



“HDFC Life Insurance Company Limited
Q3 FY2023 Earnings Conference Call”

January 20, 2023

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY23 Earnings Conference Call of HDFC Life Insurance Company Limited.

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

Vibha Padalkar: Thank you, Rutuja. Good afternoon everyone. Thank you for joining us for the discussion on our results for the nine months ended December 31st, 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, Deputy Managing Director; Niraj Shah, CFO; Eshwari Murugan, our Appointed Actuary and Kunal Jain, from Investor Relations. I will take you through the key highlights of our 9M FY23 results and would be happy to take questions post that.

As you are aware, we have completed the merger of our subsidiary Exide Life in October 2022. Henceforth, we will be reporting only the merged numbers as our businesses are now fully enmeshed. The previous year numbers hence might not be strictly comparable.

While globally, headwinds persist from an economic perspective, India appears to be relatively better positioned. Insurance as a sector continues to be a beneficiary of a relatively robust economy, stable savings trends and favourable regulatory regime. Against this backdrop, we continue to maintain a steady growth trajectory. In Q3, we grew by 17% in terms of Individual WRP, which is ahead of industry growth. On a YTD basis, we grew by 13% leading to a market share of 15.8% amongst private insurers. Despite intense competition, we have consistently been ranked amongst the top 3 life insurers across individual and group businesses.

Our product mix remains balanced with non-par savings at 39%, participating products at 29%, ULIPs at 21%, individual protection at 4%, and annuity at 6% based on individual APE. Within the non-par segment, our shorter tenure product Sanchay FMP continues to do well and now forms about a sixth of this segment.

HDFC Life remains enthused over the protection opportunity in India, whilst balancing it with good risk management, in a holistic and calibrated manner. We maintained market leadership in credit life by delivering strong growth of 52%, across nearly 300 partnerships. Whilst growth in retail protection remained tepid on a YoY basis, we saw sequential growth of 13% in Q3. Online search trends indicate that we continue to be amongst the top searched companies in our peer set. There has been normalisation of searches for term as a category to pre-pandemic levels.

We have taken several initiatives to improve customer convenience, such as development of an in-house automated underwriting engine, mobile cardiac assessment and med-tech solutions to measure heart rate, BMI and other vitals, using video inputs from the customers' mobile devices. With a combination of data analytics, insights into customer profiles and calibrated risk retention, overall protection APE grew by over 20% in 9M FY23 and we expect individual protection to continue picking up in the coming quarters.

On the retirement front, we have steadily gained market share in the annuity business. Our annuity business in 9M FY23 grew by 22% on received premium basis compared to a 1% growth for the industry. APE growth is much higher at 68% due to a pickup in our regular premium annuity product - Systematic Retirement Plan.

Moving onto key financial and operating metrics:

We are on track to deliver margin neutrality for the combined entity for the year, having delivered a New Business Margin of 26.5%, similar to that in 9M FY22. The value of new business is Rs. 2,163 cr., implying a YoY growth of 22%.

Our embedded value stood at 37,702 Crore as on Dec 31st, 2022, with an operating return on embedded value of 17.5% for 9M FY23. Profit after tax for 9M FY23 stood at Rs. 1,001 Crore, a robust YoY increase of 18%. The profit emergence continues to be aided by strong growth of 30% in backbook surplus.

Our Solvency ratio was 209% as on December 31, 2022. Renewal collection trends continue to be healthy on the back of improving persistency. Our 13th and 61st month persistency for limited and regular pay policies stood at 87% and 52% respectively.

Next on channel performance:

Our bancassurance channel grew by 18% in 9M FY23 based on individual APE. We have started seeing the positive impact of a closer collaboration with HDFC Bank as the merger process progresses ahead steadily. We continue to see strong growth momentum across other valued relationships, with us either increasing or holding our counter shares.

Our distribution network has been growing with time, as we build newer, long-lasting partnerships. This quarter, we are pleased to announce our corporate agency partnership with AU Small Finance Bank. We believe AU Small Finance Bank, with its vast presence and a customer base of more than 3 million customers, will further strengthen our efforts and contribute significantly towards financially securing a large number of individuals. We look forward to creating new milestones as we walk ahead together in this journey.

We continue to grow well across the board. All large channels other than HDFC Bank have recorded growth of over 20% on a YTD basis. We would like to take this opportunity to thank all our corporate agents and bancassurance partners for their continued support.

Our agency channel clocked more than 2x company level growth in individual APE in 9M FY23. The share of the channel has increased from 14% to almost 18% in the merged entity. We continue to focus on improving activation and productivity across our base of financial consultants. We expect growth in this channel to be driven by deeper geographic and customer penetration.

We are happy to share that the post-merger integration and synergy realisation from the combined business is progressing as per plan. This has been demonstrated by achievement of margin neutrality during this period. The newly added distribution partners now have access to HDFC Life's products and digital capabilities.

Our subsidiary HDFC Pension Management Company's AUM doubled in less than 17 months to reach the Rs 40,000 Cr milestone on 2nd January, 2023. For 9MFY23, HDFC Pension has a market share of 40%, up from 37% last year, with AUM growing by 63%.

We are pleased to announce that our subsidiary HDFC International has been granted the Certificate of Registration to set up a branch in GIFT City by the relevant regulator. The branch will commence business and operations on receiving other statutory licenses and approvals.

On to the tech front:

We have initiated a technology transformation exercise with the objective of building INtelligent Systems and Platforms for Insurance REImagination, christened INSPIRE, to aid scale up of our business.

A new age enterprise and data architecture will be built to enhance our go-to-market capabilities and also improve the overall customer experience going forward.

Moving on to Regulations:

There are many regulatory changes proposed by IRDAI that are aimed at increasing insurance penetration and facilitating sustainable growth of the industry and ease of doing business.

We welcome the relaxations provided by our regulator with respect to allowing certain categories of products to be launched through the use and file approach, relaxation in solvency requirement for ULIPs, dematerialisation of insurance policies and allowing insurance companies to raise alternative investments like subordinated debt and preference shares without seeking prior approval of the regulator. Further, the IRDAI is also examining implementation of risk based solvency approach. We believe that this will benefit the sector by not just freeing up excess capital deployed but also ensure capital required is in line with the risk on the balance sheet.

We also welcome the changes recommended by Ministry of Finance including composite license and permission to distribute other financial services products. We believe that such changes can further the overall development of the sector.

To conclude, we remain enthused with the growth potential of the sector and are committed to increasing insurance penetration in a meaningful way.

The detailed disclosure on our results is available in our investor presentation. We are happy to take questions now.

- Moderator:** The first question is from the line of Suresh Ganapathy from Macquarie Capital. Please go ahead.
- Suresh Ganapathy:** So 2-3 questions I had. First, all these guaranteed return policies that you have been selling, can you let me know as a percentage of policyholders' AUM, what would be the outstanding number?
- Vibha Padalkar:** Niraj, do you want to take this?
- Niraj Shah:** So, this would be about 15-odd percent at an overall level.
- Suresh Ganapathy:** Overall AUM? Policyholders' AUM you mean?
- Niraj Shah:** Yes. So that's about INR 2,40,000 crores. So, the total amount will be in the 12 to 14% range. But I don't know if that's the way you want to really look at it.
- Suresh Ganapathy:** Niraj, the context in which I'm asking this question is one of your competitors is at 3%, but the number is hugely different. More than 5x the number that you're talking about. So, I know of-course that things could change, but are you pretty confident about the fact that the interest rate risk is reasonably managed here?
- Niraj Shah:** Yes. So, the way to look at it is in terms of the scale at which you're operating when you started the segment and also how you're managing the risk in the particular segment. In fact, we don't even look at it in terms of total AUM. We basically look at it in terms of the various categories and how are we managing the risk on each of these categories.
- Are we comfortable with the level at which we're operating? The answer is yes, because we are using the required hedging mechanisms to manage the risk in that and managing the spreads by being fairly disciplined in the market in terms of repricing. So, all the fundamentals are there in place from that perspective. It really depends on at what point in time, you started the business and we're not even sure how some of the folks are tracking it.
- A lot of it also has to do with the annuity business, which is single premium, and a part of this. Risk management is very, very different. On the group side also, there will be certain products. All of this forms part of that base. So, I think it's better to kind of look at it in isolation in terms of each of the categories and how the risk is getting managed there.
- Vibha Padalkar:** Another point to add here is that if you look at Slide 23 of our investor presentation, we've given sensitivity to interest rate changes. And for quite some time, ever since we launched this category, we have been giving sensitivity of just this category to interest rate changes as well. So, that is really what is important as against what it is as an overall % of AUM. The overall % is relevant if it is an entirely unhedged or largely unhedged position.
- Suresh Ganapathy:** Anecdotal evidence has revealed that Sanchay Plus has done very well this quarter. As a proportion of overall premiums, how much would be Sanchay Plus within individual APE, if you can give that number?

- Niraj Shah:** So overall, Sanchay Plus and Sanchay FMP put together is about 39% for the period. Vibha mentioned that Sanchay FMP is about 1/6th of that overall business. So, Sanchay Plus would be about early 30s and the rest of it would be Sanchay FMP.
- Suresh Ganapathy:** For the third quarter, you mean?
- Niraj Shah:** No, I'm talking about for the period of 9 months.
- Vibha Padalkar:** Also within Sanchay Plus, there are shorter end variants and longer end variants and so on. And of course, 1/6th of the business is Sanchay FMP. The balance also is various tenures.
- Moderator:** The next question is from the line of Swarnabh Mukherjee from B&K Securities.
- Swarnabh Mukherjee:** So two questions. First on the margin side. So, if I look at the product mix, the quality of the mix has not significantly changed. I think the share of higher margin products look fairly steady, and the mix in certain cases like non-par or individual protection, has gone up quite a bit. However, margins look fairly stable. It has not gone up to that extent in the way the mix has panned out. So just wanted to know, is there a factor of how the channel mix has played out in this, because I see that the broker channel has done quite well. Now how would the cost structure be in that and whether it is impacting the overall margin profile or not?
- Just one addendum to that question was, for nine months we are at 26.5% in terms of VNB margin, and for full year, our guidance was a flattish structure of 27.4% odd. Last year Q4, we had a very spectacular performance in terms of margin. Are we confident of repeating that again this time, or would we be bringing the guidance down? So first question will be that.
- Vibha Padalkar:** Just to answer your last point, yes, we are reasonably confident of margin neutrality on a full-year basis versus last year. And just to clarify, this will be at an overall consolidated level.
- Niraj, do you want to take the question on the waterfall?
- Niraj Shah:** Yes. So, the margin expansion that you see and are referring to is the function of a couple of things. On the product mix side, you've seen that unit-linked mix for the period has dipped significantly from 26% last year to 21%. That has been replaced largely by the non-par business on the individual side. Also, there is a significant shift in the annuity business, as you can see. Between both individual and group annuity, the mix was about 5 to 6% last year. It's moved to 8% and so that's a very significant shift. Also in other group businesses, the fund business, which is a low-margin business has dipped significantly and the credit life business has grown at over 50% for the nine-month period.
- So there is a significant upgrade really in terms of the product mix that has happened apart from the usual elements on the expense side. You see a negative there that is a function of a couple of things. One is in terms of reflecting in the overall business now, including Exide Life, which was operating at a certain scale. As Vibha did mention that all of this gets subsumed in the margin neutrality objective that we have for the rest of the year.

Swarnabh Mukherjee: Sure. If you are even comparing nine-month to nine-month, the thing that I wanted to ask was that the product mix has evolved to be a higher mix of better margin products, but despite that, the margin doesn't look like it has gone up that much. So, that's what my query was. Is it a function of cost only or anything else to look into that?

Niraj Shah: No. So, the number that we're talking about, 26.5%, is for the period of nine-months including Exide Life. And if you recollect, in the previous period, for the six-months, we had reported standalone margins for Exide Life and for HDFC Life. The Exide Life margins, if you remember were in single digits, so that obviously will have an impact in terms of the overall number. And that's the reason why we talked about margin neutrality in the first place when we announced our transaction. And soon after that, we basically said the first objective is to obviously preserve the business and to achieve margin neutrality, which we have achieved in this period.

Vibha Padalkar: In fact, just to add here, we said margin neutrality will take about a year and we have managed to advance it by about nine months. So hypothetically, if we were to deconstruct before and after the merger, then HDFC Life margin has gone up and was then offset by Exide Life margins. But even there, synergy extractions are happening as we speak and that's why we have been able to deliver margin neutrality sooner than what we had thought would be possible.

Swarnabh Mukherjee: Also, if you could give some comments on two product segments, one is individual protection and the other is group annuity? On these two categories, if you could share some comments on the growth. For example, in individual protection, what kind of products and channels are we tapping into? Is it ROP or pure term? In group annuity, have we got a sizable tender recently, which has helped the book?

Vibha Padalkar: Yes, individual protection continues to trend upwards. So sequentially, we have grown about 13%. NOPs also continue to move upwards. However, there is a growth in ticket size also for it to make a difference. All the headwinds that we've talked about in the past about medicals and so on have also made a difference. And then if you have 10 minutes with the prospective customer, so you focus on what are you likely to sell and the surety of being able to convert and so on. While there is a need-based assessment, at the same time, reality is that for protection, a customer would have to be a little bit more patient and go through the whole process, especially if they are slightly of an older age.

So, you're seeing all of that. But what we are fairly happy about now is that the reinsurer arrangement is now back in the spirit of partnership again. There is learning from both ends. Some of the things that perhaps were difficult for us to reinsure, now there are conversations that are happening. So in that sense, in terms of supply side stability, that has happened.

Second is we have raised INR 2,000 crores of capital. So with the use of analytics, we are seeing, if there are certain lives which we can take on our books. Thirdly, what we're seeing is in terms of digital, in terms of improving our journeys as well as through our partnerships and product innovation, how do we continue to make inroads into protection.

Suresh, do you want to add anything on this?

Suresh Badami:

I think Vibha covered it, but just to add, we did launch 'C2P Super' product this year. It has got us good traction across a lot of our partners. Based on this diversification and a lot of analysis in terms of the risk and analytics and which segment we want to play in, we are slowly increasing our focus in terms of growing the retail protection.

Of course, having mentioned that, we continue to ensure that on an overall basis, we are agnostic to both the retail as well as credit life protection, which has grown for us at 52%. This allows us to play very sensibly in terms of the overall risk that we're taking on the retail protection. There has been a little bit of a muted response on the customer sentiment and the overall demand is low in the market. But having said that, HDFC Life remains one of the topmost searched names in terms of Google searches.

So, we do have a brand presence. Our product has had a great presence across some of our key web aggregator platforms, as well as our channel partners. We have received fairly good response, and we believe in Quarter 4, we will continue to show the sequential progress which is there. Similarly, on group annuity, I think we have a very strong presence and a large market share. And that segment has grown significantly by almost 50% plus in terms of growth. So that remains. We had mentioned earlier that is a key focus area for us. 56% actually is the growth that we have seen over last year. And that's the number that we will continue to focus on. There, again, we see a large opportunity. In fact, it's not just on group annuity, we are seeing how we can scale up given the open market opportunity on the annuity business. So the overall annuity opportunity also remains fairly large for us.

So, with a combination of product features, we are looking at some other products which can get launched in this. Even in the term product, we are now looking at how we look at products, which can probably cater to the higher ticket size and look at how we price. And if you were to look over the last few quarters, we've priced our term product very sensibly as compared to what kind of risk that we want to take and we will continue doing that over the next few quarters.

Moderator:

The next question is from the line of Madhukar Ladha from Nuvama Wealth Management.

Madhukar Ladha:

Congratulations on a good set of numbers. First, I remember there has been some commentary around high competitive intensity and there has been some share loss in the HDFC Bank channel as well as a result of that. So, can you update us on that part of the business? How is that moving? Are we gaining share again there?

Second, there is a negative variance due to low fixed cost absorption of about INR 150 crores. Is it more to do with Exide Life, and can you explain why this has arisen? And how do we see this moving?

And finally, looking at business from the agency channel, Q-o-Q, there seems to be some drop over there. So, what is exactly happening? I thought that the third quarter would be even stronger.

Now we've got more Exide Life agents also. So if you could update us on how that integration has progressed? How many of the agents have we been able to retain? Some color around that?

Vibha Padalkar:

Yes. Madhukar, I'll start off with HDFC Bank, hand over the fixed cost question to Niraj and then agency channel question to Suresh. On HDFC Bank, we're working very closely together, right from senior leadership all the way down to folks at their branches and you will start seeing uplift. We've already started seeing that in some of the branches and some of the geographies where we were lagging. Also, what is noteworthy is that topline is also a function of what kind of risks one is willing to take on one's balance sheet, what kind of risk one reinsures and retains, and at what margins. So, HDFC Bank certainly understands those nuances. And what I can say is that there is a concerted focus on how the counter share can move upwards and stabilize.

So, you'll see more of that happening. As the date of culmination of merger starts coming closer, you will certainly start seeing more of that.

What is noteworthy is that even ex-HDFC Bank, we have grown about 2-2.5x market growth. And that is really what is important and this is nothing new because this is one of our stated objectives of having a balanced distribution mix. And that has helped us in good stead, whether it is winning new partnerships like AU Small Finance Bank or last quarter, when we won India Post Payments Bank and so on. So, we'll continue to do that. And while Suresh will handle this later, but just top of the mind recall, agency channel has actually gone up in share from 14% to 18%. So, I'm not very sure and maybe we can take it offline as to where you're getting the numbers from.

But I'll hand it over to Niraj on the fixed cost absorption question.

Madhukar Ladha:

I'm calculating quarter-over-quarter. So Q3 over Q2 of FY'23, if I back calculate, if I subtract the numbers, then that's what I'm getting. Maybe yes, we can also take it offline.

Suresh Badami:

No, our Q3 growth over Q2 growth has been higher in agency. So, I'm not sure which number you are referring to, but effectively, we'll ask the IR team to give you the specific numbers. But the growth has been stronger in Q3 in Agency. In fact, we have had a very good Q3 in Agency. And like Vibha mentioned that the proprietary channel growth and other than HDFC Bank also has shown tremendous growth for us.

Madhukar Ladha:

Ok, got it. And the INR 150 crores question.

Niraj Shah:

Yes. So in terms of cost absorption, you're right. Basically, what you see here is a combination of two things. One is, of course, the difference in the operating expense ratio of Exide Life and HDFC Life. So, that is something that you see here as a significant component of the expense impact.

The second bit is reflecting the market realities of increasing cost of acquisition in the open architecture environment. So that is both in terms of individual business, as well as the high growth in group credit life business. So it's a combination of both of these. And as we discussed,

the first objective, from the Exide Life integration was to absorb the business appropriately and then get to margin neutrality. We've done that. As we do this, we continue to focus on synergy realization in terms of infrastructure, in terms of all other expenses, as well as in terms of how to effectively deploy the manpower that we have from there.

So all of these things are something that you will see regular updates on from our end, but largely, it will get reflected in terms of how the margin expansion starts to happen once the consolidation is done.

Moderator: The next question is from the line of Ansuman Deb from ICICI Securities.

Ansuman Deb: If I look at a quarter-on-quarter VNB margin and if I assume Exide Life is at 8% margin, I know it is an assumption; apart from the standalone margin and the Exide Life margin, is there a negative adjustment to that because of the acquisition? Otherwise, it looks like the standalone margin could have been lower on a quarter-on-quarter basis, if I assume 8% margin for Exide Life?

Vibha Padalkar: No. I think 8% margin is now very difficult because we've moved towards seasonality and especially for smaller companies, Q3 is a very big quarter. So that assumption itself perhaps is not quite right. And also if you look at the combined number of branches and so on, an easing-off of those, some of that infrastructure has already started happening.

Eshwari, do you want to add anything?

Eshwari Murugan: Yes. Just to add, the combined margin for H1 was 26.2%, and now it is 26.5%. So all the components of the margin on a merged entity basis have increased in this quarter.

Ansuman Deb: I was just saying because it was, I think, Q2 standalone would have been somewhere in the range of 28%. So, it might have been because of the seasonality that you are referring. It looks like there has been a decline, if I assume the margin, obviously that's an assumption.

Niraj Shah: So if you recollect, in H1, we had reported 26.2% on a combined basis versus 26.4% H1 last year on a standalone basis. There was a 20-basis points gap, which we said we will attempt to bridge over the rest of the year. And in nine-months, we've done that with 26.5% versus 26.5% last year.

Ansuman Deb: The second question that I have is on the composite license. And I remember in one of our annual reports also, we mentioned how we were eager to exploit that opportunity. So any thoughts on the opportunity to sell health insurance?

Vibha Padalkar: So, this is no surprise because HDFC Life has been spearheading this opportunity, not really to redistribute the pie with standalone health insurers or the general insurers. It is more in terms of how do we expand the pie keeping in mind customer incentives, rather than asking the customer to go to different types of insurers for fulfilling different covers that they need. That was the

intention. And so we've been at it at least for the last three years, and then a committee was formed as you would recall.

And I was part of this committee, a report was submitted over 18 months ago. Thereafter, there were eight committees formed under the new IRDAI Chairman of which 'Development and Penetration Committee' was chaired by HDFC Life. And in that report, we did put the suggestion of composite license, a suggestion of being allowed health indemnity from a product innovation point of view and increasing insurance penetration as an objective.

So, we remain committed on that and I'm sure all my peers will also be. So it's more in the spirit of joining hands to see how we can deliver more insurance to people and that is the need of the hour.

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

Avinash Singh: A couple of questions. First, on distribution, we see direct share reducing. Of course, some part of it could be explained by Exide merger that could have a slowdown in Direct channel. But if it's also to do something with any struggle on retail protection overall and also ULIP sales being tapered, because I would assume these two products to be having higher share in Direct channel. So, that's number one.

Second, on this back book surplus generation. Yes, I mean versus INR 23 billion last year, INR 30 billion looks a good number. But we also need to see in the context that your last year INR 23 billion would have a material impact from COVID Delta wave. So if we were to see the COVID loss or excess death claims, then back book surplus growth looks a bit muted. So any clarity on that? These are my two questions.

Suresh Badami: Yes. So look 2-3 things on Direct channel. I think one, of course, there has been a little bit of a slowdown due to lower branch walk-ins and online business also has seen lower traffic. But I think, primarily, we have been focusing on the quality of business in Direct channel. So 2-3 things have happened. One, we have tried to see which segment and what ticket size we want to play in, to make sure that the persistency as well as the product mix improves in Direct. So that has ensured that we bring the margins up in Direct and led to a lower number of NOPs and growth. And it has been a stated strategy by us.

Second, of course, is the fact that how we are looking at the Exide merger. We are trying to look at in terms of overall consolidation of the structures between both of them. So as that happens, the pickup in terms of numbers over next 2-3 quarters will start showing again. Some of it also has been a realignment. Some of these partners like Policybazaar and all have moved in from an Online-Direct kind of a web aggregator model to a Broking channel. So, that's how we are defining it.

But overall, given the expanding customer base, we are looking at a growth in Direct channel. And as we expand our branch network, the bigger advantage with Exide Life is that we are getting a significant number of new branches, especially in South and Tier 2, Tier 3. So we

should be able to get what we call the branch channel to activate all over again in terms of growth. But really the flattening has been more in terms of quality of business and us exiting a smaller ticket size in the Direct business over the last 2-3 quarters.

Avinash Singh: Quickly on this. So, on the branch thing, you are not looking to close down or rationalize any branches that you acquired from Exide?

Suresh Badami: No. So, there is obviously a lot of synergy that we will deliver. We will be able to create in terms of looking at how we map these through sets of branches. We have gone through a very detailed exercise as part of our integration work streams, where we have seen which are the branches.

So, for instance, HLIC has around 383 branches and ELIC had 204 branches. Combined, we had around 587 branches on the day of the merger. We will merge and close maybe around 140 of these branches. But the idea is not that we will shut down. We will look at how we can expand because the customer segment that we are able to service, as well as the employees who we need to place out of the existing branches has been completely mapped out.

So, we have looked at the infrastructure which is available as a combined entity, where we believe that the ELI branches are better, our teams are moving in there. Where we believe the HLI branches are better, we are moving ELI team in there. And we believe where both the branches need an upgrade, we have kind of looked at a new location and made sure that we are servicing the customers, both from IRDA perspective as well as overall perspective.

And we will then look at newer locations that we can expand on. So, there is clearly a cost synergy that we can get out of this, but that gives us the ability to invest in further branches in other towns that we want to get into.

Avinash Singh: Okay. And my question on the back book surplus?

Eshwari Murugan: On the back book surplus, while, for YTD, it looks like 30% is a lower number. However, if you look at the quarterly EB surplus, where the last 2-3 quarters didn't have any COVID impact, the growth is around 18%. So that is a steady-state growth that we expect on the EB surplus, around the range of 18 to 20%, without any one-off that may come through. And that is in line with what we expect the VIF to emerge given the profile of products that we have been selling in the last 4-5 years.

Avinash Singh: Okay. So, 18 to 20% kind of back book surplus growth?

Eshwari Murugan: If you look at FY21, which is pre-COVID, the EB surplus we generated in just nine months is very close to that. So obviously, for the full year, it's going to be much higher than that.

Moderator: The next question is from the line of Nidhesh from Investec. Please go ahead.

Nidhesh Jain: Firstly, on protection, how are the trends in pure protection excluding ROP? What are the growth trends? And if you can share what is the share of ROP in the pure retail protection?

Vibha Padalkar: It's about in the region of 20% and doing well. But again, we're not going overboard on it. We've been selling it for quite some time now and we'll continue to do that wherever customer preference is for ROP.

Nidhesh Jain: And in pure protection, ex of ROP also, are we seeing growth? You mentioned 13% sequential growth on overall basis? So, excluding ROP, what would be the growth Q-on-Q?

Niraj Shah: So, we don't necessarily track it that way. The way we see it, with a multiple of 150 on ROP, that also is pure protection. So, whether it's limited pay, regular pay or ROP; overall, this is the sequential growth that we are speaking about and we are kind of seeing that across the segments.

Our ROP proportion has been in the 15-20% range for the past 2-3 quarters. So, it's not that segment has exploded in any big way. It is definitely becoming more meaningful but in a gradual manner. So this whole sequential growth that we're seeing is something that we are seeing across each of the categories.

Nidhesh Jain: And secondly, how much of our APE is coming from HDFC Bank for 9M and the Q3?

Niraj Shah: About 45% to 47% is coming from HDFC Bank.

Vibha Padalkar: In the individual business.

Moderator: The next question is from the line of Sanketh Godha from Spark Capital. Please go ahead.

Sanketh Godha: Vibha, you said in the call that we are closely collaborating with HDFC Bank. So, in that context, just wanted to understand that, last year, we paid around INR 1,130 crores as an advertisement spend at HDFC Bank branches or ATMs. So, do we see this number to grow at a rate, which is substantially lower or in line with the APE growth, which was not the case in the last 4-5 years?

So just wanted to understand, could that potentially be a lever for margin expansion going ahead. When you say closer collaboration, is it market share or cost? What exactly do you mean to say in that sense?

Vibha Padalkar: See, right now, given that the merger is yet to be consummated, it is still in terms of working together but not into any deep strategic level conversations. When they become our Parent and sit at the Board level, they will strategize with us and so on. Those are conversations perhaps for another day.

Right now, it is more in terms of how does our counter share stabilize. This is because ultimately, when you're competing with unlisted players, topline is often a function of how much risk one is willing to underwrite, how strong one's underwriting practices are and at what cost. So, some of that calibration is what I was referring to.

Other things in terms of what is the cost of business and so on, I think the very fact that no bank that holds more than 50% does not even have open architecture at all, forget about even

commercials. So, I think those sorts of things are more strategic level discussions which will follow.

Suresh Badami: And some of these costs will also be based on how HDFC Bank expands. Their number of branches was going to increase by almost 700. We would want to make sure the visibility of our products is across all these branches. So, some of them will grow in tandem, and all said and done, it is a product which is fairly competitive and we need to ensure visibility across all the branches.

Sanketh Godha: But have you seen the market share at the counter increase since the announcement of the merger has happened?

Vibha Padalkar: We are beginning to see in a lot of geographies.

Sanketh Godha: And second question is more on data keeping. So the economic variance number of INR 1,160 odd crores, can you break it down into how much was driven by debt? And is there any impact of equity on the INR 1,160 odd crores?

Eshwari Murugan: This is mainly coming from the increase in the yield curve at the shorter end. If you see the yield curve from one year to five years, it has increased in the range of 1% to 2.25%, average about 1.6%. And if you look at our sensitivities, for 1% increase in interest rates, the EV falls by around 2%.

So, if you add the 1.6%, the EV has fallen by 3-odd percent, which is about INR 1,030 crores. The balance is from the equity volatility because of lower equity returns during the nine months. Due to this, we have negative impact of INR 125 crores. These are the two broad reasons for the negative investment variance.

Sanketh Godha: The reason I was asking this question is that we said at the start of this year that we are baking in lower unwind rate because we expect the equity returns to be lower. So, do we see a positive surprise? Is there any possibility, or will it remain the level that is expected today?

Eshwari Murugan: It's expected to remain at the current level because there is a lot of volatility. Only in Q3, there is a small upside, but again, we see some stress.

Sanketh Godha: And last one from my side. Do you want to disclose the hedge coverage ratio which you might be calculating internally based on whatever the instruments you have like FRAs, some PPBs and internal cash flows from the other products?

So, if you want to put a number against the hedge coverage ratio against the likely cash flows, which you get in the guaranteed product, any number that you want to suggest on how is our hedge coverage ratio?

Niraj Shah: So, Sanketh, a couple of things here. One is basically there are two kinds of guaranteed products. One is the single premium guaranteed products, which are basically duration-matched through

just matching the asset and liability duration. On the regular premium products, we said this is basically cash flow matching using three large areas. One is internal cash flows from lower duration liability products. Second is FRAs. Third is partly paid bonds and then some sort of a G-Sec stripping.

So, these are 3-4 components that we use. We don't necessarily want to talk about each of the numbers because it's dynamic at the back end. We do take calls based on how the interest rates are moving and how the FRA spreads are moving in the market. And this multi-pronged strategy helps us do that from time to time. And through a combination of each of these, we want to stay as closely cash flow matched as possible.

Moderator: The next question is from the line of Nitin Jain, an Individual Investor.

Nitin Jain: You mentioned that company has achieved margin neutrality in the 9M FY23. So, will this continue going for the full year? For FY22, the VNB margins were north of 27%. Can we expect to maintain margin neutrality for the full year as well?

Vibha Padalkar: Yes. Based on trends that we're seeing right now, we don't see any significant threats to that, all things being equal on the economic front.

Nitin Jain: And this will be on a consolidated basis, right?

Vibha Padalkar: Yes.

Nitin Jain: And just a follow-up to that. Although the pre-merger numbers are not disclosed in the press release, will it be possible to share the VNB margins pre-merger?

Vibha Padalkar: So, that's the point that I made in my comments that it's not that we have it and we're not disclosing it. Everything is completely enmeshed. So, for example, it's not like that they had a broking business or they had some other business and we didn't have it. Whatever they had, we had.

Management teams are now all merged, the hierarchy has been collapsed, locations have been collapsed and like Niraj mentioned, branch rationalization has happened.

Even internally, now we call it Bangalore office and Mumbai office. There are people movements that are completely fungible. Even in senior executive management team, we have representation and so on. So, we just don't track that anymore.

Nitin Jain: So just in terms of qualitative comment, have you seen an increase in the pre-merger VNB margins Q-o-Q?

Vibha Padalkar: Definitely. Yes, absolutely. That's why our earlier estimates were that it would take earliest 12 months and maybe little bit more for us to get there. But we've been able to deliver this in a much earlier timeframe, almost three quarters earlier.

- Moderator:** The next question is from the line of Shyam Srinivasan from Goldman Sachs.
- Shyam Srinivasan:** First one on composite license. Just going back, which are the areas that you think you will show more priorities on? Will it be health insurance? Could there be organic or inorganic options that you will look at, also M&As? So, I just wanted to get a sense, do you think this opens up M&A not only for you, but maybe for the industry as well?
- Vibha Padalkar:** Yes. I think various permutations will emerge. I'm also of the belief that it's not going to happen overnight. The reason I'm saying it is look at FDI today, people are allowed to invest up to 74% and we are far away from that. So just because there is an enabling provision does not mean it will immediately happen. Some of these things are group-level decisions. There are capital allocations and there are multiple companies in the group.
- There are different valuations - cost, tax etc. Taxation aspects are very different and the horizon is very different for a life insurance company versus a general insurance company. The way we look at it is that let us see what are the contours of eventual regulations are and then we will see.
- Of course, we have done some homework, but it's not slam dunk. And also we don't have to be a manufacturer in every case. In some cases, we might just be a distributor. In something, we might have this as a rider. So, there are various aspects. Even today we have a combined product with HDFC ERGO, and that's doing well, which effectively enables us to distribute health protection cover for our customers and so on. So various models will emerge.
- And actually, speaking with the regulator, that's also the intention, wherein what I understand is that you don't have to be a full bells and whistles insurer. You could be a specialized insurer only doing crop or only doing rural or only doing disability and so on, which might require lesser capital than the onerous capital requirements of a life insurer. So, we'll have to see.
- But apart from composite, and this was also there in the development and penetration committee report also, that why not allow insurers to also distribute other products, each of those products which are, first of all, anyway, governed by our common regulator.
- And secondly, if banks can distribute life insurance and general insurance, why can't we mobilize some of those other financial services products and be a distributor, especially in our branches, our feet on street, our direct channel, our online channel and so on. So, we would be equally enthused if some of that were to come through.
- Shyam Srinivasan:** And quickly sneaking in my second question. Deposit rates have seen a very sharp jump as banks have fallen over each other to raise rates. Despite that, non-par savings, even for the Q3 has been strong. So, are you seeing any early signs that as rates go up, there is pressure on your guaranteed income products? Have you responded by raising our own rates? What are the dynamics around this and maybe the path forward for these two asset classes?
- Vibha Padalkar:** I'll start off and Suresh, you can add. So, like we mentioned last quarter when there was a lot of question in terms of what's going to happen because of deposit mobilization and we put the

numbers into perspective. Life insurance premium is less than 2% in terms of new mobilization and about 0.2% to 0.3% if you include the back book of banks. So that is number one. Number two is that these non-par 'Sanchay Plus' category products, which in a way now has been born; has caught the imagination of people and how they are able to do asset allocation in terms of their savings.

Some portion might be for liquidity purposes in bank fixed deposit. At the same time, this is a lifelong guarantee or some other forms of longer-term guarantee, which they also want. So it's not really fungible as such. And that's exactly what panned out, not only for us but for the sector also. There is no real big-ticket impact or dent because of this drive towards deposit mobilization.

Suresh Badami:

I mean, Vibha covered it. Frankly, this segment on the non-par side has almost grown by some 60-67% for the industry. So it's really created a segment by itself and it's a question of asset allocation into this. In fact, we are fairly agile in terms of our pricing. It need not necessarily be that we need to increase. Right now, we've actually brought a little bit of a reduction to maintain profitability of this particular segment.

And we do believe over a period of time, we will probably see the industry following this. So it's not that we need to compete with deposits. I think this has a space for itself, and we will do it with the independent pricing to make sure that this segment remains profitable for us.

Moderator:

The next question is from the line of Supratim Datta from Ambit Capital.

Supratim Datta:

So, I will just continue from where the last participant left off. So typically, with the yield curve flattening, the profitability of guaranteed products reduced. So just wanted to understand that what needs to be the spread between the short-term and long-term yield for this product to remain viable?

Niraj Shah:

Yes. So, I think that's one factor which you can't control in terms of the slope of the yield curve. So, what you have to do is some of what Suresh mentioned and what we've been talking about in terms of being disciplined in terms of pricing. Whether it's the annuity product or the regular premium guaranteed product, you largely, first of all, ensure that your risk management is appropriate, be it in terms of matching your cash flows, especially for the regular premium products and duration match for the single premium products. That's something that's top priority. Then you figure out what kind of credit risk you're willing to take to try and get the yield pickup. Within tolerance, you do that to try and get the maximum yield that you can out of the assets that match the liability.

Then you figure out what's the kind of a competitive landscape that is around to be able to not be the highest rate, but at least be in the vicinity. And then, of course, you have your margin profile in mind and all of these things need to be considered to be able to manage the profitability.

So when we launched the product, we had a fairly steep yield curve, as you know, about 3.5 years back and today, we have a flattish yield curve. But we've been able to manage our spreads

broadly given the pricing discipline that we followed in terms of both the annuity as well as the non-par savings products.

Moderator: The next question is from the line of Abhishek Singhal from Naredi Investments.

Abhishek Singhal: Thanks for taking the question. Has the company got permission to do health business, if you have got it, should you do some business now? Will health insurance plan be from a third party? And second and last question, HDFC Bank is opening branches aggressively, when will the effect on the insurance premium start?

Vibha Padalkar: On the first part, like I mentioned to one of the earlier callers, right now the extant regulations do not permit us to seek or file any license to do health indemnity. So, we will have to wait based on what the finance ministry says, in what form or shape we see final light of day on composite license, health and so on. So, we'll have to wait for some time.

What I did allude to earlier was that we continue to remain interested in being able to incorporate some of these things that we are not allowed to do today. Having features within our product so that we can have product innovation and not have these artificial constructs as to where does the life company start, where does the general company start, where is the stand-alone health, where is pension and so on because we have to keep customer in center of what we do.

Ease of giving solutions to some of the risks being faced by the common person, I think, is really what all of us should be focused on. So, we will wait and see, and we will hopefully have some clarity towards the end of this financial year.

On your second point on HDFC Bank opening up new branches, while they are opening, and we are certainly there in the new branches, new branches do take some time because they're fledgling branches and often start with a very small area. It is stabilizing in terms of their banking activities and it takes a good 2-3 years before it starts focusing on distributing third-party products. But we are there in most of the branches. You will start seeing some of the uptick, like I mentioned to you, over the next 6 to 12 months in terms of closer working with the bank and that stabilizing.

Moderator: The next question is from the line of Atul Mehra from Motilal Oswal Asset Management.

Atul Mehra: In terms of the composite license, as and when hypothetically it goes through, would there be merit in one mega organization of HDFC, basically the general insurance business and the life insurance business coming together? And do you see like the two companies coming together then and creating one large insurance company for all the needs? Do you see merit in that or you believe it would perhaps do better individually?

Vibha Padalkar: So, we have this model across the world and even where this is a possibility, both models exist. There are some groups that have composites, some groups that are bespoke only for one or the other. There are merits and pros and cons in both. Obviously, the merits would be that you would require lesser overhead, you would probably be able to have better end-to-end view of your

customers. Your customer doesn't have to go elsewhere for their insurance needs. You can upsell, cross-sell, you know all of those things.

And some of the negatives could be that these are very different products, especially when you're looking at crop, motor and P&C. There could be different capital requirements, investment horizon and outlook could be very different, taxation could be different and so on. So, these are really for shareholders to take a view on and more a strategy level call rather than an operating company level call.

Moderator: The next question is from the line of Bhavya Sanghvi from Fortress Group.

Bhavya Sanghvi: My question has been answered. I'd just like to get some data points for bookkeeping. Could you just give us the data for HDFC Bank's counter share within individual business over the past few years, like FY20, FY21 and FY22 year end on channel mix?

Vibha Padalkar: See, we are not giving specifics of counter share because if you were to look at counter share of value of new business, it's a very different outcome. If you look at counter share of what is the risk on the balance sheet, these are very different outcomes and so on.

I think what is important is that our growth in Q3, for example, has been faster than industry level growth, regardless of any counter shares or regardless of any of the other dynamics of open architecture that we drive in, and ability to attract new partners. So just defocusing on just one relationship of any kind has been our core stated strategy, and that has stood us in good stead time and again.

Moderator: The next question is from the line of Pallavi Deshpande from Sameeksha Capital.

Pallavi Deshpande: So, I think in the previous answer, you alluded to the fixed cost absorption being actually a split between the higher cost of acquisition and Exide Life business. If you could just give us a sense of split between the two? Also on the cost of customer acquisition, which channel would that be?

Niraj Shah: Yes. So, you could take it as broadly half and half. Directionally, you could take it as that. And we did mention to you in terms of our plans to get the synergy realization out of the combined business now. That is something that you heard. We've already started delivering on that. Margin neutrality is the first proof of that, and we'll see expansion as we go forward.

As far as cost of acquisition going up, that's something that is happening across the board, largely in corporate distribution with open architecture. That's something that we've seen in all our relationships. That's something that we are seeing across the board in terms of increasing cost of acquisition, in terms of partners, as well as in terms of expansion, putting in more manpower.

We're acquiring new distribution with companies such as India Post Payments Bank last quarter and more recently, AU Small Finance Bank. We've scaled up our partnerships with Yes Bank, IDFC, Saraswat, as well as Bandhan Bank in a very big way. All of that requires a fair bit of

investment and that is something that we would expect to continue. Of course, we will try and get synergies out of any fixed cost absorption that will come out of our proprietary distribution. That's the reason we want to continue growing that to get more fixed cost leverage.

But as far as corporate distribution is concerned, we do see this investment continuing as we go forward. And our margin realization, VNB growth as well as cash generation through PAT is something that would happen after absorbing all of that.

Pallavi Deshpande: So the fixed cost absorption of Exide, is that over? Do you expect to see more impact of that in the fourth quarter?

Niraj Shah: No, that's something that is baked in. We will obviously keep chipping away at that as we go forward.

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

Neeraj Toshniwal: So, I wanted some sense on life beyond FY23 post margin neutrality. How do we see APE, VNB growth? Because we are seeing some green shoots in terms of HDFC Bank coming back, productivity improving, mix improving, protection will be coming back? So just wanted your sense, how we are factoring these in? What kind of growth can we give?

Vibha Padalkar: So, we should grow. We should be back on track to grow faster than the industry. All our channels should do well. We have demonstrated that. I mentioned in the opening remarks about all our bancassurance partnerships doing very well and agency being 2x our company-level growth. So, we expect that trend to continue and also the distribution synergies to kick in with the merger, especially in some of the geographies, wherein we were not really focused on. So, that should come through. And also, in terms of profitability, we should continue to inch upwards and deliver VNB growth in the range of about 18 to 20%.

Neeraj Toshniwal: And anything on persistency, given that we have been delivering improvement on persistency for quite some time? On only ULIPs probably, we are lagging. And is EV on actuals right now or do we have some assumption change capacity bandwidth available? How should one think about it?

Vibha Padalkar: So right now, we're tracking well. What is also noteworthy is that when we talked about margin neutrality, we have reached close to neutrality on 13M persistency, despite Exide Life being much lower.

And as we write new business emanating out of distribution strength of Exide Life, we will put in a lot of rigour and you'll start seeing that new business delivering fairly decent levels of 13-month persistency, inching upwards to ours.

Having said that, I think we are very enthused to be present meaningfully in the non-Tier 1 segment and the way we are going to be looking at it closely from next year onwards. Obviously,

we don't want to dilute the high-quality business that we have built in the Tier 1 segment. So, that is something we'll be monitoring separately.

But at the same time, in terms of mix, we will see some different level of persistency in Tier 2 and 3 because that is really the nature of that geography. With both the persistency and mortality, there will be a haircut to what you see in Tier 1 outcomes. So, you'll see some of that. And that's how we are building our projections going forward.

Also, if you were to look at it, I just mentioned that we have tied up with AU Small Finance Bank, India Post Payments Bank and all of this is with a purpose. Apart from being great partners and franchises, those are the places that interest us, and you will see more penetration into those geographies. So, there will be a mix impact in a nutshell.

Neeraj Toshniwal:

Last question, in terms of VNB triangulation. If I compare to stand-alone margin walk last quarter, there have been 2 impacts in terms of both the product mix and the fixed cost that you all have talked about. Product mix also, I think we have done well. So how fast can we ramp up or have we categorized these 2? Which will ramp up faster in terms of movement given mix is improving? Any road map to that?

Niraj Shah:

It will have to be a bit of both, really. No real clarity in terms of how much will be contributed by each of these. It would really depend in terms of what period of the year we're talking about. Both of these will be equally important as we go forward.

VNB growth is going to be a function of three things. It's going to be a function of the growth. We've already articulated our aspiration to grow faster than the sector. Inching up margins will come out of some of these shifts. From a medium- to long-term perspective, we know that protection will become a larger part of the business. Annuity is already scaling up. We'll continue to do so as we go forward as well.

So, product mix shifts over a period of time will continue to be meaningful. And as we expand our proprietary distribution, operating leverage is also something that will be very meaningful as we go forward, apart from the shorter-term synergy realization from the combined business.

Moderator:

The next question is from the line of Amit Jain from Axis Capital.

Amit Jain:

So just wanted to check that in terms of HDFC Bank, so do you see any particular product segment, which is selling higher or is it uniform and how does that bear to other banca partners?

Suresh Badami:

So there has been a little bit of a focus across most of our banca partners on the non-par segment. That has grown. Even if you were to look at it, that segment has grown in banks from almost 30% in FY21 to 38%, which is reflecting in our number also. The whole segment for the industry has grown by ~67%, which is our estimate.

Similarly, there has been growth in the annuity business also. So, these are actually flavours of the year in terms of how the product is positioned. We will probably see some focus coming

back in terms of the retail term over the next one year. But clearly, we have always managed to maintain a balanced product mix. UL is the only segment in which we have been cautious, in terms of that it shouldn't go beyond a certain percentage.

I think we mentioned in earlier calls also that we want to ensure that each of our channels is profitable, and we make sure that the product mix is appropriate to the channel to make sure that the channel by itself remains profitable. So, depending on how we want to push at HDFC Bank or agency channel or our other banca partners, we maintain the mix across these channels.

Moderator: The next question is from the line of Madhukar Ladha from Nuvama Wealth Management.

Madhukar Ladha: So, you mentioned in your opening remarks about approvals that you applied for opening the branch at GIFT City. Can you talk a little bit more about what sought of business would you look to build from there?

Suresh Badami: This is in the initial stages. We have opened a branch of our HDFC Life and Re subsidiary out of DIFC at the GIFT City. We have a distinct advantage in terms of being able to operate as a branch and in some sense, a lead into the market. We are evaluating our product strategy, but we are looking at dollar-denominated products, whether it's in terms of health, whether it's in terms of education or whether it's in terms of annuity. We have certain frameworks in mind, but we are still waiting for the overall guidelines to emerge from the regulator there. Once the guidelines have fallen into place, we will confirm which products we would want to launch.

We are, in some sense, ready with our business plan and operating plan. But clearly, these are different segments and different markets. But it will be a huge opportunity for the NRI customers who can look at these products coming out of a brand like HDFC in India and also an opportunity for the Indians to be able to take dollar-denominated products for coverage of health and some of these education-based products. So there are initial thoughts and concepts. Some of them we have firmed up. We are waiting for the overall clearances to come in and we should be quick to launch on this.

Madhukar Ladha: What's the expected timeline? Who exactly is the regulator in DIFC for insurance? And what would be the timeline for something like this?

Suresh Badami: So, timelines in some of this is not very easy to predict as such. The IFSC is regulated by IFSCA, which is a GIFT City unified regulator, which is there in place. We also have DFSA who manages our overall regulations for the Dubai subsidiary. We have recently got a certificate of registration, which has been set up by the IIO and the IFSC branch will be an IIO setup. This came in November. But some of the other regulations are expected to come in.

We will obviously wait for the product guidelines in terms of who will approve these products. But clearly, this will have to be first cleared by the IFSCA, here in India, in terms of what kind of products will we be allowed for us to sell.

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

Avinash Singh: One question because the budget is around the corner. There has been a lot of noise on both ends. If at all, life insurance maturity proceeds are to be brought under the ambit of taxes. If that happens then do you see the Non-par guaranteed products will remain viable to be sold profitably?

Vibha Padalkar: So Avinash, I think it's hypothetical and also given the need for actually having more tax benefits than lesser, just given that our insurance penetration has gone down than moving steadily upwards.

But hypothetically, if you're referring to 10 (10D), if that were to go away, I still think that category has been born. Why is that category born? Because people are saying, if I were to retire in the next 10 years or thereabouts, I don't know what are going to be the interest rate and what am I going to earn at that point in time. It could be low single digits. And I want to remove this volatility to avoid having a worrisome retirement time. So, I want certainty and which is exactly our campaign, which says my first salary after retirement. That has caught the fancy of people to say that there is this particular aspect will be completely non-negotiable, regardless of any macro events, any other economic events and so on.

So, it is lesser to do with tax. Yes, one has to be competitive on IRR. So that is something we have to see. But this birth in category is not a tax-led demand, but more in terms of having certainty of cash flows when one is in the retirement phase or later on in life.

Avinash Singh: Yes. I mentioned before asking the question, that's a potential scenario. On the annuity side, it is already taxable, so I understand that part. I just wanted to highlight that, if they proceed with taxes, then particularly for the affluent class who are in the high tax bracket would be affected. A lot of this is hypothetical and I do agree with you.

Moderator: The next question is from the line of Saumyak Shah from Sameeksha Capital.

Saumyak Shah: Yes. Do you expect any reduction in reinsurance premiums, or can they be flat going ahead?

Vibha Padalkar: So I'll start off and, Niraj, you can add. There are different ways of us getting a better arrangement from reinsurers. Price is one. And like I alluded to earlier in one of the questions that we are beginning to see a lot more reasonable and collaborative approach quite rightly by reinsurers now that COVID fears have receded. That in a way helps us write more business and defray some of our costs. So, we're seeing that. Hypothetically, can it happen? Niraj, you want to take this question?

Niraj Shah: I'm sorry, just to be clear, was the question in terms of the rates coming down? Yes, okay. So directionally, the way we are going is we are looking at increasing penetration and expanding into Tier 2, Tier 3, expanding beyond covering just a salaried high-income individual. So, when we are directionally moving that way, you can expect the risk profile, the consequent underwriting process that Vibha spoke about, as well as pricing, to reflect that to be able to build a sustainable business. So, pricing should be appropriate. We have no real preference for which

way they would go. We would want it to be appropriate in terms of offering meaningful cover. At the same time, business should be profitable with risk being appropriately priced.

If there is expansion that's going to happen in higher risk segments, pricing should reflect that. And any business that is done without keeping that in mind, we believe will not be sustainable. Even today, we are seeing different practices in the marketplace in terms of pricing as well as in terms of underwriting. I guess for a product, which typically has a term of 20 to 40 years, it's only appropriate that pricing takes that into account.

Pricing is one factor. It's important, but not the only one. There are also avenues which are important in terms of being able to assess the profile of an individual, being able to use data more effectively, being able to use underwriting models more effectively and to be able to improve the customer acquisition process. So, a lot of these things, we believe, will be enablers as we go forward with more-and-more data, not just on demographics in terms of income, but also in terms of health over a period of time based on customer consent should be available. That should make the process a lot more efficient and pricing finer based on customer segments that we are going to be offering.

Moderator:

Thank you. Ladies and gentlemen, this will be the last question for today, which is from the line of Dipanjan Ghosh from Citigroup.

Dipanjan Ghosh:

Just a few questions. One is on the annuity segment. You've been the market leader, taken multiple price hikes on few products. So, in that context, from a medium-term perspective, how sensitive is this segment to pricing? And how do you see the margins in that segment shape up?

Second, on the non-par side, it seems that there has been marginal increase in tenure and also a bit of increase in the regular pay variant? So from a sequential perspective, has that had some impact on margins? And lastly, a data-keeping question, if you can break your operating variance on YTD basis?

Vibha Padalkar:

Yes. On your first point, on annuity pricing, we keep calibrating it. At the same time, like with everything else, it is never only the price. It's a whole host of things. There is a lot of engagement on the ground. There are engagements at various levels with corporates, that's on the group side, on the retail business, with nodal officers and many other aspects.

So yes, price is important, like even in retail business. But I would say that it is one of the levers that is there. And we stay away from taking really aggressive calls. It is very tempting to go down that path. However, if you are not able to really earn that spread, then we would really question as to why we are doing this because that way, we could do many other things, for example, we could be very aggressive on protection. Why do it only in annuity business?

So, it's always a balance in terms of either mortality or financial risk management. At the same time, you have to stay in the game with a healthy dose of strong partnerships and building bottoms up connect. Do you want to add anything, Suresh, on annuity?

Suresh Badami:

No. I think, Vibha is right in sense that we have been calibrating like we mentioned. We see a huge opportunity on the OMO segment. We try and look at the group annuity based on relationships as well, the process and how we've been able to work with a lot of large corporates in terms of being able to get this business. The brand helps us get a clear leverage in terms of the pricing. And I think it is important because a lot of people who would want to invest, would want to stay with HDFC over a longer period of time.

But we remain competitive. We have a very large, trained workforce on the ground who is able to explain the benefits. We're trying to build an ecosystem around what kind of platform we'll be able to offer the customers in this particular segment. So, it is a very large opportunity. And I think in some sense, we're happy if more-and-more people come in as it will only expand the pie in this particular segment.

So, we are focused. I think we are very clear, and it's always good to stay within limits or tolerance in terms of what part of the overall business it is. We keep coming in and out of this segment because we're fairly well diversified. So, for instance, on group term, we have been quiet, for quite some time. We feel that we can probably play larger on the group term now that things have stabilized. So, these are some of the plays that we have between the term and annuity business.

Vibha Padalkar:

I think on the next one on non-par tenor you had. You're saying that it is more on the longer tenor side

Dipanjan Ghosh:

Yes. So my question was, it seems that there has been some increase in customer demand towards longer tenure, regular pay variant as a whole for the industry to commission maybe for HDFC Life also? So from that prospective, has that had any benefit on the margin?

Niraj Shah:

So, this entire return guaranteed segment over the last 3.5 to 4 years, we've actually seen a fairly broad spectrum of customer demand. It has been at the longer end for sure. It also has now with Sanchay Fixed Maturity Plan, that we launched a few quarters back. It's at the shorter end as well. Folks who are preferring to pay maybe one premium or maybe five premiums and have a 10-year horizon instead of a 20-year horizon, that's also a fairly meaningful segment. And for business, we mentioned about 1/6th of our non-par business is coming from there.

And also at the longer end, also, there are preferences for either taking bullet payments or lump sum payments or some preference for taking income over extended period of time. So, there are multiple such options that exist and there is preference around that.

As far as margin delivery is concerned, again, it's a function of managing the spreads. Of course, longer-term products will be more profitable compared to shorter-term products. But even within shorter-term products, we had mentioned that with pricing discipline, we can manage fairly respectable margins out of that as well.

Dipanjan Ghosh:

Sure. And lastly, if you can just quantify the operating variance breakup for YTD?

Eshwari Murugan: It's mostly persistency variance, mortality is just small positive and expense is moderately positive. So, most of the operating variance is coming from better persistency.

Moderator: Thank you. Ladies and gentlemen, this 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, Rutuja. We would like to thank you all for attending the call. Have a great weekend.