October 29, 2024

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 half year ended September 30, 2024

In continuation to our letter(s) dated October 8, 2024, October 9, 2024 and October 22, 2024, the Company had hosted an earnings conference call with investors and analyst on Tuesday, October 22, 2024, at 7:00 p.m. IST, to discuss the performance of the Company for H1-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 H1-FY2025 has been displayed 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Please note that no unpublished price sensitive information was shared during the meeting.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: 2024.10.29 15:50:59 +05'30'

Priya Nair
Company Secretary
ACS 17769

Encl.: As above

ICICI Prudential Life Insurance Company Limited
1st and 2nd Floor, Cnergy IT Park, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400025.
Regd. Office : ICICI PruLife Towers, 1089, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400025. India. Visit us at www.iciciprulife.com
Phone: +91 22 4039 1600, Fax: +91 22 2437 6638, Email: corporate@iciciprulife.com
CIN : L66010MH2000PLC127837

ICICI Prudential Life Insurance Company Limited
Earnings conference call
Half year ended September 30, 2024 (H1-FY2025)
October 22, 2024

Anup Bagchi

Hi, good evening and welcome to the Results Call of ICICI Prudential Life Insurance Company for the half year ended, September 30, 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 Investment 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:

ICRA and CRISIL, the domestic rating agencies, have reaffirmed the rating of our existing ₹ 12 billion subordinated debt program as [ICRA] AAA (Stable) and CRISIL AAA/Stable respectively.

The Board at its meeting today has approved raising additional capital by issuance of non-convertible debentures of upto ₹ 14 billion, in the nature of subordinated debt instruments in one or more tranches, over the next 12 months, on a private placement basis. The additional capital raise will further augment the solvency position of the company and aid the ongoing business growth.

I am also happy to share that our available to sell products have been redesigned in line with the new product regulations, keeping the interest of customers, shareholders, and distributors in mind. Impact on customer benefit has been minimized, except for where necessitated due to the yield curve changes. On the distributor front, we have been working on the various propositions, such as claw back of commission on non-persistent policies, progressive commission structures, and reduction of commission. Discussions with partners are still ongoing, and we believe that these will evolve.

We have been leveraging our experience of level commission structure in GPP Flexi with Benefit Enhancer and trail-based commissions in Platinum product in these conversations. The impact on the Company is also mitigated through a combination of measures by offering longer-tenure products, higher sum-assured product multiples, and increasing rider attachments. We believe that such customer-centric changes will boost the industry's long-term growth. For us, the comparatively lower share of non-linked products in our business mix, existing experience of GPP Flexi Benefit Enhancer and Platinum gives us confidence that the impact on our profitability due to the change in surrender value norms will not be material.

During the quarter, we also introduced the "**3C framework**" to deliver the sustainable VNB growth. The presentation detailing the framework is available on the exchanges and the Company's website. As a Company, customer centricity has been at the core of everything that we do. We aim to deliver superior customer value through our core competency of comprehensive product suite with seamless onboarding and sourcing via diversified distribution network and best-in-class servicing and claim settlement. People, technology, and analytics are the three catalysts that help us utilize the true potential of our competency and improve the overall customer experience. We believe that the **"3C framework"** of Customer centricity, Competency, and Catalyst will help us deliver sustainable VNB growth by balancing business growth, profitability, and risk and prudence.

- We delivered RWRP growth of 33.9% year-on-year in Q2-FY2025 and 39.2% year-on-year in H1-FY2025, outperforming both the private and overall industry over the last four quarters. With this, we have gained 1.1% private sector market share on RWRP basis to end at 10.3% in H1-FY2025.
- Our focus segments, annuity and retail protection grew by 99.5% and 17.2% year-on-year respectively, while linked business grew by 54.5% year-on-year in H1-FY2025.
- In line with our proprietary channel, Agency and Direct, together have delivered 45.7% APE growth year-on-year in H1-FY2025.
- The overall APE grew by 26.8% to ₹ 44.67 billion and number of policies increased by 12.5% year-on-year in H1-FY2025.
- 48% of policies were issued on the same day for the savings line of business in H1-FY2025. Notably, we are also the first insurer to pay out commissions on the same day for our distributors.
- We continue to deliver on our claim promise with leading claim settlement ratio of 99.3% in H1-FY2025, settled with an average turnaround time of 1.2 days for non-investigated individual claims.
- Our 13th month persistency stood at 89.8% and 49th month persistency stood at 69.9%, a testimony to our customers' continued trust in us.
- VNB grew by 4.2% year-on-year to ₹ 10.58 billion in H1-FY2025. With an APE of ₹ 44.67 billion, the margin stood at 23.7%. Embedded value grew by 19.4% and stood at ₹ 460.18 billion in H1-FY2025.

Our business growth and profitability have been delivered with risk and prudence and is exhibited in a strong and resilient balance sheet. We continue to be the highest rated Indian insurer as per the two leading ESG rating agencies. We successfully retained our "AA" ESG rating from MSCI, which also makes us one of the top-rated life Insurer in India. We have also been conferred with awards in the areas of digitalisation, customer service, and claim management by various industry platforms. Our complete list of awards won during Q2-FY2025, is presented on Slides 53 and 54.

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

Amit Palta

Thank you, Anup. Good evening, everyone.

Now let me talk about the business performance for H1-FY2025:

Our total APE grew by 26.8% year-on-year to ₹ 44.67 billion, and retail APE grew by 32.7% year-on-year to ₹ 38.27 billion for H1-FY2025. Contribution from linked savings product to overall APE increased from 42.4% in H1-FY2024 to 51.6% in H1-FY2025 on account of customer preference shifting towards ULIP products from non-linked products given market buoyancy. Non-linked savings contribution to overall APE declined from 26.6% in H1-FY2024 to 18.1% in H1-FY2025.

The overall protection APE stood at ₹ 7.76 billion and contributed 17.4% to overall APE in H1-FY2025. The retail protection business grew by 17.2% in H1-FY2025 and 30.7% in Q2-FY2025 on year-on-year basis. Credit life segment has done well as we continue to add partners and introduce propositions aligned to the various lines of businesses of our partner.

Coming to the group term business, there has been a continued and significant trend of price reduction in this area, largely attributable to increased competition. As a long-time player in the industry, we possess a deep understanding of this market, and our underwriting strategy remains focused on selecting businesses which meet our defined risk-reward expectations.

Annuity business contribution increased from 6.2% in H1-FY2024 to 9.7% of overall APE in H1-FY2025. Protection and annuity are our focus segments which together constitute 48.2% of the new business premium and we expect it to continue doing well.

Agency business APE grew by 51.1% year-on-year and contributed 30.4% to overall APE and 35.5% to retail APE in H1-FY2025. Direct business APE grew by 36.3% year-on-year and contributed 15.5% to overall APE and 18.1% to retail APE in H1-FY2025. Together, Agency and Direct business contribute 45.9% to overall APE and 53.6% to retail APE in H1-FY2025. We will continue to invest in our proprietary channels to drive business growth further.

Bancassurance business APE grew by 30.0% year-on-year and contributed 29.1% to APE mix. Partnership distribution and group business contributed 10.6% and 14.3% respectively to overall APE.

We continue to build capacity and have added more than 29,000 agents during H1-FY2025 spread across geographies. We have tie-ups with 45 banks with access to approximately 22,000 bank branches and more than 1,200 non-bank partnerships.

To summarize, our product, process and distribution are completely aligned with one goal, that is to deliver value propositions to our customers. We continue to focus on improving customer experience through technological and digital integration in our day-to-day processes. We strongly believe our **'3C framework'** elements comprising of **Customer Centricity, Competency** and **Catalysts** will play a crucial role in delivering sustainable VNB growth by balancing business growth, profitability and risk and prudence.

I will now hand it over to Dhiren to talk you through the financials.

Dhiren Salian

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

The VNB for H1-FY2025 was ₹ 10.58 billion. Given our APE of ₹ 44.67 billion, the resultant VNB margin was 23.7%. The relevant comparison of H1 current year margin should be with the FY2024 margin as it captures the impact of all assumption changes done on March 31, 2024.

The movement in margin is primarily due to two factors.

- One is the shift in the underlying product mix towards unit-linked on account of the continued market buoyancy and the decline in the non-participating business. While quarter-on-quarter, the overall product mix may vary based on the customer preference, the wide range of our distribution partners spread across geographies with access to varied customer segments will help us sustain a balanced product mix.
- Second, on the macro-economic front, over the past few months, G-Sec yields have declined. Given the product changes necessitated in Q2-FY2025 due to the new regulations, we had limited ability to align rates in our non-linked and annuity portfolio in line with the market movement in G-Sec yields. Starting October, we have started aligning product rates with prevailing G-Sec yields.

Coming to expenses, our Cost to Premium stood at 22.0% in H1-FY2025. Cost to TWRP stood at 29.4% in H1-FY2025, which came down from 32.6% in Q1-FY2025. Our Cost to TWRP on the savings line of business stood at 17.9% in H1-FY2025 which has come down from 19.2% in Q1-FY2025. Our objective is to bring efficiency in savings line of business while we continue to focus on growth in protection business. We have been investing in people, technology and process improvements and the increase in cost towards these elements should be seen from the point of view of investments that we have made in our capabilities rather than pure operating expenses that will deliver operating leverage in the future.

On the other financial metrics:

- The Company's Profit after tax for H1-FY2025 stood at ₹ 4.77 billion, an increase of 5.8% year-on-year.
- Our Embedded Value grew by 19.4% year-on-year and stood at ₹ 460.18 billion at September 30, 2024.
- Assets under management stood at ₹ 3.2 trillion, and our solvency ratio continue to be strong at 188.6% on September 30, 2024.

Thank you. We are now happy to take any questions that you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Swarnabha Mukherjee from B&K Securities. Please go ahead.

Swarnabha Mukherjee: So, three questions from my side. First I wanted to understand a little bit, how to read this, how the margin development has been in the first half. So, just wanted to compare the margin which you had in first quarter and in first half and if I look at the product mix, that is broadly similar across these two time periods. Also if I look at your cost ratio, which you have disclosed, this has kind of remained broadly stable. Infact, I think EOM ratio has improved marginally as well. So, I just wanted to understand that from Q1 to H1, what is the factor that is driving the margins down or so whether it is a factor of that individual product level, some moves have happened due to designs, etc. So, if you could highlight on the same.

Secondly, on the channel side, I wanted to understand a couple of things. One is on the partnership distribution channel. So, that is still showing weak trends. So, what is the challenge there and does credit life get counted here or is this particularly the retail product and if that is the case, then what could be the reason why this weakness that is there?

And also regarding the channels, wanted to understand how ICICI bank's premium development is playing out with it, is it still at a similar level. Yes so these are my questions sir. Thank you.

Dhiren Salian: Thanks, Swarnabha. This is Dhiren. Let me pick up your first question on quarterly movement. Part of the movement is actually the underlying mix itself. You would have seen that unit linked, while it has been steady, there is movement across in the non-linked segment. Participating has done better than non-participating, and that has had an impact in terms of the overall margin flow. In addition to this, there are elements around the yield curve that we had expressed earlier, where given the fact that we had the product changes that had to be done in this current quarter, we had limited ability to change the rates. Of course, starting October, we have started realigning these rates.

The overall margin change as you see is quite negligible, Swarnabha. It's marginal movement across the quarter.

Swarnabh Mukherjee: Just one follow up, Dhiren. Can you split or give us some color on the par, non-par split in the non-linked portion?

Dhiren Salian: Yes, roughly two-third is the par, one-third is non-par. Give, take. Over the course of the period, we have got a little more par than the non-par as compared to the previous periods.

On your second question on partnership distribution, this is retail business. This doesn't include credit life business.

Amit Palta: Yes, on partnership distribution, first of all, this partnership distribution over the period of last 4 to 5 years has been delivering CAGR growth of close to around 20% for us very consistently. And what we see as a trend is temporary in nature. As you know that systemically we saw a much larger proportion of business coming from unit-linked products and typically partnership distribution is where you see prioritization done on non-linked business. So they technically did not have the tailwind which was available to the rest of the businesses because they prioritize non-linked savings business, that's one. Two, we are quite diversified in the kind of partnerships that we have. And hence, few months or few quarters, you may have performance volatility in one or two partners, but that is fine with us. We are adding new partners. We have added 90+ partners within H1-FY2025, which is added to our overall width of distribution. And we believe that after the surrender guideline changes settling down and markets normalizing with other businesses picking up, partnership distribution will come back on track overall.

Coming to ICICI Bank premium levels, ICICI Bank is now quite consistent at ₹ 100 crores-₹ 110 crores on a monthly basis. So, they've been quite consistent. The growth may vary depending upon what the growth was in the previous year's quarter, similar quarter. Their focus has been on protection and annuity and on the protection side of the business, they are growing quite significantly. But on the overall topline, they are quite consistent at ₹ 100 crores - ₹ 110 crores level. So, there's no change in our organisation strategy when it comes to bancassurance with ICICI.

Swarnabha Mukherjee: Okay, that's very helpful, Amit. So, just one quick follow up. So, in the new scheme of things, in this new surrender value, post this regulation has come through. Now, given that, if ICICI bank is steady, then the 27% growth in your banca is largely driven by the non-ICICI partners. So, just wanted to understand the contours of the conversations in terms of commission payouts, how do you see that panning and can there be a possibility that our payout levels can change due to how the competition is would also be having terms with those distributors. So, if some color on that would be very helpful?

Amit Palta: Yes, so we have been conversing with our partners. First of all, I really acknowledge that most of our partners are quite understanding of the situation and the philosophy behind this entire regulatory change. And the unanimous understanding with the partners is to ensure that we try to protect and get the best for the customers, and we are working with our partners to work out various models, which could be around clawback of commissions, if paid in full or deferred commissions, or even reduction in commission in certain products, where to protect customer interest, that is the only option available. All those options are being explored, and I'm sure over the period of next couple of weeks, we should be able to take it to closure. But the good news is that most of our partners are quite receptive to the idea of protecting customer interest and keeping proposition paramount. So, from that perspective, we are quite comfortable.

Moderator: The next question is from the line of Prithvish Uppal from Elara Securities. Please go ahead.

Prithvish Uppal: So, firstly, just wanted to understand on the annuity side, I think one of the competitors had highlighted that there are some concerns around the pricing. So, we reported a good set of numbers in annuity. So, what is the outlook for this segment given where the competition is? So, that is the first part.

The second part would be related to the group protection. So, here, there has been degrowth, so is this purely credit life driven or there is some element of group term also and has the pricing environment for group term improved?

And third question would be around ULIP. At a product level, has the margin profile of ULIPs increased given the higher share of sum assured that companies have been selling. So, to that extent, would that have also had some impact in terms of negating the margin decline on account of the ULIP mix increasing? So, these are my three questions.

Amit Palta: Yes, so I will start with annuity. See, it's on a base of last year. We did not have Benefit Enhancer as a proposition. You remember, last year towards the last quarter, we launched our Benefit Enhancer as a proposition with a belief that customers who had apprehensions about buying a life insurance product on annuity platform, which typically is a segment whose age is more than 50 years, was not buying insurance because of the apprehension of losing principle in case he was to not buy or not being able to pay premium for second year. So, that opened up a lot of customers coming and buying annuity business, annuity products, who were probably earlier not buying. So, that segment opened in quarter four, and that trend continued in quarter one as well as quarter two. In absolutes, in fact, quarter two did even more than what we delivered in quarter one. Incidentally, on the base of last year, we did not have Benefit Enhancer as a proposition, which is very different. So, in comparison, you will say that the growth is good, but that growth was largely impacted with the new product introduction that we did in January and March. On rates, we were just comparable to the market, not that we were any different in terms of pricing. So, it was less of pricing, more of the uniqueness of product, which actually got this growth delivered for us. That's on annuity.

On group protection, you're right, if we were to split it, credit life on a non-MFI side is doing fairly well for us. MFI, all of us know kind of challenges that we have on disbursement. So, there is a bit of an impact in quarter two. The quarter one numbers were okay. Group term is where we have seen pricing pressure. Like I mentioned in my opening script as well. On the sum assured side, we have started growing now on the group protection, group term. However, on premium, because of pricing pressure, it has delivered a little bit of a degrowth for us. So, that's how group protection combined between credit life and group term is showing a relatively muted growth. That's largely an account of credit-life MFI business as well as group term business.

Third question on ULIP. You mentioned rightly that typically, if a consumer preference is tilting towards ULIP, one of the ways of maximizing margins is either selling a longer-tenure products, two - attaching riders and increasing sum-assured multiples, three - to start with, sell a high-sum-assured product, and fourth is about just ensuring that you have the same getting delivered in a composite manner. So, all this leads to maximisation of unit-linked product's profitability. This is a journey that we have been following for the last couple of quarters. And that is something that we want to believe that within the line of business where the margins are relatively low, these three steps on longer tenure, high sum assured multiples, and better rider attachments will help us maximise margins within the category.

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

Shreya Shivani: I have two questions. So, first is on the net commission that I can see from the P&L. Either you look at H1 and you look at Q2, there's a very sharp jump and we thought there was a sharp jump which already happened last year. So, even on that there is a very sharp jump over there. So, we wanted to understand what product segments, what channels, what is driving that. And second on the VNB margins, now we closed first half at 23.7% and assuming we continue the same run rate of 20% to 25% APE growth. Where do you see the second half margins landing up? Should we expect 50 basis points or 70 basis points cut from the current H1 margins in the H2? Or how should we look at the margins? Or you can just give us an outline on how to look at the margins for the full year FY2025?

Dhiren Salian: Hi, Shreya, Dhiren here. So, the commission rate increase, if you recall, quarter one last year is when we started implementing the new set of commission across partners. Quarter one was quite low to that extent, but these commission structures started to get implemented over quarter two. And they got into full force in quarter three, which is why, as you look at H1 to H1, you will see an increase of commissions across the two periods. So, they're not directly comparable. I think if you look at it sequentially, you'll start to see that commission rates are broadly in line at a product level. That's the reason why on a year-on-year, it looks quite elevated. But you would also note that we have been able to look at non-commission expenses, we are starting to see the decline there as well.

On your second question on VNB margin, do we have a forecast? No, we don't have a forecast. We are not guided by VNB margin. We are looking at growth in absolute VNB. Based on where the customer opportunity is, and you've seen this in this particular half year, and actually over the last nine months as well, the market buoyancy has led to an increase in the unit-linked product. We are quite happy to take part in the opportunity, quite happy to serve our products to our customers in the form that they would like. There are no artificial fretters that we'd want to put in terms of product mix by itself. And therefore, we would let the customer's choice dictate where the final margin lands up because that would be where the product mix ends up at.

Shreya Shivani: Yes, but I was asking more from the point of view, when, what timeline do you think we will get clarity about the margins from the new surrender value product? I know that it's only 20% of the mix right now, but even on that product segment, are we any time close to getting a clarity about how the commission structures will be finalised, and how the margins for those products will look like?

Dhiren Salian: So, I would expect the commission structure conversations to continue through this quarter. We have already had initiated conversations and come to conclusions with some of these partners. But we still have space in terms of closing the conversation. I expect that the market will settle over this particular quarter in terms of the commission structures. As we said, the way that we have been approaching this problem is to ensure that it's a win-win situation for all three parties involved. We are quite mindful of the fact that one cannot take away the customer's return, and therefore some of the changes that you've seen in the IRRs have been necessary only due to the yield curve changes. The conversations with distributors are on the three lines that Amit also spoke of, deferment of commissions, progressive commission structures, clawback of commissions where required, and of course, where needed, we have actually proposed reduction in commissions. My sense is it will take this quarter to settle down because I believe the entire market is having this conversation. So, let's see how that evolves, Shreya.

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

Supratim Datta: My first question is on the growth side. So, we have now seen for quite a few quarters that growth on the agency side and direct channel have been fairly strong. Just wanted to understand from here, what gives you confidence that you can sustain this growth? And I'm not talking about the next quarter or two, but if I'm looking at it from a two to three year horizon, what gives you confidence that this growth can sustain, particularly considering that in post the surrender charge regulations, commissions could actually go down, particularly in the agency or in a non-ICICI bank channel. So, that could be my first question.

The second one was on the variable annuity piece. Now this has been one product which the regulator has allowed through the new product regulation. Just wanted to understand that this is a product that you're looking at launching and how would you be hedging the risk in this product, if you could give us some color on that. And that would also be very helpful. Thank you.

Amit Palta: Yes, so coming to consistency that you spoke about on the Agency, Direct business, as well as non-ICICI business, as you can see that Agency and Direct business, we have been speaking on the investment in capacity that we have been doing for last 2 to 3 years now very consistently, both in terms of people that we have deployed, capability that we have created, the formal learning architecture that we have institutionalised now, both for our people as well as for the entire capability framework that we have created for our advisors, as well as our employees both in proprietary as well as agency. It's something which has taken very long for us to put up a very strong and robust process. It gives us a belief that what we created over a period of 9 to 18 months on the capability side will really stand in good state for us in holding on to our growth, specifically in these two. And not just this, we are also looking at going very granular and not looking at a strategy which is only at an apex level. The strategy has been now created at a micro market level and as you know that India is very, very diverse. Every market is different and unique. And the effort is to go and understand local, unique markets, which we call micro markets and create strategies which are unique. And hence we believe that with heterogeneity of micro markets that you have in India, there will always be an opportunity area which will play out and deliver growth for us, because not all markets are similar. So, I think the heterogeneity of our strategy at the micro market level and the learning capability that we have created will hold us in good stead.

And apart from that, even in our proprietary distribution channel which we call it as proprietary sales force, direct sales force, we are seeing a good traction. In the alternate sources of businesses that we are opening and few experiments that we are doing which gives us good confidence that we will continue to grow on that front.

On other partnerships, multi-insurer partnerships, of course, the paramount will be that eventually the revenue objectives of our partners whether corporate agency or brokers or banks will actually be driven by their own internal objectives of continuously working and innovating ways and means of reaching out to untapped markets within their customer segments. So, to that extent, we will be not following one strategy to stay on path of growth. We will be governed by the strategy that will be chosen by our partners. And I'm sure revenue growth is as important to them as it is to us. So, we will be governed by different strategies by different partners. We don't want to have our strategy to decide what we want to do. We would rather get our partners to decide what they want to do to maximize their revenues. I'm sure with the sensitisation of revenues, the growth will be protected by doing things differently and reaching out to untapped markets.

Dhiren Salian: Supratim, on your second question on variable annuity, I think that's a great opportunity. But frankly, at this point, we don't have a product. We continue to explore what are the structures that we could put in place to provide this product to our customers. And again, we'd also have to evaluate what are the hedging strategies one would have to take as you create these products. So, at this point, this is still work-in-progress. We don't have a product ready at this point.

Supratim Datta: And I have just a few follow-ups. One, Amit, could you clarify how many advisors have you really added over the last 2 to 3 years? And how many do you plan to add going forward? And, Dhiren, if you could give us some clarity on what would be the negative carry impact from the NCDs that you plan to launch in the second half. That would be very helpful.

Amit Palta: So, on adding advisors, there is a focus on not just adding licensed advisors to our base, which actually has grown by almost 60% in H1, but also to look at distinct profiles of advisors who can give us access to specific customer profiles for whom we are designing our products. So, it is actually when you create products, you have customers in mind, and then you search for the right profile of distribution to get your product available to the right distribution set. So, I think not just will we grow on the number of advisors that we license, but we also endeavour to reach out to the right profiles to give us access to the customers most appropriate for our products. So, that is one area where we have really invested. And quite a few profiles have been successful in terms of acquisition and licensing. And we continue to work on that path and see how it progresses.

Dhiren Salian: So, over the last 2.5 years, I think we have added over a lakh of agents. So, that is the first number that comes to mind, can check that and come back.

On your question on what kind of carry do we have on the sub-debt, it's going to be very, very marginal. It's not something to worry about.

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

Madhukar Ladha: Just a couple of them from my side. First, can you quantify the impact of not readjusting the IRRs on the non-par products in Q2? So, that could give us some sense of what the more normalised margin in Q2 and first half would be?

Second, our renewal premium continues to sort of lag and is just growing at about 3% plus we are also seeing continued outflows, so can you give us some sense of when this actually stops? Yes, those would be my two questions thanks.

Dhiren Salian: Hi Madhukar, so yes, there was an impact partially because of the yield curve in the second quarter. It is small, but it did have a part to play as it moved across the quarter. But as you look from Q1 to H1, you see that the margin movement actually been quite negligible. That's one. The second point that you raised in terms of renewal premium being much subdued relative to the new business, that's right. There are two elements to this. One is that we do have some of our policies which are of a longer tenure, typically 10 years and above, which are now hitting the point of maturity, where, of course, these are in some sort of planned outgo. So, those are coming into the fore at this point, policies that we would have sold back in 2013, 2014, which are now exiting the book. In addition to this, the unit-linked book, some of the larger numbers that we had done in FY2018-19 is now hitting the 5-year plus mark where you could say given the release of the lock-in and the fact that markets are running at this levels, some customers may choose to exit the policies either completely or partially. That's creating an outflow to that extent. What are we doing about this? Obviously, the longer the policy stays with us, the better for us from a company's perspective. One of the products that we had launched is the Platinum product on the unit-linked side, which has a trail commission format. The idea being that there is skin in the game for both the distributor as well as the customer to continue as well as, that gives us the benefit of a longer tenure and potentially higher margins there. So, these are some of the structures that we are evaluating and we also put in place in terms of elongating the stay that we have with customers. But of course, there could be points in time where given where the markets are, some customers may choose to book profits.

Amit Palta: Also just to add, as you know that we were going through a recalibration in our distribution strategy and we were walking that path of diversification on channels, we did have an impact on our growth over a period of last 3 to 4 years. So, the year prior to 2022, we did have a relatively muted growth area. So, that muted growth phase has led to relatively lower renewal premium coming through now. That also is the third element which is impacting overall renewal premium growth, apart from what he has mentioned.

Dhiren Salian: And now as the growth has started to pick up over the past few years, we should start to see improvement in the renewal premium over the next few years.

Madhukar Ladha: Right, and just as a follow up, I remember that in Q4 last year because of these, you had gotten a negative sort of persistency variance in your EV walk and one of the reasons was obviously the ULIP, right and increase in mass surrenders, given that this seems to have continued into this year. So, do you expect a higher sort of impact, I mean, another negative impact coming through in this year as well? Has that been accounted for in your EV calculation for first half? And what is your economic variance? Can you give me that number? What is the positive economic variance in first half?

Dhiren Salian: One quick correction, Madhukar, it wasn't mass surrenders. We had just seen elevated surrenders. It wasn't mass surrender. So, as you compare H1 to H1, surrender rates themselves have dropped, but of course the eligible book itself is much large and therefore you would have seen an absolute volume go out. This experience we continue to monitor and eventually expect the ULIP persistency to come towards the long-term average.

In any case, we will reassess at the end of the year, and if we need to, we will take an assumption change. But like I said, H1 to H1, we are seeing lower surrender rates. There is a marginal variance that we see, but that's not large at this point, and we will continue to watch through to the end of the year.

Amit Palta: So, in fact, let me also add to it that if you were to look at only persistency, whether 13, 25, 37, 49 months, actually it is quite best in class when it comes to unit linked products.

It is only the design of the product which allows liquidity after five years and good markets has led to an impact on the renewed premium collection. So, persistency wise, it should not be construed that ULIP has a problem on persistency. It is best in class for us when it comes to persistency. So, we don't have any problem on persistency.

Madhukar Ladha: And on the economic variance, can you quantify that?

Dhiren Salian: We have not broken that out this time. We do that at the end of the year, but there is substantial economic variance.

Moderator: Thank you. The next question is from the line of Aditi Joshi from JP Morgan. Please go ahead.

Aditi Joshi: Just a couple of questions. If I look at the presentation and page 67, you have specified the reference to September 2024. So, we try to assume that you have taken some cut in the economic assumptions and that could likely impact the EV movement in some way.

And second question is related to the yield movement that you have mentioned that it has had some impact on the margin profiles. Now, when we look at the non-linked product category, it has been somewhat weaker. So, I just wanted to understand a bit more from you as in which particular product category has been affected by that movement in the yield curve. Is it fair to assume that some impact has been seen on the annuity level margins as well? Yes, those are my questions. Thank you.

Dhiren Salian: So, taking your second question first, yes, the impact of the yield curve has been felt on the non-par as well as the annuity product line. That's true. Now, on your first question that you pointed out, see, we are on the IEV method. So, whatever is the risk-free at that point in time at the end of the period, that's what we will take into account. So, yes, while you see the yield curve move, the second column is what we are now factored into the current EV.

Aditi Joshi: You have mentioned somewhat substantial amount of economic variances, but any comments on the operational variance that you are able to make for the first half EV movement?

Dhiren Salian: So, we break the entire EV Walk at the end of the year. That's what we normally do. So, we will take that into account then.

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

Prayesh Jain: Just on the new commission structures and discussions with the partners that is ongoing, while you know the business is on, so the current commissions are being paid in the previous structure itself and which would basically mean that the margins in this quarter in Q3 could be impacted to that extent in this quarter? That would be my first question. And the second would be what is the experience in the new product structures in the October month so far with respect to YoY growth or any product mix changes that you could highlight? Those are my two questions.

Dhiren Salian: Prayesh, Dhiren here. So, the new commission structures have been in place for some distribution partners, and we continue to have conversations with some other distribution partners. They'll anyway be effective for the entire quarter, so I don't expect a material negative from that perspective coming through at all.

So, in terms of October, 20-21 days of October, we are not seeing any fundamental shift in our product line. It's broadly the same kind of trends that we had seen in quarter two that continues into the early part of October. But again, October and November are festival months, sometimes a little difficult to call, but let's see how that progresses. But nothing dramatic for us to call out at this point.

Prayesh Jain: No sudden jerks in terms of declines or nothing of that sort, right?

Dhiren Salian: No, not out of line.

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

Dipanjan Ghosh: Just two questions from my side. First, if I look at your non-linked savings growth, that has been quite weak. It was down 10% and 15% in Q2 and H1. And this seems to be a tad lower than some of your private peers. And also, you mentioned that in the second quarter, it was more skewed towards par over non-par. So, the question over here is in case, let's say, ULIPs were to go through some sort of slowdown in the second half, how do you think some of the par and non-par products will see traction from a going concern basis?

And my second question is if I look at your Cost-to-TWRP ratio for the savings business and again you give the first half and first quarter number but my assumption would be that the second quarter Y-o-Y increase in cost-to-TWRP for the savings business would be higher than the Y-o-Y increase in Q1 despite the fact that ULIP mix increase Y-o-Y was relatively lower in Q2 compared to Q1. So, just wanted to get some sense of the payouts till the quarter and also how do you see it incrementally?

Amit Palta: Yes, so the first question pertaining to non-linked business, as you know that unit linked product was typically the consumer preference in buoyant markets. That is something which was quite visible. And we anyways don't insist on any specific product preference when it comes to distributor making a choice.

From that perspective, we actually saw customers relatively choosing lesser of non-participating guaranteed products in comparison to unit linked as well as participating products. But, let me also highlight that participating and non-participating is something that all of us understand very well. But what is being currently sold in the market is the customer's demand for easy liquidity in the product. As you know that most of the products sold in the life insurance industry are not liquid.

And the proposition that has really emerged over a period of last year and a half in the industry is about offering liquidity in the form of immediate income, which was the option available both on participating as well as non-participating products. Different companies have taken different calls. Some companies have offered this proposition on a participating platform. Some companies have offered it in the non-participating platform. So, we incidentally offered this proposition on the participating platform. So, participating platform has delivered good single-digit growth for us, although of course not in line with the unit linked growth.

And second, when you also look at growth, you know that typically, investible surplus is generated with customers who are higher in age, and that segment, we also have annuity placed in the guaranteed space. So, if you want to combine non-participating business along with their annuity, then sum total growth is not very way off from the industry trend.

So, you need to look at non-linked savings in conjunction with annuity performance, because eventually the customer segment is similar with investible surplus and has opted for annuity products with us. So, looking at all together, it is not very way off from the market.

Dhiren Salian: Dipanjan, on your second question on cost ratios, if I understood it right, the overall cost ratios have increased, but when you look at the savings line of business, the increase is quite small. Evidently, the higher cost ratios do come in from the protection line of business, which is also more margin accretive. So, quite happy to have that on board, despite the higher cost ratio. And what we want to do is do more of the protection business, of course, which does add to our VNB, not taking away the opportunity that exists in the market.

Dipanjan Ghosh: So, completely agree. I just wanted to understand that while it has increased marginally in the savings business, but also your ULIP mix has gone up significantly, both Q1 and H1. And I would assume that some of these products, because ULIPs have lower margin, maybe your payouts also you would be relatively more conservative in that. So, despite that, the ratios have increased. I just wanted to get some colour on the market competitiveness

Dhiren Salian: I think the way the ratio gets computed is actually cost with the TWRP which also takes into account renewal. So, if you look at the cost ratio growth, cost growth versus topline growth, you see that top line is ahead of cost. But because renewal numbers are weak at this point, 3% to 4%-5%, that is what impacts the cost ratio adversely.

Dipanjan Ghosh: Your fourth quarter last year, ULIP growth was quite strong, also the base was low., Now on this base and given the current market conditions, and again, I typically understand that you kind of don't push your products just about the customer demand, but this confidence of sustaining the 22%-25% sort of a growth trend that we have been seeing in the second half?

Amit Palta: See, the proof of the philosophy that we have been staying true to for a very long period now. It's my request to you to trace back our few quarters' performance in last few years and you will see that whenever consumer sentiment shifted towards products other than unit linked product, in those quarters our ULIP mix had actually dropped to close to around 40 odd percent. So, whenever there has been a shift in consumer preference, our portfolio has actually reflected that. It's just that you have to trace back in which quarter it happened.

One of the quarters which I can recollect is that of FY2023, when there was entire scarcity built and there was a demand for specific kind of products. And also in between, we saw a lot of volatility in markets and that was typically in FY2020-2021. That volatility led to a demand for participating and non-participating products picking up and our product mix reflected exactly that.

So, we are quite confident that if ULIPs there is a slowdown, though I truly believe that long-term story on India equity is still quite strong. And we have a mature set of customers who are investing with full knowledge on ULIP kind of products. But even if there is an impact, I guess we have all the bouquet of products available with us, which can stand the test of any change in the market environment.

Dhiren Salian: Dipanjan, if you look at our new business mix, about half of it comes in from unit linked, 30% comes in from non-linked and 20% comes from protection. Now, this is no way reflective of the amount of time and effort that we spent from a product development perspective. We are quite aware that there are various segments of the business that have got differential product propositions that need to be made available to them. And we spend adequate time with them because we are able to reach these customers through our diversified distribution network.

And each distribution network requires a different set of products to be able to cater to their customer pools. So, the amount of time that we spend is not reflective of the outcomes in terms of APE. We do spend adequate time making sure that our propositions on the par, non-par and annuity side are in line with what the market offers. So, if there is a swing away from unit linked, we have got propositions in the non-linked space which cater to customers and we should be able to take advantage of the opportunity there.

Moderator: Thank you. The next question is from the line of Gaurav Jain from ICICI Prudential mutual fund. Please go ahead.

Gaurav Jain: A couple of questions from my side. One is, if you can share a little more update on this ULIP Platinum as a product as to for the total ULIPs sold, how much came from this product?

Second is for H2, what are the new launches that are lined up and in which segment of the business will the launch be?

Amit Palta: So, first on Platinum, see first of all, like I mentioned, not every partner picks all products. So, different partners prioritize products, and Platinum also has been prioritized by certain distributors of ours, which is mostly agency and some part of a direct distribution. And there is a proposition here because with trail commissions being built in the product design, customers tend to see much lower cost in the initial part and then eventually see a value getting accretioned through the commissions over a longer period of time.

But if you ask me, there is a fair number of customers in the fair mix of unit linked products where customers are still choosing our regular unit linked products, because we do believe that long-term investment, if one were to do in unit linked products, they are quite beneficial if a customer was to stay invested for 11 years onwards. So, from that perspective, not that everything is moved to Platinum kind of products, but there are certain category of distributors, certain category of customers who have prioritized products which have different structure. But yes, it has definitely got newer customers to come and start buying life insurance products.

On the second part of new product launches, this is one regular exercise that we keep doing. So, that's another process. Almost every quarter, we have either added new products or new features in our existing products. So, that process will continue. And we will keep you informed as and when we have new launches scheduled in the coming time.

Gaurav Jain: And to follow-up on Platinum, sequentially will we see month-on-month growth, and are we seeing activation across partners or growth here? I mean, I just wanted to understand, the products we launched, should we expect it to become a meaningful chunk in quarters down the line?

Amit Palta: It will remain stable, like I said, Gaurav. At a Company level, from a strategy perspective, we don't have a bias for any specific product. We are only creating options. Eventually, customers and distributors pick up what they find is most suitable.

Like I mentioned, long-term unit linked product if a customer were to stay invested for 11 years, 12 years, 15 years, is as good as Platinum. So, some customers may be comfortable with a clear line of sight of making premium payments for 10, 15 years, and they still find existing ULIPs as attractive. So, we don't have a bias. We leave it for customers. We manufacture products, we pick up insights from the customer, we create it, put it on table, and then let the distributor pick it at the site.

So, from that perspective, what product affords is what we make it as part of our distribution commission. So, we pay what we can afford, rest the choice is entirely with the distributor. So, it will remain sustainable. It will remain one of our significant propositions. And we will see how it evolves.

Gaurav Jain: Just a question on solvency, Dhiren. If we raise this ₹ 1,400 cores sub-debt, how much will the solvency increase to? And will we still have room for the sub-debt to be raised or will this be the final sub-debt that can be raised given the equity that we have?

Dhiren Salian: So, Gaurav, if we raise the ₹ 14 billion, that should increase the solvency roughly 20%. This is the cap that we have hit at this point. Based on how the numbers span out, then maybe we could look at raising the sub-debt additionally, but that of course depends upon what the underlying share premium etc. is. At this point this is the cap. So, we have got ₹ 12 billion on board, ₹ 14 billion is what we can raise additionally and that contributes to 20% of solvency.

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

Nischint Chawathe: In the Banca business, what is the share of, you know, single insurer partnerships? You know, I think, last time we had mentioned that, ICICI bank and I think in one more foreign bank, you are the single insurance company.

Amit Palta: So, 25% of our retail business is ICICI Bank and Standard Chartered Bank put together, 25% of the retail business, not inclusive of a group. So, of the retail business it is 25%.

Nischint Chawathe: Sure, got it. Just a little bit on VNB growth target, because I guess that's the key focus now. How are we looking at this growth target for the year?

Dhiren Salian: So, we are looking to grow. We have got decent growth for half year, 25% plus on APE. Continue to build upon that growth through the year, Nischint. But of course, one needs to be aware that there are regulatory changes that have happened in this current quarter. And then of course, the unit linked has done quite well in this market environment. But like I said, we will take whatever opportunity is available to us. whatever the customer wants to buy, we will make that available.

Nischint Chawathe: So, the focus is essentially on, I mean, is it kind of APE and a VNB target, or is it sort of more on an overall VNB growth target?

Dhiren Salian: At the end of the day, it's all going to come to absolute VNB growth.

Nischint Chawathe: Okay. And which you are saying kind of sustains at around 20% plus?

Dhiren Salian: We haven't put out a number, Nischint. We will do as much as we can.

Nischint Chawathe: And just finally, a couple of changes that we make on the distribution side. And I know it's early days and take a couple of months to stabilize. But generally, what is the success rate of some of these changes in structures on deferments or kind of trail commission structures, etc. If you could give some qualitative color on this in terms of how do you see the offtake evolving over time? And is it more with the larger distributors or smaller distributors? If you could give some qualitative color on that would be useful.

Amit Palta: Yes, so see, like I mentioned as an answer to the earlier question that our partners are quite understanding of the regulator's position on the change in guidelines. And they're quite receptive to this proposal of these options that we spoke about, which is claw back or a deferral across categories of products. So, it could be that different category of products may have a different proposition on claw back or deferral. So, it does have an impact on cash flows. So, probably smaller players in corporate agency and broker, you may see that business model will have to be evolved into growing the overall top line to manage for any impact due to persistency gaps. But we do believe that partners with better persistency will probably have least impact of these changes. So, from that perspective, different partners, different fabrics and different combinations will evolve and we will see how it pans out. But one thing is clear, that we have to work towards expanding the overall market through different propositions and look at compensating for whatever impact is on revenue on account of lapsed policies. So, that is something which will really emerge. We would not know how it will evolve, but at this point in time for the changes that we have been discussing, most of our partners are very receptive.

And this entire philosophy of good for customer and fair to shareholder as well as fair to distributor is something which is really understood well. And it has not been as complicated as it has been made out to be. I think partners have been extremely forthcoming in accepting this proposal as a new way of distributing life insurance going forward. And we truly believe that eventually it will convert into a good outcome for the customer.

Nischint Chawathe: That includes banks and the larger partners as well?

Amit Palta: Yes, of course, banks as well as anywhere where we have multi-insurance partnerships. So, in fact, proprietary distribution specific to agencies, we have already implemented changes. And in banks, anyways, we have only 20-22% of our business coming from multi-insurer corporate agents, brokers and banks. So, to that extent, we will be impacted. Rest, I guess, mostly it is in place.

I just want to keep repeating that eventually non-linked business is only 20%-25% of our business. So, from that perspective, exposure to the product categories where commissions will undergo a change is much lower impact on us.

Nischint Chawathe: True, but you would be looking at changing the structures or kind of having more kind of trail-based structures, I guess across product lines. I mean, that's, I guess, the new way to look at things.

Amit Palta: For that, we did not wait for surrender guidelines. We actually have been doing it for now almost two years.

Nischint Chawathe: I'm not connecting the two.

Amit Palta: So, that's as a philosophy, we do believe that deferral is the right way of doing it and promote long-term contracts with customers. So, from that perspective truly on philosophy, we have no disconnect. We have already experimented in the past. And that gives us the confidence that we will be able to tide through this phase as well. So, as a philosophy, as a strategy, we have a lot of conviction in deferment as a process to manage overall profitability, overall outcome for the customer, as well as for the shareholder.

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

Neeraj Toshniwal: On Credit life, one of your peers reported and mentioned that there's been some slowdown because of lower disbursements to NBFCs, while we have seen good growth in the quarter. So, what different we are doing here, just to get some sense how the growth is looking for us?

Amit Palta: So, credit life slowdown, like I mentioned in the opening script as well, is largely on account of business in the MFI segment, for a reason which is well known in public domain. On the business being done through non-MFI partners, there we have seen quite a robust growth. So, we don't see any slowdown happening on that front. So, that is how it is indicated. So, overall business, if you were to look at, credit life growth did come down in quarter two, but largely on account of slower disbursements in MFI as a segment. So, otherwise non-MFI looks okay. It is completely aligned to the credit growth. It moves in tandem. What we try to do to create an alpha over general credit growth in the industry is to work in that hardworking model of increasing attachments and opening new lines of businesses with every partner of ours. And also in to the extent of adding new partners, which we have done it, we continue to do it. We added another

10 partners in quarter two as well. So, to that extent, addition of new partners, opening new business lines with our existing partners, we have had great relationships with them. So, that is something which is going to help us in creating an alpha over the industry credit growth. Otherwise, industry credit growth, 1% to 2% plus minus is something that we are quite confident of, and rest alpha, like I mentioned is going to be about existing customers and new partner addition.

Neeraj Toshniwal: Q4 exit margin, at the time of March we did mention that should be the overall margin for FY25 as well, and given the changes in surrender, some impact out there in product mix change. What is the margin trajectory we should be working within the H2 going ahead given, how do you see the product mix evolving from here and the competitive intensity landscape changing from here?

Dhiren Salian: Neeraj, we haven't given a margin guidance. What we had seen was look at full year margins as you look at quarter one and quarter two. And that has been the relevant point of comparison. Yes, you are right that there are a set of changes that are coming through on the non-linked space in terms of the surrender value regulations. But as we mentioned, there are ways in which we are looking at contracting the impact. And these will evolve over the course of the next couple of months and into the rest of the year as well. So, there is no margin guidance to that extent. We are seeking to grow absolute VNB, and we will continue our endeavors on that, bringing up every product line that makes sense for the customer and we will offer whatever the customer wants.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

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