ICICI Prudential Life Insurance Company

Earnings conference call

Nine months ended December 31, 2020 (9M-FY2021)

January 27, 2021

N. S. Kannan:

Good evening and welcome to the results call of ICICI Prudential Life Insurance Company for the nine months ended December 31, 2020. I have several of my senior colleagues with me on the call: Satyan Jambunathan, CFO, Judhajit Das, who leads Human resources, Customer service & operations, Amit Palta, who heads Distribution, Brand & Marketing and Products, Deepak Kinger, who is responsible for Audit, Legal, Risk and Compliance, Manish Kumar, who manages Investments and Asha Murali, Appointed Actuary, and also Dhiren Salian and Mukesh Boobana from the Investor Relations team.

Let me start by mentioning some of the key developments during the quarter.

Distribution:

On the distribution front, as we had mentioned earlier, our focus has been to further diversify the distribution network. We have been actively engaging in establishing partnerships with various banks, from large private sector banks to new age small finance banks and payment banks. We announced multiple partnerships in the last two quarters. Specifically, the partnerships with IDFC First Bank and IndusInd Bank have already started yielding results, with us having gained a significant share of those shops.

In Q3-FY2020, we have partnered with RBL Bank, one of the fastest growing private sector banks in the country serving over 8.7 million customers through a network of 398 branches. We also signed a partnership with AU Small Finance Bank, a scheduled commercial bank and one of the largest small finance banks in the country serving over 1.8 million customers through a network of 700 banking touch points. These partnerships will enable the customers of both banks to access and seamlessly purchase our customer-centric protection and long-term savings products and provide financial security to themselves and their families.

We continued to deepen our presence across emerging channels as well. During the quarter, we have partnered with PhonePe, India's leading digital payments platform with over 250 million customers. We launched an instant term insurance plan with premium as low as ₹149 per annum. We also partnered with BSE Ebix Insurance Broking Private Limited, a joint venture of BSE and Ebix Fincorp Exchange, launching a term insurance product on their state-of-the-art hi-tech platform with an omni-channel digital presence.

Other developments:

During the quarter, we proactively used the opportunity offered by benign debt market conditions to raise ₹ 12 billion through issuance of non-convertible debentures, which are unsecured and in the nature of subordinated debt. The issue was tightly priced at a coupon rate of 6.85% per annum and received a good response from the market.

In April 2020, we had released our maiden ESG report. Even as we continue to further incorporate ESG principles within our organisation, I am happy to report that we are the only insurance company to have been ranked in the top 30 of India's most sustainable companies by Sustain Labs Paris in association with BW Businessworld.

That concludes the key developments during the quarter and I will now move on to the presentation.

Moving to slide 3 on risk management, we continue to maintain a resilient Balance Sheet. Of our total liabilities, non-par guaranteed return products comprise only 0.7% i.e. less than 1%. We continue to closely monitor our liquidity and ALM positions, and we have no issues to report. On credit risk, only 0.6% of our fixed income portfolio is invested in bonds rated below AA and we continue to maintain our proud track record of not having a single NPA since inception. Further, I am very happy to mention that our Assets under Management have crossed ₹ 2 trillion during the quarter and stood at ₹ 2.05 trillion at December 31, 2020. This is a reflection of our growth in new business premium, good persistency, lower surrenders and robust fund management.

Moving on to insurance risks; first on mortality. While we have seen claims arising from the spread of Covid-19, our overall mortality experience, including deaths on account of Covid-19, continues to be in line with our liability provisions. Further, at December 2020, we continue to hold additional reserves towards Covid-19 claims, although we have not had to utilise any amount from these additional reserves till date. Satyan will talk about this in more detail. In terms of persistency risk, our 13th and 61st month persistency ratios have significantly improved from the ratios we saw at the end of Q1-FY2021, and persistency ratios of other cohorts continued to be in a narrow range. The improvement in the 61st month persistency is a testimony to how we are building the business for the long term. One of the key imperatives for us this year has been to manage cost dynamically in line with emerging new business growth. With our focus on variabalisation, the cost ratios have been in-line with our assumptions. Our solvency ratio has increased to 226% at December 31, 2020 as compared to 194% March 31, 2020.

I will now move on to our performance for the quarter. Our 4P strategic elements i.e. Premium growth, Protection business growth, Persistency improvement and Productivity improvement continue to guide us towards our objective of growing the absolute Value of New Business while ensuring that our customer is at the core of everything we do.

I will talk through our performance on the 4Ps through slide 6 to 10 and then conclude with a commentary on the VNB for the quarter.

Coming to the first P of our strategic elements which is Premium growth. For the quarter, our new business premium grew by 14% year on year to ₹ 34.43 billion**.** In terms of Annualized Premium Equivalent (APE), while the linked segment registered a decline year on year, there is a sequential momentum with Q3-FY2021 growing 21% over Q2-FY2021. Our non-linked savings segment continued to register a strong growth of 36% year on year for Q3-FY2021. The segment grew 10% sequentially, in line with the overall market. The overall APE grew by 14% sequentially in the quarter, which was significantly ahead of the growth rate of the overall market. We also continued to maintain a diversified product mix with 48% linked, 46% non-linked and 6% group savings for 9M-FY2021. From a channel perspective, APE from channels other than ICICI Bank grew by 9% during the quarter as compared to the same period last year. Our total APE was ₹ 39.54 billion for the nine months. While some of the new partnerships that we created have started yielding results, we expect them to provide a further fillip going forward.

Moving on to the second P of protection business growth. With an APE of ₹ 7.03 billion, the protection business accounted for about 18% of our overall APE as compared to 15% in FY2020. Based on the disclosed results and market estimates adjusted for return of premium business, we continue to lead the industry in terms of overall protection APE and for retail protection segment. Within the protection business, while retail protection continues to dominate our protection mix, we have seen a strong growth in the group term business. Also credit life saw a strong recovery and registered a robust growth in Q3-FY2021 over the same period last year.

Overall on the two P's of Premium growth and Protection business growth, I would like to highlight that based on total new business sum assured which includes both savings and protection business, we continue to be the private sector leader. Our new business sum assured market share significantly increased from 11.8% in FY2020 to 12.5% in H1-FY2021 to 13.0% in 9M-FY2021. Our new business sum assured grew by 22% year-on-year in Q3-FY2021. With this our new business sum assured for 9M-FY2021 is higher than the same period last year. Our efforts in encouraging customers to complement their life insurance coverage with Critical Illness cover has aided this growth in sum assured. We believe that this result of driving insurance coverage will help us in our VNB aspiration.

On the third P of persistency presented in slide 8, as mentioned earlier, we saw significant improvements in 13th month and 61st month persistency ratios from the ratios we saw at the end of Q1-FY2021 as well as H1-FY2021. Our 13th and 61st month persistency for retail business and excluding single premium stood at 82.7% and 58.0% respectively. It would be worth mentioning that within this, 13th month persistency of the non-linked savings business is at the same level as last year i.e. FY2020, and the persistency of the protection business has improved meaningfully from the last year. Beyond the premium payment term, containing surrenders is important and our retail linked surrenders have reduced by 7% as compared to the corresponding period last year.

On the fourth P of productivity improvement presented in slide 9, our cost to TWRP ratio was 14.6% for 9M-FY2021 as compared to 16.6% for the same period last year. For the savings business the ratio was 9.3% as compared to 11.1% for the same period last year. Our cost ratios are one of the best in the industry and we continue to leverage technology. Satyan will talk about some of the technology initiatives undertaken during Q3-FY2021.

VNB

As a result, VNB for 9M-FY2021 was ₹ 10.30 billion, as compared to ₹ 11.35 billion for the same period last year. For Q3-FY2021 our VNB was ₹ 4.28 billion as compared to ₹ 4.26 billion for the same period last year. As can be seen from the quarterly development of VNB, VNB growth has been well ahead of APE growth for each of the past quarters. Our VNB margin for 9M-FY2021 stood at 26.0% as compared to 21.0% for 9M-FY2020. Our AUM was ₹ 2.05 trillion at December 2020, a growth of 34% from March 2020.
I would like to mention that we continue to progress on our objective of doubling FY2019 VNB over 4 years.

To summarise the performance for the quarter,

1) Non-linked savings business grew 36% year on year for Q3-FY2021, ahead of the growth of the overall market
2) Unit linked business grew 21% sequentially over Q2-FY2021
3) Both of this led to the new business APE growth of 14% over Q2-FY2021
4) New business sum assured grew 22% year on year in Q3-FY2021, resulting in growth of 2.1% for 9M-FY2021
5) We not only maintained the private market leadership in terms of new business sum assured but also increased market share further
6) Adjusted for return of premium business, we believe, we have continued our leadership in the overall protection market for 9M-FY2021
7) Persistency and cost ratios continued to be one of the best in the Industry
8) And most importantly, despite a lower APE, our VNB for Q3-FY2021 equalled the same quarter last year.

Moving on to customer service metrics. We continue to improve upon industry leading benchmarks on turn-around time for claims. The average number of days for non-investigated claims stood at 1.4 days for 9M-FY2021. Similarly, over 90% of all service transactions were conducted by customers in self-help mode and renewal collections through digital mode increased to 80% in 9M-FY2021.

Before I conclude, I would like to give a quick update on our wholly owned subsidiary, ICICI Prudential Pension Fund Management Company Limited (PFM). The AUM managed by the PFM has increased by 52% to ₹ 66.20 billion at December 2020 as compared to ₹ 43.53 billion at March 2020. The PFM has a market share of 16% in the private sector AUM at December 31, 2020. In terms of new subscriber additions for

9M-FY2021, the market share of the PFM was 22.3%. The PFM commenced operations as a Point of Presence during FY2020 and in terms of subscriber enrolment stood second among the pension fund managers registered as Point of Presence.

To conclude, even as we pursued our strategy of expanding VNB, at the start of the pandemic, our focus was to ensure resilience of our Balance Sheet along with close monitoring of risk metrics. As we moved along, we focused on creating a base for future growth by-

- further strengthening the capital position through raising of sub debt;
- enhancing our product suite by introducing customer centric products in life and retirement space; thereby also enabling us to manage cycles better;
- diversifying distribution through new agents, new banks, new conventional and emerging ecosystem partners and
- last but not the least, continued investment in people, process and technology.

I now hand over to Satyan to talk through some of the details of our performance.

Satyan Jambunathan: Thank you Kannan. Good evening.

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

The first element of Premium growth (slide 13): The strength of our product range with propositions to suit different risk characteristics of customers has been a very important enabler of premium growth. We have a complete range of product offerings ranging from unit linked products without any guarantees, to fully guaranteed return products on the savings side; complemented by a range of retail, group and critical illness products for meeting protection needs. Enhancing our product strength further, we launched 'ICICI Pru Guaranteed Pension Plan', an innovative retirement plan that offers guaranteed life-long income along with an option of return of the premium amount on diagnosis of critical illnesses and permanent disability, and also an option to increase the annuity pay-out to combat inflation. We also launched 'ICICI Pru Guaranteed Income For Tomorrow', a product providing guaranteed benefits in the form of a lump sum or regular income. Also as a variant of regular income, customer can opt for an early income benefit to receive a guaranteed income from second year onwards. With these products, we continue to capitalize on opportunities in the emerging environment, without compromising on our risk management approach.

From a risk management perspective (slide 14), we continue to take a calibrated approach on non-participating products. While the earlier product ASIP catered to lump-sum benefits with a policy term of upto 15 years, the new product GIFT includes an income benefit option, as well as extends the coverage to ~20 years. We are hedging the interest rate risk through a combination of cash market instruments and derivatives predominantly forward rate agreements (FRA) on Government bonds. From a hedge effectiveness perspective, our hedge program is designed for each tranche of new business as well as residual hedging requirements for the non participating portfolio. The underlying bond for derivatives is based on the liability tenure. We continue to conduct a regular review of the portfolio for mismatches on asset liability as well as initiate repricing based on the prevailing interest rates.

On slide 15, as Kannan mentioned earlier, we have registered a sequential improvement with our savings APE growing at 14% to ₹ 14.09 billion as compared to Q2-FY2021.

Moving on to distribution channels, all our channels have registered a strong sequential growth. For the agency channel, our focus has been to get more of our agents "digitally active". For 9M-FY2021, active advisor count was about 95% of the count we had in 9M of last year. The agency channel grew sequentially by 25% in Q3-FY2021 as compared to Q2-FY2021. Our direct channel grew sequentially by 24% in Q3-FY2021 as compared to Q2-FY2021. With ICICI Bank we continued to focus on protection and annuity. As mentioned in last results call, we have been focusing on growing Critical Illness benefit attachment along with the term life product. Further we continued to make significant strides in the annuity business through ICICI Bank, growing by more than 400% during Q3-FY2021. As you can see on slide 18, we have added 83 partnerships during 9M-FY2021 including the new bancassurance and non-conventional distribution partnerships. With the new partnerships, our bancassurance distribution is now able to reach out to 162 million customers as compared to 116 million earlier. Similarly our bancassurance branch footprint will increase from about 8,600 branches to about 12,000 branches. During 9M-FY2021, we continued to have a well-diversified distribution mix with distribution channels other than ICICI bank contributing about 66% of our APE.

The second element of Protection growth on slide 22: With an APE of ₹ 7.03 billion, the protection business was 18% of APE for the nine months as compared to 15% for FY2020. In terms of total new business sum assured, we are the private sector leader with a market share of 13.0% for 9M-FY2021, a significant improvement over FY2020 market share of 11.8%. During Q3-FY2021, while we have seen some decline in new business APE from the retail protection segment, based on market disclosures and adjusted for return of premium business, we continued to be market leader in the retail segment. Based on these estimates and coupled with our strong growth in group term business and credit life, we are the market leader in overall protection for 9M-FY2021. We continue to believe that protection is a long tail business and hence it is important for companies to have underwriting practices commensurate with the price, as risks will emerge only over a period of time. Given that the protection market in India continues to be significantly under-penetrated, we continue to believe it to be a multi-decade opportunity, and specifically for a company like us having a strong customer proposition and a wide distribution.

The third element of Persistency on slide 24: For persistency, you may recall, we had mentioned in our Q1-FY2021 results call that we expect the 13th month persistency ratio to recover as we go through this year. I am happy to inform you that our 13th month persistency ratio has significantly improved and stood at 82.7% at December 2020. Also our 61st month persistency continued to make significant strides by improving from 56% in FY2020 to 58.0% now. We have seen some decline in persistency ratios of other cohorts, primarily from the linked business while persistency of other product segments have been stable. We do expect the persistency ratios of other cohorts as well to improve from hereon as we end this year.

The fourth element of Productivity on slide 26: During the quarter we continued to see improvement with cost to TWRP ratio for the savings business at 9.3% as against 11.1% for the same period last year. We have seen a reduction in discretionary expenses, infrastructure related expenses and employee cost through optimal deployment of manpower. Our cost ratios continue to be one of the best in the industry and we continue to leverage technology. During the nine months, 97% of new business applications initiated via digital platform and more than 90% of service requests were completed through self-help modules. We also launched technology initiatives around personalised video product brochure to further improve the quality of sale, Video verification in vernacular language for improved risk management practice and Rapid application development tool to ensure a more responsive IT deployment architecture.

The outcome of our focus on these 4Ps, as you may see on slide 28, has resulted in our Value of New Business of ₹ 10.30 billion with a margin of 26.0% in 9M-FY2021. The VNB outcome for the quarter has been supported by the strong growth in non-linked savings business.

Within financial metrics, our Profit Before Tax (PBT) for 9M-FY2021 was ₹ 9.68 billion, a growth of 8% year on year. In terms of components of PBT, we have seen higher contribution of underwriting profits, which is a net surplus generated from the policies underwritten, and transferred to Shareholders' account during the period. Our underwriting profits have increased by 24% to ₹ 5.28 billion as compared to the same period last year. Our profit after tax (PAT) for 9M-FY2021 was ₹ 8.96 billion with a strong solvency ratio of 226% at December 2020. Our AUM was ₹ 2.05 trillion at December 2020, a growth of 34% from March 2020. As mentioned by Kannan earlier, this is a reflection of our growth in new business premium, good persistency, lower surrenders and robust fund management.

Given the pandemic, we wanted to talk about our mortality experience including Covid-19 claims so far, as shown in slide 31. The total claims on account of Covid-19 for 9M-FY2021 was ₹ 3.44 billion. This amount net of reinsurance was ₹ 1.54 billion. The pattern of claims observed across months is consistent with national statistics on deaths. Also what is obvious is in the early part of the year, because of lockdown related challenges, there was delay in intimation which now seems to be normalising. I would like to mention that our mortality claims including that of Covid-19 is in line with the provisions we have made. Further, we carry an additional provision of ~ ₹ 1 billion towards Covid-19 claims, which has not been utilised so far. Based on the data we have observed it seems that deaths on account of Covid-19 have peaked out during Q2-FY2021.

To summarize, we monitor ourselves on the 4P framework of "Premium growth", "Protection business growth", "Persistency improvement" and "Productivity improvement to improve expense ratios". Our performance on these dimensions is what we expect to feed into our VNB growth over time. Thank you and we are now happy to take any questions that you may have.