year. In fact, through the second half, I would expect to see even a greater build-up as we expand our manpower. Compared to last year it is a bit of, to put it differently, an unfair comparison, because in the first quarter of last year we had not even given increments to people. Therefore, that is not a comparable base. So, that part of it, will normalize. But we are intending to expand the workforce as we go through the year, that effect you will expect to see through the balance three quarters.

Prakash Kapadia: So, is it fair to say that the current cost increase takes into account increment as well as the new?

Satyan Jambunathan: That is correct.

Shubham Kabra: I have two questions. First one is, just understanding on the part of the losses that you have booked in the shareholders' funds, the implications of the same on the debt servicing of the subordinated debt that we have raised in the last year. So, this is my first question. And second question I have regarding this huge significant decline in the solvency margin. So, what are the key drivers that has led to this decline in solvency margins?

Satyan Jambunathan: There has been no loss booked in the shareholders' fund, in fact, there was a gain booked in the shareholders' funds during the quarter, mainly on equity. So, it has no impact on the sub-debt at all. Sub-debt continues as it is. Sub-debt has also been invested in longer duration bonds to help us manage our ALM better. The negative carry, if you will, on that is quite small, not material at all. From a Solvency ratio point of view, the three things that have most impacted Solvency ratio change are one, we have paid out dividends within the first quarter. Our AGM happened before the end of the quarter, so our books of Q1 include a dividend pay-out of above ₹ 2.8 billion. Second, we have had an increase in the required capital because of the growth of almost again ₹ 1.75 billion to ₹ 1.8 billion. Third, if I were to look at the quarter, we had a loss before tax of ₹ 2.1 billion that affects the Solvency because it has affected the net worth. These are the three elements which have impacted it. If I were to project it going forward into the balance of the year, dividend is an annual feature for us so that part of it should start to build up again. Second, on the P&L if our provisions that we have made now hold us up through the rest of the quarters and we end up making profits in the balance quarters, that should be naturally accretive. Of course, on the required capital side, as we continue to grow, it will continue to require more capital. So, I do not see that as changing, but the other two elements are more of what we have seen in this quarter, dividend clearly is a for the quarter impact, which will even out over the year, and we will see how profits progress over the next three quarters. So, I do not see this as in any way impacting our ability to service the sub-debt that we have raised.

Shubham Kabra: Sir, just on the first question, you are saying that these are PAT level loss in the shareholders account, so that does not seem to be contravenes with the IRDA regulations requiring that there should be a no loss for the insurer to pay the interest on the debt portion of the sub-debt raised?

Satyan Jambunathan: No, I do not think there is anything which is triggered there.

N. S. Kannan: We will continue to pay. And it is only a quarter number also.

Nitin Agarwal: A couple of questions. First is like COVID reserve that we have now is almost equal to net claim that we have incurred during the first quarter. So, how sufficient do you think this is going to be? Also, what would be the strategy now as regards to this retention, given how the claim incidence has been?

Satyan Jambunathan: How sufficient is a question I do not know how I can answer, quite clearly. We have discussed this at the last year end also, and at that point of time we provided what we thought was best. And quite honestly, not just we, everybody around us also agreed with what we had provided as being conservative. But this is really a question of how it emerges. All we can do at any point of time, if we ensure that we are providing what we see. And we try to ensure that it is reasonable in the context of what we are seeing. To answer your second question on risk retention, I do not think reinsurance capacity is going to flex so much to help us to change our retention, we will continue to hold it as we are. We still see this as a short-term phenomenon; we still see this as an element that we need to manage through provisioning and capital management. Whatever is the consequent impact in the short-term we will take, in the longer term, of course reinsurance is about long-term risk management. It is not about managing every quarter's P&L. I am not sure any reinsurer would be keen to even do that with me.

Nitin Agarwal: So, related to the first question that was asked about provisions will be, can you give some colour what is the sense we get around the IBNR claims, how big can it be as per the statistical models that we do internally? And generally, what is a lag in claim intimation between say both group and individual business?

Satyan Jambunathan: In the first quarter, COVID and non-COVID, all put together, I had total claim intimation related costs which we spoke about, ₹ 5 billion was COVID and then I have the balance, so roughly ₹ 9 billion or so of total net retained claims. And you will see this in my Schedule 4 in the notes in the financial statements. Against the ₹ 9 billion of what I have got by June, if I were to see my overall IBNR provisions, or COVID provisions plus non-COVID IBNR provisions, I have about ₹ 3.8 billion of non-COVID IBNR, plus ₹ 5 billion of COVID related provisions. So, I am talking about 5 plus 3.8, ₹ 8.8 billion, roughly ₹ 9 billion of provisions against a claim which has touched me of ₹ 9 billion. From an IBNR point of view, I do not think I ever recollect having seen a delay of the extent that my June numbers will double up over the next few years through IBNR. I do not think I have ever seen that happen in this business.

Nitin Agarwal: And the delay in the group and the individual business is quite different, you are expecting to have higher claims coming on the group business?

Satyan Jambunathan: They can be a little different, but within the group business, the employer-employee group term business, tends to be very short delay. You may have maybe micro insurance which has a longer delay, credit life which has a slightly lesser delay, group term and retail may have short delay. So, it is not just again group in aggregate, it is a part of the group business which will be very different character. But again, that is something Nitin that we specifically provide for. When we do IBNR, we do not do it at an aggregate basis, we do it at a segment after studying the historical delay in reporting patterns of that segment. I am not taking an overall approach at all to this, it is a segmented approach.

Manish Shukla: Slide 29, the average net claim amount is 37% higher in first quarter versus full year, can you please explain that again, why is that the case?

Satyan Jambunathan: The reason why this is happening is, one, clearly, and again we know there is some anecdotal information as well; the impact of this wave has been more pronounced on the relatively more affluent people in the more urban centres. And this is something that we can associate with. Given that, my average retained claim amounts have gone up. So, almost 60% to 65% of this increase in average claim amount is just on account of change in my customer profile that is now claiming this time around compared to last time. And then there will be some smaller pieces, which is about mix of savings versus protection, and other factors which come in. But a bulk of this is driven by customer profile change in the underlying claim portfolio.

Manish Shukla: And the non-COVID IBNR at ₹ 3.84 billion, what was the number as of March?

Satyan Jambunathan: As of March, it would have been around ₹ 3 billion or so. This is the routine provision that we hold, this is not unusual, and I always hold IBNR.

Manish Shukla: I am just trying to understand the order of magnitude, because you said that the total net claims for the first quarter is about ₹ 9 billion, of which COVID is ₹ 5 billion. And now in total, let us say, contingency if I can use the word, provisions going forward is ₹ 9 billion, of which COVID is ₹ 5 billion and non-COVID is ₹ 4 billion.

Satyan Jambunathan: Yes, that is correct. That is the order of magnitude.

Manish Shukla: Last question on group term, group term was roughly 22% of your protection for last year in APE terms or about 3.5% of total. Can you tell us what would it contribute to sum assured? I mean, it is about 3.5% of total premium.

Satyan Jambunathan: We have not disclosed that separately. When we do the end year split in the protection portfolio, we will look at it, but we have not disclosed that separately.

Manish Shukla: And you mentioned that the pricing in group term has changed post-reinsurance. So, that has already flowed through to your customer segment in terms of whatever incremental business you are doing, right? Or is there an element I think which is likely to happen for the rest of the year?

Satyan Jambunathan: yes and whoever is coming up for renewal, both.

Manish Shukla: So, when was that change implemented approximately, the new pricing, when was that implemented?

Satyan Jambunathan: Two months this has been running now.

Madhukar Ladha: Most of my questions have been answered, I just wanted a clarification on the previous question. So, COVID, current reserves are ₹ 5 billion and non-COVID, are these sort of death claim reserves which are now at ₹ 4 billion, is that understanding correct?

Satyan Jambunathan: So, again, quite honestly I do not understand these concepts of what a death claim reserve is or what an extra mortality reserve is, I do not understand them. All I am telling you is this, everything which touches my touch point, I have provided for financial liability. There could always be a situation where some claims have happened elsewhere, customer has not come to me because there is a natural delay. That is what is provided in IBNR. And this is a standard concept in insurance reserving, even general insurance reserving. It is a practice we have always followed, we continued with that practice.

Madhukar Ladha: Doesn't the ₹ 5 billion include IBNR?

Satyan Jambunathan: No.

N. S. Kannan: Let me clarify, Satyan can supplement. ₹ 5 billion includes two things, the first thing it includes is that all the sort of claims which we have already settled, death claims paid out is included. And a lot of things which have been notified to us, it has been tagged in our system, but we are still processing the claims. So, this is included in the ₹ 5 billion. So, ₹ 5 billion is not just settled claims that some other people report, this includes all the notified claims, including the settled claims. So, that is the ₹ 5 billion. Now IBNR, death has happened somewhere you do not know, and it may become a claim at some other point in time, because there is a delay between death happening and it is coming to the company, that we do not know. That is where for Satyan mentioned that that is an actuarial estimate has to be made. And it is a standard process, the practice this company has been doing for 20 years. So, that IBNR, now we will have to look at COVID as well as non COVID IBNR, which has also been provided for COVID IBNR. Plus, there is a future death, death itself has not happened. For that, we do not look at it for non COVID, we look at it for COVID. So, these are the three, four layers which we have provided, that is how we have clarified. Satyan, you want to expand on it, please go ahead.

Satyan Jambunathan: No Kannan, you have explained it.

Madhukar Ladha: I am still a little unclear and I am sorry about this. So, ₹ 4.98 billion, the provision, which is now outstanding, that include IBNR, right?

Satyan Jambunathan: Yes, that ₹ 4.98 billion includes IBNR, the ₹ 5 billion of booked claims is without counting IBNR.

Madhukar Ladha: Okay. So, that has already happened.

Satyan Jambunathan: That has already happened. So, again, I will say what I said before, if you look at Schedule 4 claims of all the top companies quarter by quarter of last year, including full year financial year, and first quarter of this year, it will show you that there are slightly different ways in which what are people calling as claims, what are people calling as provisions. It is possible that what you might call provision I call claims. The only way for you to figure that out is to actually look at the claim numbers in their schedule.

Ajox Fredrick: My question is regarding the synergy benefit for life and pension fund. So, what portion of funds normally flow into the annuities? And what is the sensitivity to growth, like, is there any way to model those two things to our annuity growth?

N. S. Kannan: I will request Amit to give you a colour, but broadly these are all quite early days. There are two synergies which we are focusing on, one, from the Pension Fund Management Company itself, both as a POP as well as the PFM. They have two licenses, one is for fund management, and the other is for procuring new business in the form of Point of Presence. And the other synergy we have is with ICICI Bank, NPS customers. So, these are the three synergies we have been trying to focus on. Technically, the choice is with the customer of what to choose later. But, of course, we will have to showcase our own servicing, our own convenience to the customer to get a larger proportion into our business. With this, I will request Amit to give you a further colour on how we are deriving the synergies out of this company.

Amit Palta: So, as you know, that in this entire retirement pension space, you have accumulation products, and then you have de-accumulation products, which you call it as annuity. So, like what Kannan mentioned at this point in time, in the role of a POP, what pension fund management company is doing is adding subscribers, and they add subscribers both as a role as a POP but also by working with all the other POPs that exist in the industry, which is close to around top 20 where they focus, to add more and more subscribers. And for those subscribers, they manage funds, as they accumulate funds at the time they build. The customer builds a corpus which can then be converted into annuity. And whatever gets accumulated during this course after retirement is where it gets into an opportunity area for an insurance company to offer annuity solutions. So, as you know that five to six years' timeframe is what has gone, and POP role has been initiated only for last year and a half or so for Pension Fund Management Company. So, it is only over a period of time you will see that corpus built in the subscriber funds will eventually start flowing into annuity business, which gets booked by the insurance company. But it is too early at this point of time.

Ajox Fredrick: Sir, my second question is on retail protection. So, let us assume 100 policies are coming to you, what proportion of that are you issuing at this point in time? Because I remember this being like two out of three some time back.

Satyan Jambunathan: So, let me put it slightly differently, it depends on what time horizon that you are looking at it. Within a month it may be two out of three, within two months it may very well be 75% of that. So, it is hard to actually say how much is coming through. But beyond a point it does not; but this is something which can fluctuate. The more I am unable to execute medical testing, the more I can have a follow-up. But if I am able to return medical testing to normal, then my fulfilment should improve again.

Ajox Fredrick: Sir, just a continuity of someone's question earlier. So, we are not expecting any reinsurance rate hikes for retail prediction in the near term?

Satyan Jambunathan: No reinsurer has made a proposal to us for a reinsurance price hike in the near term.

Prayesh Jain: Congratulations on a great set of numbers. One question was on the non-ICICI Bank, banca channel product mix. So, was it similar to the overall banca product mix that we would have delivered in FY2021? Or is it more tilted towards other kind of products, so lesser of ULIP and higher of annuities and non-par or participatory.

Satyan Jambunathan: It will be a mix across partners. There are some partners where unit linked will be substantial, there will be other partners where non-linked will be larger. So, depending on how the capacity ramp up of each of the partners happens, at least until they stabilize you should expect to see this change a little. Maybe a year from now we will see a more stable product mix emerging for that segment, but right now it is still evolving.

Prayesh Jain: But some sense as to whether it is different from ICICI Bank in the overall mix?

N. S. Kannan: Of course, because ICICI Bank does not sell the traditional products.

Prayesh Jain: And secondly, extending that question in your VNB growth of 28% CAGR, how much would these play a role, in the sense, in these new tie-ups how much would these play a role?

Satyan Jambunathan: It is hard to put a number on that. But very simply, if you look at the contribution of these new partners in the last quarter of last year, a sustained full year production from them through this year and going forward our endeavour to expand that market like Amit described before, it can be quite a sound growth from them. But I would hesitate to put a number as to how much of this 28% growth will be contributed by that.

Prayesh Jain: And another question related to the same, the costs related to these would be higher than ICICI Bank for sure, but from a VNB profitability perspective, these banks or partners would be in sync with the overall profitability or would be lesser?

Satyan Jambunathan: Eventually, product mix will determine the profitability, everything else is at the margin.

Prayesh Jain: And just one qualitative comment, if you can. In the non-COVID death claims, are we seeing any number rising, in the sense that some person has COVID two or three months ago and now the deaths are coming through, something of that second order that are you looking at that kind of data?

Satyan Jambunathan: Too early to get that sense. The thing also is that statistically you have to let this evolve over a period of time to large enough pools before we can get any sense of that.

Sanketh Godha: When someone asked on the VNB margin, you said that the assumptions what we reported in the VNB margin in the current year is based on last year's segmental cost ratios. And to the extent I remember, last year when we reported Q1-FY2021 VNB margins, it was based on budgeted costs for FY2021. So, basically, have we changed our approach?

Satyan Jambunathan: Exactly the same approach, based on projected costs for full year, expectation for projected cost for full year is consistent with what we had for full year last year. I have not assumed any improvement in cost ratios into this year on the back of growth at this point of time.

Sanketh Godha: Is it safe to assume that around ₹ 3 billion of traditional business you have done, ex of annuity, will be more skewed in favour of non-par compared to what it was in Q1-FY2021 or full year FY2021? And that probably is the product mix answer which gives the margin expansion story? And second related is that do you think 29.4% is sustainable from full year point of view?

Satyan Jambunathan: The mix between par and non-par within that, I have said before, it will be a cyclical thing. It is never going to be in one direction always. And therefore, again, when we spoke at full years, I had said that we should look at the non-linked saving segment in its entirety to see what the margin in that. If you apply that margin to the product mix for non-linked savings that you are seeing on my portfolio for Q1, the segment level margins if you just apply it to the product mix that we have disclosed for those segments in the current year, I suspect we will end up with an answer which is very close to what VNB we have got.

Sanketh Godha: Finally, Satyan, on these ₹ 498 crores of COVID provisioning, which we have on Balance Sheet, can you just give me the sources, like where it is exactly sitting, like drawdown in a par FFA and change in actuarial liabilities or any other source, just wanted to understand how do you source this ₹ 498 crores to be created in the balance sheet?

Satyan Jambunathan: Change in actuarial liabilities, some portion of it will be in the par fund. But even in the par fund, it will go through change in actuarial liabilities. That is the only line that it goes through.

Jayant Kharote: Sir, my question is regarding retail protection growth. So, slightly hypothetical situation, if there are insurance rate hikes, then what will be our approach? Because one thing I have noticed is that, are you sensing more of near-term headwind whereas some of the peers are saying that there might be demands for tightening the underwriting standards, which can lead to some moderation in growth, if mortality experience needs to be controlled? So, what is your medium-term outlook on retail? I understand it is indeed hypothetically, there are hikes that come through, would you look at tightening your own standards on sort of sticking to a table which have been lower mortality experience?

Satyan Jambunathan: There are two different approaches possible. One approach is sale price tightening to deal with the current environment. Second approach is increase in price with some relaxation. I do not quite expect increase in price to be accompanied by tightening, that becomes a little bit of a counterintuitive approach to me. As we speak now, you would have noticed that there has already been a tightening in the underwriting process that has got executed on the ground. If hypothetically there were a price hike, our approach would be like we did in the last year to pass the price hike on to the end consumer without much delay.

Jayant Kharote: And growth then over 4Q, let us say post COVID?

Satyan Jambunathan: You know our view on the opportunity for the retail protection business. If I go past COVID, again we are talking about a penetration level which is 10% of the addressable population being covered today. We have always said that this is a business which in the long-term can grow at 20% to 30% per annum, also for a sustained period of time post COVID. I would actually think that COVID should give a little bit of extra tailwind to possible demand given that awareness would have increased, but that is something we will see as it happens.

Jayant Kharote: Sir, sorry to stay on this. If I were to put it differently, was your mortality experience due to protection worsening even pre-COVID? And then why wouldn't there be any different system?

Satyan Jambunathan: Let me put it this way. My mortality experience, excluding impact of COVID, is in line with what I expected it to be.

Jayant Kharote: And the reinsurance would be on the same page, is my view?

Satyan Jambunathan: It is the same thing, right? It is back-to-back.

Nischint Chawathe: Two clarifications actually from my side. One is, somewhere you mentioned that the weighted average margin for the non-linked business is exactly similar in 1Q as compared to FY2021. Is that what you clarified?

Satyan Jambunathan: No, what I was saying, outside-in if I were to see from a stability of segment margins, if I were to use segmental margins for full year last year, and just superimpose them on the current quarter's product mix, you will find that it is very consistent with finally what is the VNB that we have achieved. All I am suggesting there is, segment wise we have stability of margins in this quarter compared to full year last year.

Nischint Chawathe: So, basically, if your margin in non-linked business, let us say, the weighted average margin in the non-linked business worked out to, let us say, X percent, then I can just simply use the same X percent for the 24.5% business you did this quarter, and that would be an accurate way to think of it?

Satyan Jambunathan: As a frame of reference, yes. But there will always be some pluses and minuses, but broadly that is how you capture it.

Nischint Chawathe: The other thing is, you are now provisioned or buffered to the extent of maybe ₹ 1,000 odd crores is what we can say, for COVID claim. And last year total claims were around ₹ 3.3 billion. So, what you are broadly trying to say is that you would expect the net claim this year to be maximum of 3x of whatever was incurred last year?

Satyan Jambunathan: No sorry, slight change. ₹ 3.3 billion was the provision I held as at March. My actual claims due to COVID during FY2021 was ₹ 2 billion. When I did my disclosures for FY2021, on top of the ₹ 2 billion we had done an attribution of micro insurance claims, which was another ₹ 0.5 billion. But this time I am keeping the attribution out and taking like two alike numbers; what was ₹ 2 billion last year is now provided for to cover ₹ 10 billion.

Nischint Chawathe: Actually, if I look at slide 29, it says total claims on account of COVID-19 for FY2021 is ₹ 3.5 billion.

Satyan Jambunathan: That is gross claims, you should look at net claims, which is a P&L impact, which was ₹ 1.98 billion.

Nischint Chawathe: So, ₹ 200 crores as compared to provisioning of ₹ 500 crores, and ₹ 500 crores that you already incurred?

N. S. Kannan: Yes, 2 versus 10. The balance is the reinsurance.

Satyan Jambunathan: I have given the gross numbers so that you can tie it back to my financial statements. It is much easier if I am able to give you that. Otherwise, it becomes a little confusing.

Nischint Chawathe: And the ratio between gross and net for last year versus this quarter, how should we read that? Does this kind of mean that maybe you had more reinsurance this year?

Satyan Jambunathan: No, what it means is that more claims this year came from portfolios which had higher sum assured. Therefore, my recovery from reinsurer was a larger proportion then last year. It is average claim amount point that I mentioned a few minutes back.

N. S. Kannan: Yes, it is consistent with the general colour we gave of more affluent customers getting impacted this time, younger population getting impacted. We also see a little bit of disproportionate impact in Tier 2 cities compared to first time. I think it is a combination of all this in terms of profile, which has also resulted in higher reinsurance claims as well.

Nischint Chawathe: Just one last point, I think we will get a complete clarity on all of this broadly by the second quarter, right, assuming there is no third wave?

Satyan Jambunathan: Your guess is as good as mine.

N. S. Kannan: We all hope so. But what we should do in the meantime is that, based on our own outlook whatever business we are getting, we should strengthen the reserving, provide whatever we think is appropriate. And despite that, we have a good Solvency, is what I want to indicate.

Mayank Bukrediwala: Just a couple of clarifications, one, so the VNB calculation is done assuming the OPEX ratio to be same as FY2021, or same as Q1-FY2021? Just needed clarification on that.

Satyan Jambunathan: Similar to full year FY2021. Even though growth is higher, I am not anticipating any scale benefit yet in my unit cost assumptions.

Mayank Bukrediwala: Then the second question is, we have had like a pretty large opex growth this quarter, obviously, from a lower base in Q1. For the full year, what sort of opex growth are we looking at, because the quarter ended at close to 55%, non-commission opex at least?

Satyan Jambunathan: In line with what I described, if my expense ratio this year is to be consistent with last year, my expense growth should be consistent with new business growth.

Mayank Bukrediwala: So, it is still a moving target, it will sort of end up depending upon how the growth pans out in the rest of the year.

Satyan Jambunathan: Always. Last couple of years we have tried to manage that in a very, very dynamic fashion, both through up cycles and down cycles, so that is something that we will continue to do.

Mayank Bukrediwala: The other question I wanted to check is like, obviously, we are in an environment where the reinsurance companies want to do all sorts of checks before they sort of underwrite mortality risk. In such an environment, we are sort of doing a lot of credit life business, a lot of group term business, where we fundamentally just do not really do any sort of checks, etc. So, just wanted to get your sense on, like if the reinsurer is that worried about taking mortality risk, and wants you to do so many checks before he does that, what gives us the confidence to sort of write this level of mortality risk on the group side where you are really not doing any significant underwriting?

Satyan Jambunathan: Shall I go back to something that Kannan spoke about earlier. We as an organization have got to an 80% plus vaccination already. I would have far more comfort on that, than an expectation of COVID infection and subsequent mortality in a larger retail population, checks or no checks.

Mayank Bukrediwala: Just this last question, Satyan, I missed this. What was the total gross death claim we paid out in this quarter, COVID, non-COVID all combined, what was the total gross amount paid?

Satyan Jambunathan: About ₹ 20 billion.

Mayank Bukrediwala: This same number, net of reinsurance was how much?

Satyan Jambunathan: About ₹ 9.5 billion roughly. Roughly we have been operating on a 50% reinsured kind of a thing, we have discussed this in multiple occasions in the past, so broadly that does describe it.

Mayank Bukrediwala: So that is where I asked my previous question, because typically the industry does a lower level of reinsurance on the credit life business, which means our Balance Sheet gets a little more exposed compared to the reinsurers' business.

Satyan Jambunathan: That is because the average sum assured themselves is smaller. It is not like that I am trying to retain a larger proportion, it is just a ticket size.

Mayank Bukrediwala: I do not know if you will answer this, but what would be the ratio of the sum assured that we generate through the group business versus the sum assured that we generate out of the individual retail protection business?

Satyan Jambunathan: I do not have it off hand, but that should be in the public disclosures on a monthly basis. My new business sum assured is disclosed separately for retail and group, the industry data will have it. I unfortunately do not have it off the top of my head, you can find it easily enough.

Shyam Srinivasan: Just the first question on the ₹ 5 billion COVID claims, can you split it based on protection versus saving?

Satyan Jambunathan: That is not yet publicly disclosed. But this is a reflection of the size of the book. The book is predominantly savings oriented, it is only in the last three years that the protection book has grown. So, there is a greater skew towards savings in my claims then towards the retail protection partnership.

Shyam Srinivasan: I am just trying to reconcile that with the other point you made, that sum assured have been higher so that should ideally come from the protection book.

Satyan Jambunathan: Yes. So, between last year and this year first quarter, the skew has moved slightly towards retail protection, that is correct, which is why sum assured has increased on that account. But still on my overall claims, between retail protection and savings, it is savings which is a larger proportion.

Shyam Srinivasan: Fair enough. And are you disclosing the number of claims, volume?

Satyan Jambunathan: Number of claims, I do not think I have disclosed that anywhere.

Shyam Srinivasan: Second question is back on the sum assured part, I think multiple participants have asked, and I looked at the public disclosure. Just looking at between fiscal 2021 and June, looks like your market share on group has doubled, from 10% to 20%, and the individual regular premium that has been largely flat. So, can we safely say that all the sum assured growth has actually comes from group, do you think so?

Satyan Jambunathan: We said that retail protection has declined in the quarter, I did not give the breakup of that in order of magnitude. But yes, the growth in protection has been driven by group protection that is correct.

N. S. Kannan: Which includes credit life also.

Shyam Srinivasan: Last question is on the just the distribution part and some data points if you could share on the direct, right, which says it is combination of both website plus employee. So, if you could help us split that, and what are some of the products that you are doing online? You have given the colour protection and annuity is 21%, but what is the rest of the book?

Satyan Jambunathan: On the online business, Amit, do you want to give colour to the kind of product mixes that we are seeing and direct business?

Amit Palta: Typically there are two portfolios in every business, one is buy online where the demand generation is captured both at our website as well as at our partners, mobile platform as well. There we have seen, predominantly, it used to be protection in the past, and recently we have introduced annuity as a proposition. So, it is growing every month, but predominantly it is still protection as a proposition. The second part of our direct business is what we do as an up sell to our existing clients that we have acquired and who are active over a long period of time since inception. These are the customers where we have seen that existing unit linked products which used to be a significant part of our overall portfolio till few years back, we have large number of unit-linked customers who tend to prefer and capitalize on a positive sentiment in the market towards unit-linked products. Hence, it has a relatively a skew towards unit-linked products as a preferred category. But in line with the change in the consumer preference that we have witnessed towards guaranteed products, over a period of last 12 to 15 months, we have seen some portion of that business moving towards a guaranteed range of products as well.

Shyam Srinivasan: So, predominantly you are saying it is ULIP and 20% is protection and annuity?

Amit Palta: No, let me just correct. Within direct, buy online business, which is demand getting generated on our website as well as mobile platform. There, it is predominantly almost 60% to 70% business is protection. On a proprietary sales force, which is an up-sell channel, which up-sells to existing clients, there you have a larger proportion of business coming on a unit-linked platform.

Shyam Srinivasan: Got it. And roughly what is the split between online versus employee generated?

Amit Palta: Direct business contributes close to around 13% to13.5% of our overall channel mix. Within that, proprietary sales force is close to 10% to 11%, and 2% to 2.5% is on a buy online platform.

Deepika Mundra: Firstly, just wanted to understand the progress on rider attachment. So, given that we have had good amount of success through last year, how will you want to define the percentage of policies that have already opted for health rider?

Satyan Jambunathan: Roughly a little over half our retail protection policies have a rider attached to it, either accident or critical illness, that is where we are.

Deepika Mundra: And on the savings business, is there a scope for improving on either attachment?

Satyan Jambunathan: Yes, but slightly lesser, because there are restrictions around what proportion of the premium can come from rider; what should be the coverage of the rider with respect to the base plan. So, rider attachment with a savings product historically has never been an easy thing to achieve in our context.

Deepika Mundra: Got it. And just wanted to clarify on the expenses assumption, you mentioned that the assumption is unchanged largely from last year. But given that the cost ratios have gone up, and you are not taking into account the benefit of increasing volume, just wanted to tie in those two things as to why the expense ratio assumption remains the same.

Satyan Jambunathan: The cost to total weighted received premium ratio, in the denominator, the total weighted received premium has a combination of both new business premium as well as renewal premium. Given that we have not had a meaningful growth impact, we have had a decline in the new business in the last couple of years, my renewal premium growth, actually renewal premium is flat, and that is affecting this ratio. But that is the way the metric is designed. If I were to look at it from an expense assumption point of view, I would break it up into expense per unit of sales and expense per unit of maintenance, both of these have not worsened for us in the first quarter.

Deepika Mundra: And lastly, I just wanted to say, in your offline channels, both agency and banca, what percentage of policies in the last quarter or so would be end-to-end sold digitally, like sourcing as well as execution?

Satyan Jambunathan: Amit, would you have a sense?

Amit Palta: 2% of our business comes from our buy online platform. So, two-thirds of our buy online business actually is end-to-end digitally closed by customers themselves. What I mean by end-to-end is where demand is generated by customer himself, walks into the platform, and he ends up closing the sale, completing his entire purchase process on his own. So, two-third of 2% is what you can attribute towards complete end-to-end digital sales.

Deepika Mundra: Probably what I meant was, let us say, your agents are not being able to do an in-person meeting, sourcing or prospecting the client completely online and you are converting the transaction.

Satyan Jambunathan: That way, 95% plus of our applications are on the digital platform.

Deepika Mundra: So, would you say that 95% of sales have not required an in-person meeting at all?

Satyan Jambunathan: It can be done without an in-person meeting. I do not know whether in-person meeting was conducted or not, but it can happen. 100% of my business, can happen without an in-person meeting. It is really the distributor's choice about what he or she is comfortable with.

N. S. Kannan: Thank you all for patiently listening and asking questions over a long call. We do believe that we have answered most questions satisfactorily. However, if you feel that we need to answer any other questions, please feel free to talk to me or my team, we are always there to clarify any further queries. Thank you and good night.
