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IRR changes due to interest rates, not regulation: HDFC Life MD & CEO

She talks about the company's Q2 performance and the way forward

Vibha Padalkar, Managing Director And Chief Executive Officer Of HDFC Life

Subrata Panda | Aathira Varier | Mumbai

HDFC Life on Tuesday reported a 14.85 per cent year-on-year (Y-o-Y) increase in net profit at Rs 433 crore for the second quarter (Q2) of 2024-25 (FY25), primarily driven by growth in its back book. Its value of new business (VNB) increased 17.1 per cent Y-o-Y to Rs 938 crore in Q2, up from Rs 801 crore in the same period last year. The insurer's VNB margin, a measure of profitability, contracted to 24.3 per cent compared to 26.3 per cent last year, as low-margin unit-linked policies dominated product sales. It closed 3.6 per cent lower after reporting a lower VNB margin. The stock was the top percentage loser on the benchmark Nifty 50. Following the announcement of results, **VIBHA PADALKAR,** managing director and chief executive officer of HDFC Life, spoke to Subrata Panda and Aathira Varier about the company's Q2 performance and the way forward. Edited excerpts:

VNB margins are down...

We are in a phase where equity markets are very high, so unit-linked products are very buoyant. If you look at standalone Q2, we grew by 31 per cent Y-o-Y versus the industry growth of 21 per cent. Our term segment also grew very well, at about 27 per cent Y-o-Y. Our VNB grew over 17 per cent Y-o-Y. So, in terms of the pecking order, top-line new business growth was very strong, and VNB was robust. Margins were an outcome of that.

We had to reprice some of our non-participating (non-par) products, and we also needed to comply with the new surrender value norms as of October 1. However, we did not reprice all our products, which had about a 100-basis point impact on margins in Q2FY25 compared to last year. But the primary reason was the low-margin unit-linked products.

How much of your product portfolio is yet to be compliant with the new surrender value norms?

Almost 95 per cent of our products are compliant with the new norms. The remaining 5 per cent must be compliant by December; otherwise, we will have to withdraw them. So, we are well on track.

Have you repriced your products?

We don't need to reprice the non-par products due to the new surrender value norms, as the impact on us has been somewhat lesser. We will be having conversations with our distribution partners, but any normal repricing we have done is due to interest rate changes. We are reasonably confident that our discussions with our partners over time should have a minimal impact on our market.

The revisions in premiums for some products are not material. We haven't made any internal rate of return (IRR) changes because of regulatory changes. Any IRR changes made have occurred in the normal course due to what we earn from government securities and other debt instruments. That occurs as part of regular operations, even if no regulatory changes have happened.

What will be the impact on premiums?

It will not have a material impact on premiums.

LIC recently reduced commissions on its non-par products. How are you addressing the commission issue?

We are in conversation with over 300 partners, and almost all of these are multi-tieups. So, it's not just our discussions with the partners, but also their conversations with other insurers. It creates a dynamic set of discussions. For example, we will converse with them, and they will engage with other insurers. Then, they will come back to us regarding what they've heard from those insurers and share insights with us. This will take another couple of months before everything is settled.

How will margins shape up now that surrender value norms have been implemented?

More than margins, as I've articulated in the past, we are focusing on a couple of things. First, our new business growth has to be robust. We have grown 31 per cent in the first quarter and 31 per cent in Q2, demonstrating almost identical growth. We will continue to strive for growth that outpaces the overall market. Second, we will keep working to grow VNB. Margins will be an outcome of that. While I am not suggesting margins will drop to 21 per cent or 22 per cent, they will likely remain somewhat range-bound.

Your solvency is down…

Our solvency has decreased to 181 per cent because we are writing more new business, which requires additional capital, and due to the dividend payout that occurred in Q2. However, we have already raised Rs 1,000 crore, and our solvency has increased to 192 per cent.