HDFC Life Insurance Company Limited

9M FY24 Earnings Conference Call

January 12, 2024

Moderator: Ladies and gentlemen, good day and welcome to the HDFC Life Insurance Company Limited 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 a touchtone phone. Please note that this conference is being recorded.

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

Vibha Padalkar: Thank you, Zico. Good afternoon, everyone. Thank you for taking part in this conference call to discuss the business performance for nine months ended December 31, 2023. Our results, which include the investor presentation, press release and regulatory disclosures, have already been made available on both our website and the stock exchanges. Joining me are Suresh Badami, Deputy Managing Director; Niraj Shah, Executive Director & CFO; Eshwari Murugan, our Appointed Actuary, and Kunal Jain, representing Investor Relations. I will share key insights into 9MFY24 results and will be glad to take any questions thereafter.

Starting with operating performance:

Our individual WRP grew at 6% for the nine months ended December 31, 2023. Private market share for the period 9MFY24 stood at 15% and we continued to be ranked amongst the top 3 life insurers across individual and group businesses. Whilst QoQ sequential individual APE growth was 8%, it has been lower than our initial expectations, largely due to a slower pace of recovery in ticket sizes over Rs. 5 lacs. However, there is sustained positive traction across ticket sizes up to Rs 5 lacs. These cohorts continue to deliver well – clocking 3x overall company level growth. Encouragingly, we are witnessing indications of a resurgence in the high-ticket segment, particularly in some of our recently introduced products.

Additionally, we have noted a shift in asset allocation trends in favor of equity investments, influenced by the current buoyant markets. We have also witnessed postponement in demand from specific cohorts due to the prevalence of high short-term interest rates. Nonetheless, we view these as temporary challenges and anticipate an uptick in growth as these macro trends gradually normalize. The number of policies sold continues to clock a healthy growth of 9%, outpacing private and overall industry. This aligns with our core objective of establishing a sustainable long-term business by broadening our customer reach. We have covered close to 5 crore lives across our individual and group businesses. Growth from Tier 2 and 3 markets remain strong, witnessing 2x company growth. These markets contributed close to 65% of the overall topline. Average ticket size has remained stable despite the impact on high ticket sized business.

Our retail protection grew by 36% based on individual APE and credit protect clocked 21% growth YoY. Overall and retail sum assured registered growth of 38% and 54% respectively, with us continuing to be market leaders amongst private players in overall sum assured. Our private market share based on overall sum assured stood at 19% for 9MFY24. Annuity and Protection put together contributed to over 50% of new business premium in 9MFY24.

Toward the latter part of Q3FY24, we introduced Click 2 Achieve, a ground-breaking product in the non-par savings category, distinguished by several pioneering features. This innovative plan empowers customers to create unlimited combinations, tailor their cash flows to align with personal goals, with the cushion of a guaranteed return. The customer can also reduce the impact of inflation on income with increasing income option. It also provides the flexibility to grow survival benefits at a rate 1.5% higher than savings bank deposits. The product has been received well across channels and garnered 100 crores within 4 weeks of its launch. This is our 2nd '100cr in a month' blockbuster product to be launched this year.

Product mix remained balanced with non-par savings and participating products at 28% each, ULIP at 32%, annuity and protection at 7% and 6% respectively, based on individual APE for 9MFY24. Notably, the non-par mix saw a 200-basis point increase sequentially, largely driven by the successful launch of Click 2 Achieve, reaching an exit run-rate exceeding 30% in December. ULIPs have seen an increase on the back of thriving equity markets including in the >Rs. 2.5 lakh segment.

Moving onto key financial and operating metrics:

Despite shifts in our product mix and ongoing investments across channels, New Business Margin was sustained at 26.5% for 9MFY24. This reflects our calibrated approach across multiple levers including pricing, cost management and underwriting, even amidst market disruptions. As indicated earlier, we have also been able to improve profitability across product segments. Value of new business increased by 5% YoY to Rs. 2,267 crores. Embedded value was Rs 45,173 crore as on December 31st, 2023, with an operating return on embedded value of 16.5%. Profit after tax for 9MFY24 was Rs. 1,157 crores, i.e., a YoY increase of 16%, supported by 18% growth in profit emergence from our back book. Solvency as on December 31st, 2023 was 190%. Renewal collections continue to hold strong with a YoY growth of 15%.

Next on distribution:

We registered a YoY growth of 17% across our bancassurance partners whilst maintaining our counter share at HDFC Bank, benefiting from a strengthened group relationship. We are also happy to have extended our presence across bancassurance partners and expanded our personnel in their bank branches whilst deepening collaboration via various initiatives, such as blockbuster products, bespoke training and on ground engagement. These efforts are dedicated to amplifying customer value and experiences.

We are glad to announce our new bancassurance partnerships with Karnataka Bank, Karur Vysya Bank and NKGSB Co-operative Bank and we are confident of growing with them over the next few years whilst offering their customers a range of innovative and customer-centric financial solutions.

Our Agency channel delivered growth in line with the company's performance. We added more than 50,000 agents in the channel during 9MFY24 as we continue to build a robust Proprietary franchise. Our strategy focuses on strengthening our distribution network by expanding branches, attracting relevant distributor profiles and making consistent investments in technology and capability building.

Amongst other highlights:

We are pleased to announce the addition of Mr. Kaizad Bharucha, Deputy Managing Director of HDFC Bank, to our Board. His expertise is a valuable addition, and we eagerly anticipate achieving significant milestones under his mentorship as a Board member.

Moving on to regulatory updates:

As you are aware, IRDAI has published an exposure draft on Insurance product regulations in December 2023. One of the key aspects in the draft is the proposal to address the concern on early surrender values in traditional products. The draft is currently under discussion and the industry is in the process of sharing its feedback with the regulator. We believe that the product design should offer the best value proposition to the customer whilst encouraging long term commitment to the product and without compromising growth for the sector. Further to the update on the GST Show cause notice issued by Director General of GST Intelligence (DGGI) raising a demand in June 2023, the Company has filed its detailed response on January 5, 2024 with the Adjudicating Authority.

We are happy to announce our recent accomplishments: being honored with the prestigious Golden Peacock Award for Excellence in Corporate Governance in 2023 and achieving a Guinness World Records title through our 2023 Insure India initiative. This initiative was designed to heighten awareness about life insurance across the nation.

In conclusion:

As protection gap in our country continues to widen, we remain focused on offering solutions to tap into this vast opportunity. Growth in the Rs 5 lacs and below category as well as in tier 2 & 3 towns remains robust and these are our focus areas. Even for the growth potential of the above Rs 5 lacs ticket sizes, we hold an optimistic outlook for the medium to long-term. We expect to grow by leveraging multiple drivers including strengthened counter share at HDFC Bank, capitalizing on ongoing investments such as branch expansion and new tie-ups, continuing to scale up a high-quality proprietary business led by agency and favorable macro environment shifts.

The detailed disclosure on our results is available in our investor presentation. We now invite any questions from the audience.

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 Research.

Suresh Ganapathy: The first question is on growth and margins itself, Vibha. At the start of the year, you mentioned a 15% guidance and the actual outcome unfortunately has been well short of that. So far 9-month number has just been 5%. I know the smaller ticket size policies have done well but the shear contribution of the larger ticket size, you're confident that post we exit FY24 with the revised guidelines on surrender charges, we can get back with the mojo of getting 15% APE growth and perhaps VNB growth. What gives you the confidence there?

Vibha Padalkar: A couple of things and I'll come to the draft circular later On a standalone basis, I have no doubt in my mind about getting the mojo back and that is very evident in a few things. One is like I mentioned that below 5 lakhs is growing, we have already grown by 17% and continue to grow. That is number one. Number two is that, it's also a function of equity markets and unit link. We have always used a balanced product strategy and so we will remain calibrated until some of that happens and it's bound to happen in the timeframe you're talking about. A little bit of calibration in terms of exuberance and getting back to principles of broader asset allocation. Another point is that, in terms of the counter share at HDFC Bank also because this year that counter share was not there for the full year. You will have a full year impact of counter share. We continue to solidify and make inroads in the bank. Fourth point is, all the onboarding of new relationships, three I have mentioned and there are some smaller ones that I haven't mentioned, all of those will start kicking in. Wherever we have gone in with the new relationship, we have ended up with a counter share between 30% to 40% over a span of the first 15 months. That also will start happening given the strength of our product offering. If you were to look at our agency channel, you will see that there's 75 new branches that we are adding which will start seeing traction

Suresh Ganapathy: But the problem Vibha is that peers have done better than you. It is pretty rare for you guys not to outperform your peers. This is the first time perhaps in history where you are underperforming the peers by a wide margin. Everybody is in the same boat when it comes to all these challenges with respect to high product ticket sizes.

Vibha Padalkar: Suresh, since you are talking about peers, we would like to point out that we have not dropped margins versus peers, who have seen fairly significant margin drop. So, if there's a margin drop, then selling more unit linked and perhaps more aggression on other products is not very difficult. We continue to stay focused on triangulating all objectives, whether it is in terms of growth in term, annuity, credit life, or renewal premium. If you look at assets under management, while numbers are yet to be out, we have grown by 20%. So, the quality of business and protection of the business that has already come in and for us to continue with that. If you look at number of policies sold, we are the market leaders in terms of retail number of policies sold. They have grown by 9%. The reason I'm pointing out all of this is, that is the holistic score card. It is not very difficult to grow EPI just for the sake of growing EPI. The philosophy that I want is to tick in every box because it's not just growth for this year, growth for this year will hamper growth for next year. If I don't grow on number of policies then it is going to hamper how much I'm able to mine next year. So, sowing those seeds, sowing Tier-2 and Tier-3 and broad basing is important. Even if you look at another metric on agency, we are right up there on number of agents added; 50,000 plus agents that we have added this year. So, there is no let up at all in terms of the number of agents that we are able to add and attract, which gives us the confidence. Yes, this year we have reconstructed below 5 lakhs and above 5 lakhs businesses and we are quite confident that whether it's high single digits or 11%-12%, the gap will get made up. Another aspect I want to mention which is important is that overall sum assured grew by 38% and again it's not just one quarter, every quarter we have been the market leaders on sum assured. If you look at retail sum assured, that has grown by ~50%. So, very strong in terms of retail sum assured. All of that is making it possible for us to be neutral on margins, continue to give growth in value of new business and grow step by step. I think that core of our business ultimately is in protection. While we will grow in savings, we will calibrate all of these measures.

Suresh Ganapathy: And on IRDAI regulations and what do you think about non-par, from a growth standpoint, surrender charge standpoint, margin standpoint, behavior standpoint? For the benefit of the audience, can you share your views because everybody is going to ask these questions?

Vibha Padalkar: Philosophically, we are completely aligned with the regulator that when a customer wants his/her money down the line thinking he/she has bought the wrong product, how do we give some level of exit or protection of their capital. However, we need to consider a few things in terms of how do we get there. So, philosophically there is no disconnect but we are engaging as an industry with the regulator on the how part of it. We have had a few discussions we will continue to do that. The circular already has a few enablers which currently we do not have. For example, we can have shorter tenured products, there is minimal to no GST on select ticket sizes or sum assured. These enablers will give us somewhat of a kicker. But, how we do cash flow matching on a longer tenured product? Can we have an avatar of discontinued policy fund, which is already there in unit linked as a construct? In unit linked products, if somebody were to surrender, then the premium or fund sits in the discontinued policy fund which discourages customers to churn immediately. But at the same time, you are protecting someone’s money since they don't want or are unable to pay future premiums. If those sorts of things come through then it will help mitigate any risks. Additionally, it is very much in line with what we are used to as a nation on longer term products. For example, PPF, none of us worry about the fact that before 7 years we cannot even get some element of it. It's only after seven years there's a formula. We are all used to it. These have different objectives than just giving liquidity. Right now, we are at the stage wherein we are explaining and engaging with the regulators, not that they do not understand these things, but they are very receptive to hearing from us and we will see how and in what avatar finally it makes sense for the customer, manufacturer, intermediary and the regulator. So, that's where we are right now. While I don't want to give away too much, but there are at least 5-6 different ideas that we have on product construct. I will share one example i.e., can we have a differential kicker for someone who says I do not want liquidity but I want that kicker on IRR. Many such ideas are there and it's really the nuances of what the final shape or form will be wherein there will be a business case to it. So, that's where we are and we will take some time for us as a sector also to deliberate.

Moderator: Our next question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: Couple of questions. First one is again on products and our strategy of having a balance product mix. The question is that this is a heavily regulated sector and the regulation keeps evolving, and so does market conditions, be it interest rates or equities. In that backdrop, the company franchise wants a steady product mix instead of offering what the market is demanding, customers are demanding and what the distributor can distribute. Aren't you sacrificing growth opportunity? Of-course, you have already explained a lot on this regulation, but if regulations were to come hard on a certain product then you will have to move away from that product. So, why not have a strategy that is agnostic to product mix and your ability to distribute the products widely? Second, looking at agency, any particular reason why there is a reasonable amount of churn in this quarter? Is it a clean up of unproductive agents or is there something specific to it?

Vibha Padalkar: On your first question, every business model will have differing margins, customer segments, and objectives. And the same happens here. These products are certainly not fungible and we have to do a need-based analysis. Somebody might want zero exposure to volatility, somebody might want all the upside, somebody will want a lot more protection, someone will want to have wafer thin protection; some will want to have more health and combination products. And that's why it's only through engagement and we find out what is it that the customer wants. Of course, we also have to consider margins within that to know how much can we afford to sell. But it's both ways and that's why we will continue to be nuanced. I think the fact that we have a balanced product mix even when the going is good has stood us in good stead time and again. For example, when we launched Sanchay Plus 5 years ago, it took a long time to be even understood and now it is ubiquitous. But even at that time when we were the sole company selling products like Sanchay Plus, we said we would have certain levels of limitations in terms of how much of this we want to sell, unless of course the customer really wants it. The reason for that is exactly that it helps cushion volatility; it helps wean away our frontline sales from only selling one type of product and then when the plug is pulled because of something or the other, it could even be like COVID, not just regulatory or macro, then struggle to make a switch. And so, our line is very attuned and there's compulsory training in terms of being able to sell all types of products and genuinely being able to sell not just a training that they go through. And so we don't really worry too much about it. I think we do innovate. Depending on what are the regulations that are now in existence, there will always be an opportunity. It might take a little bit of time for us to conceptualize and manufacture a product, but eventually we do with whatever cards are given to us and whatever it is as a framework we are allowed to. We have fair bit of confidence on ideating to be able to do that and the nuances are always in the details. Nuances are always in levels of innovation and we will continue to do that. Just now I explained on the surrender regulation, there could be something else that happens on par wherein we might have an advantage. Of course, that also comes under these regulations. Something on UL, for example the profitability on our unit linked products, again without getting into too much detail, that has increased quite meaningfully from what it used to be maybe 2-3 years ago. Which means that at 30 plus percent unit linked where we are just in standalone quarter three, we don't excessively worry about it. And that answers your question that this is exactly what we're trying to solve, that in the existing construct how is it that it still makes business sense for us to be able to sell all kinds of products? So, that was your first question. I don't remember what your second question was, do you want to just mention it again, Avinash?

Avinash Singh: Second question on churn in agents. Of course you are focusing on agents, but if I just see the count, there has been a big drop from Q2 to Q3 in individual agents. Is this a planned cleaning up of your non-productive agents? What do we read, because by H1 you had 210,000 agents and now again the number is back to 190 or somewhere around that?

Suresh Badami: This is Suresh, Avinash. Just to quickly brief you, as part of our stated agency strategy even to IRDAI there is a minimum business that we are expecting all our financial consultant partners to be able to deliver when they are supposed to be active. Now the industry does see a fair number of additions on the number of financial consultants as well as some financial consultants attrited from this line of business. What we have tried to do over the last few years is ensured that the mix even within the type of financial consultants that we onboard, whether it's chartered accountants, mutual fund distributors, retired personnel, whether it's housewives who have wanting to do this as a career option, we try to give a score and add people on to our number of financial consultants. And as and how we find people going on to alternate careers or not meeting the requirements that we have in terms of quality of business, it's not really churn but effectively they don't fit into our business model and they don't hit our minimum business numbers. That's the way we have been looking at it. And of course, it's a question of how many new agents do we have. There's a fairly detailed strategy in terms of micro markets, where do you want additional financial consultants? Which Tier-2, Tier-3 markets that we are entering, where do we add those set of financial consultants? Finally the objective is to make sure there are people who are keen on this as a career, stay active with us, be able to sell the right product mix, have a productivity which is good enough for us to be profitable, make sure that at every club till MDRT, COT, TOT we have a career line of path for our agents and that's the way we have been looking at building this channel and which is one of the reasons why agency has one of the best-in-class persistency and a fairly strong relationship. We have financial consultant partners who have high vintage for us. And we do believe that as we expand to larger markets, this number will keep increasing on a steady state basis. So yes, some will go up, some will go down, but that's probably true as long as we are able to attract the right profile of financial consultants.

Avinash Singh: One quick follow up. On the group protection side, sequentially there is some bit of softness. Is it more to do with credit life or GTI?

Vibha Padalkar: It is to do with credit life, give its size. GTI is a lot smaller than credit life is. In GTI, as you know that we are very calibrated in terms of opportunities that we see. There also has been a price normalization post covid and we continue to see on a case-to-case basis whether it is rightly priced or not. As far as credit life is concerned, we see a little bit of slowdown in disbursement, especially in some of the segments like auto and personal loans due to some of the RBI led announcements. While our attachment rates have not gone down, overall, disbursements have been a little bit soft, not hugely. We still have grown over 20%, but yes versus some of the earlier quarters, a little bit soft. That's the only big-ticket reason.

Moderator: The next question is from the line of Sanketh Godha from Avendus Spark.

Sanketh Godha: I just wanted to understand our current market share in HDFC Bank, point number one and second, it has definitely improved compared to the last year. The market share gain in HDFC Bank has not resulted in banca channel to do well. I can understand that in direct, broker or agency, where high-ticket size is an issue, growth has not happened. But in banca channel despite market share rise, growth seems to be muted at around 2% for 3rd Quarter at least. So, just wanted to understand whether this is a short-term thing where you said, customers are preferring more short-term products rather than long term insurance products, is that driving moderation?

Vibha Padalkar: I don’t know where you are getting the numbers from because overall our banca channel, like I mentioned grew 17%. So, growth has been very robust in our banca channel. When I say very robust, it’s in context of some of the changes on the 5-lakh plus situation.

Sanketh Godha: Vibha, I was referring specifically to 3rd quarter, 9 months I understand it is 16%-17%. For 3rd quarter it seems to be weak. So, that's the reason I was asking?

Vibha Padalkar: So, the 3rd quarter was largely because of base effect. If you look on a 2-year CAGR basis, our bancassurance grew very well. The reason is, if you see not just HDFC Bank but all our other bank relationships also had fructified last year. So, whether it is a Yes Bank or IDFC First or Bandhan or RBL, all of that did very well. Some of the base effect has come in, on a normalized basis that's not the case. Additionally, up to 5 lakhs continued to grow almost close to 20% even in the 3rd quarter. Again for this year, you will have to pardon me as I repeating up to 5 lakhs and above 5 lakhs, because quite expectedly the trends are very different and it is noteworthy that NOPs have grown by double digits in banca and APEs grown by close to 20% up to 5 lakhs.

Sanketh Godha: Yes, I understand that point, Vibha, but my point was that, I thought that this will be more than compensated by market share gain in HDFC Bank. But I believe we have definitely gained share?

Vibha Padalkar: I'll talk about the market share. The market share has continued to be in the mid-60s as against the mid-50s that you saw earlier. So, in that sense that that has happened and on a year-on-year basis, it has grown. The slower growth is only attributable to above 5 lakhs. The above 5 lakhs like you said is enough to compensate in the market share gains, that is not the case because the amount of 5 lakhs was tepid in the first two quarters and then continued to move upwards towards 3rd quarter and then in 4th quarter we know what happened. That impact is coming through. Suresh, you want to add anything?

Suresh Badami: On a quarter-on-quarter basis, banks have their own focus on CASA and other side of business. So, while most of our banca partners have grown in line with overall private bank growth including HDFC Bank and while we have consolidated our market, there are these quarterly up and down which will keep happening. We have managed to maintain our market share, grown it over last year, we have grown the number of policies sold which was more critical. The greater than 5 lakhs has probably pulled us down a little bit across some of the banca partners because many of them have their wealth verticals which have been affected. But broadly we are trending in the direction where banca infrastructure is growing and we are expanding our presence across all these banca partners. And three, we are gaining ground in terms of market share at Yes Bank and some of our new partners which stays constant.

Vibha Padalkar: And to add there, the earlier comment, wherein I talked about product mix and how we are looking at unit linked product, that impacts bancassurance even more because banca does have 50% - 60% unit linked products. So, if you were to look at our share excluding unit linked products that is in the 70s. And so we will choose in which segments and how much we want to want to be present? When some of this market exuberance goes down with the counter share inching up, you will be able to see overall growth. Right now, if we are able to see growth in the segments that makes sense to us.

Sanketh Godha: The second question is that, when I look at our VNB walk, it says it improved by 70 bps because of product mix and it was negated by 80 bps because of higher cost. If I look optically, the product mix has actually deteriorated because your non-par contribution and par contribution have come down and ULIP has gone up, but you still say that from walk's point of view, 70 bps has led to the improvement in the margin. Is it completely led by protection or is there some other strategy like in ULIP we attach higher sum assured that played a role to see a margin expansion at the product level. And related to it, when do you think the cost will iron out? Is it more to do with your cost on technology that you highlighted last year or is it because of negative operating leverage because of muted growth?

Niraj Shah: Sanketh, you answered all the questions yourself. Starting on the product side, margin delivery across all product segments has improved for two reasons. On unit linked, like you yourself said, the amount of protection cover attached to unit linked products has gone up significantly, both in terms of base sum assured as well as in terms of riders. Second, our persistency has also improved over the period of time across various channels. So, that has led to better profitability compared to what it was in the same period last year on unit linked products. Second, on the non-unit linked products are pricing discipline approach is something that does help us in periods where there is a lot of aggression in the market. We try and balance our growth and profitability objectives. That has helped us maintain and improve some of our profitability in the non-unit linked segment. As far as protection is concerned, yes, you're right. Protection has grown, both in individual as well as credit life. So, that continues to add to the value that we make, and the sum assured growth is an indicator of that. As far as the cost is concerned, again, if you look at our overall expense ratio has been at the same level of last year about 19.4% - 19.5%. And the reason for this gap is largely because of again what you said, the operating leverage is negative right now because our planned growth is 15%-17% in terms of what we capacitize for. But our delivery is short of that. That definitely is a function of the operating leverage which should rebalance once our actual growth is in line with what we are capacitized for.

Vibha Padalkar: And just to add to that, if you look at our new business sum assured for the quarter on retail side, it's grown by 44%. To some extent what you had alluded to is absolutely right that focus on protections at a sensible pricing. It is not just growing protection for the sake of it and having a price war on protection, but sensible pricing on protection and continuing to grow that is very evident in the retail sum assured growth. That has helped mitigate some of that. So, that's why you have a net positive in terms of product mix profile.

Sanketh Godha: In retail protection, if I see on a quarter-on-quarter basis, in 2nd quarter, you probably did Rs. 150 crores and the numbers suggest that you did around Rs. 135 crores – Rs. 136 crores in 3rd quarter. So, sequentially it is declining. Anything to read into that, has the low base already played out in first half and now you will see normalization in protection growth? Is it the right way to read it through the numbers or something else?

Suresh Badami: Directionally yes Sanketh. We did say that the base effect will be a lot more pronounced in H1 and will get normalized over H2. It is what is happening. So, we still believe 20%-25% growth is possible on a normalized base and we're heading in that direction.

Vibha Padalkar: However, in terms of absolute numbers, I would not read too much in terms of a reduction. It might be a little bit here and there. We also react to competitive intensity wherein it is wiser to withdraw rather than write close to loss making business or margins that don't make sense or give up on underwriting. A little bit of calibration you'll always find, but secular growth quarter-on-quarter should continue to be our target, but growth will also depend on what happened last year, and we have said that we should end protection growth over the next three years higher than company level growth, will it be in the 50% range? Not if we want to price it sensibly, but it should very comfortably beat company level growth.

Moderator: Our next question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: I have two questions. First is on the slide on Tier-3-4 cities. Can you help us understand which channels do you think will help you grow better in those geographies, whether it's agency channel, whether it's the Banca or a combination of both? And also one question, as you expand into deeper geographies, what is the timeline that you think of when you will be able to deliver higher than industry growth now that you're pivoting your business model away into, driving it more into the smaller cities? Second is on the timeline for regulation. While we've you've mentioned a few things about the regulation, can you help us understand, is there any indicative timeline that you can give us that maybe it will get implemented in the next quarter half year or anything, any flavor around that would be useful? Thank you.

Suresh Badami: Suresh here. I'll answer your first question on Tier-2-Tier-3 growth. Frankly, if you ask me, we are looking at taking insurance across to Tier-2-Tier-3 across as many platforms, as many partnerships as. Possible and even if you start with let's say Bancassurance, if you look primarily with HDFC Bank, they're expanding into all the SURU markets, the semi urban and rural markets they're expanding by more than 1000 branches last year, right? You look at most of our other Banca partners who are also expanding in. We have partnerships with many of these small finance banks and many other banks which are present in specific markets, whether you take the Ujjivan, Equitas, Utkarsh, Bandhan, IDFC, many of them are expanding. So, clearly Bancassurance is going to be one of the platforms in which we expand. Agency clearly is a channel which we believe we should be able to expand. We are adding 75 new branches. We are looking at seeing how we can appoint agents in some of these newer models in terms of many of these upcountry locations where we should be able to take it into and this is the first time that you would have seen that as an industry we have kind of created an agency structure which is look at Tier-1 and Tier-2-3 markets. So, our entire team has a dedicated vertical which is looking at Tier-2 and Tier-3 markets. It is not to say, firstly I will also correct that we are not saying that pivoting to Tier-2 Tier-3. I think we see the opportunity even in Tier-1. We will come out with both the products as well as key strategy on the Tier-1 markets. There is no reason why we will look at lesser productivity through Banca and Tier-1. We are looking at micro markets even within the Tier-1 markets. And that is something that we're doing. It's just that we see that in Tier-2,Tier-3, we also have a significant brand advantage when it comes to customers looking at HDFC, it's fairly well-known. Other than LIC and SBI, which typically have been there in these markets HDFC Life clearly stands out in terms of awareness and consideration and we believe we have the opportunity to go out there and grow. Question is how quickly we'll be able to take and ramp this up. Banca presence clearly we can expand fast, but with these banks, our branches as well as our agents going into these markets anywhere between 12 months to 18 months we would start seeing numbers expand. The third thing which I'd also like to add is that we do believe that through some ecosystem partners we should be able to take a very different kind of product range to market. So, if you remember earlier, we had looked at the Airtel tie up where we were able to reach out through a combi product. We were able to reach out to many of these markets. I think those opportunities will also come. So, we will not let go of any of these opportunities to reach into these SURU markets.

Shreya Shivani: And on the timeline of the regulation, please?

Niraj Shah: Slightly difficult to answer that. But the exposure draft is out, we are in the process of submitting our representation as a sector and some companies have submitted individually as well. We are very hopeful and confident that we will have a chance of meaningful deliberation over the next few quarters. And I think depending on when the regulator is thinking of making this applicable prospectively, I think it's a function of how soon some of these engagements happen. But it's really up to the regulator to decide on this. But we do believe that the engagement is something that will happen and also there will be, we do hope that there will be some time available for making whatever transition that's required and in light of our earlier conversation, I think there is no disconnect at all. We are all aligned in terms of protecting the long term proposition as well as providing better value to early exit customers. So, it's some technicalities that need to be discussed and deliberated upon. Once that is done, then I think we are good to go. But timelines, we don't really have a visibility on that.

Shreya Shivani: So, you mean that even if the regulation comes into place, if you have to change your product structure etc., it will take some time to launch those new products as well, right? So this thing could actually play out over a couple of quarters in that case, right?

Niraj Shah: See, again it depends on which shape and form the final draft, final regulations come in. I mean, just taking extreme scenarios if it comes in the existing form, it will take a significant amount of product redesign which will require some more amount of time for that. If there are some tweaks that need to be made which aligns with the regulator and the industry objective then it might be sooner. So, it really depends on which form the final regulations actually come into effect.

Moderator: Our next question is from the line of Supratim Datta from Ambit Capital.

Supratim Datta: The first question that I would like to pose is on the EoM guidelines change. Over the last two quarters, we have heard that the commission rates have been changed across different channels. Just wanted to know what is the current status, whether there has been any negotiation at all, whether the channel partners have come to a close or is this something which could continue for the next 2 or 3 quarters.

Vibha Padalkar: More or less, we have passed the EoM conversations. We are coming almost towards the end of the year and we look at it holistically with our partners that it needs to be that it makes sense to the customer. It makes sense to the manufacturer as well as the partner and those conversations have been had. I'm very happy to share that there's been no detrimental impact on the customer and the partners also do understand that ultimately they are their customers. And it is important to be both fair, transparent, and equitable to their customers as well. So, that's really where we are right now and don't really see any material impact as a rule. It's we're just thankful to the regulator to have given us the flexibility to be able to see what kind of arrangements, what kind of contractual nuances that we can tweak with this flexibility as long as overall akin to TER, we have to stay within the EoM ratio.

Supratim Datta: And coming back to our previous comment that you made that the ticket sizes below 5 lakhs have been growing at 3x the Company level, which basically means 15% and given you have previously indicated that above 5 lakh ticket size policies are around 11% to 12% that could mean that 5 lakhs and above policies this year has contracted by around 2/3rd compared to last year for the first 9 months. Is that the correct inference?

Niraj Shah: So, the above 5 lakh ticket size business last year, I think on total APE what we have mentioned after the budget was around 12%, it's now around 6% of our total APE. So, its proportion is now 6% of our total APE compared to 12% last year.

Moderator: Our next question is from the line of MW Kim from JP Morgan.

MW Kim: For last 9 months of FY24, the unwind from the value in force is larger than new business value creation. So, my question is should we be concerned of the potential slowdown on the EB growth in next 12 months or 24 months?

Niraj Shah: Basically the two large components that will affect this are unwind which is upwards of 8% and what has got impacted is definitely the VNB contribution. The VNB contribution given that we've held our margins is largely a function of our APE growth. This year we definitely are at a lower level of APE growth than our capacity. So, that is what is dragging down the embedded value operating profit and at 16.5% it's fairly close to where we were last year. The delta being a function of two things. One is the VNB contribution is lower to the extent of about 50 basis points and the remaining 50 basis points is actually coming from the denominator effect. We had preferential capital raised in the previous period that has expanded the denominator and that is giving another 50 basis points kind of gap. So, by the end of the year, we are expecting to be in the range of what we have been talking about in the 17 plus percent range and that's what we would aim to deliver in the coming years as well once the VNB contribution stabilizes to the numbers that we've seen in the past.

MW Kim: Just one thing there. My understanding is that the regulator draft looks too conservative in terms of the surrender value. So, my guess is that now India perhaps may have the highest of surrender value among the Asian countries if the initial draft were to be accepted. So, just I'm wondering whether you expect any adjustment compared to the initial draft on the surrender value or do you think that due to the very high customer protection, this largely makes sense based on the industry, the perspective. So, I just want to get some sense about this.

Niraj Shah: I think in all fairness, right now we are still in the process of engaging with the regulator. We do understand their broad thought process in terms of protecting the interests of the customer and we are all aligned to that objective as we discussed on the call. The regulator of course is aware of similar long-term products available both globally as well as in India and the kind of tradeoffs that an investor or customer needs to make between guarantees and liquidity. The regulator is aware of the landscape in terms of long term products which have a guarantee attached to them. But we have not had a chance to formally interact with them as a sector or as a Company. So, we look forward to doing that, and we do believe that some of the technical aspects of product design is something we'll be able to impress upon and without diluting the ultimate objective of customer interest and we believe that is possible to achieve with some tweaks in what the exposure draft is suggesting at this point in time. But I think we'll be able to give more clarity only after some of these interactions that hopefully will happen over the next few weeks.

Moderator: Our next question is from the line of Madhukar Ladha from Nuvama wealth.

Madhukar Ladha: Most of my questions have been answered, but just a clarification on the above 5 lakh ticket size policies, what has been the decline in the 9 months' period? Can you give us that number? Second, when you say 12% of your individual APE is from the 5 lakh and above segment, which was last year, this does not include the additional thousand crores, right? I just wanted to clarify that once more.

Vibha Padalkar: So, as far as ticket sizes above 5 lakhs, I don't have the number handy right now, but I'll just give you an indication. Different channels reacted differently. For example, our wealth channels obviously, there was a much more adverse reaction, but the overall contribution of our wealth channels is lower. Lesser than, if I were to look at, say, an HDFC Bank channel or any of our Bancassurance partners, that reversal is beginning to be seen now. And like I mentioned earlier, with the launch of our latest new product Click 2 Achieve, we are beginning to attract higher ticket sizes also and we're again after a hiatus beginning to have conversations such as higher levels of underwriting and so on. So, varies quite a bit agency is somewhere in the middle of maybe double-digit negative growth on the 5 lakh and above. So, really there is again 5 lakh and above is more amenable to something like a pension because some nuances on tax and other things and also limited underwriting. So, mixed bag really.

Madhukar Ladha: The clarification on the full year number, the 12% does not include the 1000 crores additional sales, right?

Vibha Padalkar: No, it does not. See what we did not do perhaps is that while we only backed out the 1000 crores, it is not that above 5 lakhs were sold only in March. It was sold and it was picking up pace towards the beginning of quarter three and that's really what is playing out. So, quarter two was bigger than quarter one, quarter three was bigger than and so on. Sequentially it was and also given where interest rates were then, this was doing exceedingly well for us and for the sector and that is really what the play of seasonality also that we're seeing here and that's why as we exit this year, some of that rebasing will start happening of more normalized levels of ticket sizes.

Madhukar Ladha: Then, just in the light of, how things have played out this year 9 months, I don't know whether you have changed your guidance. Do we still sort of gun for 15% growth excluding that thousand? It seems that most likely we will miss that number.

Vibha Padalkar: So, I think we're gunning for a double-digit growth in Quarter 4.This is of course excluding the 1000 crores.

Madhukar Ladha: Excluding the 1000 crores for the individual APE we should look for a double digit growth.

Vibha Padalkar: That's right. While it's not an active guidance, but what is it that we are gunning for, a double digit growth.

Madhukar Ladha: And finally on the group savings side, I see that there is some reduction in business. I think group protection side you already explained, but what's happening on the group annuity and the other group's savings business?

Vibha Padalkar: There was a one-off large account last year. So, it's more of a base effect.

Suresh Badami: Yes, there has been a little bit of slowdown in some corporates, but otherwise it's not that we've lost market share in any of these as a segment. Second, we had a little bit of a base effect of what we had gained in the previous year, which has led to this little bit of a degrowth.

Suresh Badami: And to be fair also, there is a lot of competition coming in this segment given the overall rates and margins in this segment. So, it's a combination of all three, but we are confident that we should be able to get back our growth with all factors playing in.

Madhukar Ladha: And can you quantify the one-off effect if that is possible?

Vibha Padalkar: There will always be some pluses and minuses, but it was fairly one-off in the sense that there was some corporate that we signed up and then the employees account moved to us. So, that's what happened.

Moderator: Our next question is from the line of Anirudh Shetty from Solidarity Advisors Private Limited.

Anirudh Shetty: My first question is essentially on the draft document around surrender charges. I know it's at early stages of discussion and there is a range of outcomes that can happen, but assuming a more extreme outcome happening in terms of the capping of charges. How does one think about implications for us? And could you talk a little bit more about our non-par product in terms of what would the persistency that we kind of see in this product and how much of the margin could get impacted, we see a more extreme capping of charges in in this product segment?

Niraj Shah: It is at very early stage and very difficult to make a guess here, but I mean just philosophically, we can talk about two things in terms of design. One is in terms of what will still enable creating a product which is similar to what we see today in terms of a long term guarantee that will have a certain set of things to be dealt with and 2nd is in terms of cap on charges equivalent, that will probably have a different implication in terms of profitability or distribution, remuneration. So, these are two separate aspects. We are more concerned about the first one, the second one can be dealt with a lot more seamlessly because they are more controllable. One thing that none of us would want is compromise on being able to design a long term proposition that we are able to design today and that's what will be the focus of our discussions and engagement with the regulator.

Anirudh Shetty: My next question is our non-par product is fairly unique in terms of ability to give our customers the ability to lock in and earn a certain yield for a long period of time. Do you see this unique value proposition getting diluted if say you know customers could buy long term G-Secs directly on a trading platform?

Niraj Shah: So, this possible even today. It may not be very seamless, but it is still available today. And the same argument holds for, let's say, even an annuity product to some extent, if someone wants to buy a long term government paper. But having that stream of premiums that you pay at one contract, say 5 premiums or 8 premiums, or 10 premiums, and then get a stream of income constructed in one solution that may not be very feasible for an average customer. So, the conversation is very different from an ultra HNI who has access to a lot of wealth management advice and ability to structure solutions, which are very bespoke to him or her, but our average customer who we target anywhere between from a sector perspective, 15,000 to maybe 75,000-100,000 kind of a ticket size, we suspect that kind of advice is not really available for such an average investment. So, from that perspective, I think it is good to kind of have a solution which is addressing all of those things without having to do too much engineering at one's personal level. A regular premium product is different from a single premium product as you know, in terms of the biggest aspect of reinvestment risk. So, that is an additional aspect to really consider. I mean, so a lot of these things really come into play and we believe that the regulator will be thinking more of an average customer who is still kind of in that form of protecting and then creating some sort of wealth for themselves and their family and their post retirement period. So, a large part of our population at least will not have access to a lot of that bespoke advice that will be required to do some of the things that we spoke about.

Anirudh Shetty: Got it. And just one final question, more on when we look at your product level persistency, in protection the 61st month is 73%, saving is 56%, ULIP is 49%. We look at persistency as metric to understand the customer satisfaction of the product. So, what explains why savings, ULIP has lower persistency?

Niraj Shah: Unit linked needs to be seen differently from some of the other products. In unit linked, what happens typically is that there is this notion that after five years, I can withdraw my money. Of course you can withdraw money as a customer, but does it do you full service being in a product for five years? We do not believe so. So, when you are saying 50% odd of the people continue, it's a combination of two sets of people. One set of people are actually continuing in the policy, but are not paying any further premiums. That is also part of that number, and that's a fairly meaningful part of that number, which is a fair call that I've paid 5 premiums, I will stay in your product for 15 or 20 years, but I'll not pay any further premiums. We are okay with that because that's the choice of the customer and it probably will meet his or her requirements. Then there is a set of customers who are just exiting from the product completely. Now that is the choice that we would question in terms of whether it's in the interest of the customer, it's certainly not in our interest, no question about it, but we don't believe it's in the interest of the customer as well. But I think as awareness levels increase more and more customers will make more informed choices. If they're looking for a shorter time horizon, then this is not the place to go. And that is something that we are very clear in terms of making our conversations with customers when we are engaging with them at the point of sale. The other products, you will see a fairly strong improvement in subsequent period persistency and that again we need to kind of break it up into two parts. There are products in which customers after paying two or three premiums, can continue being in the product and get proportionate benefit, they do not really lose out. So, a large part of customers is what is called paid up. They get proportionate benefit because they choose to pay part of the premiums that they contracted for initially and then they stay in the full course of the policy and get the proportionate benefits. So, that's again a choice similar to someone who has stopped paying premiums in unit linked and it's a probably an informed choice by some of them. Very, very few number of customers after paying two or three premiums actually surrender and exit the policy. That number is in our case at least about not more than 1% every year after the first couple of years.

Moderator: Our next question is from the line of Neeraj Toshniwal from UBS India.

Neeraj Toshniwal: So, wanted to check on whether we are still going to maintain margin neutrality, given you just mentioned that probably we will deliver double digit kind of growth in Q4 under the APEs, but that will be a little tall task on the margin side. Just wanted to check are you still maintaining that?

Vibha Padalkar: Yes, 3 quarters we've done that, so one more quarter to go.

Neeraj Toshniwal: And given this year obviously had lot of volatility in terms of the base effect and the changes in budget regulations. How do we think about the next year and the wallet share from HDFC Bank which it still looks a little muted if it back as delayed because like the bank has more focus on the deposits and all? So, how do we see bank growth per say on the limited wallet share?

Suresh Badami: Directionally like we said earlier, the bank is looking at a market share which will be growing for HDFC Life. Obviously, we have to ensure that our support to the bank whether it's in terms of products or training or manpower is adequate and I think that expectation is right. The bank obviously is going through the next round of merger at their level. So, given what's happening in the market on the liability side. In the long run, obviously they will continue to focus on ensuring that their customers also have life insurance. So, we don't see any reason why the focus on penetration, the focus on fee income, the focus on life insurance should come down and we should grow along with them. They're expanding their market, they're growing into multiple locations now. Even their branches are scaling up, their customer base is increasing. So, if you were to look at it in terms of the opportunity on their customer base, there's no reason why they shouldn't grow, and as what they're indicating, as long as we're able to make sure that we are in line with their expectations, our market share will also continue to grow. I would say there's no reason why anything should happen differently next year.

Neeraj Toshniwal: And the target wallet share is around 65% to 70% or are we aiming for 70 and plus?

Suresh Badami: The target is definitely that.

Vibha Padalkar: And at the same time, we will look at even the product mix, so it is not just topline for the sake of topline, we will see as to in which segments we want to increase our market share.

Suresh Badami: For instance, this year the bank has done very well in terms of the protection share increase, and that is really good in terms of the sum assured growth that it has helped us deliver.

Neeraj Toshniwal: Coming to that group protection actually looks a little lower. I think you already mentioned that there has been some impact due to change in recent regulation from RBI, but do you think it could actually pick up from?

Vibha Padalkar: I think that at least the banks will continue to do well. Maybe we might see some level of softness in the NBFC for some time. But I think it will normalize. And for us, we are very blessed in terms of our Credit Life portfolio that it's very well balanced across banks, NBFCs, small finance banks, HDFC group and so on. So, there's enough in terms of balancing of any regulatory changes.

Moderator: Our next question is from the line of Dipanjan Ghosh from Citi.

Dipanjan Ghosh: First coming to the Tier-2 and Tier-3 markets, if you can give some color on the margin profile for similar products in Tier-2, Tier-3 versus Tier-1. Now I understand it will depend a lot on multiple operational factors, channels, persistency, pricing etc., but if you can throw some color on how that has been evolving. And on that context, if you can just also mention the demand or the customer appetite in Tier-2, Tier-3 versus Tier-1 in terms of product profile, duration, ticket size out there?

Vibha Padalkar: Yes. So, fairly similar in terms of margin profile, because the pricing has to be right. Things like selling longer tenure has to be there for us to understand what the mortality profile is as well as what is the persistency profile. As long as those are taken into account in how we price, how we underwrite then margins are fairly similar. So, that's not something that is way off or something that we worry about. And in terms of what kind of products and so on, these would be tailor made for Tier-2 and 3. We always look at certain variants that will make sense that will also protect for example, someone whose income levels might be slightly lower, whose appetite to take risk might be a little bit lower. For example on protection, even in terms of understanding the product or if regular premium is a non-starter, maybe that individual can start off with ROP followed by a top up on regular premium or a rider or something down the line. Maybe they start off with an ROP, maybe they start off with simpler savings products, easier on underwriting and so on. So, product variants could change a little bit, but essentially, products would be the mother product. But the variants that we sell could be very nuanced for a slightly different customer segment.

Moderator: The last question for the day is from the line of Noel from Ubisoft Entertainment Limited.

Noel: With regards to the EV performance for the past year and what are your projections of how corporate bond yields and G-Sec rates are going to go down? And in respect of that, what do you think is will be the traditional business performance and what rates are you're expecting out of the next year of your business as well as LIC?

Niraj Shah: So, honestly, it's difficult to make a guess in terms of where the interest rates will be. But what we've seen in the past is that typically, whatever the rates of interest are, the demand for the long term guaranteed products for the past 5 years has been fairly robust as you would have seen for whoever had a product has had a fairly significant share of that product for the last five years. What has definitely been more relevant in terms of short term versus long term interest rates. So, if the short-term interest rates are very similar to long-term interest rates, there may be customers who may be thinking about postponing their decision to buy or commit to a longer-term product. Has that happened? Yes, we've seen some of that happen, when we talk to customers and some of the distributors. Now there is a broad expectation that interest rates will go down over the next 12 months, 18 months. When that happens, the key will be in terms of what is the short term and the long-term interest rates. So, if the interest rate environment is still upward sloping, then we don't see any change in the way customers are likely to think about committing to a long-term product. But if the yield curve is flat then you could see some sort of softness relative to what we could otherwise see. But beyond that, I think typically customers who are looking at a long term do not really think too much about what the shorter term trends are. So, even at this rate, we're seeing 30% plus mix on non-par. So, I think that's a fairly strong indicator of that.

Noel: But then what is your expectation regarding LIC and how will they be changing their rate mix?

Niraj Shah: Honestly, not for us to answer that. But what we can just say about them as a very respected peer is that they have been very calibrated in the way they've approached the pricing and underwriting on all categories of products, whether it's long-term savings, annuities or protection. So, we would believe they would continue on that path.

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

Vibha Padalkar: Thank you everyone for joining today's call. On behalf of HDFC Life, I wish you all a great year ahead. Please feel free to reach out to our IR team in case of any further queries.