January 28, 2025

General Manager
Listing Department
BSE Limited,
Phiroze Jeejeebhoy Towers,
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 ended December 31, 2024

In continuation to our letter(s) dated December 27, 2024, and January 21, 2025, the Company had hosted an earnings conference call with investors and analyst on Tuesday, January 21, 2025, at 7:00 p.m. IST, to discuss the performance of the Company for 9M-FY2025.

Pursuant to Regulation 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please be informed that the transcript of the 'earnings conference call' for 9M-FY2025 has been hosted on the website of the Company at www.iciciprulife.com

A copy of the transcript is enclosed herewith for immediate reference.

Please note that no unpublished price sensitive information was shared during the meeting.

Thanking you,

Yours sincerely,

For ICICI Prudential Life Insurance Company Limited

Priya Nair Digitally signed by Priya Nair Date: 2025.01.28 13:14:50 +05'30'

Priya Nair
Company Secretary
ACS 17769

Encl.: As above

ICICI Prudential Life Insurance Company Limited
Earnings conference call
Nine months ended December 31, 2024 (9M-FY2025)
January 21, 2025

Anup Bagchi

Good evening and welcome to the results call of ICICI Prudential Life Insurance Company for the nine months ended December 31, 2024.

I have several of my senior colleagues with me on this call: Amit Palta, Chief Products and Distribution Officer; Dhiren Salian, CFO; Judhajit Das, Chief Human Resources and Operations; Deepak Kinger, Chief Risk & Governance Officer; Manish Kumar, Chief Investments Officer; Souvik Jash, Appointed Actuary; and Dhiraj Chugha, Chief Investor Relations Officer.

Let me take you through the key developments during the quarter before moving on to discuss the Company's Performance:

Our Independent Director – Mr. Dileep Choksi, has retired effective December 26, 2024, having completed his second term of appointment. We would like to express our gratitude for his guidance during his tenure.

During the quarter, we raised subordinated debt of ₹ 14 billion, thereby strengthening our solvency to 211.8% at December 31, 2024. Recently, the Company has approved the proposal to invest up to ₹ 100 million, not exceeding 10% of the share capital in Bima Sugam India Federation. Bima Sugam is one of IRDAI's initiative to achieve the objective of 'Insurance for all' by 2047. Bima Sugam aims to create and operate a centralised marketplace of insurance products and services.

Customer-focused products continue to be at the core of our business strategy. During the quarter, we launched industry first women's health plan 'ICICI Pru Wish' and an increasing annuity variant of GPP Flexi. Amit will subsequently cover the new product launches in detail.

Now, let me talk about the "Key Performance Highlights."

- We delivered RWRP growth of 31.4% year-on-year in 9M-FY2025, outperforming both the private and overall industry over the last five quarters.

- Our endeavour is to continuously create an alpha on business growth over the industry.

- APE grew by 27.2% to ₹ 69.05 billion in 9M-FY2025.

- The number of policies increased by 14.4% year-on-year in 9M-FY2025, outperforming the private industry growth of 8.7%.

- Our focus segments, Annuity APE and Retail Protection APE, grew by 81.7% and 24.2% year-on-year respectively in 9M-FY2025.

- In line with our focus on proprietary channels, Agency and Direct together have delivered 37.9% APE growth year-on-year in 9M-FY2025 and contributes approximately 55% to our retail APE.

- Our 13th month persistency stood at 89.8% and 49th month persistency stood at 69.2%, a testimony to our customers' continued trust in us.

- We continue to deliver on our claims promise with claim settlement ratio of 99.3% for 9M-FY2025, settled with an average turnaround time of 1.2 days for non-investigative individual claims.

- VNB grew by 8.5% year-on-year to ₹ 15.75 billion in 9M-FY2025. With an APE of Rs.69.05 billion, the margin stood at 22.8%.

- Our business growth and profitability has been delivered with risk and prudence and is exhibited in our strong and resilient balance sheet.

- We continue to be the highest rated Indian insurer as per two leading global ESG agencies by virtue of our 'AA' ESG rating from MSCI and 'low risk' rating from Sustainalytics.

- Our customer-centric initiatives have also been recognized by awards in the area of digitalisation, customer experience, learning and development and claims management by various industry platforms. A complete list of awards won during Q3-FY2025 is presented on Slide No. 52 and 53.

To summarise, we will continue to offer the right product to the right customer and deliver it to the right channel. Our 3C framework of **Customer Centricity, Competency and Catalyst** will help us deliver sustainable VNB growth by balancing business growth, profitability and risk & prudence.

Thank you. And I'll now hand it over to Amit to take you through the Business Updates.

Amit Palta

Thank you, Anup. Good evening, everyone.

We continue to improve our product propositions to cater to the evolving needs of the customers. There's a growing need of women-centric protection products, and to cater to the same we have launched an industry first women's health plan 'ICICI Pru Wish', offering fixed lump sum for critical illness and surgeries. This plan ensures adequate financial support during treatment and recovery period and creates a safety net for the family. Moreover, the premium is also fixed throughout the coverage term, which could range up to 30 years.

In Protection segment, we launched 'iProtect Super', a term plan which offers a unique feature of premium break whereby a customer can choose to defer payment of premium by 12 months while keeping an active life cover. This feature is a beneficial option for the customers with fluctuating income who may want to take a break from premium payment due to other financial commitments for a certain period.

We also launched an industry first variant of GPP Flexi which offers increasing annuity income every year, thereby safeguarding retirement income against inflation.

In ULIP segment, we launched 'ICICI Pru Signature Assure' which offers goal-based savings through waiver of premium, family income support in case of uncertainty and maturity benefit thereby safeguarding the investment objective of the customer.

Let me talk about the business performance now for 9M-FY2025:

APE grew by 27.2% year-on-year to ₹ 69.05 billion, and retail APE grew by 28.5% year-on-year to ₹ 57.53 billion for 9M-FY2025.

Linked business grew by 49.8% year-on-year and its contribution to overall APE increased from 43.1% in 9M-FY2024 to 50.8% in 9M-FY2025 on account of customer preference shifting towards ULIP products given the market buoyancy.

Non-linked savings business excluding annuity declined 17.4% year-on-year and its contribution also declined from 26.8% to 17.5% in the corresponding nine months this year.

Group Funds business grew by 102.5% year-on-year in 9M-FY2025. Contribution from Group Funds business increased from 3.7% last year to 6.0% in 9M-FY2025. This business is typically lumpy in nature.

Protection APE grew by 6.9% year-on-year and contributed 16.9% to APE in nine months period. Retail Protection business grew by 40.0% in Q3-FY2025 and 24.2% in 9M-FY2025 on a year-on-year basis.

In Credit Life business, we have witnessed some slowdown due to ongoing challenges in MFI industry. Non-MFI business continues to do well. In this segment, we continue to add partners and introduce propositions aligned to the various lines of businesses of our partners.

Group Term business, as we highlighted previously as well, continues to be impacted due to increased competition. However, we have been able to increase our depth of market coverage as seen in the growth in number of deals, lives covered, and sum assured during the quarter. As a long-time player in the industry, we have a deep understanding of this market, and our underwriting strategy remains focused on selecting businesses which meet our defined risk-reward expectations.

Annuity business grew by 50.0% in Q3-FY2025 and 81% in 9M-FY2025 on a year-on-year basis. Its contribution increased from 6.2% in nine months last year to 8.9% of APE in nine months this year.

Protection and Annuity are our focus segments, which together constitute approximately 42% of the new business premium and we expect it to continue doing well.

We have a well-diversified distribution mix. Agency business APE grew by 41.3% year-on-year and contributed 30.2% to overall APE and 36.2% to retail APE in 9M-FY2025.

To improve productivity of our advisors, we had launched 'ICICI Pru Edge', a comprehensive advisor stack which enables them to focus on revenue generating tasks instead of administrative activities. Advisors using 'IPru Edge' have exhibited an increase in productivity.

Direct business APE grew by 31.6% year-on-year and contributed 15.3% to overall APE and 18.4% to retail APE in 9M-FY2025. We will continue to invest in our proprietary channels to drive business growth further.

Bancassurance business APE grew by 26.3% year-on-year and contributed 27.7% to APE mix in 9M-FY2025. Even within banca channel, our business is well diversified amongst various partners.

Partnership Distribution business grew by 2.0% and contributed 10.1%, while Group business grew by 20.9% and contributed 16.7% to APE mix in 9M-FY2025.

We continue to build capacity and have more than two lakh agents spread across geography. We have partnerships with 46 banks and access to more than 22,500 bank branches and 1,250 non-bank partnerships.

We will continue to focus on improving customer experience through tech and digital integration in our day-to-day processes. Approximately 50% of policies were issued on the same day for the savings line of business in 9M-FY2025. Notably, we are also the first insurer to pay out commissions on the same day to our distributors.

Our product, process and distribution are completely aligned with one goal, that is to deliver value proposition to our customers. All these initiatives together will help us achieve our core objective of increasing the absolute VNB while delivering value to our customers.

I will now hand it over to Dhiren to talk to you through the financial update for 9M-FY2025.

Dhiren Salian

Thank you, Amit. Good evening. Now, let me take you through the financial metrics.

- APE for Q3-FY2025 grew by 27.8% year-on-year, while the expenses increased by 10.7% year-on-year.
- APE for 9M-FY2025 grew by 27.2% year-on-year, while the expenses increased by 19.8% year-on-year.

Our cost/premium stood at 19.8% and cost/TWRP stood at 27.8% in 9M-FY2025. Our cost/TWRP on the savings line of business stood at 16.8% in 9M-FY2025. Our objective is to bring efficiency in savings line of business while we continue to focus on growth in the protection business. We have been investing in our capabilities, i.e., people, technology and process improvements which will help us deliver an operating leverage into the coming years.

The VNB for 9M-FY2025 grew by 8.5% year-on-year to ₹ 15.75 billion. As you are aware, our focus has always been on growing absolute VNB and margins are primarily an outcome of the product mix. The margin for 9M-FY2025 stood at 22.8%. The movement in margins is primarily on account of the shift in the underlying product mix.

The Company's PAT for Q3-FY2025 grew by 43.6% year-on-year to ₹ 3.26 billion and PAT for 9M-FY2025 grew by 18.3% to ₹ 8.03 billion.

Our assets under management stood at ₹ 3.1 trillion and our solvency continued to be strong at 211.8% at December 31, 2024 aided by the ₹ 14 billion sub debt fund raise that we had done.

Thank you. And we're now happy to take any questions that you may have.

Moderator: We will now begin the question-and-answer session. The first question comes from Pankita Srivastava from Aditya Birla Capital. Please go ahead.

Pankita Srivastava: Hi, team. I can see a sudden spike in the group fund numbers. So, if you could just shed some light on the reasoning for the same?

Dhiren Salian: Yes, we had a spike in group fund numbers in this quarter. Group fund is typically lumpy in nature and it's a good business, we do make money off it and we're happy to pick it up.

Pankita Srivastava: What has been the business for credit life?

Amit Palta: So, credit life business for us actually has grown by 8% and this contributes close to 38% of our overall protection business. You know our protection is close to 16.5%

of our overall APE and 38% of that is credit life. And within credit life, 45% of our business is MFI and remaining is non-MFI.

Moderator: The next question comes from Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: So, couple of questions. The first one, again, regarding the products composition and margin, I do understand, I mean the buoyant equity market or demand, but I mean, do you have any sort of a product mix in mind, I mean, given that last year this non-linked product has already seen a kind of a retake from the high base of FY2023 and yet it continues to decline in the mix and given the cost structure of the ULIP is not really the profitable one and that is why the margin continues to sort of go down. And if my understanding, of course, you choose not to disclose, but typically, having an idea about composition of non-linked in par and non-par also gives us idea around margin, that is where again if I see correctly, it looks like that the non-par side has rather again slowed down sharply versus par and that all contributing to this margin. So, if you can just help us understand the product strategy and if you can just sort of provide some colour between this, that par, non-par and also the idea on the kind of a group fund business, why to do it particularly it is coming at a such a wafer-thin margin at least it appears? That's one. The second part is around product. So, you launch this 100% kind of zero surrender value product even before this new regulation came. So, how has been the experience so far and has there been kind of again related to that, any changes in assumption or something that has led to kind of a margin resetting this quarter? I'm asking this question in the backdrop of what had happened last year quarter because you had to kind of adjust certain assumptions that led to margin drop. So, these are my two questions.

Dhiren Salian: So, let me pick up some of your questions before I hand over to Amit. So, one, if you look at the trajectory of the product mix across the quarters and I think we should call this out also, a large portion of the group funds also needs to be clubbed along with the Unit Linked when you look at the overall margin profile. So, when you look at that you'll see that for the quarter, you've got nearly 60% of the business that comes in from Unit Linked plus Group Funds. Now when you overlay the overall margins, you'll find that you're broadly in line with the number that we have reported for the nine month period. So, that should explain how the margins have moved broadly in that direction. Yes, we discussed what the split between par and non-par numbers are; they're roughly in the range of about 60:40. We discussed this last time as well. It ranges somewhere between 60:40 to 66:33 in that range. So, that should give you a sense of how the numbers have been moving. We are clear that we don't want to put any artificial fetters as to how much business we want to do from a particular line, because as we have reiterated over and over again, our focus is not on the margin, the focus is to grow absolute VNB. And what we're very clear on is we want to offer the products that customers' demand. Now in this current environment, customers have chosen the unit linked product and we have got a variety of offerings within the unit linked products which customers have picked up even in this quarter as well. Clearly, we are not ones who are going to say no towards a particular product line. What we need to be very cognizant of is we have to build our cost structures to be able to support products that customers demand. Now, what you'll also notice is that when you look at the trajectory of cost from Q2 to Q3, there is a sequential downward movement. It's part of the work in progress that we have been doing even while we continue to make investments in technology, people and brand. So, you're putting all of this together and that's why we're looking at how the VNB movement is for the nine months period.

Avinash Singh: And there is no operating assumption changes or anything that had up, I mean it is just a product mix, no assumption changes that is kind of having any bearing on margins?

Dhiren Salian: No, we haven't taken any assumption changes. Typically, we'll do that at the end of the year. We will review all assumptions at one shot. Of course, we have updated some of the expense forecasts that we see for the full year.

Avinash Singh: Quickly, just a follow up. I mean, again, I understand on the retail side, but that's okay, what customer bought, you want to sell the product, but why do this group funds business if it is like a ULIP, because group fund is not loyalty? So, that's one. And a second also is on the cost because you raise the point. If I look at the savings cost to TWRP, YoY again, it's a very marginal increase, but given the kind of volume growth coming and also product mix shifting towards ULIP more even this year, one expected some bit of a decline here. So, what's going on?

Amit Palta: Let me just close that group thing. I think you're asking this question for the second time. See, group business is part of our proposition that we give to our institutional clients, and it goes as a composite package both for what you do to the funds which are managed by the corporate for their employees, which we categorize as group funds. And in the same breadth, we look at the group term as another proposition that goes as part of the overall employee benefit solutions. So, it is not a separate effort being made for a category of product. It is an institutional set of customers where we are catering to what they need as a composite offering from group funds as well as group term perspective. And by the way for the same set of team members and for the same cost structure, group actually adds to the incremental profits. As you know that we don't go by really a margin percentage but with the same effort, with the same coverage, if we are able to get group funds alongside group term, we absolutely don't mind and margin is not the consideration, the absolute profit is what group funds adds and we are very happy to take that.

Dhiren Salian: Yes, just to reiterate that Avinash, we are not seeking to get a margin outcome. We're looking to grow absolute VNB and to that extent that group funds brings profits on the table, we are happy to take that. To get your other question on cost, actually, if you look at the differential at H1 between what was then the cost ratio last year and the cost ratio this year, and if you look at the differential between the cost ratios at nine months last year to this year, you will find that the gap has reduced. That's also part of the point that I spoke of earlier in terms of the sequential decline in cost, which is roughly about 10%. Amit, do you want to pick up the annuity?

Amit Palta: Yes. So, you also spoke about the non-par and guaranteed range of products. See, when we look at non-par products, we either want to look at it as non-par and annuity together, because both are guaranteed propositions for the customers, or we look at overall non-linked savings business together in one bucket and we don't really differentiate between a participating and a non-participating product. We do understand that with current interest rates prevailing and what is available in the market on fixed deposits from banking systems are quite attractive. So, naturally, we did not find anything as an aberration when the demand we saw slowing down on our non-participating products. At the same time what we really saw was cash flow as a benefit being really taking precedence, customers really valuing liquidity in the long-term insurance products and we offered that liquidity feature in one of our par guarantee products. So, our par guarantee products, the flagship product within par guarantee range, which is ICICI Pru Gold, has been doing very successfully. So, from that perspective, there is no bias towards non-participating products. Overall, as a base, we are very happy to take care of the liquidity demand which we are seeing in the market. And annuity as you know from 6% mix to 9% mix this year means that we are catering to that demand in age segment which is relatively 50 plus where a customer is closing towards his retirement. So, that means, I think on the overall portfolio basis, liquidity demand is taken care of and customers nearing retirement is taken care of through an annuity. So, I don't think we are missing out on any demand which exists, and which is not being catered to.

Dhiren Salian: In fact, Avinash, we had seen this challenge even over the last year where single premium really wasn't going well from an annuity perspective, which is why we had introduced the regular pay annuity which is the product that you just referred to, and that has done quite well since the time that we introduced this in January last year. That has been a big driver of this demand on the annuity side and that's an opportunity that we saw and we took advantage of it.

Moderator: The next question comes from Nischint Chawathe from Kotak Institutional Equities. Go ahead.

Nischint Chawathe: I was just curious if I have to sort of look at your VNB ex of the group funds business, how would that look like, if there is some pointer to this, if you could help us? And if I really try to look at your cost/WRP for the savings business, again, ex of the group business, looks like the ratio has gone up over the nine months period?

Dhiren Salian: So, I don't want to call out the margin on the group funds business. There is money on the table and we're quite happy to take that. Obviously, it's going to be smaller, but we're quite happy to put that on the table. But even otherwise, when you look at the cost and look at the ratios, we still see a decline from a quarter-to-quarter perspective, and we keep working at this. And as I mentioned earlier, the idea is to be able to reset cost structures based on the products that we're selling and which is again based on the customer demand.

Nischint Chawathe: No, I understand that. Obviously, we discussed that the share of ULIP has gone up and despite that I think we just discussed saying that the cost ratio has probably not gone down as much. So, if I kind of try to adjust that with the group funds business, which typically comes at negligible cost, probably the ratio looks a little adverse. I think that's the point I'm trying to make.

Dhiren Salian: Not really, Nischint. I think one also has to recognize that one of the biggest components of Opex is going to be employee cost and we're not a hire and fire Company. So, we will adjust our cost structure and we'll keep working at it systematically and therefore, which is why you're seeing this overall cost number moved down from Q2 to Q3.

Nischint Chawathe: On the first question if you could give some texture on how should we think about the VNB at a product level ex of group savings?

Dhiren Salian: Broadly similar to what we had closed earlier.

Moderator: The next question comes from Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: I have two questions. So, I wanted to understand the agency channel for most of the year done quite well in terms of the growth that's been coming through, in the third quarter or if I look at the nine months, that channel has been doing quite well in terms of matching up with how the banca channel has been going. How many agents have we added in the quarter or in the nine months? What are some of the key changes are we making over here? As this channel becomes open architecture, which is proposed in the insurance amendment bill, how will we manage with those changes that come through? Second is on banca channel. There was a lot of noise around the mis-selling bit. Have you seen any change in the way our banca partners were behaving, were there anything mis-selling that were going on, any color that you can give to us on that would be useful?

Amit Palta: See, I'll start from agency. Sorry, your voice was not very clear. So, I'm just assuming what you asked. So, correct me in case you want me to answer anything incremental. I heard you ask about what is working in agency. See, the agency has been chosen as one of the key focus areas for us over a period of last few years and we have spent time in building capacity both physically as well as on processes on skill building and that is something that is now starting to play out. And over a period of last nine months or so, we have been able to see a growth on the new advisor licensing which is quite reasonable at 50% plus growth. And then as you know, apart from new advisor licensing, which anyways contributes little to the overall top line, it happens over a period of time. A lot of time has been spent in looking at building skill on the retail side of our advisors and very happy to state that more than 25% to 30% of our advisors activation is what we witnessed over a period of the last nine months and that is largely on account of digital enablement that we have done for our advisors. We launched advisor stack through an app called 'IPru Edge', which has been adopted very well with our value set of advisors and the productivity enhancement that we have seen specifically on value advisors has gone up to the extent of 37% over what it was when they were not using the app or even in comparison to advisors who are not currently using that app. So, I think that has really held us in good stead. Apart from that, I think the learning academy right from our own employees to the advisors is something that is again working well for us. Overall productivity increase with the entire agency base has gone up by almost 10% to 12%. And all this is by of course doing a lot of ground-up activity and breaking down the entire process beyond relationship management to having a very strong digital sales process of tracking skill levels and then monitoring and certifying over a period of time. So, it sounds all very logical and very simple, but this is something that with rigour over a period of last one and a half to two years what we have been able to eventually achieve. And of course, I want to speak about the fact that segmenting our advisors basis on the access that they have on the customer segments that they're catering to has actually held us again positively. We today have a fair hang of which set of advisors have access to, what profile of customers, which allows us to build skills specifically for product propositions which are most meaningful for the advisors, which is drawn from the access that he has from his natural ecosystem. So, it's not that everybody has been asked to do everything. It is all aligned to the customer access that they bring into ICICI Prudential. I think very segmented capability building, skill building and not doing everything to everyone has been the fundamental reason why we have been able to see this result. So, we are quite confident that we'll continue to add capacity, we will continue to add depth in leadership, depth in frontline management with people who have spent enough time in agency and build it over a period of next 6 to 12 months timeframe.

Shreya Shivani: On the open architecture, do you see that as net positive or more disruption would come in the agency channel once they're open?

Amit Palta: First of all, it is not something which is entirely in our control. It is a decision best left to the regulator to decide. But if you were to ask us today intuitively, I mean, with the experience that we have in agency, it's a business which is very different in comparison to what you would typically see in a mutual fund kind of business where also there is a multi-manufacturer distribution existing. It's a very high intensity business, lot of training, capability building, skill building is required and also advisors tend to gain a lot when they enhance productivity with a particular manufacturer. So, that exercise means that even if the multi-insurer architecture was to come, how many will exercise that choice of trying it out with multiple manufacturers is something that is yet to be experienced and seen. I believe that category of products are available with almost any insurance company. Today, products are copy-able, anybody can manufacture anything. So, from that perspective, product differentiation from company-to-company doesn't exist. It is all about the capability of how you manage advisors, how you build skills. I think from that perspective, I truly believe that advisors tend to gain aligned to one set of people in the organisation to really accelerate their overall productivity. But anyways, it's too early to comment right now. We will wait and watch and see how it pans out.

Shreya Shivani: My second question was on the banca. Any change you have seen after the regulator's comments, etc., is ICICI Bank still doing ₹ 1 billion per month kind of a number?

Amit Palta: So, I understood the ICICI Bank question. So, ICICI Bank has been stable like what we have been maintaining every quarter. Their focus is in protection line of business. They are doing fairly well on protection. And their numbers are stable. The YoY growth keep differing depending upon what was there in the base. But I think we're very happy with the overall focus on protection, overall focus on sum assured and I think, there, the growth from ICICI Bank channel has been quite good. From other bank perspective, I could not understand your question. If you could just repeat that?

Shreya Shivani: Some comment made by the regulator and the finance minister on mis-selling in banca channels. Have we seen any changes happening at the distributor end in terms of processes to curb mis-selling?

Amit Palta: See, first of all, mis-selling is not something that we have ignored ever. We always want to focus on mis-selling and improving it all the time, irrespective of what the guidelines come eventually. So, the persistency I believe is a good, fair measure of the quality of sale that you do and there I think we are improving very regularly and every year we are actually showing an improvement in persistency and that is the best outcome that you can expect from a quality of sale. Otherwise, our effort on improving quality all the time, not just with banca, but with every channel will always be there, right. So, to that extent, specific to banca, I don't see trends any different from what we see at an overall Company level. So, I don't have to do any way, comment on specifics about banca on that front.

Moderator: The next question comes from Supratim Datta from Ambit. Please go ahead.

Supratim Datta: My question is I understand that you have a VNB growth target, but looking ahead into the fourth quarter or FY2026, you already have a high APE base after the growth that we have seen over the first three quarters of FY2025. So, could you help us understand that how would you be going forward drive this VNB growth because would it be driven by getting into more products like group funds, expanding those and hence the margin could be lower, but the top line would continue to grow at a similar rate, would that be the strategy? Also, on the VNB side, while we have been growing the VNB now, if I look at it on a two-year basis, you are still below where we were in FY2023. So, by when do we plan to go back to those levels or what would be the pathway back to that level because what is happening is we are growing the top line, but the margins are still weaker than what we used to post than and what your competition is also posting. So, just if you could give us some clarity on these two things that could be helpful? And on the third bit, what I wanted to understand is on the zero surrender product. Now you launched it in January. So, there is around three weeks of data. So, what are you seeing in terms of surrenders, are you seeing anything different from what you have already budgeted for, if you could give some color on that? For this product, are you anyways building in higher surrenders in your assumptions or are there surrender assumptions similar to your regular annuity products? If you could help me with these points that would be very helpful?

Dhiren Salian: So, let me go one-by-one. With regard to our annuity products, yes, it's a little about three weeks over a year since we launched and frankly we have not seen any adverse trends at this point, because again, our belief is that this product has been bought from the perspective that the customer wants to take an annuity. And that is the way it has been sold with our distribution as well. So, for the customer to walk away with just the premium at this point is really not a win-win situation for him. Because in any case there is going to be an opportunity loss that the customer would be taking, as of course the GST loss that he would be bearing. So, clearly it would be a little out of pocket for the customer to walk away now. The objective of the plan that we had brought out was to be able to build a corpus such that an annuity can be taken and we believe that's how it is being sold at this point. Nonetheless, we have our eyes and ears open, and we'll keep watching out for any trends as we can pick it up. But at this point we have nothing to report. The surrender expectations built in are anyway quite miniscule in line with our other products as well.

Amit Palta: I just want to add here, Dhiren. When we launched this product, it was based on the insight that we picked where customers had large sums, but they were not willing to commit for a long-term commitment on premiums, believing that if there was to be a crisis, then the principal may get lost. So, this product has actually taken away that anxiety, taken away that anxiety of losing principle in case crisis was to hit. So, if that was the purpose, and if we were to route this product through distribution, who was aligned because we did a level commission with our distributors, then I think this product was meant to manage and take the fear away from the customers mind which was crisis, and that doesn't give the reason for a customer to surrender just because the feature is available. And liquidity requirement at this point in time, so liquidity is something which we don't see has emerged as a big requirement and hence surrender experience has been not something which is conspicuous at this point in time. So, there is no change in the assumption that we have taken, and the customers have welcomed that and it has helped us build our annuity franchise.

Dhiren Salian: Coming to your earlier question on what are we looking at for Q4, frankly, as we had mentioned to you last Q4, there are a series of multiple items that we have on the table and that of course is a natural consequence of the fact that we have got a very well diversified distribution network. So, there is not going to be one big lever that I can point. There are going to be multiple levers that we have on the table that we have set out. And like we'd done for every quarter, these are the elements that we are putting in play and we will see, some of them will work, some of them may not work, but we believe on balance. We should be able to deliver some alpha on the market and that is what our endeavour would be. For the last five quarters, we have got some alpha, the idea is to be able to continue the alpha over the market into the coming quarters as well. And again, focus very clearly is on absolute VNB that we want to drive. Margin is an outcome for us.

Supratim Datta: What is the path back to the FY2023 level VNB because two years out, we are still below that, so how do we go back to those levels?

Amit Palta: FY2023, the context was very different and what you were experiencing as a demand from customer during FY2023 was very different in comparison to what you see today. So, comparing it to the environment which is not relevant today is a difficult question to answer to be honest. Dhiren, do you want to add?

Dhiren Salian: Yes. So, very clearly we took a hit last time. We did not have the growth and that actually impacted the overall margins and therefore the VNB. Now we have worked beyond that from the first and second quarter of last year to start to deliver growth slowly but steadily from Q3 onwards and that is what our endeavour will be. Because at the end of the day, when we have to look at delivery of VNB, it has to come from delivery of APE. And as you can see for the past few quarters, we have been working at it and we have been able to deliver some bit of alpha over the market. Slowly and steadily, we will build this back, no doubt about that.

Moderator: The next question comes from Manas Agrawal from Sanford C Bernstein. Please go ahead.

Manas Agrawal: Sorry to go back into margins. Just wanted to understand and confirm. You said product level margin was stable. This is slightly contrary to what we're seeing with peers where they are seeing better rider uptake and therefore better margins on the ULIP side and they have repriced to adjust for interest rate movement and therefore non-par/par margins have also improved. So, if the product margins are stable, why this delta relative to peers and if you are saying product margins are stable, then the entire movement in margins on a sequential basis or YoY basis coming only from mix, is that the right way to think about it? I will also squeeze in on margins. Is there any impact from surrender value?

Dhiren Salian: So, very, very limited impact on surrender value. We really don't have that kind of a book as our peers. As I spoke of earlier, a large portion of our non-linked savings is in participating business and not in the non-par space. That's where the larger impact would have been seen. On product level margins, they are broadly the same as where we have seen from the previous periods. We of course are working at improving product level margins in terms of rider additions as well as elongating term and some of the actions that we have spoken of is starting to bear fruit at this time.

Manas Agrawal: So, we have not cut customer IRRs in line with interest rates. Is that accurate?

Dhiren Salian: No. We have repriced our non-par plans in line with the yields at October. The last time that we had made these changes was at April. So, in the intervening quarter we did not have the chance to do that because we had to update it for surrender value regulations as well. But in October, we did update the IRRs in line with the yields. But in any case, the share of non-par for us is quite small in our overall mix.

Moderator: The next question comes from Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Just a structural question as to how do you think or what would be the factors that will kind of shift the product mix for the industry, the way it has been shaping toward ULIPs and reducing share of non-par, what will kind of drive this mix back towards something like a non-par and lower from ULIPs? The markets have been weak in the last few months, but is there any evidence that impact is visible in terms of ULIP demand? So, any thoughts how do we see this, what would be the macro factors that can drive this shift in mix?

Dhiren Salian: So, Prayesh, if your question is what can drive the demand up in non-par, I think you'll have to look at the shape of the yield curve and favourable moment of the yield curve will be the one that will create an opportunity to be able to provide this product and get the demand up over there. What we are seeing in the market is that Unit Linked has got a great appeal and we continue to provide products in that space which are favourable for both the customer as well as the Company. And very clearly, we are not the one to throttle demand and we want to work at improving the quantum that comes through on that.

Prayesh Jain: And just a clarificatory question. The group funds business, would there be any element of protection there? No, zero, right?

Dhiren Salian: No, it's savings.

Amit Palta: No, no, group funds is purely savings, it's managing funds for our clients.

Prayesh Jain: So, basically it will have a lower margin compared to your general ULIP product, right?

Dhiren Salian: Yes, it'll have a lower margin than general ULIP product.

Moderator: The next question comes from Aditi Joshi from J.P. Morgan. Please go ahead.

Aditi Joshi: Just a question regarding annuity product, which is growing rapidly. Can you please confirm the margin of this product as in was there any repricing been done for this annuity product as well in the October as you did for your non-par? And just on the commission structure, again, if I can ask the distributor commission structure, especially the broker and MFI channel, so is it more like a trail-based commission structure, any restructuring being done there?

Amit Palta: Coming to commission structure change subsequent to 1st October surrender guidelines changes that have been executed. I think our options that we have worked with our partners is either deferring commissions or claw-back of commissions or reducing commissions. So, different partners have agreed for different structures, different models. It also had to be aligned with what their Opex requirement was, what their business models are. So, more than 95% of our partners, we have closed the arrangement, the revised structures and whatever is pending is something very small, I think also will get over in the next couple of weeks' time. So, from that perspective the commission structures have been completely aligned with the change in surrender guidelines.

Dhiren Salian: Just to reiterate, the way that we're approaching this surrender value guidelines is that to ensure that the impact to customer is minimal. What we have passed on in terms of price changes has been largely in line with the change in the yields on the market. With our distribution we have offered these three mechanisms that Amit just described, which is reduced commission or a claw-back or a deferral of commission, and as he pointed out, most of these conversations have now started to come to close. We didn't get your first question that you had raised. Your line was a little patchy. If you can repeat that?

Aditi Joshi: First question is related to the repricing of the annuity products. So, just wanted to confirm that similar to non-par repricing did you also take up IRR cuts let's say in the annuity products as well around the October month?

Amit Palta: Yes, the pricing of non-par, annuity, all those products linked to G-Sec yields were all corrected effective 1st October, something that we could not do in Q2, it was corrected as we got into this quarter.

Moderator: The next question comes from Madhukar Ladha from Nuvama Wealth Management. Please go ahead.

Madhukar Ladha: So, just again coming back on VNB growth actually. So, this year we're seeing like so far 27% growth year-over-year on APE. Despite that, the VNB growth has just been about 8.5%. We have been investing in the business and still I would have expected a slightly better operating leverage to play out and the VNB growth to be stronger than this. We had also been guiding earlier in the year that sort of mid double-digits is the VNB growth that we are targeting. So, in that context, our VNB growth is significantly lower than our target. I mean the first question is what is happening then? Is the variable cost of acquiring the business so high, the commission element in total cost is so high, that's what is keeping contribution levels down and not helping VNB grow? And two, then for the year, how much VNB can we grow? And then over the medium-term, what sort of VNB growth should we be looking at? When do you think operating leverage will start playing out for you?

Dhiren Salian: So, one, Madhukar, VNB growth of about 4% for half year, we are now at about 8.5% for nine months. So, clearly we're seeing an upward trend in that. You're right, the top line growth was 27%. But what you would also notice is that the mix shift has also happened more towards unit linked which has got a lower margin. So, that explains how we're working at a 8% to 9% VNB growth for nine months. The view that we want to take from a medium-term perspective is to work towards mid-teens. No doubt about that. And we are working at it for quarter-to-quarter. As you can see from H1 to nine months, there has been a positive improvement.

Madhukar Ladha: But then is that the right way to think about operating leverage, is the other thing that I had in my mind, like when you look at cost/TWRP that going up, is it that the commission cost or the variable cost of acquisition it's just been very high?

Dhiren Salian: So, if you look at the Opex, Madhukar, you are starting to see this come down and most of when you look at the overall cost, they are also down quarter-to-quarter. So, we are actively working at containing costs and making sure that we are working to the products that we are selling and the suitability of the cost structure to those sets of products. So, this is obviously work-in progress. We'll continue to work at it while we continue our investment in specific areas such as technology as well as people and brand. So, this is work-in progress that we are working at, at this point and I'm sure the results are going to come through.

Madhukar Ladha: Just in one of the questions you mentioned that 38% of the total protection was group protection and that has grown about 8%. That would mean the credit protection is down about 12% year-over-year. Is that correct?

Amit Palta: Yes. So, group protection being down like is quite well known for the stress that we see on MFI business. And largely it is because of disbursements getting lower, which has impacted credit life side of the business taking a hit in Q3. So, to that extent, yes, share of credit life business in the overall protection actually has come down on account of challenges which are well known in the industry.

Madhukar Ladha: That's mainly the MFI industry. No other sort of change in that.

Amit Palta: On non-MFI business, it has been happening quite good. So, I think the slowdown that you see is not a stress that we believe. So, I think it is something which is well factored and we are aware of why it has happened. So, from that perspective, we don't see that as a challenge. Once the cycle reverses, we are quite happy that we will get a positive momentum. So, I think we are well aligned to get adjusted to the changing cycle all the time. So, there is a positivity. Recently we have seen some numbers reversing. There is a positivity on non-MFI business already visible. Hopefully, with the outlook expected to get positive over the next couple of quarters, we are well present across all our MFI partners to come back to the original share of credit life once the business reverses.

Moderator: The next question comes from Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Just going back to one of the previous questions, if I just look at the margin, you mentioned that on a sequential basis adjusted for the group funds business margins are almost stable. If I do sensitivity and let's say assuming that there is no change in margins of group funds business between 1H and 3Q, even if you assume zero percent change in margin on the business, it seems that the other segments there have been at least a 60, 70 basis points decline between 3Q and 1H. Firstly, is that a fair assumption and to start with the group funds margins were similar across quarters?

Dhiren Salian: No, I don't think that bears out.

Dipanjan Ghosh: Second is on your ULIP segment. Would it be fair to assume that the momentum is holding on even during the current quarter?

Dhiren Salian: Yes, that's right. At least the early days of this quarter.

Moderator: The next question comes from Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha: Amit, you launched a new variants of every product, whether it is annuity, health or protection and features to the customers look to be better compared to the existing plain vanilla version what you have. So, is it fair to say that given the benefits are little better to end customer, will these products will have on cumulative basis in margin better than the existing or it will be lower? And I just want to understand given since the launches, whether the contribution of these products have, I don't know when exactly they were launched, because from that perspective I just wanted to understand how the trends are in this particular product and whether it will support the growth in fourth quarter, which invariably to some extent is higher for you?

Amit Palta: Before you move on to second question, which product are you talking about?

Sanketh Godha: I'm referring to the new annuity product which you launched, linked or protection plan where you have a premium break and a health plan. So, these products typically are more customer-friendly compared to the current versions what you have. So, I'm asking from that perspective, given you are giving more benefits to the customer, that is the margin profile of these products will be better than the existing one or broadly similar?

Dhiren Salian: Sanketh, in short, we are not looking at a margin drop. We are pricing them to be margin-neutral.

Sanketh Godha: Second is just a data keeping question. You typically disclose ROP Protection APE. This time I don't see it in the PPT. If you can quantify the number, it will be useful?

Dhiren Salian: It's small. I think for the nine months it's roughly in the range of 15% to 20%. It's broadly been there.

Sanketh Godha: It was 63 crores last year. So, is it broadly there or its 15% growth on that one?

Dhiren Salian: I'll come back. I don't have the number right now with me.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over for closing comments.

Anup Bagchi: Thank you very much for joining the call. Have a great evening.
