



“HDFC Life Insurance Company Limited Q2 FY23
Earnings Conference Call”

October 21, 2022

Moderator: Ladies and gentlemen, good day and welcome to the HDFC Life Insurance Company Limited Q2 FY23 Earnings Conference call.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Vibha Padalkar – MD & CEO of HDFC Life Insurance Company Limited. Thank you and over to you, ma'am.

Vibha Padalkar: Thank you, Faizan. Good afternoon everyone. Thank you for joining us for the discussion on our results for the half year ended September 30, 2022. Our results including the investor presentation, press release, and regulatory disclosures are already available on our website as well as that of the stock exchanges. I have with me Suresh Badami, Executive Director; Niraj Shah, CFO; Eshwari Murugan, our Appointed Actuary and Kunal Jain, from Investor Relations. I would like to take this opportunity to congratulate Suresh on his elevation as the Deputy Managing Director. We look forward to continue building an industry-leading and customer-centric franchise. I will take you through the key highlights of our H1 FY23 results and would be happy to take questions post that.

As you may be aware, our subsidiary Exide Life merged with HDFC Life on October 14th, pursuant to the receipt of the final approval from IRDAI. The entire transaction – right from the announcement of the deal in September 2021 followed by the acquisition in January 2022 and the eventual merger – was completed in less than 14 months. I would like to thank our regulator – IRDAI and all other authorities involved in the M&A for their encouragement, support and timely approvals.

Customers across both entities will now have access to a wider bouquet of products and service touch points. All policyholders of Exide Life will continue to receive best-in-class service from us. All Exide Life distribution partners now have access to HDFC Life's market-leading products, services and digital capabilities. This merger accelerates the scale-up of HDFC Life's agency and BroCA channels and also enhances its geographical presence in tier II and tier III markets. We strongly believe that this amalgamation will result in value creation for our customers, shareholders, employees and distribution partners.

As we emerge from the shadow of Covid, we wanted to take stock of the performance of the Indian life insurance industry compared to regional insurers. The Indian private life insurance sector has grown at a 2 year CAGR of 14% during the Covid years and continues to record double digit growth in the current year. While growth in retail protection continued to be a challenge, companies had several other levers to deliver consistent margin expansion and hence robust growth in value of new business, while maintaining balance sheet resilience. This is commendable, especially given that large life insurers in the Asia Pac region have experienced

de-growth in both top-line as well as value of new business. We are happy to have played our part holistically, delivering a 2 year CAGR of 17% in top-line, 18% in value of new business and about 150 bps expansion in new business margins between FY20 and FY22. This was possible on the back of continued product innovation, diversified distribution, balanced product mix, focus on technology and calibrated risk management approach.

It is worthwhile to note that despite a claims payout during the pandemic of over Rs 40,000 cr in FY21 and around 69,000 cr in FY22 by our industry, adequate solvency levels were maintained and there was a range-bound impact on the embedded values of the large insurers. This speaks quite highly of the inherent strength of the Indian life insurance sector.

We continue to be excited about the growth prospects of the industry, on the back of renewed support and encouragement from the regulator. We are enthused by the regulator's vision of significantly improving the global ranking of Indian life insurance from its current no. 10 position to no. 6 and look forward to being a meaningful contributor in this journey.

Starting with our business update: We continue to maintain a steady growth trajectory, growing by 11% in terms of total APE in H1 FY23 on a pre-merger basis i.e. excluding Exide Life. We have grown in line with the industry and faster than listed peers this quarter which also led to market share improvement from 14.6% in Q1 to 15.0% in Q2 on a pre-merger basis. We have maintained our market leadership position as a top three life insurer across individual and group businesses. Market share in terms of individual WRP for the merged entity i.e. including Exide Life stands at 16.1% amongst private players and 10.2% within overall industry.

Our product mix both on a pre-merger basis as well as for the merged entity remains balanced. On a pre-merger basis, non-par savings is at 37%, participating products at 29%, ULIPs at 23%, individual protection at 4%, and annuity at 7% based on individual APE. Within the non-par segment, our shorter tenure product Sanchay FMP continues to grow well and now contributes over a fifth of our non-par individual APE. The prevailing high interest rate scenario continues to augur well for demand across our traditional savings products.

On the protection front, the credit protect business has registered strong growth of 66% for H1 FY23 on the back of rise in disbursements across most of our partners. While growth in retail protection remained tepid on a YoY basis, Q2 growth is sequentially higher by 26%. We expect YoY growth to gradually pick up in the second half of the year. We also launched a new product - Click2Protect Super during the quarter. This product has been received well across channels, especially on digital platforms. We continue to steadily improve our individual protection policy conversion ratios through process efficiencies and several other initiatives. Protection APE has grown by 24% in H1 FY23 on a pre-merger basis.

On the retirement front, our annuity business in H1 FY23 has grown by 4% on received premium basis compared to a 4% de-growth for the industry. Growth of annuity on an APE basis is 44%.

Our regular premium annuity product - Systematic Retirement Plan, introduced in December'21 last year continues to attract interest from customers across channels.

We also launched Click2Protect Optima Secure in partnership with HDFC Ergo. It is a comprehensive financial protection plan that offers the dual benefits of health and life insurance.

We continue to explore innovative ways to help deepen protection penetration. Hence, in addition to the existing products such as pure term, Return of premium variant, credit life and group term, we are also now offering savings products that offer higher than the typical 10 times risk cover.

Moving onto key financial and operating metrics:

New business margin for H1 is 27.6%, up from 26.4% in H1 FY22, on a pre-merger basis. There has been margin expansion for both the existing business i.e. pre-merger and the acquired Exide Life business in H1 FY23. We are close to achieving our aspiration of maintaining FY22-margin neutrality for the combined entity, having delivered 26.2% NBM, compared to 26.4% in H1 FY22. The value of new business has grown by 16% on a pre-merger basis and is at Rs. 1,258 Crore for H1.

Our embedded value on a pre-merger basis, stood at 33,015 Crore as on Sep 30, 2022, with an operating return on embedded value of 17.7% for H1 FY23. The embedded value of the merged entity stood at 36,016 Crore. Profit after tax on pre-merger basis stood at Rs. 682 Crore, a YoY increase of 18% during H1 FY23. This was aided by strong growth of 35% in existing business surplus.

Our Solvency ratio is 210% as on September 30, 2022, as against 178% last quarter. The solvency was strengthened by way of an equity capital raise of Rs 2,000 Crore during the quarter.

Renewal premiums have grown by 21% on a pre-merger basis. Persistency continued to improve for both, the existing business i.e. pre-merger basis and the acquired business. Our 13th and 61st month persistency for limited and regular pay policies is at 88% and 54% respectively on pre-merger basis and 87% and 51% on merged basis.

Next on channel performance:

Our bancassurance channel grew by 12% in H1 FY23 based on individual APE. Within bancassurance, we continue to see strong growth momentum across our newer relationships such as Yes Bank, Bandhan Bank, IDFC First Bank amongst others.

In our quest to expand and diversify our distribution, we have won the bancassurance mandate with India Post Payments Bank. IPPB has a vast network of 650+ branches and over 1.5 lakh post offices, serving a customer base of over 55 million customers. A large part of the post

offices are in rural areas, thereby giving us wider access and furthering our goal of “Insuring India”.

Our Agency channel grew by 23% based on individual APE in H1 FY23 on a pre-merger basis. We added about 24,000 agents in H1 FY23 and continue to focus on improving activation and productivity across our base of financial consultants. The share of agency to individual APE has increased from 15% to 18% in the merged entity. We expect growth in this channel to be driven by the larger agent base, with access to a wider suite of products.

Moving onto tech and innovation:

We have integrated our customer journey with external databases such as credit bureaus, TRACES & EPFO, to ensure seamless on-boarding. This will enable us to access latest ITR filings and EPFO passbook with customer consent, ensuring stronger and faster underwriting and quicker policy issuance for both salaried and non-salaried customers.

Innovative solutions such as enabling cardiac risk assessment at the customer’s residence for medical underwriting furthers our motive of simplifying customer journey and provide best in class service. In an industry first initiative, we have now launched home medicals for our overseas customers in over 20 countries.

Now an update on HDFC Pension. As on Sep 30, 2022, HDFC Pension had a market share of 39.3%, up from 35.9% a year ago and an AUM of Rs 35,146 Cr clocking growth of 57%, thereby maintaining its leadership position in the private NPS pension fund manager space.

Moving on to Regulations:

IRDAI has taken several measures with a clear focus on increasing insurance penetration in the country and enhancing ease of doing business. One of the initiatives they have taken is the formation of Bima Sugam, a digital platform that will give more choice to the customer. We believe this is a step in the right direction. Having several insurers on this platform would increase collaboration and help save resources spent on individual campaigns to increase customer awareness. Bima Sugam can help sharpen underwriting through real-time data access from account aggregators and multiple repositories, with due customer consent, thereby enabling faster turnaround. The most noteworthy distinction between Bima Sugam and existing digital marketplaces is opening up a direct to customer connect, that besides policy purchase, shall also serve as a platform for servicing and grievance redressal.

To conclude, our objective remains to empower individuals to provide financial protection to their loved ones and widen insurance coverage through a mix of innovative products and diversified distribution. The detailed disclosure on our results is available in our investor presentation. We are happy to take questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: Mr. Ganapathy, your line is in talk mode. Please go ahead with your question. As there is no response from the current participant, we will move on to the next question from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: So, one is on the segmental part. In the Non-par, we have surplus/deficit movement. Now it seems in this financial year, with the Exide and HDFC merged number, it looks like you have no deficit. But earlier, where we had standalone HDFC Life, there used to be a bigger deficit. So, what kind of product dynamics has changed because of this merger, that's sort of leading to this quarterly surplus? Of course, I know that these numbers keep moving with product dynamics in that particular quarter. So, that's one.

Second, because you touched upon Bima Sugam, do you see, not immediately, but that becoming a meaningful number contributor. How is that going to behave with other channels? Unless, there is a kind of a pricing difference, as a customer, you have a number of reasons to be in touch with a lot of other distributors, be it agents or banks. So, if I'm going to get this product at the same price on that platform, why should I just get attracted to that platform? And if there is a sort of price benefit, how are you going to manage channel conflicts?

Vibha Padalkar: So, on the first point on the segmental non-par, it is largely because of the claim settlement. Segmental non-par will have a profitable outcome. As compared to unit linked, unwinding of profits to Indian GAAP will take a little bit longer, but that should be very, very healthy.

Also, in terms of your next question on Bima Sugam, the way we see it is that may a thousand lotuses bloom, to put it very succinctly, that it is not this or that. It should be in whatever form or shape, that we are able to extend insurance to the average Indian. So that by 2047, this is the regulator's vision, that every Indian has some level of insurance cover. And so, the more modes of reach to the customer, the better.

Now to your point, will it be cheaper, I think some of those modalities will get worked out, but there will be no intermediation. There will be no calling. So, it is not that you log in something and there is a calling or there's an intermediary. That is not to say that either all business will come through Bima Sugam or no business will come.

I think it's a question of different avenues of purchase like with everything else. Some people will want advisory at least for more complex products. Some lower tickets, simpler products might go through with Bima Sugam and so on. I think what is very creditable is the vision of the regulator. In a way, it is like a Farm to Table concept, wherein as a manufacturer, I am directly able to offer it to the customer.

Another important aspect is what the regulator rightly said that even existing distributors or partners can come on to Bima Sugam. So, it can be that there is a broker, for example, who is also on Bima Sugam who says, I'm broker XYZ slash Bima Sugam slash whatever the name. So, you go through that broker and somebody might want that. It's a hybrid - phydigital model. So, really it is a one-stop shop. We'll have to see how the pricing evolves, but I think it will be more attractive at least for certain types of products than perhaps in some of the channels.

Moderator:

Thank you. The next question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy:

So, I have two questions or rather three questions. One is on the FRA aspect itself. Now that we have seen some problems emerging in some of the European Banks and also the fact that the yield curve has significantly flattened out, do you think there could be an issue of supply of FRAs in any way which could hamper your ability to offer non-par guaranteed products? That's question number one.

Second thing, Vibha, very clearly, there is weakness in the protection segment. I mean, you may argue QoQ has gone up but YoY, the individual APE in the protection segment is down 39% as per my calculation. And you know, even in your overall business, you have lost market share. Your overall growth for the quarter has been only 4% APE. The other guys have done brilliantly well. Some of your other channel, HDFC Bank channel partners like Tata, Birla, all of them have done very, very well with very strong growth. So, you have actually lost market share this year. So, wanted to understand what's happening on the growth front because it's pretty rare that HDFC Life loses market share.

And the third question is on Bima Sugam. Obviously, you did explain, but do you think it can possibly take away some of the market share from other digital market-place players? In case they're really coming up with a great deal and an open platform like UPI, there is a possibility that the other digital market players may lose market share. I just wanted your views on that.

Vibha Padalkar:

Suresh, I am taking the second question first which is on market share. So, typically, in the private space, we have trended at about 14.8% to 15%. We are very much there in terms of market share. It is the mid-tier companies that have grown quite significantly on market share. And when you triangulate that holistically with how much of risk is being taken on the balance sheet as well as what are their cost ratios, with very little disclosure; then just one aspect of it becomes uni-dimensional.

We are fairly confident of continuing to grow down the line faster than the market. This I'm talking about the private life insurance sector. Yes, there will be some blips. Q2 has been better in terms of market share than Q1 market share. Excluding Exide Life, market share has been 15% in Q2 versus 14.6% in Q1 and we will definitely trend upwards.

If I were to deconstruct between growth in HDFC Bank versus other than HDFC Bank, non-HDFC Bank channels, in terms of every metric you take, whether it is Q2, whether it is on H1 and so on, we have grown faster than the industry, at least 2x to 3x faster than the industry. So, it is in my proprietary channels, broker channel, new tie ups that has happened. With HDFC Bank, we have slowed versus the industry growth and consequently, some of the mid-tier players have grown.

Now, two things here. One is that there is a base effect. So, base effect will also normalize. Also, the merger itself wherein HDFC Bank becomes our promoter. It is bound to happen, and HDFC Bank management has also alluded that closer to regulatory approvals coming through, there certainly will be alignment because your promoter is also your largest distributor. So, alignment will start happening. I think deconstructing where there's been de-growth, wherever we've had a direct control, we have grown. So, quarter one, quarter two and so on, we have grown much faster than the market.

Suresh Ganapathy: How much does HDFC Bank contribute now compared to a year earlier?

Vibha Padalkar: It's about 48%, between 46% to 48%

Suresh Ganapathy: And year before?

Vibha Padalkar: It's about 200 basis points higher than that.

Suresh Ganapathy: So, it is 200 basis points lower now you mean to say?

Vibha Padalkar: Lower. Yes. So, about 50-50 if you see. In Q2, for example, we've grown, in other than HDFC Bank, we've grown about 18%, which is about 2.5 times what the private industry growth has been. So, it's more in terms of just, getting this part of it sorted out with some of the structural changes that should come through. Of course, we'll continue to offer innovative products and customer service and all of that, but I think structurally that changes have happened.

Second, if I can move on to protection, like you mentioned, Q2 is better than Q1. But, last year, if you recall, there was a bit of a ramp up before end of December when again price changes happened - second price hike by the reinsurers. So, it was reasonably gaining traction, before again reinsurers increased the prices.

Now on retail protection, we tried to continue taking a calibrated approach. Obviously, we would not want to say no to business. But on aggregator platforms or where there's a direct comparison, and we can see that the pricing at which there is an ask as well as the risk is not asking the right underwriting questions, which is not making sense to us, we want to stay away from those profiles of life.

We do believe that down the line, and we are beginning to see some level of stress when you calibrate it with either claims rejections or from sum assured and so on. You know the balance sheet risk that is there. Anecdotally, we know that a lot of high ticket cases that we say no to does get converted elsewhere, and some of those balance sheets do show higher levels of risk that are being retained. And here we are talking about maybe 400x of the first year premium. So, while we remain enthused and we've been the first movers in this space, we will grow this brick by brick, and the traction is being seen Q2 versus Q1.

Another data point is that we did mention that we were low in conversion ratio, which is around 60%. Some of the channels have now exceeded 70% in terms of conversion. So, we are looking at aspects that we can get right.

We are also doing another thing. We are also retaining more risk, calibrated risk, on our balance sheet. For example, if reinsurers are taking a very, very conservative view to say that, I won't say yes because we don't have last three years of tax returns. But we have the last two and the last i.e. the third year from today going back in time that individual doesn't have. We will try and triangulate that with some other means rather than saying no to business.

Now that we have more capital and we have raised that, in this quarter it's come through, we are taking some calibrated calls rarely in the case of medical calls, but in the case of financial calls. So, we are doing that, but we have no reason to believe that the business we are saying no to will magically exhibit very good levels of mortality. And when you triangulate that with most of the industry, apart from the mid-tier players, where there is no disclosure versus what has been assumed by actuaries of their companies. In the absence of that, it's very difficult to understand what is going on. Suresh, you want to add anything on this particular thing?

Suresh Badami:

No, I think you covered it well. There has been a fair amount of focus in continuing to diversify and grow our proprietary channels as well as the new partnerships in Banca, and we see significant traction there in terms of both market share and quality of business. I think even at HDFC Bank, while there has been a slight difference, Vibha correctly mentioned that it should correct once the overall merger is in place and they see the value in the subsidiary. But I would also say that, we have been fairly cautious in terms of which business and what quality of business we acquire, and we are quite happy in terms of the business that we are writing through HDFC Bank. And we do believe that over the next half of the year, you will see significant growth in terms of the market share of HDFC Bank also.

Vibha Padalkar:

We are also trying to get to the same answer, like I mentioned in my opening remarks, of higher levels of sum assured rather than going through just a pure protection. We are also looking at Return of Premium, how do we increase that, to customers that want to buy that? We are also looking at riders. So these are different ways of getting to the customer rather than just loosening on risk management.

The next one is on Bima Sugam. I'll just finish that before I hand over to Niraj on FRAs. On Bima Sugam, you asked as to how this is versus other digital platforms and so on. In the near term, I don't think it will get impacted. However, we have seen the payments ecosystem, at least on smaller ticket payments, massively taking off. I expect to see that happening at lower end or lower ticket kind of simple products and younger people coming there and buying without the need for an intermediary. I do see that taking off, but it will take some time. It will take some time and traction, word of mouth, because none of this is going to be with a massive advertising budget.

All the companies have to come together to perhaps pool together advertising money. We already have that through the life council, but everyone needs to join to be able to also include it in there. Otherwise, how do you pass on the message that you can come onto this website, and if you're reasonably savvy, you can do your own search, pinging the companies you want to ping and then, do your buying journey from here.

So, it's conceptually a very, very strong proposition. I think over the next two or three years or that kind of a roadmap, it can start getting meaningful, especially in the term space. And for FRAs, I'll hand it over to Niraj.

Niraj Shah:

On FRAs, a couple of things that you mentioned was in terms of situation with a couple of banks and second is in terms of the way the interest rates are moving. So, I will start with the second one first. The primary objective of FRAs is risk management. Yield pickup, if it comes because of a certain interest rate environment, is just a bonus. Yes, that source has obviously dried up now compared to what it was a couple of years back, but that's fine. It's about spread management to be able to be neutral on that front, and that is something that we continue to do.

So, for us, we continue to focus on FRAs as one of the tools of risk management for us. Our dependence on FRAs probably is very different and lower than some of the other players who may be actually looking at this instrument. For us, this continues to be diversified across more than 10 counterparties. The two banks that are in the news now, that's not more than about 10 to 12% each. And again, from an instrument perspective, as you know, these are basically daily margins settled in any case. So, there is no credit risk that is carrying on in this instrument.

What happens is in a scenario where there is an event because of which further operations are not possible to be continued, it's about unwinding the contract and carrying on that contract with somebody else. So, that's the only aspect of it which can be a bit of an operational issue or challenge for a couple of weeks before that can get that done, but nothing really beyond that. And as we speak, we see more and more banks coming into the fray. Domestic banks are getting larger in this space. So, we don't see a supply side issue here.

Moderator:

Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

- Prakash Kapadia:** Two questions from my side. On the EV walkthrough, could you give the breakup of the 12.4 billion negative impact between debt and equity this quarter?
- Eshwari Murugan:** The part of the 1,250 odd crores of negative investment variance is mainly because of the increase in the interest rate, thereby having an MTM on the bonds that we hold i.e. about Rs. 1,000 crores. The balance is from the equity. We expected around 4% return based on an unwind rate, but the equities have been more or less flattish. That is why there is an impact due to the equity on the economic variance.
- Prakash Kapadia:** And with the current interest rate regime, any change in unwind rates from the 8% envisaged earlier? Do we expect any?
- Eshwari Murugan:** So, we have been following the method of setting the unwind rate at the start of the year. At the start of the year, we take a view based on the economic environment at that time. This 8.1% has been set based on the environment at the start of the year and we don't change it during the year. Any difference is reflected in the investment variance. At the start of next year, again based on the environment at that time and based on the assets we hold, we will reset the unwind rate.
- Prakash Kapadia:** That's helpful. And lastly, now given the Exide merger is done, what kind of APE growth and VNB margins can we look at in the second half? Because you know, this quarter also, few months have been good in terms of growth. Few quarters have been muted. As we step into the second half, Q4 was a bit muted last year. So, on a consolidated basis, what are we looking at in the second half of the year?
- Vibha Padalkar:** So, we are looking at about a 15% to 17% kind of a growth. And again, some of the things that I mentioned in terms of the parent company merger will help accelerate that. On the margins, what we have said is that we will get to margin neutrality by middle of next year. If you exclude this one year, from 14th of October onwards, one year from that of our merger with Exide Life, thereafter, we should get back as if we are back on the treadmill of where HDFC Life standalone was. So, the entire merger and synergy extraction would have got subsumed within us.
- Moderator:** Thank you. The next question is from the line of Swarnabh Mukherjee from B&K Securities. Please go ahead.
- Swarnabh Mukherjee:** Thank you for the opportunity. My questions are on two areas. First of all, on your group portfolio, if I look at the product categories Group Term Life and Group Annuity, there are very divergent pictures there, and I wanted to have your comments on the same. So, Group Term Life looks seems to be doing pretty well, but what are the trends you are seeing about pricing in that portfolio? And how do you see it growing ahead? And on the Group Annuity book, it seems to be de-growing every quarter, and your annuity portfolio seems to be driven by the individual side. So, what is happening on the Group Annuity side, if you can paint some color on that as well? So, that is the first area.

On the second thing, I wanted some color on how we should think about the EV roll forward after this merger for the combined entity? So, how should we think about the unwind rate? And given that VNB is a very small component for Exide Life right now, what would be the operating ROEV which you expect when you start reporting the consolidated EV? And how would the persistency be given that the renewal rate for Exide Life is much lower than what our standalone entity has right now? So, those are my questions.

Suresh Badami:

So, let me address your question on the group product. I think you are referring to the Group Credit Life. I'll cover both the Group Credit Life as well as the Group Term Insurance. See, in GTI, actually we have still not picked up and gone into fully because we are calibrating in terms of the risk as well as the pricing. It's an annual renewable product.

So, in some sense, we will monitor and come into the Group Term. But the Group Credit Life is where, to add on to the earlier question which was there on protection, we have been fairly agnostic in terms of how do we cover protection overall. That business has been growing considerably for us because of multiple parameters.

One, of course, is the fact that our partnerships by themselves are growing in terms of disbursement. Second, there has been a deepening of relationship across most of our partners in terms of the value penetration, as well as the newer loan verticals that we have been able to add on.

We have also been able to add on a fair number of newer partners. And more importantly, having gone through the whole COVID experience, understanding the market across each of these relationships, we have been able to reprice significantly in terms of what is it that we can do across each of these in particular. So, you know, both in terms of profitability as well as growth, we are seeing a significant improvement on the credit life business. And in some sense, frankly, while the individual protection has been slightly muted overall for the industry, we have managed to get our overall protection growing on a combined basis.

On the Group Annuity side, we had invested in the pension company. We also have a huge amount of relationships which are happening in terms of the PSU relationships. We do believe that in terms of market share across most of the key clients, we have a significant presence. So, we have been able to grow that.

We have had a steady increase in market share if we were to look at it in terms of the annuity business. In fact, while the overall annuity numbers for the industry has de-grown, we have been able to get a growth as HDFC Life. So, there has been a little bit of a slowdown in the group annuity because of deferment in anticipation of better rates, but I do believe that over a period of time, the annuity segment will continue to grow at fairly significant rate over and above the industry growth rates.

Niraj Shah: To your question on what happens to the Embedded value post Exide Life, there are a couple of things here. We did discuss in terms of our aspiration to get to margin convergence in the next few quarters. As you know on half yearly basis already including Exide, we are very close to last year margin levels.

So, the two components of the Embedded value would be the VNB accretion and the second would be what is earned on the existing assets or the unwind. On VNB, as we are talking about convergence to HDFC Life margins over a period of three to four quarters. You should see that coming through in a similar form as it is in HDFC Life. So, there should not be any sort of leakage from that perspective.

Unwind is more in terms of the kind of assets that you hold. The product mix as you are aware is very little unit linked; largely it's a bond kind of a portfolio. So, the unwind rate and the methodology will be set when we are looking at setting our assumptions at the end of the year. So, there would be a uniform approach on those assets as well.

So, given that Exide Life is less than 10% of the embedded value of the overall combined entity today, we do not see much of a gap coming through on account of that. There could be a couple of quarters while this alignment happens, but over a year or a couple of years, we do not see any sort of gap in the pre-merger and post-merger EVOP.

Persistency also as mentioned has been improving. So, on a standalone basis, 13-month improved from 73% to 76%. We have a line of sight of getting to 80% very quickly. Also, given the kind of product mix that is being generated in those segments, we do believe that the experience is fairly close to the assumptions that have been set. So, that's something that we had very carefully assessed in the early part of the transaction itself. So, no concerns on that front either.

Moderator: Thank you. We will take the next question from the line of Akshat Mehta from Sameeksha Capital. Please go ahead.

Akshat Mehta: So, my first question was on the ROP business. What will be the share of ROP in the overall business post the merger? And what kind of strategy are you planning to expand the share going forward, and if there is any kind of target share that you are looking at? That is the first question.

Vibha Padalkar: So, Akshat, no target per se. We are reasonably agnostic as long as the end game is to protect oneself adequately in whichever form or shape. So, this is a product offering we have. We are in the zone of 20 plus percent, and it will also depend on which channel is selling it. So, we have had this product for quite some time, and we continue to sell this. Between this, regular premium, limited pay to credit life, these are all different modes of getting to adequate protection.

Akshat Mehta: My second question is on the FRA part. You know, given the current environment, what could be the mark-to-market losses in your FRA, if you can give some kind of a number? And I mean,

because of that, is there any requirement to increase the rates on your annuity and non-par products given that the FD rates are also increasing? And what would be the impact on the margins on account of that?

Niraj Shah: So, on FRA, the mark-to-market on a net basis, there is no impact because of the equity FVC. You can set off against any sort of negative FVC that you may have on the debt side in an increasing interest rate environment. So, there is no impact on that front on a net basis. As far as being competitive on non-par products goes, the headline rates, if they continue to move up, we have the opportunity to increase the rates, and we have taken those opportunities both on the annuity front as well as on non-par savings while managing our spreads.

So, that is something that we can continue to offer compared to shorter term products. These are, on a tax advantage basis, a fairly strong proposition from a customer perspective, and the tenure is 10 years and above. So, as such they do not really compete with the shorter-term products that are offered by other financial services.

Akshat Mehta: Any new products you're trying to launch in second half of the year?

Niraj Shah: Yes, so that journey continues. In fact, across all segments, Vibha mentioned already, we introduced a new product Click2Protect Super, which allows a fair bit of flexibility to customers to switch and change their cover mid-policy as well. That was launched just a couple of weeks back. We have launched two products on the retirement front, one on the participating side and one regular premium annuity product. So, that's something that has been done in the last few months.

We have launched in partnership with our sister concern HDFC Ergo, a combination product with a fairly well-regarded Optima Secure best-in-class health product in the market, and we have a combination product along with that as well. So, that was something that was launched last month. And as we go forward there are many such products in the pipeline across protection, savings, as well as retirement and pension. So, you'll hear more about it as we go forward. With some of the guidelines having been more flexible in terms of the go to market with use and file, I think there will be more coming through in each of these categories.

Moderator: We will take the next question from the line of Nidhesh from Investec. Please go ahead.

Nidhesh: Firstly, on the EV walk, can you share the breakup of the operating variance between persistency, modality and expenses?

Eshwari: The operating variance is mainly coming from persistency and expenses. Mortality is almost neutral because the experience has now normalized post Covid.

Nidhesh: Secondly, how should we think about the volume growth for the industry as well because if you look at the data for last 4-5 years, the volume growth for industry and for most of the players

have been quite weak? So, how should we internally think about the volume growth for the industry? Is this going to be the trend going forward also?

Vibha Padalkar:

So, you know, I'm smiling a little bit because when you say over the last 3-4 years, volume growth is weak. Actually, that's exactly what I covered in my opening remarks wherein if you are looking at us, for example, we have doubled over the last four years in terms of everything - Topline, bottom-line and so on.

Also, if you were to look at the two years CAGR in terms of topline, it has been a 17% two-year CAGR. This year, it's a little bit weaker. But there also, it's also a little bit weaker on the number of policies. So, that I will certainly admit that as a sector we were all selling higher ticket size policies, perhaps thanks to the father of all this, Sanchay Plus, and so perhaps to a slightly more affluent customer. So, all of us need to also focus on how do we increase penetration in real terms, in terms of number of lives covered. So, there we do have our work cut out for us.

At the same time, we have covered the number of lives overall through Credit Life of 28 or close to 3 crore lives, and this has grown by 41%. So, group has done well; individual not so well. Also, the less than Rs. 50,000 ticket size, which also has not done very well while more than 1 lakh ticket size has done well.

So, if data is available, then we can price it more appropriately. With Bima Sugam, while we've talked a lot about it on this call, what the regulator is promising is that different databases that the government collects and with customer consent, it could be more enriching in terms of how we underwrite policies, which today, frankly, is a challenge, and especially it's a challenge at the lower end in terms of ticket sizes.

So, a combination of that would mean nothing has changed in terms of demand, and so the demand is there. Lower penetration or insurance coverage is there. The protection gap is there. So, there is also a little bit of inverse correlation perhaps with banks, minorly, because the size is very big. Protection again, and I talked about it in this call, retail protection has been slow while Credit Life has done well. Retail protection for almost everyone in the industry has lagged versus the past couple of years. As protection starts getting fixed, and it's a matter of time before it does. Again, protection is based on much higher levels of number of policies covered, ticket sizes are small, but number of people covered is more. Some of this should start turning around.

Also, if you were to look at cyclicalities on a few things, for example, unit linked has not done well at all, while for us it's always been calibrated, but even as a sector, unit linked has not done well. Some of our new tie-ups include, for example, I did mention about India Post Payments Bank. We are very gung ho about it, we are talking about 650 plus locations over 1.5 lakh number of their feet on street and, you know, the Gramin Dak Sevak. So, that augurs well in terms of expansion in non-metros, Tier 2-3 cities.

Exide Life acquisition was also for us to increase our footprint in Tier 2-3 cities, and we won this RFP with India Post Payments Bank, and we will start work on it as we speak. That also should see a lot more of penetration in the true sense.

Suresh Badami:

Broadly, we will look at expanding the distribution, but I think even at an industry level, the number of steps being taken by the chairman of IRDAI and the regulator in terms of looking at growth, allowing so many new flexibilities in terms of how the overall sector should open. I think at an industry level, there is clearly, given the opportunity, a fair amount of growth that we will see. I agree with Vibha, I think the challenge really is for all of us to get together and look at an NOP increase where we need to be increasing the number of lives and, our strategy in terms of how do we reach out to Tier 2-3 cities and how do we reach out to newer geographies. How do we have state level coverage?

There are fair amounts of detailing that, I guess, each one of us is doing as insurers. Definitely, as HDFC Life, we are very clearly focused. Some things like in terms of, how do we deepen some of these markets. Just the fact that we can look at use and file, we can come out with more innovative products. There are so many such things which will aid the overall industry growth. And as HDFC Life, we would expect to grow a little faster than the industry.

Nidhesh:

And lastly, just one question, so if you look at the competition, earlier it used to be very intense competition on protection. Now on non-par and on annuities, I see that there is a significant price-based competition which is increasing. So, in that context, are these products becoming commoditized? And in that context, how should we build our present so that we will be able to generate higher returns for shareholders despite these segments getting commoditized?

Vibha Padalkar:

Only market share is something that every financial services industry sees, whether it's banking, mutual funds, and especially banking. If you look at insurance, and you talked about growing market share on the back of non-par. When you triangulate that with reading the balance sheets as well as what is the retained risk, and what is the hedging strategies based on the interest rate sensitivity that some have put out, it could be something that we don't want to go down that path. So, we want to have market share growth.

At the same time, I think the previous caller asked what your operating variance is; we want to have an operating variance that is close to zero. We want an operating variance which is very close to what actuarial assumptions are, and we disclose this every quarter. So, that's really the treadmill that we have been for the past decade and we want to continue with this. But it's not to say that we don't want to grow. We do, and so amongst all these constraints, we launched Sanchay FMP, and today it's close to 25 odd percent of our non-par savings business and continuing to grow. That is easier to hedge as it is shorter end of the spectrum and we can have an aggressive play over there, as against having an aggressive play on lifelong payouts on some of the non-par products.

So, we will continue to push and pull in this space so that the combination of various stakeholders including risk management is something that we can be fairly comfortable with. We pride ourselves on having a pristine embedded value, and there is no known risk that has not been factored into our embedded value, and we want to keep it that way.

Moderator: Thank you. We will take the next question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Thank you for taking my question. Just on HDFC Bank again, I think you mentioned 46% to 48% of your revenues comes from there, but how is it the other way around? In the sense market share for you in their life insurance business, how has that been trending?

Vibha Padalkar: So, we have not really been giving what the share is. There are many nuances to this because again, just looking at the share as against looking at the share of value of new business becomes a very one-sided discussion. Not looking at the persistency, claims ratio and so on. So, I think the way we look at this is, even from a risk management perspective, we like hovering around 50% in terms of HDFC Bank share, growing our other channels faster than industry growth. We have demonstrated this for multiple time horizon, whether it's the recent Q2 or FY22 or FY21. So, the track record of channels other than HDFC Bank is growing faster by a mile than the private sector. So, we will continue to do that rather than just looking at one metric of HDFC Bank.

Suresh Badami: We do expect a greater alignment in terms of the overall strategy of the HDFC Bank team along with us, and the merger is not very far away. So, hopefully, we will be able to get our market share up, but like Vibha rightly mentioned, I think it is also a question of, what quality of business, where we want to do the business, what is the share of VNB that we are looking at. All those are into consideration, and we do believe that getting the topline back based on our product mix will move upwards.

Shyam Srinivasan: And just the second question. I think, during your opening remarks, you talked about multiple levers for VNB growth, right? I think retail protection like you mentioned has been challenging, but what are the other things now? I think you called out like product innovation, risk management and stuff, but I'm just looking at product mix. Keeping aside Exide Life, now we have reached a phase and where do you think there is further scope for improvement? So, let's assume FY24 and FY25, what can change right in terms of helping VNB growth to be not correlated to APE growth, for example? What are some of the other levers that are still there?

Vibha Padalkar: So, many, many. For example, new pools of profitability, and obviously, I can't share all of them. And we've been the market leaders, everyone talks about pure term and market leaders in pure term, or looking at the cancer, cardiac to looking at deferred annuity to Sanchay Plus kind of products to riders to other kinds of products. And we have the more recent kid on the block, Sanchay FMP, again, margin accretive for us. Even if you look at par, we believe that we are the highest in terms of par margins. And so any switch between some of the other lower margin

products to par, of course with customer consent, makes a lot of sense. Also, some of the tweaks in terms of whether it's riders, whether it's group annuity, whether it's individual annuity will help in margin expansion.

Also in terms of expense leverage, that's an important point. While it might optically look like our expense ratios have gone up, but actually the fixed costs have continued to trend downwards. When you look at agency, in our agency channel, say about 60-70% is fixed costs. So, with agency growing upwards of 20% plus, most of that should fall to the bottom-line as margin accretive contribution. Also, mix change becomes important, especially on say participating.

Even with Exide Life, right at the beginning, we did mention that it's low single digits. Now we are talking about high single digits in terms of Exide Life, around 8 odd percent. So, in a span of less than a year, we have been able to get Exide Life margin from low single digits to close to 10% and that has not been with any major surgery as you know, because it was still a separate entity. So, that can only continue to increase getting to margin neutrality. So, I am adding in a way market share of 1.2%, 1.3%, but at the same time able to get Exide Life very close to HDFC Life margins.

So, all of these are levers, but obviously I can't talk about some of the things that are in the pipeline, but we will continue to extract margins. And I think that is our core strength because we have not dropped margin in any quarter versus the previous year, for the last several years. The only exception was when we launched Sanchay Plus, and we told all of you that. So, that was a product-specific aspect, but apart from that, this margin trending upward curve every quarter, every year has been because of many, many levers to margin as against just one big-bang lever, that could be either copied or it could be affected when there's some disruption, macro disruption that happens.

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

Dipanjan Ghosh: Just one question. I think you mentioned on your Credit Life business that some of the newer partnerships have been delivering strong growth and also some new product verticals have been added. So, can you kind of extend this argument and give some color on the attachment rates or maybe the growth across all the newer partnerships versus the existing partnerships? And how do you see it going forward?

Suresh Badami: We have 300 plus partnerships now across banks, NBFCs, SFBs and MFIs. We have registered a growth of almost 66% on this particular business in H1 FY23. We are a fairly large player across all the verticals. So, we do have a complete gamut of products whether it's unsecured loans to CVC to home loans to LAP, MFI all of that. So, you know, in H1, for instance, the LAP housing business was almost 29%, MFI was 35%. The housing and LAP grew by 44%. The MFIs grew much faster at 100% and the other segments grew by almost 50%.

There is a, complete attachment range which varies from vertical to vertical. It varies anywhere between 30% to 70% depending on what product mix and which loan vertical we are talking about. For MFIs, it's 100% because they need to work on that particular model. We are trying to see how we can look at the value penetration more than just the attachment rates in terms of the number of loans, and that's something that we have done.

In parallel, what we have also done is that we have integrated a lot of our technology platforms across all our partners. So, in terms of claim settlement, in terms of processing, we have significant embedding, which has happened with many of our partners. So, we have been looking at this. So, I do believe that if the industry continues to grow in terms of disbursements, we will grow so much, and this is across outside HDFC also. You know, HDFC group in some sense gives only less than 30% of overall credit life business. So, it's fairly well diversified even within the Credit Life LOB.

Moderator: Thank you. We will take the next question from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. With regards to the India Post tie up, can you give us some sense of what's the rollout schedule? And do they have any other tie ups other than us?

Suresh Badami: So, Vibha did mention in terms of their vast postal network which is there, they do have an Aadhaar enabled payment service, which is a single largest platform in terms of doorstep banking to a set of customers. We have recently launched the relationship. Only last week or 10 days back is when we had the official launch along with their field teams. We see a huge opportunity in terms of both the protection and savings across the group and individual customers. The POSP model will work very well in this particular case.

Secondly, you know, we should be able to go across not just through their offices but through the Gram Dak Sevaks, which is under the Department of Post. Now, one of the challenges which we mentioned earlier on the call was in terms of growing our NOPs as well as looking at a certain set of products which can go into the Tier 2-3 cities and the rural markets. Normally, it takes anywhere around 90 days to 120 days for us to be able to launch a relationship end-to-end in terms of integration, in terms of product training, in terms of resourcing on the ground, and we have been fairly successful in terms of on-boarding new partners. So, you should see us active in terms of logins fairly quickly on this. Even as we speak, internally, we have already aligned a fresh vertical which will handle this particular relationship, and we should start seeing the business soon.

Vibha Padalkar: I want to add one more point, and that is HDFC Bank is also tied up with them. So, down the line when HDFC Bank becomes our parent promoter, there can be a lot more of integrated working and integrated offering. And these are two independent tie ups, and so we look forward to that.

Second point I want to make here is that persistency is robust. So, what we have struggled typically in smaller towns is one is reach, how do you get to them? And second is quality of business. So, what we feel very enthused is the very good work and the traction that has been seen. So, you know, we intend to be able to grow quite meaningfully into Tier2-Tier 3 towns.

Moderator: Thank you. We will take the next question from the line of Madhukar Ladha from Elara Capital. Please go ahead.

Madhukar Ladha: Thank you for taking my question. Most of my questions have been answered. Just a clarification. You mentioned 46 to 48% of the business comes from HDFC Bank. Now does that also include the group side of the business or this is only individual?

Vibha Padalkar: Only individual.

Madhukar Ladha: And on the group side, how much comes from HDFC Bank?

Vibha Padalkar: It's relatively very small. Like Suresh mentioned, all HDFC entities put together, which is HDFC Limited, HDFC Bank and HDB is about 30%.

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

Nischint Chawathe: Vibha, you mentioned that, you are looking at margin neutrality over the next 12 months. But if I look at the data today, you are almost there, right? So, I wonder why it would take another four quarters or so for you to achieve margin neutrality.

Vibha Padalkar: So, you are right. I think the more likely scenario is faster. However, Nischint, you will agree that now it is truly a part of us. While we are very, very happy that our key distributors have migrated to us, key employees have migrated to us and so on, but we are just a little bit cautious that post some of these, the migration, golden handcuff and so on; we want to see that stability. So, we will have a better sense certainly, and we will give you an update when we connect in Jan.

Nischint Chawathe: Because whatever could have, I mean, you know it's been almost four quarters, right? So, whatever had to go out could have gone out already, I mean.

Vibha Padalkar: No, no, Nischint, absolutely not, because we didn't tamper with their model at all. The last thing we wanted to do is start meddling into their model. Of course, we had our HDFC Life person there oversight was certainly there. Their Board comprised of members from our Board, but the business model on the ground was as is. So, now we are, for example, having an overlay of say persistency.

Niraj mentioned about it, and it's also known that they have lower levels of persistency. So, we are now mandating to say at least above a certain ticket size, please have a SI/ECS mandate,

standing instruction, like it is in HDFC Life. So, this is one example. Like that, there could be several other examples, wherein there is an HDFC Life rigour, governance and so on, which we stayed away from largely uptill now. Branch reductions will happen. A technology revamp will happen. In products, today they have from day one most of our marquee products, we will also have theirs. How is that panning out, you know, and so on. So, we will also move into other geographies.

So, the whole point of this acquisition was not just to acquire it and have a 1.2% or 1.3% increase in market share. We will be investing in new geographies because they are strong typically in the south. But we are expanding into Tier2 and 3 cities and replicating that model into especially West and North. So, that will require, investments, all of that is factored in here. So, there is nothing that we know that we are not telling you, but it's just that for us to really invest in the Exide Life formula and grow it and invest in it, just little bit of caution in terms of margin neutrality. Yes, it could happen a quarter or so earlier.

Moderator: Thank you. We will take the next question from the line of Deepika Mundra from JPMorgan. Please go ahead.

Deepika Mundra: Thanks for taking my question. Just again on HDFC Bank, post the bank becomes the parent, how you foresee the visibility on, better alignment given that some of the other competitors within the channel, of course, are selling very attractively priced products it seems. Given the growth that we are seeing in HDFC Life versus some of these?

Vibha Padalkar: So, Deepika, this is not the only the first one, in terms of open architecture and how do they handle. We are in many, many open architecture situations, and the senior management of those banks have a rough way of how they are allocating the shares between their insurance partners while at the same time, of course, giving the customers a choice. So, if other banks are also doing it and all the various partners that we work with, HDFC Bank would. There are various levers of doing it and that's what you will see happen. It's not only a product thing. There are also many white spaces that today nobody is doing.

Obviously, I don't want to talk about those white spaces, but they are there, and those conversations have already been had with the Bank. So, you will see some of that happening. Also ultimately, Bank is going to be our promoter and so governance, risk management, all of that, Bank will partake in those aspects. And also, it is not a surprise that no bank today that holds more than 50% has embraced open architecture. So, HDFC Bank also understands that. While they are not going to roll back on open architecture, but there is a reason why apart from HDFC Bank, there is no large bank in India today that has opened up. So, clearly, there is a balance between three things. One is open architecture accretion, second being a parent of that entity, and hence all the risks and rewards being aligned and third is that at the same time giving customer a choice. So, all those conversations are had, and they are completely aligned on those.

Suresh Badami: Just to add, Deepika, so many of our products have clearly a much stronger value proposition both from the brand, servicing, claim settlement and overall technology perspective. So, given the customer profile, given the segments we operate in, I think there is a significant upside even in terms of the product value proposition.

Vibha Padalkar: I also want to add to what Suresh is saying. So, hypothetically, what you is saying is that if somebody has a much cheaper product, then, you know, in the open architecture, then that's where business goes to. By that logic, with an aggregator, for example, we would not be able to sell even a single policy, because we are rarely the cheapest, but we do. And we have enjoyed share of anything between 20% to 25% and same in term. So, it goes beyond pricing especially when you are buying protection, especially when you are buying long-term larger ticket savings.

So, it's holistically in terms of the experience, the brand, are you in the zone in terms of pricing, what is your track record on claims settlement, servicing, you know entire thing. So, while it's made out to be about price, it is a full package. So the bank also as a promoter would be very cognizant that it's an entire package, and so there is alignment.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. The theme that we are seeing as an industry wide phenomenon about protection is that despite low penetration levels, periodically, there is bounce of de-growth and it doesn't sustain secular growth. As an industry, is there a kind of campaign required like you've seen in case of mutual funds, there is a consistent, high decibel campaign by the industry? Do you think, there is a change in approach needed by the industry? Maybe campaign is one of the options, but any other option do you think that industry as a whole could do, needs to do for this to not happen on a recurrent basis?

Vibha Padalkar: So, Anand, maybe you have not seen some of those campaigns. So, we have had 'Sabse Pehle Life Insurance'. So, that campaign again will take off. You will see some more visibility on that, but ultimately, anywhere in the world, people are not going to wake up and buy insurance. You do require that nudge. You do require a little bit of prod. Just comparison versus some of the other sectors might not really work. That's why I am a great proponent that some level of hand holding of all our channels. That's why there is a place under the sun for all our channels to evangelize the need for life insurance. You know, even credit life was hardly prevalent, and with a CAGR of about 15 to 18% growth in retail credit off take, now credit life has come into its own. So, it takes time, and it will happen. I have no doubt in my mind; especially younger population will continue to be interested in buying this. And also, it's easier for them in terms of light-touch underwriting.

We do have a portal. If you have not seen it, please do check, it's called KlarifyLife. And you know, it is to engage with younger people to say it's not so complex. Don't buy it if you don't have XYZ situations in your family, but to have an honest conversation on what pure term is. At

the same time, it will take time like I said, for it to percolate, for the need for it, but I have no doubt in my mind that all things being equal on this reinsurance, COVID and so on, it should grow faster than overall industry level growth.

Anand Bhavnani: I have one data keeping question, if I may.

Vibha Padalkar: Please go ahead.

Anand Bhavnani: So, if I were to look at the persistency numbers, we have two different numbers given in the disclosure. One is in the IRDAI format which is on the page 10 of the PDF uploaded on the exchange, whereby I see the 61st month persistency has fallen year-on-year, and some bit even sequentially as well, whereas in the presentation on slide 6, we see year-on-year persistency is higher, and it's different. So, I presume the methodologies are different in these places. Can you please explain this?

Vibha Padalkar: Anand, it is because of the merger. One is a merged number.

Anand Bhavnani: So, fine. The first one in the IRDA format it's completely merged, and the second one is pre-merger comparison.

Vibha Padalkar: The higher number is pre-merger.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Ms. Vibha Padalkar for closing comments.

Vibha Padalkar: Thank you everyone for joining the call today. I wish everyone a Happy Diwali. Thank you. Take care.