ICICI Prudential Life Insurance Company Limited
Earnings conference call
Year ended March 31, 2024 (FY2024)
April 23, 2024

Anup Bagchi:

Good evening and welcome to the results call of ICICI Prudential Life Insurance Company for the financial year 2024. I have several of my senior colleagues with me on this call, Amit Palta, who heads Distribution, Brand, Marketing and Products; Dhiren Salian, CFO; Judhajit Das, who heads Human Resources, Customer Service and Operations; Deepak Kinger, who handles Audit, Legal, Risk and Compliance; Manish Kumar, 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.

First, is that in continuation with the efforts to foster a conducive regulatory environment and enhance ease of doing business, IRDAI has notified regulations encompassing pivotal domains such as products, safeguarding policyholders' interest, corporate governance and approval for setting up of an electronic insurance marketplace, i.e., Bima Sugam. We believe these regulations are a welcome change which encourages innovation, competition, and sustainable growth in the life insurance industry.

I am pleased to inform you that the Shareholders of the Company have approved the appointment of Mr. Naved Masood as an Independent Director effective March 7, 2024. Mr. Masood served in the Indian Administrative Services before retiring as Secretary, Ministry of Corporate Affairs. He has also served as a member on the Board of SEBI where he was actively involved in matters concerning the functioning of listed companies and other SEBI regulated entities.

I would also like to inform you that our Chairman of the Board of Directors, Mr. Ramachandran, will be retiring effective June 30, 2024, having completed the maximum age limit of 75 years, as prescribed by the IRDAI regulations. Mr. Ramachandran has played a pivotal role in fostering the effectiveness of the Board of Directors by setting high standards of compliance and governance. We would like to express our gratitude to him for providing an overall strategic direction towards the growth and success of the Company and wish him well for the future.

Consequent to Mr. Ramachandran's retirement, Mr. Sandeep Batra, a Non-Executive Director of the Company, has been appointed as Chairman of the Board of Directors effective June 30, 2024, subject to regulatory approval. He has been on our Company's Board since the year 2014. Mr. Batra has been with ICICI Group since the year 2000 and is currently an Executive Director on the Board of ICICI Bank. We believe our Company will gain immensely from his guidance.

Innovation has been at the core of our business strategy. We constantly work on offering innovative products across life stages to our customers. We are the first life insurer in the country to offer an annuity product with 100% refund of premiums and a long-term pension product which provides customers with the flexibility to make partial withdrawals.

We believe simplification is the key to expanding the market and is in line with our objective to become the most customer and distributor friendly life insurer. Notably, we are also the first life insurer to pay out commissions on the same day to our distributors. Around 81% of our policies have been issued using digital KYC and 45% of our policies were issued on the same day for savings line of business in Q4-FY2024. Innovative products and processes underscore the Company's strategy of providing the right product to the right customer at the right price and through the right channel.

In line with our objective of being a customer-centric insurance provider, we have set an unparalleled benchmark by maintaining industry leading claim settlement ratio of 99.2% for FY2024, with an average turnaround time of 1.3 days for non-investigated claims.

A testimony to our customer centric efforts is the endorsement of 'Best Life Insurance Provider in India' by Hansa Research for second consecutive year in a row. We are thankful to our customers for their continued confidence in our innovative products, digital support, easy documentation, and policy issuance time.

We have also been conferred awards by various industry platforms. Our complete list of awards won during FY2024 is presented from slides 61 to 63 respectively.

Now let me talk about the key performance highlights:

- As you can see on slide 7, for the second consecutive quarter in a row, we have delivered a strong RWRP growth in Q4-FY2024, outperforming both the overall industry and private life insurers. As shown on the slide, we started FY2024 on a slower note. However, in parallel, we continued with our efforts towards investing in building distribution capacity especially in proprietary channel, continuous product & process innovation, digitalisation & data analytics geared to simplify our business operations, all aimed at enhancing customer experience.
- In Agency, over the last two years, we have been scaling up sales frontline managers and providing them with adequate training to enhance productivity. We also empowered our agents by providing them institutional support complemented by data analytics and digital capabilities. Additionally, we continued our investments in demand generation tools to expand the agents' natural market. Agency channel recorded APE growth of 15.6% year-on-year in FY2024.
- In the Direct channel, we invested in our website to improve customer experiences and worked on customer onboarding for a smooth and seamless online journey. We also leveraged data analytics to capitalise our ability to upsell to our existing customers with alternate propositions best suited to their needs. Direct channel APE grew by 20.0% year-on-year in FY2024.
- Both these channels have delivered around 17% APE growth in FY2024, surpassing the growth registered by the overall industry and private players.
- On the products side, our strategy on continuous product innovation with the objective of delivering a superior value proposition to our customers has resulted in strong growth across most product segments. Annuity business APE grew by 88.0% year-on-year, linked business APE grew by 26.1% year-on-year and retail protection APE grew by 46.6% year-on-year in FY2024. We believe that annuity and retail

protection offer strong growth opportunities and will remain key focus areas for the Company.

- At the Company level, the overall APE grew by 4.7% year-on-year to ₹ 90.46 billion in FY2024.
- Our continued investment in data science & customer-centric analytics engine has led to improvement in persistency in most cohorts. 13th month persistency stood at 89.0% and 49th month persistency stood at 68.5%.
- Our cost to TWRP ratio for savings line of business stood at 15.8% for FY2024, as we continue to invest to deliver sustainable growth in the future.
- For FY2024, Value of New Business was ₹ 22.27 billion and with an APE of ₹ 90.46 billion, VNB margin stood at 24.6%. The decline in VNB margin is primarily on account of the shift in underlying product mix towards unit linked and par from non-par business, decline in group term business and higher expense ratio for the current year.

To summarize, throughout FY2024, we worked on various building blocks of business with our efforts pivoted towards balancing growth, risk & prudence and profitability. We currently have the capability to provide the right product to the right customer and deliver it through the right channel. Closing FY2024 on a strong note, we are confident that the positive momentum built will continue going into FY2025 as well. We believe, with the efforts, investments, and the time we have invested to create a resilient business model, we are poised to continue our journey of sustainable growth into the future.

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

Amit Palta:

Thank you, Anup. Good evening, everyone.

I will be talking about performance update for FY2024 through the elements of the 4P strategy driven by our 4D framework. Let me now highlight the key initiatives implemented under the 4D framework.

The first element is **'Data analytics'**: We have been using customer-centric analytics engine across policy stages and it has resulted in continuous improvement in persistency ratios. In terms of mitigating fraud and early claims risk, AI and ML backed model has led to ~70% reduction in cases with higher propensity for fraud and early claims for savings policies, for H2-FY2024. The details of our extensive deployment of analytics capabilities are set out in slides 31 to 34.

The second element of the 4D framework is **'Diversified Propositions'**. As Anup highlighted, during the year, product innovation to meet the evolving needs of the customers has been one of the primary focus areas for us. For example, ICICI Pru Gift Pro was launched to cater to affluent customers who prefer increased income and lower cover multiple. Constant maturity fund was launched to cater to customers planning to lock-in investments at high interest rates. During Q4-FY2024, we launched ICICI Pru GPP Flexi with benefit enhancer and ICICI Pru Gold Pension Savings in the pension and annuity segment to address customers liquidity concerns. ICICI Pru Platinum launched in the linked segment provides customers the flexibility to choose level of protection between sum assured, fund value or combination of both.

The third element **'Digitalisation'** has been detailed from slides 39 to 42. During FY2024, we made strong inroads in integrating our digital ecosystem with central agencies to fetch KYC and income estimation details for a simplified digital customer onboarding.

The fourth element i.e., **'Depth in Partnerships'** is presented on slide 44. We continue to build capacity and have added nearly 44,000 agents during FY2024 spread across geographies. Within the bank and non-bank channel, we continue to add new partnerships and increase share of shop in existing partnerships. We now have a total of 44 bank tie-ups with access to more than 21,000 bank branches and more than 1,100 non-bank partnerships with an addition of 204 non-bank partners during FY2024. Our "ICICI Pru Stack", an array of platform capabilities, helps us deliver superior value propositions to our customers, in collaboration with our partners.

Let me now talk about the business performance update through the elements of our 4P strategy.

Starting with the first 'P', that is **Premium Growth** element, which is mentioned from slides 10 to 12. As highlighted by Anup, our persistent efforts to lay the building blocks for future growth started yielding results in Q3-FY2024 and is now notably evident in Q4-FY2024.

Our total APE stood at ₹ 36.15 billion for Q4-FY2024 and ₹ 90.46 billion for FY2024. Our retail APE grew by 12.0% year-on-year to ₹ 32.01 billion for the last quarter.

Agency business APE grew by 28.6% year-on-year in Q4-FY2024 resulting in 15.6% year-on-year growth for the entire year.

Agency business contributed 29.1% to overall APE in FY2024 as compared to 26.4% in FY2023, it is in line with our efforts to increase the agency channel mix in our Company. Anup has already highlighted our efforts on building distribution capacity in the channel.

On the Direct business, investments in our digital platform have started yielding results. We have one of the largest upsell channels in the industry backed by analytical capabilities. Our Direct business APE grew by 22.2% year-on-year in Q4-FY2024, resulting in 20.0% year-on-year growth for the entire year. Direct business contributed 14.1% to overall APE in the entire year as compared to 12.3% in FY2023. Together, Agency and Direct business, now contribute 51% of our retail APE mix for the entire year. Given the investments and efforts we have put into the proprietary channel, we believe the strong growth momentum will continue going ahead as well.

Bancassurance business grew by 18.8% in Q4-FY2024 and 2.3% year-on-year for the entire financial year. Bancassurance business contributed 28.7% to overall APE in FY2024 as compared to 29.3% in last financial year.

Partnership distribution APE declined by 26.1% year-on-year in Q4-FY2024 and 8.1% decline year-on-year in FY2024. Partnership distribution business contributed 13.0% to overall APE in FY2024. Throughout FY2023, the Partnership distribution channel was more focused on the non-par business. As you know, the non-par product segment has faced challenges during the year, hence business from this channel has declined. However, if you look at last three years from FY2021 to FY2024, it has grown by 26.0% CAGR. Therefore, we believe this is transient and expect this channel to grow going ahead given new partnership additions and capability to offer varied product propositions.

Group business APE declined by 6.1% year-on-year in Q4-FY2024 and 8.0% in FY2024. Group business contributed 15.1% to overall APE in FY2024. The group channel declined on account of group term business, while we registered growth in the group credit life and group fund business both in Q4-FY2024 and FY2024.

We have a very diversified distribution mix with no single distributor, excluding ICICI Bank, contributing more than single digit in percentage terms to our overall APE. Hence, volatility in any single channel will not have any significant impact on our top line or bottom line.

Along with channel mix, we continue to maintain a well-diversified product mix. FY2024 witnessed a shift in consumer preference towards ULIP products on account of market buoyancy. The non-linked savings contribution to overall APE decreased from 37.3% in FY2023 to 25.8% in this financial year over last year. Contribution from the linked savings products to overall APE increased from 35.9% in FY2023 to 43.2% in FY2024.

Annuity business now contributes to 10.5% of overall APE in FY2024, with the tilt towards regular premium annuity over single premium annuity, in line with the trends we had seen throughout the year. Protection products contributed 16.9% to overall APE and group savings products contributed 3.5% to overall APE in FY2024.

Another important focus area for us is **Protection Growth**. The overall protection APE stood at ₹ 15.25 billion in FY2024 with contribution from credit life business at 39.4% of the overall protection. Retail protection is at 31.4% of the overall protection and group term is at 29.2% of the overall protection business for ICICI Prudential. The last 3-year trend across the protection APE segment exhibits strong growth in retail protection and credit life business, which is presented on Slide 59. The retail protection business has registered a strong year-on-year growth of 46.6% in FY2024, and we expect normalised growth going ahead in this segment. Credit Life business has also grown by 25.2% year-on-year in FY2024, in line with strong credit growth in the economy, while the group term business has declined in FY2024.

As discussed before, the Group term market has become extremely competitive. We understand this segment well and will underwrite business only if it matches our risk-reward expectations.

Coming to the third 'P' which is **Persistency improvement**. Our recently developed AI models which forecast persistency behaviour of the customer at various stages has helped us to improve the overall persistency levels by taking appropriate interventions. As highlighted by Anup, our persistency ratios have been improving across most cohorts.

Now moving on to the fourth 'P' which is, **Productivity enhancement.** Our total expenses grew by 21.6% year-on-year for FY2024. The increase in new business commission is attributed to the redesign of our commission structure pursuant to the flexibility provided in IRDAI's Payment of Commission Regulations. FY2024 had been a transition year, and we expect the rates to be more stable in FY2025. Additionally, we have been investing in capacity creation to support future growth.

The investment made though front-ended are necessary to deliver long-term growth for the company, and the results are already visible in our H2-FY2024 performance. Our overall cost to TWRP stood at 24.0% and saving lines of business cost to TWRP ratio stood at 15.8% for FY2024. We monitor cost ratios for the savings line of business separately. Our objective is to bring efficiency in the savings line of business while we continue to focus on growth in the protection business.

Consumer centricity continues to be at the core of our strategy. We believe that we have the right product through the right channel to the right customer equation, leading to a strong business foundation already.

Going into FY2025, we will capitalise on the same to target untapped markets to expand our customer segments. Having said that, we will continue to invest in organisational capabilities such as people, process, technology, analytics, distribution, and products to ensure we deliver sustainable growth and profitability along with managing risk and prudence.

I will now hand it over to Dhiren to talk to you through the financial update for FY2024.

Dhiren Salian:

Thank you, Amit. Good evening. We regularly monitor our experience in respect of various risks and the diligent and prudent risk management framework we operate on is reflected in our strong and resilient balance sheet presented in slide 16.

Now let me take you through the financial metrics. As shown in slide 18, our Embedded Value grew by 18.8% year-on-year from ₹ 356.34 billion at March 31, 2023 to ₹ 423.37 billion at March 31, 2024. The Value of Inforce (VIF) business grew by 14.5% year-on-year. Our Embedded Value Operating Profit (EVOP) for FY2024 was ₹ 50.17 billion. The breakup of EVOP is as follows:

- Unwind contribution for FY2024 is at 8.6% of opening EV.
- The VNB of ₹ 22.27 billion is 6.2% of the opening EV. Unwind and VNB together constitute 14.8% of opening EV.
- Operating assumption change is a small positive ₹ 0.70 billion.
- Persistency variance is a negative ₹ 0.56 billion which is largely due to increase in later duration surrenders in the unit linked portfolio because of equity market buoyancy.
- Mortality variance is a negative ₹ 2.88 billion this year. Negative variance is primarily due to an enhanced provision of expected claims incurred but not

reported. Without provision for this amount, the variance would have been positive. We have provided for this expected but not reported claims in our financials on a prudent basis. We will be continuously monitoring this variance and currently do not see it impacting our long-term mortality assumption.

Consequently, the ROEV for FY2024 stands at 14.1%.

Total economic and investment variance is positive ₹ 16.91 billion due to shift in the yield curve and equity market movement.

Our VNB margin for FY2024 was 24.6% as compared to 32.0% in FY2023. The contribution of FY2024 VNB from protection products is at 51.4%, non-linked saving products is at 36.9% and ULIP products is at 11.7%.

The decline in VNB is primarily on account of a shift in product mix, competitive pricing pressure and increase in expenses.

The market buoyancy has led to a growth of unit linked portfolio, which, as you are aware, has a lower margin profile compared to the company average. Additionally, within the non-linked segment, we have seen a shift in product mix towards participating products.

The industry was impacted due to change in taxation of ₹ 5 lacs non-linked business. During the year we introduced various innovative product propositions in this segment and one such example is the launch of ICICI Pru GIFT Pro product. However, as also mentioned in our previous earnings call, throughout the year there has been competitive pressure on pricing in this segment which has impacted VNB.

Higher expense ratio for the year also had an impact on VNB. As explained earlier, the redesign of the commission structure has led to an increase in commission expenses. We have also continued investment in capacity creation to support future growth, especially in our proprietary channels, as well as in information technology and brand awareness. Our expense growth being higher than the topline growth impacted our cost absorption capacity.

So how should one look at this going forward. Here, as we have said before, we will continue to focus on growing the absolute VNB. We believe that product mix will be guided by customer preferences and our strategy of providing the right product to the right customer at the right price and through the right channel will help us to deliver growth. Given that we have a well-diversified product suite catering to varied customer needs, offered through a large number of distribution partners with access to varied customer segments, we believe that we will be able to sustain a balanced product mix. On the expense side, since the impact of revised commission structure has already been factored in this year and we have seen better growth outlook from H2-FY2024 onwards, we don't expect unit cost to be impacted significantly going forward. Putting these together, with the granular work on customer segment, process, distribution, product and brand that we will continue with, our endeavour would be to deliver business growth ahead of the industry and our VNB growth will be in line with the business growth.

On Slide 21, the sensitivity details have been provided. There are no significant changes in the various sensitivities of EV. Overall sensitivities of both VNB and EV to various factors remain reasonably low, reflecting a stable operating model. Our VNB and EV have been independently reviewed by Milliman Advisors and their opinion is available in the results pack uploaded on exchanges.

Slide 22 exhibits other financial metrics. The Company's profit after tax for FY2024 stood at ₹ 8.52 billion, an increase of 5.1% from FY2023. Our solvency ratio continues to be strong at 191.8% at March 2024. Our AUM stood at ₹ 2.9 trillion at March 31, 2024, a growth of 17.1% from March 31, 2023.
This concludes the financial performance section. Over to you Jit.

Judhajit Das:

Thank you, Dhiren. Good evening. I will be sharing the salient aspects of our ESG journey. As shared in Slide 24 of our investor presentation, we continue to retain the highest ranking in the Indian insurance industry as rated by two leading ESG rating agencies.

I am delighted to share that during this year, we received the 'Platinum Award' for our ESG Report FY2023 at the Vision Awards organised by League of American Communications Professionals. The other awards won this year for ESG are listed in our awards section.

I will now share the highlights under the top five ESG focus areas.

On environment, our initiatives are primarily focused on reducing what we consume and recycling, what we use wherever possible. We have adopted best-in-class environment-friendly practices for reducing energy consumption, water conservation and waste management. In FY2024, we have taken carbon footprint reduction targets in our sustainability journey based on the science-based target initiatives, what is called the SBTI methodology, and we're looking at an overall reduction over the next few years. As a part of our overall efforts to reduce our carbon footprint, we're also encouraging digital adoption across the customer life cycle, and our self-help now stands at 92.8% in this year.

On responsible investing, we already have a Board approved policy to facilitate ESG integration in our investments. Our investment team continues to factor in ESG risks by taking investment decisions and engage with investee companies based on the ESG score as and when required. As a signatory to United Nations Principles for Responsible Investment, we remain committed towards integrating a responsible framework to promote ESG factors in our investment decisions.

Coming to social. On the employee front, we believe that people are key to strategy execution and the source of our competitive advantage. 90% of our employees rating us in the top 2 boxes on various parameters like advocacy, morale, learning and growth, feeling the safety and security and empowerment. Our ratings as "a place to work for" are best-in-class among Indian peer life insurance companies on a top global workplace platform. On the diversity front, our gender diversity ratio has improved from 27% of women employees in FY2022 to 29% in FY2024.

We continue to encourage adoption of various enabling initiatives and policies under our diversity & inclusion (D&I) framework. For example, program for new mothers returning to work and mentoring resource group for young women managers. As a testament to our endeavours, we have been awarded as "India's Best Life Insurance Company for Diversity", held by the Insurance Alerts in this year.

Coming to customers and community, for the larger community our aim is to increase financial inclusions through specially designed micro-insurance products, targeting socially & economically weaker section and we have covered 80.4 million lives as of March 31, 2024. Overall, lives covered stood at 96.9 million. Our 13-month persistency ratio of 89% is one of the best in the industry. This year, we settled more than 3.1 lakh retail and group claims. To promote digital adoption and deliver similar service to our customers, we've integrated various ecosystem databases and repositories.

Coming to governance. Our Board has a majority of Independent Directors, enabling the separation of the Board's supervisory role from executive management. And our efforts shall always be to ensure that we always adhere to best-in-class governance standards.

To summarise, sustainability is intrinsic to our vision of building an enduring institution and as we strive to serve the long term and saving the protection needs of our customers, we would like to reaffirm our commitment once again to create a culture that embraces sustainability and goes beyond goals and targets for integrating best-in-class sustainability practices with our business processes. Thank you very much.

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

Moderator:

Thank you very much. The first question is from the line of Swarnabha Mukherjee from B&K Securities. Please go ahead.

Swarnabha Mukherjee:

Yes, good evening, sirs, and thank you for the opportunity. Three questions from my side. First of all, the VNB margin. So, I just wanted to understand if there has been a contraction also sequentially from nine month level to the full year number. Now if I look at how the product mix has played out between the quarters, I think there has been a larger shift towards annuity vis-a-vis maybe group term life/group protection. Now I just wanted to understand, so you have highlighted a few things like shift from non-par to par and lower group term life as a couple of factors. But for example, annuity, the recent product, which has seen strong scale-up. Wanted to understand also the margin implications of that because as I understood that it had a kind of a lower upfront, higher trail kind of a payout model. So just trying to kind of understand how the margins played out like this? And how should we think about the number going ahead as we move into FY2025? That is the first one.

In terms of Banca, if you could give us some numbers of how I-Bank what was the premium garnered from I-Bank in Q4-FY2024 as well as in FY2024. And should we expect any growth in the run rate in FY2025? And given the fact that the Banca channel overall seems to be focused on the non-linked savings parts? Would it remain the case in FY2025 as well? Or is there a possibility of diversion towards ULIP?

And thirdly, you mentioned about the redesign of the commission structure. If you could highlight in which channels you are seeing this play out and what is the level of escalation? And could there be further escalation going ahead? And is it because of the competitive intensity or any other reason. So those would be my questions.

Dhiren Salian:

Hi, Swarnabha. This is Dhiren. Thanks so much for those questions. So let me pick up one-by-one. The first bit on the margin that you spoke of and the fact that we've introduced a new product on the annuity side, so that product has done well. I think some sense from the fact that we had a PR support on it at the start of the quarter that pickup was decent. But again, as you also rightly mentioned, this is built with a trailed-out commission structure. So, it would cater to only the specific types of distribution partners.

Now when you look at our margin, we've given the margin walk for the full year, how it goes from 32% to 24.6%. And you see the expense change that has come through, which is a negative 4.1%. That's been the large shift across from start of the year to end of the year. The business mix, there have obviously been a shift. We spoke of the fact that the inter-se mix between the par, non-par through the year has happened, along with the group term decline.

Overall, put together, the business mix has, yielded a negative 1.5%. And there's been a negative 1.8%, primarily due to the yield curve movements. Now some portion of this also has played out into Q4-FY2024 itself. While looking at incremental Q4-FY2024 margins may not be the right way to look at it, it is more if you look at it from a full year perspective.

Coming to your third question, let me pick that up first. The redesign of the commission structure, I believe, is largely complete. We don't expect too many changes of this going forward into the coming year. Which channel has it increased? I think largely in non-agency channels, there has been an increase in commission rates. And these are, I believe, are market rates at this point. And no doubt, competitive pressure continues on those segments.

The good part for us is when we look at the Company in all, the retail business when you break it down roughly about half of the business is contributed from agency and direct. ICICI Bank plus Standard Chartered Bank, all of this contributes roughly in the range of about 70 plus percent. So, when you look at the multi-insurer channels, that contribution is actually quite small in relation. So, to that extent, whatever disruption may happen, may happen within the multi-insurer space and less to do with our proprietary channels.

Coming to your second question on Banca and especially when you look at ICICI Bank, we've called it out earlier as well. It's broadly in the ₹ 80 crores to ₹ 100 crores range in the month. There could be periods that is slightly higher given that the underlying product mix that ICICI Bank is fundamentally on unit-linked and protection. Unit-linked in this quarter has done well across the board. So, to that extent, it is slightly higher than the average rate. ICICI Bank, there is no change in strategy. The numbers continue to be stable, and we'd expect that into the coming year as well.

Amit Palta:

So, within bank like Dhiren mentioned, ICICI continues its stable growth and protection, which is the chosen area of focus by ICICI, they've done very well at close to around about 45% of growth. What we have seen in multi-insurance banks as well as non-bank partnerships, is where we have seen some kind of a stress on overall top line as well. In fact, in Q4-FY2024, almost every distribution channel of ours grew in March-over-March as well as Q4-FY2024 over Q4-FY2023 except for multi-insurer non-bank distribution.

That is where we saw the maximum stress because this was a channel, which was largely focused on non-participating products. And hence had to face the maximum brunt of that demand that will compress through the year.

So that business for ours on non-bank partnerships is close to, 15% of our total and adding to it another 12% of our business, which comes from multi-insurer, other banks other than ICICI and Standard Chartered. Overall business coming outside our proprietary channels is close to 27% of our business.

So, this is where the disruption or competitive forces come into play and you at times have to respond to the changes and look at adding value through various means. And it is not restricted only to commission, but it also pushes you to add value to areas outside pricing as well. But yes, when it comes to disruption, it will be limited to only 27% of the business when it comes to impact on the overall commissions.

Swarnabha Mukherjee:

Understood sir. So just a follow-up, I had also requested for some kind of guidance on how to look at or try to understand the margin for FY2025, some direction in it would be very helpful?

Dhiren Salian:

Sure, Swarnabh. I covered that earlier in the comments as well, but we are not fixated on margins, we're looking at growing absolute VNB and given that one of the biggest drags on margin for the year, which has been the expense ratio, I think that's behind us, which has been driven by the commission guideline change. I believe if the product mix stays this way, then it should kind of stay broadly stable at this level. But of course, depending upon where customer demand is, we will be looking to grow those segments. And to that extent, the product mix shifts, you will see a shift in the margin as well.

Amit Palta:

Yes. Just to give you some fair idea, if you were to compare this Q4-FY2024 versus last year Q4-FY2023, actually, non-participating guaranteed products contributed almost

37% of the overall mix last year, which this year it has come down to 10%, which we believe is going to stay at similar levels even in FY2025. And second impact was group protection. Group protection was almost half of what we delivered last year.

So, if you look at these two impacts, I think it has already built into the base, which probably will not go further down from where it is currently. So, to that extent, you can expect that the volatility that you saw in the margins on account of group protection, on account of non-participating guaranteed products, which had relatively better margins last year, stabilization of this will probably lead to more stability of margins going forward in FY2025.

Swarnabha Mukherjee:

Understood, sir. Sir, the exit rate would be a better metric to look at or the full year run rate in terms of margin?

Dhiren Salian:

I think you should look at the full year rate.

Moderator:

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

Avinash Singh:

Two questions. The first one is on embedded value. If I see there, of course, I mean you have a negative variance in terms of mortality. But you said that is kind of for the future expectation in the mortality. So then can you explain, I mean, should not it have gone in the operating assumption changes rather than variance or if you can break it up into whatever sort of your experience that was in FY2024? Or what is sort of for the future changes?

And second one is, again, a bit on VNB. If I were to look the product you have launched particularly the 100% return of premium and all, the product typically designed where, I mean, sticking for the long term or like if you have a more trail-based commissions. And additionally, also, you sort of highlight that you have one of the highest sorts of distribution where you don't have to compete with an open channel. Yet commission rates have gone up so much. So in that context, I would like to understand that in your sort of product proposition is changing more favourable to customers and yet it requires sort of a higher amount of payouts. So, I mean, what's happening there, particularly? So, these are my two questions. Thank you.

Dhiren Salian:

So, Avinash, on your first question in terms of variance. The reason why we have taken this in variance is because we believe it to be short term if it was permanent that we would have taken as a part of our operating assumption change.

The second question that you have pointed out is on commission. We feel that the commissions have been redesigned, and you have to appreciate that the commissions have to be in line with market. It cannot be out of line with market because otherwise, whatever proprietary distribution that we have built may not stay with us on a sustainable basis throughout the long term. We may be able to bear competitive pressures at the margin in terms of where the distribution payouts are, but you cannot be far away from the market.

Avinash Singh:

Yes. But your product design, you have changed, I mean, so at the moment, a couple of the products we have launched that is not really yet available with the market. So, if you are sort of making product design policyholder friendly and yet you are matching the sort of the payouts at the sort of market at present, of course, I mean, the margins will be extremely under pressure.

Dhiren Salian:

No, you are right. These products are things that we are experimenting with, which will align the distributor incentive along with better customer outcomes. But again, given the way these products are at this stage, they are quite new to the market. The pickup is small relatively. And so, I mean in any case it's done with only in Q4-FY2024. So, we have not seen the full play out of this across the year. The pickup, we understand is also quite limited to those distributors for whom trail commission works. Some of the smaller distributors may not go up with this trail model because they will have their own working capital challenges.

Amit Palta:

Just to clarify, after this product launch that we're talking about, both on 100% surrender value as well as trail-based unit-linked product that we launched recently, as a percentage mix even on a stand-alone March or a stand-alone quarter, this mix still remains very small. And the distribution, which has picked up this product also is at a very start-up stage, very small proportion of our overall distribution has actually adopted this.

So, anything that you do with that small proportion of entire distribution will not have an impact on the overall distribution in cost or top line. That is something which I thought I will clarify.

Dhiren Salian:

So, Avinash, just to add to that, in these products that we have launched where those commissions are deferred, it's just that a commission is deferred. There's no reason why the margin is low on this. That's something that you should understand as well. Essentially, what we're doing is aligning distributor incentives with the customers' required output.

Avinash Singh:

Okay, a quick follow-up. In the persistency variance, of course, it's a very, very small number. I mean, again, see on the unit-linked, these are small negative numbers. But I see persistency typically for you, it has been generally improving. So, I mean if there is something specific, what sort of a cause is negative around? Because if I see over the years, generally, in the disclosed cohort at least, persistence has been generally low?

Dhiren Salian:

Absolutely. So, the early period persistency, you've seen that climb across these years. The 13-month persistency, we're close to 90%. I think pretty much best in class. And we're quite happy to share that our second year of persistency, which is the 25th month, come up all the way till 80%, again, class leading. The reason why we have this negative variance is because this is later period surrenders in the buoyant equity market that's created a run-up in terms of outflows. And that has created a little bit of a variance on this product.

Avinash Singh:

Okay. Thank you.

Moderator:

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

Sanketh Godha:

Thank you for the opportunity. So, see, in the VNB walk, the 410 basis points, that is with respect to assumptions, can we attribute largely to the opex? Or you have revisited some assumptions with respect to persistency and mortality also and that is getting reflected in the margin compression. That's my first question.

And the second question is that mostly annuity has done well for you because of the new product launch. And honestly, one of the largest contributors to you compared to peers, around 10% of the total APE. So maybe this product remains a focus area, and I believe this was driven by proprietary channel. Then when this product has been margin lower than the company average, which is around 24.5, then this product does well, are you still confident that the margins what you are reporting today are going to hold up for the subsequent years or not? That's the point. And lastly, one, if you can give an exact number of how much ICICI Bank contributed for FY2024 in APE in terms that will be useful? Those are my questions.

Dhiren Salian:

So, the 4.1% negative that is due to operating assumption changes is, of course, because of expense ratios. That's a short answer to that.

In terms of the product that you mentioned the annuity product which is the GPP Flexi with Benefit Enhancer. Again, the margins of this are not low. Please understand that.

Just because the commissions are trailed down does not mean that the margins are low on this product.

Sanketh Godha:

My question was Dhiren whether the margins are better than the company average or lower than the company average?

Dhiren Salian:

Yes, they are.

Sanketh Godha:

They are better than the company average.

Dhiren Salian:

Yes, they are better.

Sanketh Godha:

Okay. Fine. And if you can spell out the ICICI Bank number?

Amit Palta:

Yes, ICICI Bank contributes a very similar number right through the year. They were close to 12% to 15% is what the range month-on-month. Some months are better, some months are lower. Eventually Q4-FY2024 because of protection is doing very well and with increased demand on unit linked, it was relatively higher in comparison to what we have seen in ICICI Bank in first 9 months.

Sanketh Godha:

So, sir, I can work at 13.5 kind of number for the entire year, right?

Amit Palta:

Yes, you can work on that on the retail side.

Dhiren Salian:

As we indicated, we're looking at about ₹80 to ₹100 crores a month, it's broadly where it is at. Like Amit also mentioned depending upon the quarter or the environment can be slightly higher or lower depending upon how unit link does.

Sanketh Godha:

Got it. That's it from my side. Thank you so much.

Moderator:

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

Shreya Shivani:

Yes. Mostly my questions have been answered. Just one clarification I wanted on the mortality and mobility variance of FY2024. Sorry, maybe I didn't understand it is the same amount of negative variance that we saw in the COVID year of FY2021. So probably, if you can help me understand where exactly this that big an impact comes from. I understand you're saying that it is one of those incurred but not reported claims. But if you can help us obviously understand it a little bit better.

Dhiren Salian:

Shreya, you can't correlate those two periods. Yes, this is an IBNR-related element, and this is largely we have seen from our group credit side.

Shreya Shivani:

It's on the group credit business?

Dhiren Salian:

Yes.

Shreya Shivani:

Okay. So, is this coming from group credit business within this year or historical years?

Dhiren Salian:

It's over the whole book. It's not just this year's.

Shreya Shivani:

Okay. Over the period. Okay.

Dhiren Salian:

Yes. As we spoke of earlier, we still see positive variances if it were not for this provision that we held on IBNR.

Shreya Shivani:

Got it. So should we expect our pricing on group credit business to the end customer allowed to change because of...

Dhiren Salian:

Not at this moment. We believe this to be transient. And we'll keep assessing this and keep a close watch on where these businesses end up, but at this point no change to pricing.

Shreya Shivani:

Okay. This is it. Thank you.

Moderator:

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

Supratim Datta:

My first question is I'm trying to understand this 4.1% operating assumption change in the margin. What proportion of this would be due to a higher commission versus fixed cost absorption because your growth in cost this year was higher than the APE growth. If you could break that up that would be very helpful. And that's the first one.

Next is, this year the cost growth was higher than your APE growth and next year how should we think of it as what kind of cost investments are you planning? And so, given that this year we have seen significant investments, should we see a slowed down next year and some bit of leverage flows into the margin? That's the second question.

And lastly, you have given stock options. Just wanted to understand what are the threshold for exercising those stock options? What metrics are these stock options based on? And what we would need to hit for vesting of those stock options? That would be helpful.

Dhiren Salian:

Supratim, the operating assumption change as we spoke of is due to expense ratio, difficult to call out what proportion comes from commission and what proportion comes from opex. You've seen the overall costs go up by about 20% and that has impacted the overall unit cost.

One other thing to also note is that we believe that this entire redesign of the commission structure in this transient year I think has been largely complete. So going forward, in terms of where the commission rate should be, we believe them to be largely stable or depending upon the channel and product.

Now how do we expect the outlook into the coming year. With this commissions being stable, essentially all that we'll be able to work with is the operating expenses which we believe we should be in a position to calibrate based on our growth in a much more considered fashion as compared to the previous year.

So technically we do not want to lose any operating leverage on this, any operating leverage that we gain we want to invest that back into the business. We do not want to stop our investment going forward because they are going to be the building blocks of growth into the coming years.

You had a question on the stock option?

Supratim Datta:

Yes.

Judhajit Das:

So, these are grants to employees that we make, employee stock options and employee stock units. We have a scheme approved by the Board. So as per the new requirements we are required to do the secretarial practice to inform the exchange. So, I guess you're referring to that. So, these are regular grants we've been making for the last few years.

Supratim Datta:

And is there any requirement for the vesting so you would need to take a certain threshold or certain growth certain profitability for the vesting or there is no such threshold for vesting?

Judhajit Das:

So, there are certain vesting requirements for the employee stock units as part of the scheme. And ESOP you only make money when the stock price is above the grant price, and these are granted at exercise. The exercise prices are the yesterday's market price.

Dhiren Salian:

Supratim, one other supplementary to the point that you raised on commissions. From our understanding of the market, we believe that our commission levels are actually lower than those of our large peers. That is something that we have understood. The way it sets out is because it's not just the commission in play, it's essentially the entire package that you provide to the distribution partner, be it in terms of the product, be it in terms of the process; commission is one element of it.

You've heard us speak about various enablers that we had launched through the year, things such as same-day commission, they've got the entire IPru Partner Stack which enables you to provide a full 360 view of the customer through the distribution partner. It also enables us to penetrate the partner's base to a much greater degree with the use of analytics. And the entire picture that we present is that we would like to be the most partnerable life insurer.

Supratim Datta:

Got it. Thank you.

Moderator:

The next question is from the line of Pankita Srivastava from ABSLI. Please go ahead.

Pankita Srivastava:

Sir, I wanted to understand what is the new business premium generated in credit life. And if you can let us know the breakup between the other partners and ICICI Bank? That's my question, sir.

Dhiren Salian:

Credit life, we have broken down the mix. Yes. So, credit life was ₹602 crores of APE for the year. This is there on Slide #59.

Pankita Srivastava:

Okay. And also, if you can just throw some light on the partner's breakup from ICICI Bank and the other partners?

Dhiren Salian:

Yes. We discussed that in the context of a previous question. ICICI Bank roughly in range about ₹80 crores to ₹100 crores a month through the year.

Of course, the number depends upon the current environment. If unit linked does well, then the number can be north of that. Unit linked does not do well, it end up being a little lower. So, to that extent, I think it's been fairly stable through the year. But anywhere in the range of 12% to 15% of retail APE.

Pankita Srivastava:

Okay. Thank you, sir.

Moderator:

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

Madhukar Ladha:

So, first on the IBNR provision. So, of ₹282 crores is this coming largely from the GTI business or which sort of protection business is contributing the retail protection, credit life or the GTI business? That's my first question.

Second, on overall retail business growth so Q4-FY2024 we've seen a pretty good number coming month-on-month. Should we expect sort of similar run rate going into FY 2025 or how should we look at growth in terms of industry or private life insurers retail premium growth? So, in context of the industry, how should we sort of think about your growth?

And in your operating assumption changes, you mentioned it's largely because of expenses. Are there no other sort of changes there relating to mortality, morbidity assumption changes? I just wanted to sort of clarify on that as well?

Amit Palta:

So going forward on FY2025 momentum adjusting for seasonality, I believe that for all the capacity creation that has happened over the entire last financial year, I think the interplay of products, a few channels where the investment was done, and the capacity improvement will play out well for us. So, we are fairly confident on the momentum that we have built going forward into FY2025 year-on-year.

So, exit of this year is on a very different foundation in comparison to where we were last year. This gives us confidence that what you witnessed in Q4-FY2024 is only the beginning and probably from here we will look good from here. Like I mentioned for the interventions on product, new projects, capacity improvement which has improved drastically, I think it can play out well for us in FY2025.

Madhukar Ladha:

What would be sort of your target with respect to sort of industry growth. You would have some number in mind in relative to industry growth?

Amit Palta:

Yes, related to industry you made my answer very simple. Since you asked me related to industry, we are intending to do an alpha. So, what we delivered in Q4-FY2024 is what we intend to do going forward quarter-on-quarter.

Dhiren Salian:

So, Madhukar, on your other question in terms of where is that IBNR count, it is from the credit life business. And you asked another question on the operating assumption change. It's a bunch of small, small things around persistency around mortality, morbidity. Anyway, it's all ₹70 crores at the end of it.

Madhukar Ladha:

And one final question on the ICICI Bank channel. So now you have a ULIP product which has largely trail commissions. You have an annuity product which is also largely trail commission. So, you seem to be creating bouquet of products which probably ICICI Bank would sort of look more favourably towards. Is there any conversation happening on those lines where the bank may be more amenable to selling these set of newer products or are you sort of planning towards that over the next 6 months, 8 months, we'll launch more of these products, and these will then be part of the ICICI Bank channel. Is that the thought process?

Amit Palta:

First of all, choice of products we as a part of our partnership philosophy, we leave it with our partners to decide. They have their own priorities. They may look at a few products at various points in time and they choose to select those products as part of their overall bouquet of services.

So, I will not comment on what goes on because it's an evolving situation. Every quarter, we take stock as to what we want to do and how we want to progress. Specifically on these trail-based products, we are looking at constant insights from the customers as to what they are assessing, what they're looking at as alternate options, even outside life insurance business.

And hence, we are trying to address the core customer demand, core customers need on investment and building savings over a long period of time. And to address that core long-term investments or long-term savings is where we have created this product, which is closest to the customer's world view.

And from there, then it is up to the distributor who is closest to that customer to make this product available. That's where the choice of distributor comes in. So we stay true to the customer. We create a proposition which is most meaningful to them. And then we make an offer to our partners to see whoever has access to the customer, they pick it up. That's why the diverse distribution, not every product will get picked with every distributor. It also depends upon their priorities as to what they want to do and where they see synergy. So that's what my answer is on the products.

For all new initiatives, new products, new process interventions that we did, not everything was meant for every distribution partner. That's the advantage as well as a consequence of running a very diversified distribution. Our job is to create products, our job is to understand customers and then make it available. And depending upon partner priorities, they may pick few, or they may drop few.

Madhukar Ladha:

Got it. Thank you and all the best.

Moderator:

Thank you. The next question is from the line of Gao Zhixuan from Schonfeld. Please go ahead.

Gao Zhixuan:

Thank you so much for opportunity. Just wanted to follow up on the margin again. I want to understand because the first half and the second half margin is quite different. So, you advised us to look at the full year margin. So, I just want to understand, and I understand the mix because the mix will be volatile quarter-to-quarter, but if I just look at Q4-FY2024 margin, and we assume that business mix doesn't change going forward. How does the margin move up?

What are the levers for the margin to move up towards the 24%-25% kind of margin level? As you mentioned, we thought we won't see commission restructuring or payout increase further deteriorate from here. We won't see operating leverage further deteriorate from here, but that doesn't seem to suggest that without business mix change, margins should move up from what we see in the second half or the fourth quarter level, so to understand that?

Dhiren Salian:

Gao, thanks for the question. I think the right way to look at margin is to look at it from the full year perspective. During the years, there are certain assumptions that we take in terms of the unit cost based on the full year’s business delivery, then that gets trued up as we get through to the end of the year. So, I think the appropriate way to look at it is to look at the full year margins.

From here on, we spoke of margin is not a core KPI for us, we're looking at growth of absolute VNB. However, there can be positives and negatives to the margin, depending upon the way the product mix evolves. That is one way that we could look at the margin moving up or down. Retail protection growth has done well through the year. If that continues and we're able to leverage upon that, we should be able to grow margins. The group term business, which had declined through the year, if it stabilizes, that can become a support, credit life growth will also help positive margins.

Of course, there can be a downside in terms of unit linked growing faster. But then, like I said, end of the day, what we're looking for is growth in absolute VNB. If the mix stays the way it is, as I spoke of earlier, with the commission restructuring behind us, we believe we should be able to stay where we are. So, expense unit cost, that we had to take on during the year, I think is largely behind us at this point.

Gao Zhixuan:

Thank you so much.

Moderator:

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

Prayesh Jain:

Hi, everyone. Good evening. Sir, firstly, if I heard it correctly, you mentioned that your commission rates are lower than the larger peers. Is that correct? And if that's so, do we see any further pressure on commissions coming through because we want to be in sync with the market rates on commissions.

Secondly, from a growth perspective for next year, you mentioned that we've been investing in channels, and particularly, I was just more interested in the non-bank partnerships where you closed a lot many partnerships in last year. Now if those are to fructify and resulting to a stronger top line growth, won't we have a significant leverage coming in from those businesses, which could drive up margins? Or do you expect the momentum in these partner tie-ups to continue?

And lastly, from a broader across pan-India strategy. Now with the ticket size of ₹ 5 lakh plus, we're going through a tough time, do we expect more granular growth and you would invest into doing the Tier 2, Tier 3, some numbers on tier wise breakup and growth. And does the Tier 2, Tier 3 kind of come at a lower margin versus the Tier 1? These are my questions. Thanks.

Amit Palta:

This is Amit. Let me take your question. First of all, you mentioned whether our commission rates are actually lower than some of our peers. We don't believe in speculation actually. We have visibility to 27% of our business, which we do through multi-insurer. Hence, we have a fair amount of conviction on making the statement that we are definitely not the market leader on this. So, our commissions are definitely lower than the peers where we are operating together in some of our multi-insurer partnerships. That is something for sure we can say. Rest assured, we don't speculate.

Two, on the new partnerships you mentioned that we have added some 200-odd partners over the entire year. See, this is a process that we have been following for the last quite a few years. So, some part of our distribution outcome that you saw in FY2024 also was contributed by partners who were added in FY2023. And FY2022 also partners went through the learning curve and started contributing. So, it happens in cycles.

So, every partner comes, goes through a learning curve that adds to the operating leverage and starts giving us the bottom line. So, this is something which is an ongoing process, not just in non-bank partners, but even in our proprietary distribution that happens where you build capacity in year one and it starts playing out over a period of year two, year three. Once the maturity of the distribution happens, both our employees as well as the advisors, move up the learning curve and start contributing over a period of year two, year three.

So that is something that we are quite confident. I think for capacity that we added for the last two years, it has started playing out well because some of the models that we have created on building capability have held us in good state in H2-FY2024. It was based on that confidence that we had given the guidance of 10% growth in Q4-FY2024. I'm very happy to state that what we invested on capacity turned out and we managed to double our productivity from Q3-FY2024 to Q4-FY2024 by virtue of the leverage that we got through capability models, which started giving us returns going forward.

On your last question that you mentioned about ₹ 5 lakh plus business becoming a challenge. Well, it was a challenge in Q1-FY2024, Q2-FY2024 because there was a period when the alternate solutions were still being explored, and there was a period where demand, I will not say, was compressed, it got deferred. But however, with buoyancy in markets, more than ₹ 5 lakh business actually came back, so putting together, participating as well as linked business & annuity, more than ₹ 5 lakh business on a stand-alone basis in quarter three actually grew last year. So, I don't think that issue remains the number of options available for an affluent customer who is willing to invest more than ₹ 5 lakh are anyways limited. So, in unit-linked products, you still have the best tax solution.

So, from that perspective, even on Pension platform, there are product categories which give the best and the most optimal tax solution on a high-ticket size as well. So, I don't think that will get impacted. It was a low quarter one, quarter two, impact was obvious because a lot of the demand in quarter one, quarter two was also preponed in the last quarter of last year. So, I don't think more than ₹ 5 lakhs is going to be a challenge.

At the same time, your point on going retail and granular is, of course, taken. This is something that we will continue to work on. Of all the distribution that we have, whether it is agency or through bank partners, or through non-bank partners, we are fairly represented in Tier 2 and Tier 3 markets already. Right. So, to that extent, typically, the composition of individual customers that you find in Tier 2, Tier 3 markets are different.

So probably you will have more mass and more mass affluent in comparison to affluent in a smaller market.

And otherwise, life insurance product that piece is quite simple. Eventually, it is a life stage and the income that you earn decides what you buy for the goals that you have in life. So, from that perspective, product contours don't change from one market to another. It is the composition of customers that changes from market to market.

I think we are well placed in terms of overall category of products that we have available in our bouquet. And hence, we can cater to Tier 2, Tier 3 markets, any upsurge in demand that we have witnessed. And we have distribution partners who are representing these Tier 2, Tier 3 markets fairly across banks, non-banks as well as our agency distribution.

Prayesh Jain:

My question was more on like if you go granular, have you kind of priced in the mortality or morbidity or persistency, which could be really different between Tier 2, Tier 3 and if you have to go down further. The mortality, morbidity, and persistency can be really different?

Amit Palta:

Absolutely. In fact, in the opening address, Anup mentioned that we do run an analytics-based propensity to lapse and propensity to longevity and risk model on our new business model. So, at the time of acquiring a new policy or selling it to new customers, the policies go through that rigour of identifying as a potential lapse or a claim at an early stage and we'll go through an extra due diligence process for that.

The reason why our persistency is also improving quarter-on-quarter, the last few quarters now is largely on account of this model that we have deployed, and the early gains are already visible in H2-FY2024. So, to that extent, I think Tier 2 or Tier 3 market. While mortality is priced as per the profile of the customers, but from the process that we are put in at time of onboarding, I think we'll be able to eliminate ourselves from the profiles which are not desired.

Dhiren Salian:

So just to add to that, from industry level studies, we understand that the mortality in the Tier 2, Tier 3 cities will be higher than that of Tier 1 cities. That is something that we are very cognizant of as we step into those areas. We've also seen some numbers in terms of where the persistency are. They typically are lower. And those are things that one should take into account, as you mentioned beyond Tier 2, Tier 3.

Prayesh Jain:

Okay, that's helpful. Thank you.

Moderator:

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

Dipanjan Ghosh:

Good evening. Sir, two questions from my side. First, if I look at your Q4-FY2024 non-linked savings business. And if I suppose the one-offs in the base, it seems to be down around 25%, 30%, while you mentioned that from the Q3-FY2024 onward, the high-ticket par and ULIP starts to revive on a year-on-year basis and assuming trends continue in the 4Q. Can you give some colour on what led to this sort of moderation in the non-linked savings business in Q4-FY2024 ex the one-off?

Second, on the 27% of the business, which is noncore, non-proprietary, or multichannel, as you call it, can you shed some colour on what gives you confidence that the commission payouts have stabilized? Is it like you're seeing trends across other players or other insurers present in those channels? Are there EOM levels kind of all used up such that they cannot really kind of compete move going into the next year?

And in line with that, you also mentioned that you are seeing counter share improvement at this multichannel partners. At least for the top four, five partners in this multichannel networks, could you give some colour on the counter share improvement, if possible?

Dhiren Salian:

So Dipanjan two points. One, when you look at Q4-FY2024 product mixes, yes, the non-linked has not done so well, but to some extent, I think annuity has stepped up in that period and supported that. That's something that we have seen in Q4-FY2024. I'm missing a bit your second question on this.

Dipanjan Ghosh:

Yes, the second question was on the...

Dhiren Salian:

On the commission rates, see, these have been broadly stable over the last couple of quarters. We've spoken about this at the end of last quarter as well where we have seen some stabilization come through. But I think as we have now exited quarter four, they are fairly certain that at this point, the commission rates seem to be stable. Of course, it all depends upon how the environment evolves. But by and large, there could be some changes at the margin, but we don't expect any large-scale movements from here on.

Dipanjan Ghosh:

Sure. If I can just on the counter share across some of these multichannel partners, if you can give some colour on that?

Amit Palta:

Yes, I wish this information was available in the public domain, and I could share with you because this is one number which is informally tracked very closely. All I can say is that for the business growth that we witnessed in multi-insurer distribution both in banks as well as non-bank partnerships. We have not degrown as much as the overall space. And partner by partner, we have seen our share actually growing up. However, since this number is not publicly available, I can't quote that at this point.

Dipanjan Ghosh:

Just one follow-up on the first question. On the product mix, you mentioned that annuity has picked up and you've done well on that. But can you split it between, let's say, if you take the guaranteed return, low ticket, or the par low ticket, has that reported a positive growth or is that also lagging? Because from a medium-term perspective, while the high ticket, you mentioned you remain assertive on that, but at least on the mass market low ticket, I'm just taking cues from the last few questions. Is that segment growing if you can share some positive understanding on that?

Dhiren Salian:

So Dipanjan, by and large, if you look at the margins, I think when you look at the rates that are being offered all the way through Q4-FY2024, I believe, by and large, when people have held them steady, they have been suboptimal relative to what they were in the previous quarters. I think the other interesting part is that once the year has gotten through, we have seen a correction in rates on the non-par side for most companies in the first 15 days of this month itself.

So, there will be some stabilization on the margins for non-par will happen into the coming year. But I'd say, when we look at more than ₹ 5 lakh customer or a more affluent customers, I think we have not lost them because we've been tracking that customer segment across all lines of business. So, while those who are not amenable to buy non-par product has actually switched off and bought participating as well as unit linked product. So, to that extent, as Amit also pointed out to the second half of the year, we have not really lost those affluent customers.

The growth in the less than ₹ 5 lakh ticket size broadly has been more around the participating when you look at the non-linked space. The switch out has happened from non-par into participating at this point.

Dipanjan Ghosh:

Got it. Thank you and all the best.

Moderator:

Thank you. The next question is from the line of Ajox Frederick from Sundaram Mutual Fund. Please go ahead.

Ajox Frederick:

Hi, sir. Thanks for the opportunity. I have one question. You mentioned about alpha over industry. So what products are expected to deliver that alpha for us, given that protection will normalise and let's assume ULIPs also can normalise in a steady market, will it be annuity and non-par in FY2025?

Amit Palta:

See, very difficult to envisage which specific product line. As a manufacturer, we will continue to focus on creating multiple options and keep working through research in understanding customers' worldview and trace change in preferences. So, we keep manufacturing products which we believe is meaningful, which we are picking up as feedback from customers. And then it is up to customers to give us the momentum.

So for us to decipher at this point in time which category of product will really drive growth, we are quite capable of creating multiple products across categories, which is making us confident that no matter what the environment would be, I think we have a product for every environment and at the same time, in every category, whether a customer has a low-risk appetite, medium-risk appetite or a good-risk appetite.

I think we are fairly comfortable in catering to any consumer segment irrespective of what happens in the market. But to put our finger on one category, it is very difficult in the beginning of the year.

Ajox Frederick:

Okay. I'll flip it. Channel-wise, which channel can deliver like above average industry growth? I'm assuming you are taking a 15%...

Amit Palta:

So, like I told you, against the 12% retail APE growth that you witnessed in the company, our proprietary distribution grew in excess of 20% in Q4-FY2024, so our direct distribution grew at 20%+ in Q4-FY2024. Our agency business grew at 28% in Q4-FY2024 against the company growth of 10%, against the private insurer industry growth of 2%. So obviously, proprietary is where we will look at investing further and we'll see how it grows.

Ajox Frederick:

So, industry is expected to grow somewhere in the range of 13% to 15%. That's what you're expecting at this point in time?

Dhiren Salian:

Difficult to put a call on the industry, but I think we're fairly clear where we want to be, it will be an alpha over the market.

Ajox Frederick:

Sure, sir. That's it from me. Thanks.

Moderator:

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

Nischint Chawathe:

Thanks for taking my question. I'm looking at Slide 19 of your presentation, essentially the EV walk and trying to understand what are the operating assumption changes that we are making?

Dhiren Salian:

So, Nischint, we picked this up earlier as well. There are a variety of small changes that have happened. At the end of it, it's ₹ 70 crores. It's not really material.

Nischint Chawathe:

Sure. And just to re-clarify, on the VNB margin movement, the minus 1.5% is essentially the business mix, which is probably a shift between ULIP and non-linked. Is that the way to think of it?

Dhiren Salian:

Everything put together, we've had a drop in the group term numbers as well. So, everything put together is what has contributed to the business mix.

Nischint Chawathe:

Sure. And 4.1% is purely higher expenses and higher payouts?

Dhiren Salian:

Yes, that is the expense ratio.

Nischint Chawathe:

And why is the economic assumption change negative?

Dhiren Salian:

These are yield curve changes. So, as we mentioned in the earlier call, there has been competitive pressure. Most participants have held on to rates through the year that has led to reduction in spreads on the non-par and annuity side.

Nischint Chawathe:

That comes under the economic assumption change?

Dhiren Salian:

That's in the economic assumption change.

Nischint Chawathe:

Basically, it's the IRR pressure that we're talking about, right, IRR putting pressure on this?

Dhiren Salian:

Yes, you got that right.

Nischint Chawathe:

Okay. And finally, just on this VNB contribution when we look at. When we try to calculate segmented VNB margin, it looks like the heavy lifting of this margin contraction is all in the savings non-linked portion. Protection margins and savings linked margins are probably held on or maybe even expanded a little bit. So, is my reading, right? And why is it just reflecting in one segment?

Dhiren Salian:

In one segment, which is the non-linked savings, that's again the inter-se mix that you see between par and non-par.

Nischint Chawathe:

Okay, got it. And sorry, just one final one. If I look at the channel mix, if you look at bancassurance and try to see the bancassurance mix, I think in last FY2023-24, ULIP ratio has actually been stable, while for all the other channels or everywhere else in the industry, we have seen ULIP going up. You mentioned that ICICI Bank continues to push ULIP. Does it mean that the other banks have significantly slowed down in ULIP or probably doubled up on non-linked savings in this year?

Amit Palta:

Yes. So let me just do a small correction. Actually, ICICI doesn't push unit-linked products. As per strategy, unit-linked product is available on the shelf if there was to be a customer demand. They offer unit-linked products. So, it's not something which is really pushed. And as far as unit-linked products being sold in other bank partners, you are right. This is not a category of product which is understood well in smaller markets.

And a large number of bank partners have presence in smaller markets, semi-urban and rural markets where the preferred choice of product is actually not unit-linked. So that is the reason when you look at 43 other bank partners, apart from ICICI Bank and Standard Chartered, there has been relatively moderate growth on unit-linked business in these partners.

Nischint Chawathe:

Got it. Thank you very much. Those were my questions. All the best.

Dhiren Salian:

Thanks, Nischint.

Moderator:

Thank you. The next question is from the line of Raghvesh from JM Financial. Please go ahead.

Raghvesh:

Thanks for the opportunity. I wanted to ask the margins on the protection business are actually not risen in terms of how much the fall has been there in group term. So what explains that? Have the margins on the individual protection and the credit life contracted in this year over the previous year because last year we were at 72% for the full year, this year we are at 75%?

Dhiren Salian:

So, it's a little difficult to break down some of these new businesses because they're coming from multiple sources. And by and large, you can look at one average rate for that particular type of business, but it's actually an agglomeration of multiple partners that we tied up with, especially when you look at the credit life side.

So all-in-all, put together, difficult to put your finger on what has been the big change, but it's been broadly stable across the period. So, what we lost in terms of APE, in terms of group term, we've been able to make up on retail to that extent, along with credit life. So, it's a mix of all. It's hard to put a single answer to it.

Raghvesh:

And also, the ticket sizes on the protection business have increased. So is it, ROP is coming in at maybe lower margin from the individual protection. Is that a good understanding?

Dhiren Salian:

No, that's not the right way to look at. ROP is still roughly about 15% to 20%, has been through the year and since the time that we started. But again, the way that we're looking at ticket sizes, this could be a function of the underlying policy term that we are selling towards, could be a function of the customer segment that we're going after. So, it's a mix of multiple things that come over there. Beyond that, it's just there's really nothing that has changed across in any large degree.

Raghvesh:

Okay. Thanks. A final question on the ULIP margin themselves. So last year, we saw the margin degrow by around 290 bps because the product itself had degrown. This year, again, we are above the FY2022 levels, but still the margins have not increased meaningfully. So, is the term of the products lower now, what explains this flat margins?

Dhiren Salian:

To some extent, whatever elongation that we have made in the term would have been offset by unit cost changes on the linked side as well.

Raghvesh:

Okay. Thanks a lot for the answer.

Moderator:

Thank you. The next question is from the line of Aditi Joshi from JPMorgan. Please go ahead.

Aditi Joshi:

Yes, thank you for taking my questions. I have a couple of very quick questions. So, the first one is, can you please share the business mix across Tier 1 versus Tier 2, Tier 3 series, and growth rate differential between these? And the second one is if you are able to share the growth number in the number of lives insured or the number of customers for the full year 2024, that could be helpful?

And lastly, on the Slide 21, when you look at the sensitivity analysis, the sensitivity to, let's say, changes in 100 basis points in the reference rate has moved up a lot between FY2023, FY2024, so can you please explain why is this so? Yes, this is all. Thank you.

Dhiren Salian:

So, we haven't made public split between Tier 1, Tier 2, Tier 3. I think for us, given that we run a very, very diversified distribution, we are dependent upon our partners to be able to expand into their territories, be they be corporate partners or agency and direct. So, we're not looking at expansion on its own. Essentially, we're looking at expansion through our partners. What's within our control, of course, is more around direct where we've got our own offices, and we're expanding within those segments. Agency is another area that we could expand, but then that would be slightly slower to that extent. I don't think looking at Tier 2, Tier 3 at this point is pertinent.

Let me pick up your third question, which is around sensitivities. Yes, sensitivities have gone up to some extent when you look at VNB. But if you look at the book, i.e. on EV, it has not really changed too much. Some of the sensitivities on VNB, which are interest rate driven are essentially things that can be reversed by just changing rates to non-par products and annuity products. The one that has, let me say hurt, has been on the expense side, which has impacted the sensitivity from the previous year to this year. But as unit rates become stable into the coming year, I think we'll have less of that impact coming through.

Aditi Joshi:

And just following up on the second question, it was on the growth in the number of customers for the full year 2024, if you are able to share that number?

Dhiren Salian:

Total number of policies this year has been flattish with about 3% growth when you look at it for the full year. We've got about 587,000 policies that we wrote in the last year versus 571,000 in the previous year.

Aditi Joshi:

Okay. But that is a number of policies, right? So, I guess or the reason I'm asking is just wanted to understand that the growth is coming from acquiring new customers or you selling more policies, let's say, more than two or three policies per customer. That's what I wanted to ask.

Dhiren Salian:

Like the previous year, part of this comes in from upsell business, which we are quite strong at. And there's also a large portion of it comes in from new customers to this. We haven't split out this metric.

Aditi Joshi:

Okay, got it. Thank you.

Moderator:

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

Madhukar Ladha:

Good evening. Thank you for taking this follow up. One thing, if I look at your channel mix, the annuity contribution in the agency channel has done quite well. So, we see a very good pickup over there. So, I wanted to get a sense, is this because of the new trail linked product? Or is there something that is happening there?

And second, just coming back on the higher provisioning, higher IBNR provisioning. I didn't understand what really necessitated this higher provision in credit life. Are we seeing less reported claims, abnormally less reported claims or what is happening there? Why do we suddenly require this higher provisioning?

Dhiren Salian:

So, to take your first question, Madhukar, yes, you would have seen the annuity grew across agency as well as direct. That's very clearly the new product that we have launched, but again, given that this is built on a trail model, especially when you're looking at intermediaries, this will be picked up only by a very few given that it is a trail-based model and there is limited upfront. So those smaller distributors who may require a higher commission rate just to fund legacy of working capital issue will not pick this up.

Coming to your second question in terms of IBNR, we've seen some delay in claims that are coming in from the group credit side, which is where we have kept our provision at this point. Like I said, this is temporary. This is just a delay that we're seeing at this point, we evaluate this as it goes by.

Madhukar Ladha:

But if there is a delay in claims that you're seeing, then that should be part of your normal provisioning itself, right? That should then get covered in your normal provisioning. You should not require an additional provisioning, right? I'm sorry, I'm probably dwelling a little bit more into this.

Dhiren Salian:

You normally would keep an IBNR on this just to cover claims that could have occurred but not intimated yet. And we are seeing this in a part of the portfolio, and we kept it towards that largely.

Madhukar Ladha:

Okay. Thank you.

Moderator:

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

Shobhit Sharma:

Hello sir, Thank you for this opportunity. In this quarter, we have seen the annuity segment ramping up very rapidly, primarily by agency channel. So, what kind of persistency are we building in since this is 100% return of premium product. What kind of persistency are we building in while calculating the margin? That's my first question.

Amit Palta:

If you ask me as a customer, if you were to look at this product, the proposition is not about taking the money back. The proposition was about taking back fear of crisis away. In case customers was not capable for any crisis, not being able to make subsequent premiums, the fear of losing the principal may have presented certain set of customers from investing in life insurance kind of product. So, it was this insight that we were working on.

Otherwise, if the customer was to take his money away after 2 years or after 1 year, he tends to lose GST and the opportunity loss that he may have if he were to invest it into a fixed deposit also. So, I think from a customer perspective, we believe that persistency will have no impact of what we have in a regular annuity range of products. So, we have not factored anything adverse in the portfolio at this point in time.

Shobhit Sharma:

Just a quick follow-up on this thing. We have sold this via agent. We have seen that in the ULIP after 5 years, we have seen surrenders going ramping up rapidly after end of 5 years. So how are we preventing. So, we have built in the trail-based payouts, but how are we going to restrict that surrenders going forward after 1 year or 2 years down the line.

Amit Palta:

First of all, surrender as a concept in ULIP is available after 5 years. On annuity surrender as a feature, it doesn't exist. And annuity the core reason for you to buy annuity is to get income for life long. So, to take money away after 5 years, it doesn't help the customer because the gains will be very minimal. And we don't believe customers will get anything by taking the premiums away after 5 years. So, what you see as the behaviour on unit-linked business will be very different in comparison to what we envisage in this category of product because the money would not have grown because it's not a market linked product.

Shobhit Sharma:

The second question since we have revised our unit cost assumptions. So, we have seen investments impacted by our VNB margins. Does this not have an impact on our embedded value? Does it not impact a value of existing business?

Dhiren Salian:

No. So this has come through on the new business that we have written and that is where the VNB is lower.

Shobhit Sharma:

Okay. So that means there is no impact on the value of inforce policy?

Dhiren Salian:

On renewal resumption, there has been a small change, but it is not material.

Shobhit Sharma:

Okay sir, thank you. That's it from my side.

Moderator:

Thank you. The next question is from the line of Gaurav Jain from ICICI Prudential Mutual Fund.

Gaurav Jain:

Hi, good evening. Thank you for the opportunity. I just have 2 questions. One is in terms of capacity expansion on the proprietary channel, is it fair to assume that we are broadly done there? And if yes, then from here, if the growth is ahead of industry, should we not expect some operating leverage to kick in, which is a follow-up from the previous question also. And should we not expect the operating leverage to kick in and help us improve the VNB margin closer to the other listed peers. That is first.

Second, how are you looking at the regulatory landscape for the industry and this is on the backdrop of a recent media clip, which was raising questions on mis-selling, etc. for the industry?

Amit Palta:

On your question on agency scale up, I think on proprietary channels, both agency as well as proprietary sales force, we intend to continue investing and whatever upside that we have seen by virtue of having invested in building capabilities, shortening the learning curve, I would like to reinvest the gains from it back into expanding business.

And we would like to step up on this course for a longer period to build our franchise for a longer 4 to 5 year period and build sustainability and growth. As I mentioned, Gaurav, building sustainability and creating an alpha by virtue of investing in proprietary is a stated objective, and that is something that we want to stay on course.

Gaurav Jain:

Second was on the regulatory landscape, sir?

Dhiren Salian:

If your question is around some of the mis-selling complaints, I think we're fairly clear that wherever we find some of these complaints, we would take strict action against those because clearly, that's not in the customer interest. All our distributors, I believe, are on the same page in terms of delivering value to customers and the idea is to be able to improve persistency year-upon-year as you have seen us deliver on.

Gaurav Jain:

Got it, sir. Thank you and all the best.

Moderator:

Thank you. Next follow-up question is from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe:

Hello, thanks for taking my question again. What would be your dividend payout policy from here on? Is it going to be similar to the current levels? How should we think about it?

Dhiren Salian:

So, our dividend policy is disclosed on the website, it's at 30%. But the Board assesses dividend ratio for the year based on the market conditions based on what has been the delivery of PAT as well as the solvency expectation into the coming years.

Nischint Chawathe:

So otherwise, it should be closer to 30% is what you are saying?

Dhiren Salian:

The policy is set at 30%, but of course, that gets assessed year-on-year by the Board.

Nischint Chawathe:

Perfect. Thank you very much.

Moderator:

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

Avinash Singh:

Hello, thanks for the follow up. Can you just explain a bit understanding on the GAAP profit, not for the quarter, for the full year, how the back book surplus development has been and how the new business strain has moved because, profits are low level and flat year-on-year. Just if you could help us how back book surplus emerge and the new business strain?

Dhiren Salian:

Yes. So, the back book is definitely throwing up surplus, but at the same time we have the new business strain. I think the challenge we're looking at Indian GAAP is amortisation of expenses. It doesn't really give a true picture of how the profit should emerge. I think let's just move to IFRS. Hopefully, that comes out soon. We know we're part of Phase 1. We are just awaiting the regulations to be notified. That would give you a better sense of how profit would emerge.

Avinash Singh:

Yes. But I mean if you can just help like what if at all, what is the year-on-year full year number basis growth in terms of back book surplus, even if you don't want to quantify the new business strain part, at least how the back book surplus, I think if you can just see the absolute quantum for two years of growth.

Dhiren Salian:

So, it's not out yet, we look at discussing at a separate time then, Avinash.

Moderator:

Thank you. The next question is from the line of Mohit from BOB Capital.

Mohit Mangal:

Hello, thanks for the opportunity. Just one question is in terms of the sensitivity. So, I wanted to understand, I mean, a 10% increase in acquisition expenses results in around 18% decrease in VNB. That number was 12% in FY2023. Similarly, the mortality rates as well, I think there is a substantial percentage in VNB in FY2024 as compared to FY2023. If you can just explain why this has increased, it would be helpful.

Dhiren Salian:

So, Mohit, the first thing is that the way we express our sensitivities in percentage change in VNB. That may not be the same kind of metric used across some other players. So, do look at those numbers with that lens on. When you look at FY2023 to FY2024, yes, when you look at the acquisition expenses, it has gone up, that primarily is because of the higher unit cost that we have in this current year. And therefore, that has had an impact on sensitivity.

When you look at mortality, morbidity, it has gone up because of the higher share of protection in the new business. Again, I'm referring to VNB margin, VNB changes not the EV changes, EV changes are broadly steady across the year. But in the VNB, the mix of retail protection is much higher, and that has led to the higher sensitivity.

Mohit Mangal:

All right, thanks and wish you all the best.

Moderator:

Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Anup Bagchi for closing comments.

Anup Bagchi:

Thank you for joining everyone. We will just continue on building the foundations for creating a sustainable business. I think a lot of heavy lifting we have taken this year. And next year, we'll continue on the path of just building the current momentum up and creating a sustainable situation. Thank you.

Moderator:

Thank you. On behalf of ICICI Prudential Life Insurance Company Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.
