



HDFC Life Insurance Company Limited 9M FY26 Earnings Conference Call

January 15, 2026

Vibha Padalkar:

Good evening, everyone, and thank you for joining our Earnings Conference Call for the nine months ended December 31, 2025. Our Results, along with the Investor Presentation, Press Release, and Regulatory Disclosures, are available on our Website and with the Stock Exchanges.

Joining me on today's call are Niraj Shah – Executive Director and CFO; Vineet Arora – Executive Director and Chief Business Officer; Eshwari Murugan – Appointed Actuary; and Kunal Jain – Head (Investor Relations, Business Planning and ESG).

On this call, we look forward to discussing our results, strategic priorities, and the outlook” for the sector, as well as for HDFC Life.

The life insurance sector saw an acceleration in momentum during the third quarter, supported by recent policy reforms and a rising preference for protection-led solutions. The GST exemption acted as a meaningful catalyst, particularly for the protection segment, improving affordability and driving a pickup demand.

Against this backdrop, the industry reported year-on-year growth of around 10%, with HDFC Life growing faster at 11% on individual WRP. As expected, our growth in Quarter 3 outpaced H1, leading to an acceleration in the nine-month growth. This improvement was largely volume-driven, with a number of policies recording double-digit growth during the quarter. We expect this momentum to sustain into Quarter 4, supporting a balanced and healthy full-year outcome.

Moving on to business performance:

Individual APE grew 11% year-on-year, translating into a healthy two-year CAGR of 17%. Our overall market share based on individual WRP expanded by around 20 basis points to 10.9% for the nine-month period. Growth was broad-based across geographies, with continued strength across Tier 1, 2, and 3 markets. We also sustained strong momentum in customer acquisition, with over 70% of customers acquired during the period being first-time buyers of HDFC Life's policies.

Moving on to product mix:

Our product mix in 9-month FY26 reflected evolving customer preferences and market trends, with ULIPs contributing 43%, participating products at 27%, non-par savings at 19%, term at 7%, and annuity at 4%. Retail protection delivered strong year-on-year growth of 42% for the period nine months ended FY26 and 70% in Quarter 3, significantly outpacing overall company growth. The mix improved meaningfully post the GST change, creating a clear demand tailwind.

The recent launch of Click 2 Protect Supreme has supported category expansion with a differentiated offering introduced at the right time, reflecting our ability to bring relevant and innovative products to market in line with evolving customer needs.

Protection share increased from around 7% in H1 to approximately 9% in Quarter 3 (Q3). Rider attachment remained strong, and including riders, protection contribution to retail business now stands in double digits at 11% in Q3.

While growth is expected to normalize over time, protection is likely to continue growing faster than the overall company. First-time buyers accounted for a higher share within protection at over 80%, with customers increasingly opting for higher sum assured covers. We also saw increased traction from previously underinsured segments, including self-employed profiles, underscoring the widening relevance of protection across customer cohorts.

ULIPs continued to see strong traction supported by favorable equity sentiment, while participating products remained steady demand. Non-par savings saw an improvement in Q3 compared to H1, as customers increasingly sought long-term certainty and guaranteed outcomes.

While this trend is encouraging, driving a further pickup in Q4 remains a focus area, supported by a favorable yield curve and the launch of innovative relevant product variants to strengthen momentum in this category.

Credit Protect rebounded strongly in Q3. The MFI segment saw a pickup aided by a favorable base, while non-MFI segments continued to deliver steady growth. Retail sum assured grew 33% over the nine-month period and 55% in Q3. This growth was supported by higher rider attachment and increased sum assured multiples in ULIP business, reinforcing the quality of growth and alignment with long-term protection objectives.

On financial and operating metrics, while underlying performance continues to be robust, you will recall that we were impacted by the new GST rollout from Q2 onwards, and in Q3, there is a one-time impact from changes under the new Labor Codes, thereby affecting both embedded value and profit after tax. The impact of the new Labor Codes amounts to Rs. 98 crores and has been reflected in embedded value relating to services rendered up to 31st December 2025.

While a better product profile helped us expand margins by 110 basis points, there was an offset largely on account of GST impact. Our margins ended at 24.4%, translating into VNB growth of 7% year-on-year and a two-year CAGR of 11% for nine-month FY26.

On an adjusted basis, VNB growth, excluding the impact of GST and surrender regulation change, would have been 13% for 9M FY26 and 11% for Q3 FY26. The GST impact for the quarter was contained to less than 200 basis points, lower than the initial estimate impact of 300 basis points. We remain on track to largely neutralize the impact over the next couple of quarters.

Over multiple periods, we have consistently demonstrated the ability to recalibrate the business in response to changing external conditions. This flexibility has enabled us to protect margins, improve efficiency, and meaningfully mitigate the impact of regulatory and structural changes, including GST, Labor Code, and surrender value regulations.

Profit after tax grew by 7% to Rs. 1,414 crores. Excluding one-time Labor Code impact, underlying PAT growth for both nine months and quarter would have been 15%. Embedded value stood at Rs. 61,565 crores, with an operating return on embedded value of 15.6% on a rolling 12-month basis.

The solvency ratio remained strong at 180%, supported by the Rs. 749 crores of subordinated debt raised in Q3. In light of the expected implementation of the risk-based solvency regime over the coming quarters, we do not anticipate any requirement for further capital to support organic growth.

Renewal collections grew 15% year-on-year. The 13-month persistency ratio moderated by 200 basis points. While we have witnessed stress in certain profiles, the experience is largely cohort-specific and does not reflect a deterioration in overall portfolio quality, and mitigating steps have already been taken. We are pleased that the 61st month persistency remained strong at 63%, improving by 200 basis points year-on-year.

Moving on to distribution highlights:

Growth remained healthy across channels, supported by a diversified distribution architecture. Counter share within HDFC Bank stayed broadly range-bound during the period. Retail protection and rider penetration within the channel has seen a healthy increase, underscoring continued emphasis on us driving profitable mix at HDFC Bank.

Other bank partnerships continued to perform steadily. While competitive intensity has increased there with wider adoption of open architecture, we continue to maintain a top 2 market share position across the majority of our partner banks. Growth in these partnerships has been healthy on a two-year CAGR basis and remains aligned with our medium-term objectives.

The agency channel delivered healthy double-digit growth both in Q3 and over the nine-month period. Gross agent additions remained strong, with over 80,000 agents onboarded during 9M FY26. Our branch network has now crossed 700 branches, reflecting the culmination of a multi-year expansion effort. As this network matures, our focus has shifted towards scaling productivity, improving activation, and enhancing branch-level profitability. We continue to work closely with our broker and non-bank partners, with an emphasis on expanding reach, improving engagement, and selectively deepening presence across relevant customer segments.

Moving on to other updates:

On the regulatory front, recent policy signals, including the increase in the FDI limit announced in the budget, are encouraging. Ongoing discussions around distribution-related frameworks are consultative in nature, with the intent of creating a balanced, sustainable ecosystem that aligns the interests of customers, distributors, and insurers over the long term.

To conclude:

We remain confident in the long-term prospects of the Indian life insurance sector, supported by strong structural fundamentals and a regulatory environment that continues to evolve with a clear focus on sustainable growth, deeper insurance penetration.

Our near-term outlook remains constructive. We expect Q4 to build on the momentum seen in the last quarter, with growth in FY27 supported by continued strength in protection and sustained demand across savings segments. As we look ahead, our focus remains on disciplined execution while scaling responsibly.

For a more detailed presentation and discussion on our performance, please refer to our Investor Presentation.

Moderator:

We will now begin the question-and-answer session. We take the first question from the line of Avinash Singh from Emkay Global.

Avinash Singh:

The first one is regarding product mix. In an environment where bond yields have been kind of holding on, and also, we have seen yield curve movement where your ability to offer a better guarantee rate is higher, whereas the repo rate and all bank deposit rate have gone down, so, typically, one would expect a reasonable comeback in non-par. But if we see here, I mean, in your case, it is par that is still outperforming. Non-par is not showing strong growth, and that largely seems to be driven by the banca channel, if I look at the product mix. So, what is kind of putting you in a situation where you are not able, in an environment where one would expect non-par to bounce back? The non-par is not bouncing back. So, that is one.

Second, just to clarify on Labor Code, this about Rs. 100 crore impact largely, I would say is due to gratuity shortfall, probably pertaining to your permanent and fixed-term employees. So, is this a one-time impact, and on a rolling basis or ongoing basis, there should be no further impact to expect?

Vibha Padalkar:

Second question I will take first. Yes, it is a one-time impact and should not have any material impact on an ongoing basis.

Niraj Shah:

I think we started seeing some encouraging signs, as we had mentioned in the previous interaction, that we do expect in Quarter 3 (Q3) non-par to start picking up. It has happened now. In Q3, I think the non-par mix is in the 20% range. We had closed H1 at about 17-odd percent. So that has been a meaningful shift that has started to happen, and we expect more of that to happen in the coming quarter as well. So, we have had a couple of new product introductions, and like you rightly mentioned, the macro environment as such is conducive to a long-term guaranteed product of this nature.

However, we still maintain that the momentum in unit-linked continues fairly strong, as you can see from the nine-month numbers, as well as for the quarter, the unit-linked mix continues to be upwards of 40%. So, that is definitely still very much visible and continues. On the non-par side, some traction has already started, and we will see more of that as we go forward as well.

Also, we do see the intensity of competition in terms of aggressive pricing still there on the ground. We are fairly calibrated, like Vibha mentioned in her initial comments about the kind of business that we are happy to take on board. So, we obviously are trying to do whatever we can through new product introductions, energizing the salesforce, and using the macroeconomic environment to put through more of this product, but at the pricing which makes sense to us and risk management that we are comfortable with.

Moderator:

We take the next question from the line of Shreya Shivani from Nomura.

Shreya Shivani:

My first question is if you can help us understand if your negotiation with the distributor on GST cut, etc., are completed, and from 1st January, have they moved on to new terms and conditions? Is it completed or not?

My second question is the really good performance of persistency on the 61st month. What I find conflicting, or maybe I am not understanding it better, is that if that trend has improved, then we should be seeing positive, like a bigger benefit in our operating variances, right? But that operating variance seems to be negative. I may be wrong, that maybe it reflects after some time, or if you can just help me understand what's going on over there.

And my third question is on the retail protection product that you have sold. I know you have mentioned the sum assured has been higher, etc. Now, the math shows that the gross margin on some product is much higher to achieve whatever margins you have achieved for nine months and in the third quarter.

So, is it in the retail protection or even in the ULIP, the rider attachment continues to be high, and that is why overall VNB margins you have been able to achieve what you have achieved?

Vibha Padalkar:

On the first one, yes, short answer, negotiations were completed. And it's moved on in terms of what we said that we would do. On the third question, the bettering of margin profile, happy to

share, is almost across all products, including some what you said, but it is also in unit-linked, it is also in par, it is everywhere.

Eshwari Murugan:

The improvement in the 61st month persistency has given us some positive operating variance. The overall operating variance is negative, mainly because of lower 13th month persistency, while some of the reduction or the lowering of the persistency has been factored in our assumptions because these assumptions are based on ticket size, and the reduction in persistency is mainly because of lower ticket size.

We do see a further drop from the last quarter, and this is mainly coming from the business written in the last two to three months of last year. And we are seeing some lower collection, and that is why there is a negative operating variance. This could be because of some specific cohorts, and we have taken some measures as Vibha mentioned in her opening speech. And we hope that going forward, we will not be having some persistency stresses. But what has already happened, that is what is reflected in the negative operating variance.

Shreya Shivani:

And just one follow-up on the distributor negotiations, while obviously the details can be left out, but is it fair to say, wide and across with every distributor the negotiations have been completed and whatever has to be passed on has been passed on?

Vineet Arora:

Yes, as part of the GST strategy that we spoke about earlier, that we will take a couple of measures. The discussion with the distributors, all of them, are concluded, and we have moved on to the revised commercials.

Moderator:

We take the next question from the line of Rehan Syed from Trinetra Asset Managers.

Rehan Syed:

I want to understand regarding the retail protection, growth has been very strong post-GST with a large share of first-time buyers. So, I want to understand how much of this demand do you believe is structured versus a temporary pull forward, and what is your steady-state target mix for protection over the next 12 to 18 months?

And my second question is around Project Inspire, would you share measurable improvements seen in Q3, specifically on issuance time, straight-through processing rates, claims turnaround time and cost per policy? And also, when do you expect full rollout across retail lines?

Vibha Padalkar:

So, we don't really take a target as such. We want all our products and channels to grow well. Even in the past, even before GST, our protection, retail protection, and credit life, over the past three years, has been growing faster than company-level growth, and that is what we have been targeting. So, we were growing at least maybe 400-500 basis points higher than company-level growth. And now it is growing significantly faster.

I think in steady state, difficult to say because there has been a lot of interest from new or first-time buyers, like we called out. I have no doubt in my mind that traction will continue. A catalyst is always required for people to focus. I think that catalyst has more than been provided by the government. To what extent this momentum continues, I can't say, but certainly, will it be significantly better than where we were as a sector before? I think so.

Vineet Arora:

So, the first phase of Inspire, as we went, we have started going live on our group platforms, and we are already seeing efficiency getting built on the Credit Protect side of the business. The next phase around retail will be at least, I think, a couple of quarters away when we start seeing some benefits there. But on the group side, we have started going live on Inspire, and we are clearly seeing benefits of straight-through processing and straight-through claims.

Moderator:

We take the next question from the line of Madhukar Ladha from JP Morgan.

Madhukar Ladha:

The operating variance that we see negative of about Rs. 70 crore, can you give us a breakup of that? How much is persistency, mortality, expenses? And also, on the VNB, there is a negative Rs. 60 crores because of expenses. Is this again related to Project Inspire? Or is there something additional?

And lastly, given we had a target of doubling the VNB over a period of four years, given this hit because of GST and all the multiple changes obviously happening on the business side, what do you think our target would be? Would you sort of revise any bit of that over the next three, four years? What are the goals in terms of top line and VNB growth?

Niraj Shah:

So, to start with on operating variances, while we are not really giving specific breakouts, but like Eshwari mentioned, primarily it is on account of persistency gap that we are seeing, and we are trying to close down on. So, you can broadly think about it as a persistency that is from an operating variance perspective.

The VNB hit that you see of Rs. 60 crore is primarily due to the gap between what we capacitized to grow at. As we have said, 16-17%, we are trending for Q3 at 13% and around 11-odd percent for this year. So, it is a combination of all our investments in new branches, people in partnerships, as well as in agency, as well as some of the aspects that Vineet spoke about on Project Inspire. So, it is a combination of all of that.

As far as your question around doubling VNB growth every 4-4.5 years is concerned, that aspiration remains. Of course, you will appreciate that there have been a lot of changes that have happened in the last couple of years, regulatory, starting with surrender value, more recently GST, and now the Labor Code impact as well. So, all of that, of course, we need to kind of digest, and we have tried to do that. We have mentioned on the GST front, annualized impact of 300 basis points. We have brought it down to less than 200 in this period, and we will try and progressively bring it down and neutralize over three to six months.

So, all of this is getting, in some sense, absorbed in the business fairly efficiently, and the product-level margins we spoke about is basically getting enhanced. With all the growth that's coming in, our aspiration to double VNB every 4-4.5 years remains the way it is. Of course, we will have to account for some of these big changes that have happened in the recent past.

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

Sanketh Godha: So, the measures which we took on GST on commissions or anything of that kind is already reflected in nine months and 3rd quarter margin, or do we see the benefit to play out in subsequent quarters? Just want to understand the point. Basically, Niraj, you just said that 300 bps impact you managed to reduce it to 200 bps. So, 200 bps is more partial because you might have done mid-quarter. Maybe the benefit will be more there in 4th quarter. That is one first question I had.

And the second on the margin again, despite GST impact, will you attribute entire holding up of the margins from nine months to six months is predominantly because of the protection mix change, or your yield curve benefit also played a role meaningfully for supporting those margins?

Niraj Shah: Yes, second question first. It is a combination of protection as well as the yield curve going up, some benefit of that, as well as inherent margins in unit-linked products because of higher level of protection. So, like Vibha mentioned, it is a combination of all of these things across product categories.

As far as the GST impact is concerned, yes, some of these measures have happened mid-quarter after the GST change was announced towards the end of September. We put in place some of these measures with distributors, and you will see some part of it was factored in Quarter 3. You will see more of that in Quarter 4 and progressively from here on.

As far as the less than 200 basis points impact is concerned, yes, that also is something that you will see lower of as we go progressively. Our intent was to try and neutralize it over three to six months. So, Quarter 4, we would expect to see a much lower impact than we saw in Quarter 3.

Sanketh Godha: So, Niraj, structurally, will we be able to arrest the entire impact of GST to less than 100 basis points, maybe if I look at from FY27 perspective?

Niraj Shah: So, we said that FY27, we would like to start on a clean slate, having digested the GST impact completely. So, on a run rate basis in March, we want to get to that position. So, when we start Quarter 1, we would want to then peg ourselves to what we achieved in FY25. So, that is really what we are trying to achieve.

- Sanketh Godha:** And lastly, on growth, we are a little lower than the industry, even in the 3rd quarter. And I believe that seems to be largely soft because of the banca channel, which grew for nine months, by just 2%. So just wanted to understand if we end up at 11-12% growth in the current year, for the full year, then this banca reviving back and we getting into high teens or mid teens kind of a growth, is it possible in FY27, or how do we see the growth to play out maybe beyond the current year?
- Vineet Arora:** So, current year growth, yes, banca channel has seen lesser growth for this year, but if you look at a two-year CAGR, I think the growth is reasonably strong. And we do believe that the channel will continue to deliver good growth going forward. We also have done a lot of investment in proprietary channel around agency and all, and we are seeing results for that also coming in. So, we are quite optimistic about the growth into the next financial year that all channels would then be firing at the pace that they are supposed to fire.
- Some of the portion, I think, which Niraj also spoke about, especially around non-par, is that some places in this quarter, we might have not participated to the extent that we could have participated because of the commercials that we wanted to participate at and the quality of business that we wanted. So, I think that is something that we keep on anyway playing tactically to ensure that we always have a good quality book.
- Moderator:** We take the next question from the line of Prayesh Jain from Motilal Oswal Financial Services Limited.
- Prayesh Jain:** Just extending on the previous question, in terms of Bancassurance, could you attribute the reason for the slow growth so far in these nine months? And also, the product mix, if we look at the Bancassurance channel, it is kind of still skewed towards the ULIP category. So, what are the factors that kind of impacting the segment?
- Vineet Arora:** So, like I said, there are multiple things, and it kind of depends on which partner and which bank are we looking at. There is an issue of mix. There is an issue of competitive aggression and some unrealistic pricing. And there is an issue of some banks going with multiple number of partners. A large portion of this actually got played in Q3.
- So, H1, though, remained reasonably strong, Quarter 3, we saw a lot of this playing out. And we will play this tactically. We will do the business that we feel is good business to do and we will do that. So, I think we are quite confident that the channel will, over a period of time, continue to deliver good growth.
- Prayesh Jain:** So, what gives you confidence that this play out, this kind of strategy of bank partners, kind of taking business further, will play out ahead? What exactly are the kind of strategies we are taking for this?

Vineet Arora:

So, we have seen this in the past also, that there could be tactical aggressive strategies being played by different players. And that has a life of its own. It cannot continue forever. So, it has a life of its own. Sequentially and two-year growth is what we do focus on, and we are quite confident that the CAGR over two years is good and is in line with what we expect it to be. Quarter 3 is one aberration where we see overall excessive competitive pressure. And as this competitive pressure kind of levels out, we will be back in the similar growth for this year as well.

Vibha Padalkar:

I also want to add, it is not significantly lower. It is a shade lower. So, if I were to look at first quarter, at our overall growth, APE growth of 13%, Bancassurance grew 100 basis points lower. Okay. If I were to look at fast forward to Quarter 3 versus the 13%, it has grown 300 basis points lower.

So, this kind of cyclicalities is something, it might be a base effect. It might be something else that is happening. It might be because banks might have grown, but due to irrational pricing, especially if you are competing with unlisted players, you tend to have that, and I have called that out before.

A non-par product at a negative spread might not work, but no one can indefinitely be competitive either on pricing and/or on underwriting. And we have seen these cycles even amongst different players as counterparties with whom we are competing. Sometimes one is aggressive, sometimes another one is aggressive, and so on. So, it comes around. So, I just want to put in context that it is not, for example, 50% lower. It is a shade here and there. And we have no doubt in our mind that this is a cycle. We have been here before. Like what Vineet says, there will be some quarter here and there, and it is a matter of time before it evens out. And we do look at it on a two-year CAGR basis as well.

Niraj Shah:

Yes, and maybe just to add to that, I mean, if you were to take a slightly longer-term time frame, maybe 6 to 12 months and beyond, I think the environment that we are stepping into is going to require a lot more calibrated business in terms of changes such as risk-based capital and movement to international reporting standards. Some of these will actually put out very clearly the consequences of some of the things that we discussed, so I guess more calibrated, balanced growth is something that I think we can all look forward to. And with that, we can expect the growth to continue to be fairly strong.

Prayesh Jain:

The main thing is that the growth in our individual business has been lower than some of your peers in the recent quarter, in this quarter. So, can we come back to the industry growth or better than at least the peer growth in times to come?

Vibha Padalkar:

Yes. I have no doubt in my mind, that is what we have been tracking. And while there will be some cycles up and down, we are talking about top line. I think, equally, we need to look at margins. You will appreciate that, along with quality of business. So, as a responsible listed

company that wants to build good quality business, we will continue to triangulate between this. All things being equal, like you see on term today, there is a reason why we are perhaps right up there in terms of retail term. And that is the overall objective and direction in which we need to head.

Same thing at our Bancassurance partners. It is not just the top line, but what is our wallet share of VNB? That also is something that we track very closely. And while we are not disclosing at a partner level, but our wallet share at key partners has continued to go up.

Prayesh Jain:

The last question on VNB margins. Niraj, you mentioned that some of the actions have been taken. And so, from January, do you think if the product mix kind of remains the way it is, what we saw in Q3, you will probably have a 150-basis points improvement, if the product mix stays as it is and the growth is, say, similar to what we have seen in this quarter?

Niraj Shah:

So, it is difficult to pinpoint a number, but as is visible in the VNB walk that we have, the new business profile already improved by 1.1% in this quarter. So, that was a combination of everything that we mentioned. So, we would expect something similar to kind of continue on these lines, at least directionally on these lines in Quarter 4. And as Quarter 3 has been faster than H1 growth, we would expect to carry that momentum into Quarter 4 as well. So that should also help the overall profitability. While we have to, of course, continue to digest the impact of GST, and we will do that, but you could expect, as we had mentioned, the impact of GST to keep coming down and run off completely by the beginning of Q1 of next year.

Prayesh Jain:

So, is it fair to say this 1.1% impact of GST will be a much smaller number in the next quarter in Q4? Is that a right way to think?

Niraj Shah:

No, the 1.1% number that you see is actually of just 3.5 months, that is reflecting in this. So, for the third quarter, the impact was actually 190 basis points. And annualized basis, we had said was 300 basis points. So, you will have to keep that in mind, while we will obviously, when we talk to you in April, we will try and bring down this impact for the quarter on the lines of what we are talking about in the 100-odd basis points kind of range. That is something that we try and execute.

Moderator:

We take the next question from the line of Dipanjan Ghosh from Citigroup.

Dipanjan Ghosh:

So, just two questions from my side. One, if I were to look at your product-level persistency, especially on a nine-month basis, it seems the non-par bucket is where we are seeing a little bit of a pain in the early buckets. So, in terms of the product category or the channel that is really driving this sort of a pain, if you can give some color on that.

And my second question is basically, if you were to kind of, let's say, think of the next one or two years, given the sort of competitive intensity that you see across the multi-architecture

channels, what sort of confidence do you really have in terms of kind of managing your counter share at these channel partners?

Vibha Padalkar:

So, I will take the second question on counter share. It is already in play. And at our largest distributor, HDFC Bank, it's been around for a while, several years. And all the new partners, like I said, we are in almost all relationships or material relationships, we are amongst the top two partners. And that is today as well.

Also keep in mind the point that Niraj was saying that as we move towards Ind AS, ability for some of this disruption due to more attractive economics and so on, as well as possibly looking at rationalization of how distribution commissions are paid. So, a whole host of things up in the air that will hopefully lead to a little bit more long-term value-building proposition. And with or without that, we are fairly confident as a combination of being known as a product innovator, giving best value proposition, holistic proposition. Yes, we don't really see that as being a concern.

Eshwari Murugan:

The non-linked persistency has dropped materially, you are right. But if you look at it, the persistency in the last 1-1.5 year had gone up significantly from the previous period, mainly because of very high-ticket size policies that got sold when the tax rules changed.

So, if we take that out, and that is already factored in our assumptions, because as I mentioned earlier, the persistency assumptions are based on ticket size. So, we knew that the persistency is going to be lower compared to the previous period. If we leave that out, then the persistency drop is not much, maybe around 60-70 basis points lower than what we would have expected.

And as we have identified the cohorts where we see this reduction in persistency, and as we have taken measures, we are quite confident that the persistency will be comparable to what we expect in our pricing and in our margin computation. We may not see those high levels of persistency as earlier because the ticket size is much lower due to the changes in the tax rules.

Vibha Padalkar:

And just to add, it even strengthened further because there was going to be this tax withdrawal. So, even the persistency or poorer persistency in the normal course of customer behavior reduced significantly because post that period, no other product was going to be as attractive because it was completely tax-free, even policies above Rs. 5 lakhs. And so, it is really the comparison is against a cohort that was a special cohort. This is a more normalized behavior pattern, and it is still, as you know, this is on Slide 28 of our Investor Presentation. You will see that even despite that, traditional savings, like Eshwari said, is marginally lower, but not significantly lower.

Moderator:

We take the next question from the line of Ansuman Deb from ICICI Securities.

- Ansuman Deb:** My question is on the commission discussions. So, especially with the regulatory discourse being rife on possible lowering of commissions, do we see any benefit, especially on the cost side of the Bancassurance distribution?
- The second question is on persistency again. Just to understand better, there is no impact of this surrender charge hike or surrender charge impact on persistency, right?
- Vibha Padalkar:** On the Banca benefit, it is too early to say because we don't really know. I mean, I don't know in which direction finally some of the changes are going to materialize. However, if we hypothetically look at, say, a little bit more of back-ended commission, then to the extent of persistency, there will be aligned economics between customer, the distributor, and the insurer that should benefit overall in the orderly growth of the sector. But I think we will have to wait another quarter, perhaps, or thereabouts for us to really know what are the contours.
- Eshwari Murugan:** On the persistency, to recall the changes in the surrender value was done from October of last year. So, in the base that we have taken for persistency, only two months of business is having the surrender value or the changes in the benefits. So, it is not coming from these two months of business.
- If you look at the initial collection trends, we don't see any difference between the business return in, say, October and November compared to the previous month. As we already alluded to, the drop in persistency is mainly on specific cohorts, and that is what we will want to address. We don't see any material change in the behavior or persistency due to the surrender value regulations yet. But yes, we will have to monitor the experience for some time for us to be very confident about it.
- Moderator:** We take the next question from the line of Kushagra Goel from CLSA.
- Kushagra Goel:** So, just two questions. One, I wanted to understand on the product pipeline. I remember last call we had mentioned something about the variable annuity product. So, if you could share more color on that.
- Second was on the highest sum assured ULIPs. So, just wanted to understand. I think currently it is more than 1/4 of our mix for ULIPs. So, is that growing faster than the overall ULIPs growth? And also, what is the margin differential between the two variants?
- Niraj Shah:** Yes, so I think on the product side, we continue to bring in new products from time to time across different categories. In fact, the most recent one was on the protection front. I think, those products are doing extremely well. We have also had some introductions on the non-participating side. I was referring to that a little while back. We look forward to some of that panning out in Quarter 4 and beyond.

Variable Annuity, yes, it is a very recent change, a very important regulatory change that has happened, which allows us to offer this kind of a proposition. We look forward to launching that sometime in the next couple of months. And while we do expect that product proposition to keep getting refined as we are able to use more and more hedging instruments over a period of time, but we do believe that it is a fairly strong proposition that we will come out with in the market. And we do expect some of our more discerning customers on the annuity side to start looking at that seriously. But I think we will talk about it once we have had some experience on that.

Yes, the highest sum assured ULIP, like you rightly said, is about a little more than a fourth of our unit-linked business now, and the margin profile of that is a lot stronger than the base ULIP. We had mentioned this in the past as well. It kind of starts converging towards margins on the participating business, and it is fairly healthy and strong with a high level of persistency as the customers are aware of what they are really buying, given the kind of mortality outflow that happens on account of a product like that. So, it is something that is definitely working very well for customers, and it is working well for the company as well.

Moderator:

We take the next question from the line of Himanshu Taluja from Aditya Birla Sun Life AMC.

Himanshu Taluja:

Can you just help me calling out, given the initial expectation that our GST impact would be much higher than what is currently so far visible around 110 bps, and probably in 4th quarter, we would see even much lower impact. What are the levers playing out for you to have this better outcome?

And second, can we say, given the next year, you want to start with a clean state, so probably strong likelihood of improving the margins and going back to our earlier trajectory of 25.5% to 26% VNB margin?

Niraj Shah:

So, on the GST, as it was introduced end of September, and we had our opportunity to talk to you about it in October, what we had said is that we had assessed the impact at about 300 basis points on an annualized basis. And we said that we will attempt to bring it down progressively over two to three quarters. So, the first quarter, we managed to execute on the lines of what we had wanted to do to bring that 300 basis points down to near 200 bps. That is something that we managed to do in the 3rd quarter. Again, our aspiration is to try and bring down that impact to maybe odd 100 basis points in Quarter 4. We will try and execute towards that as well.

And basically, by the time we get into FY27, we basically want to put ourselves in a position to grow our margins from FY25 onwards. So, I think that is something that we will attempt to do. And the initiatives, again, as we had called out, of course, the biggest catalyst is the GST change that has enabled the protection growth to be higher than what it was pre-GST. So, that is one thing that we expect that to continue.

Second is also in terms of the embedded protection side in unit-linked products is something that we have seen sustained performance on that front now. That is also something that is helping the overall new business profile. Credit life as a segment, which is pure protection, is something that has started to do really well, 25%-odd growth in this quarter and 15%-odd for the period.

With the credit growth in the overall system being now at fairly strong levels and expected to continue to improve as we go forward, that is also a business line which further calls on this front. As we start moving towards the growth numbers that we are capacitated for, the negative variance that you see on account of fixed cost leverage is something that we would expect to try and bring down over time as well.

So, multiple such things which will help us, apart from our basic thought process of balanced mix and diversified distribution and risk management being very important, should help us neutralize some of the impact around all the recent big changes that have happened, starting with surrender value changes followed by GST and now more recently the Labor Code. So, I think that is something that we will try and achieve.

Himanshu Taluja:

But can we say probably mostly either the product mix change towards protection, credit life, or either product level margins within the ULIP segment has improved because of going into the higher ticket? Apart from this, because you are also calling out that are some of the discussions undergoing with our large distributor and probably how has been those discussions? Are you able to do so far, any impact rationalization or not? Can you just help me out to understand?

Niraj Shah:

So, it is something we discussed. Vibha spoke about it. Vineet also mentioned. Early days. Like most of the conversations got concluded towards the end of Quarter 3. You will see the full impact of that coming through over the next few quarters. So, we executed what we wanted to. We have been selective on that as we have discussed. So, that is something that will start playing a role as well. Yes. Has it played some role in what we were able to execute in Quarter 3? Yes. But you will see more of that in Quarter 4 and beyond.

Moderator:

We take the next question from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe:

One was going back to the persistency point. And yes, your data suggests that on a year-on-year basis, there was a decline in the early non-linked buckets. I think if I look at the trend in that bucket for last multiple years, it just looks like there is a steady decline, and it was not like there was a temporary bump for two years back, and it's gone down.

The other thing is, typically in the non-linked bucket, if you have lower persistency, it sort of tends to be little in the early periods. It normally tends to be slightly accretive for margins is what our understanding was, and probably one of the reasons why surrender value guidelines were kind of envisaged by the regulator. So, maybe if you could explain that, and I have one more question.

Eshwari Murugan:

So, we will definitely look at the disclosures to be able to explain to you how the persistency has actually gone up over the last year. When I say last year, the business written in March and Feb 2023, reflected in the persistency in FY24 and ahead because it is a rolling 12-month basis. So, definitely, the trend has been that it has gone up, and now it is coming down. So that we will probably explain to you offline.

On the impact of persistency on different products, it is a combination of multiple things depending upon how the benefits are structured and when these benefits are paid, the timing of the payouts, etc. So, it is not necessarily a uniform directional thing, but definitely better persistency improves the margin. That is right. We are just trying to see if we can explain how the trend has been as we speak.

If I recall, persistency on non-linked was in the range of 85%-86% before the impact of high-ticket size, non-par savings, products with very high guaranteed IRRs started influencing the persistency. Yes. In some of the ticket size, we saw persistency as high as 90% and sometimes more than that also.

Like, for example, if you look at the business written in March '23 with ticket size as high as Rs. 5-6 crores, the persistency has been 95%. So, definitely, that trend has been there, but it was visible in our public disclosures. We will definitely get back to you. So, the normal trend has been around 85%-86% if you exclude this one-off impact, while the current 84% is lower, but it is not much lower than what you see from last year. But as I said the last year is a one-off. And we are working to get to the normal level that we expect the non-linked persistency to be at.

Nischint Chawathe:

And on the term business, now obviously there has been an impressive growth. But somehow on the Banca side, I guess there is still catch-up yet to be reflected in all the channels that are doing well other than Banca. So, anything specifically that we are doing over here, changing or probably need to change, realign incentives or anything that we can do to sort of improve protection in the Banca channel?

Vibha Padalkar:

Nischint, actually, while it doesn't reflect as much because Banca overall volumes are also high, and savings also usually does well. So, the growth in protection in Banca in Quarter 3 has been more than 40%. So, like I said, ticket size-wise, it will take time because you have to sell 2.5 policies of protection for it to be equal to one policy of savings in Bancassurance. That is roughly the math. So, it will take time, but it is growing fairly handsomely there. And hopefully, it will start showing. It is not showing up right now on Slide 17 because of rounding, but there is a lot going on over there.

And other thing is riders plus moving to, yes, high sum assured unit-linked. So, all of that, if I were to look at, and that is a point I made, we are looking especially at HDFC Bank as to what is our counter share on VNB, and all of this has helped us improve our counter share of VNB rather than just looking at top line.

And you also mentioned incentives and so on. So, there is a lot of discussion that has already happened. There is buy-in at both ends to focus on this without, of course, disturbing whatever is going well. And we have also launched protection on a group platform, which this will not reflect. Also, in terms of over-the-counter retail platform. So, lots of things happening.

Vineet Arora:

So, protection in bank might not be just looked at from term, even though term has also grown significantly in this quarter in the bank channels. But overall protection, if you look at it as a combination of term plus high sum assured ULIP plus riders plus the new initiatives that we are doing with the bank, it is quite in line with what the organization has achieved.

Moderator:

We take the next question from the line of Vinod Rajamani from Nirmal Bang.

Vinod Rajamani:

I had two questions. One on this hybrid high sum assured ULIP. So, what kind of sum assured multiple do you offer on the annual premium? Is it something in the range of 120-125%, 25x of the annual premium or lower than that? So, the concern I have on this particular specific product is there could be some substitution effect and so on if you offer very high sum assured as a multiple of annual premiums. The question is on this high sum assured ULIP.

The other question is, what aspirations do you have on this Tier 3, Tier 4 markets with all this agency rollout that is ongoing? So, any targets you have set in terms of what this will constitute in terms of the overall business mix going forward?

Niraj Shah:

So, I will take the first question and pass it on to Vineet for agency and Tier 3, Tier 4. So, average sum assured on unit-linked products is in the 30x kind of a range, while there are customers who prefer to take even higher. But on an average, it is in the 25x-30x kind of a multiple, which is significantly higher than the 10x that we used to see at the portfolio level. Riders sit on top of this. So, it is a combination of high sum assured as well as riders that is actually making this category a lot more protection-oriented for customers and obviously margin accretive for us.

We are fairly watchful in terms of how we offer this and are tracking persistency reasonably closely on this one. And that is a fairly calibrated manner in which we are approaching this.

We are not so bothered about the substitution effect because we are fairly agnostic to how customers buy protection from us, whether it is through group credit life products or through return of premium products, pure protection products, or embedded savings. I think whichever way the customer wants to engage with us, we are happy to kind of provide that as long as they understood what they bought, and we get good quality of business through that.

Vinod Rajamani:

But just one follow-up to that, Niraj, you are not planning to launch, say, 125x annual premium sum assured kind of product or this kind of super high sum assured kind of ULIPs?

- Niraj Shah:** No, we don't see the need for that. While, I mean, on paper, we do have products which offer sum assured as high as 80x also, but we don't really see too many customers actually looking at that at scale. So, we are seeing a lot of rider uptake, which is, we believe, the better way to kind of buy this level of protection. Otherwise, of course, the pure-term protection products are always there.
- Vineet Arora:** Just to take that point a little further, so we do not create any underwriting arbitrage between the categories. I think that is an important point, which could be happening in other places where very high sum assured might make sense on a ULIP platform. So, we are quite conscious of how we underwrite and not creating arbitrage between product categories. And that is why our approach that you see is more balanced between sum assureds and riders and what the customer needs.
- Just coming to your question on the distribution depth into Tier 1, into Tier 2 and Tier 3 using agency. So, our aspiration for agency channel, I think, very clearly, is to make it grow much faster than the organization growth. We know that we have been behind on the proprietary channels for some time, and it is a catch-up to get to the rightful share that the agency channel needs to have.
- So, I think that is clearly, I mean, we don't really want to put a number at this stage, but in the market, if you look at it, the agency channel should be contributing to maybe a greater than 25% share in the company.
- Moderator:** We take the last question from the line of Sanketh Godha from Avendus Spark.
- Sanketh Godha:** It is probably the same question on persistency. The deviation in the variance which we see is largely due to the products which you have sold maybe before the surrender norms came in? That is the way I should understand. And the second, whether this deviation you think is more transient or you need to make an assumption change so that it will have an overall impact on EV?
- Eshwari Murugan:** So, while we expect the impact to be transient because we have already taken measures to ensure that the persistency is back to the pre-change, see whether it is done as an assumption change or operating variance, the impact will be similar because it is only one year impact that is going to come. By the time we are at the end of this year, it will either be reflected in operating variance or in assumption change. It will not be a big difference, unlike other cohorts. If it is like the 49th month or 61st month, then it will impact a lot of business sold in the previous 3-4 years. But fortunately, this is only one year of business that will get impacted.
- Sanketh Godha:** And the deviation is predominantly in the products which were sold before surrender norms came in, right?

- Eshwari Murugan:** Yes, because on the policy sold after the surrender value change, the experience is still emerging. It will generally take three to four months for the policyholders to pay the premium and be able to reach the ultimate level of persistency. So, the trend indicates that it is not very different from the policy sold earlier. So, the deviation is mainly coming from policy sold prior to October 24.
- Vibha Padalkar:** Thank you for joining us today. Should you have any follow-up questions, please feel free to reach out to our investor relations team. Thank you and good night.