# ICICI Prudential Life Insurance Company

## Earnings Conference call - Quarter ended March 31, 2017 (Q4FY2017)

## April 25, 2017

*Please note that the transcript has been edited for the purpose of clarity and accuracy. Certain statements in this call are forward-looking statements. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors.*

**Sandeep Batra:** Good evening, and welcome to the first full year results call of ICICI Prudential Life Insurance Company after listing. I have Satyan Jambunathan, CFO and Vikas Gupta, Head of Investor Relations with me and we will walk you through the developments during the quarter as well as the presentation on our performance for FY2017.

We have put up our results on our website. You can access it as we walk you through the performance presentation.

### Company Strategy

Through the year we have been articulating a key strategy to grow the Value of New Business through growing the protection business and continuing to focus on persistency and costs and we are happy to announce that we have met our strategic goals for FY2017.

We approach overall market opportunity as two distinct segments – savings and protection. We continue to focus on savings opportunity through customer centric product proposition, superior customer service, fund performance and claims management.

Protection is a big focus area for us and we have a multi-pronged product and distribution approach to tap this market. We have a range of products, individual term, mortgage-linked, and group term products to cater to different market segments. We use traditional distribution channels like agency, banks etc., and also have emerging channels like direct, online and web aggregators to reach out to different customer segments.

### Company performance

### New business

Our savings business APE grew by 26.5% year-on-year and during the same period our protection APE grew by 87.1% leading to an overall APE growth of 28.1%. Our Value of New Business increased by 61.7% from Rs.4.12 billion in FY2016 to Rs. 6.66 billion in FY2017 and margin expanded from 8.0% to 10.1% during the same period. Our embedded value as of 31st March 2017 was Rs.161.84 billion compared to Rs.

139.39 billion as on March 31st 2016 and a growth of 16.1% after dividend and 20.6% before dividend. I will now get into the details of each of these elements through this presentation.

For FY2017, our retail weighted received premium (TWRP) grew by 29.0% compared to industry growth of 20.7% and private industry growth of 26.4%. Consequently, our market share improved from 11.3% to 12.0% and private market share improved from 21.9% to 22.3%. We continue to maintain our leadership position among the private companies.

Our total premium for FY2017 was 223.54 billion compared to 191.64 billion for FY2016. In addition to strong new business growth, our retail renewal premium also grew by 18.5% from 119.95 billion for FY2016 to 142.19 billion for FY2017. We had a decline in our growth premium on account of drop in group fund business. This is consistent with our approach of focusing only on those accounts which meet our minimum profit threshold. Our group term business grew by more than 100%.

Given the untapped protection opportunity in the country, we have been focusing on growing our protection business at a significantly faster rate compared to our savings business and as a result of this our protection has increased from 2.7% in FY2016 to 3.9% in FY2017.

Most of our protection APE was primarily driven by retail protection which grew by 123% and contributed 80% of our overall protection APE. All distribution channels have contributed to the growth of retail protection. Growth in mortgage-linked protection has been flat given the slowdown in disbursements. Details of channel level product mix are available in the annexure to the presentation. Our strong growth in the protection business is also reflected in the 90% growth in the new business sum assured from Rs.1.55 trillion in 2016 to Rs.2.94 trillion in FY2017.

As we have continued to develop and grow all our channels, we continue to have a balanced channel mix of bancassurance contributing 56.9% of our overall business. Our growth is well supported by strong performance across channels and all channels continue to grow. For FY2017, direct channel has the highest growth rate of 56.5%. In the same period the agency channel grew by 25.2%.

**Quality parameters**

Persistency for us is an indication of quality of sales in addition to being an important financial metric. Our 13-month persistency of 86.0% is among the best in the industry. The improvement in the 13-month persistency over the last 3 years is also getting reflected in improvement in 25th and 37th month persistency. There is a small drop in the 49th month persistency on account of our relatively weaker 13-month persistency in FY2014. Our persistency numbers are similar across products and channel categories and the details of the same are available in the annexure to the presentation.

Robust claims management and the grievance redressal process are the key elements to our service value proposition. High customer satisfaction and service quality are reflected in the low grievance ratio of 95 per 10000 policies issued in FY2017 and a claim settlement ratio of 96.9% in FY2017 making us one of the best in the Indian Insurance industry.

We believe technology is critical to our efficient operations and performance of our business and one of the key contributors to our success as well as our future growth. Digitization has reduced our reliance on physical infrastructure without compromising market penetration. For FY2017, 57% of our renewal premium was collected through electronic means compared to 52% in FY2016. Our employee productivity improved from Rs.4.61 billion in FY2016 to Rs.5.55 billion in FY2017.

We had an increase in the cost to TWRP for the year as we continued to focus on growing our protection business. The savings business in the same period maintained its expense efficiencies. Expense ratio for protection business tends to be significantly higher than savings business due to lower ticket size and additional cost such as underwriting. Overall our cost to TWRP ratio for 2017 was 15.1% higher than 14.5% for FY2016.

Superior fund performance is important to improve the value proposition of savings products. As on March 31, 2017, more than 90% of our linked funds have outperformed our benchmark since inception.

We are amongst the largest fund manager in the country with an AUM of Rs. 1.23 trillion. Linked funds contributed to about 72% of our AUM and we have a debt equity mix of 53:47. More than 90% of our debt investments are in domestic sovereign or AAA rated instruments.

**Profitability**

Our EV as per Indian embedded value methodology was Rs.161.84 billion as of March 31st 2017 compared to 139.39 billion as of March 31st 2016. The most important contributor to the change in EV is the Value of new Business which increased from Rs.4.12 billion to Rs.6.66 billion. Unwind for FY2017 was 8.8% compared to 9.1% in FY2016 due to shift in the yield curve. We have seen a consistent improvement in the persistency of our savings products and have reflected in part of it into our persistency assumptions. The 13th month persistency assumption for linked product has changed from 80% to 82.5% at the same time the 13th month persistency assumption for protection products was changed from 90% to 85% reflecting the lower than expected persistency on the protection products. The overall impact of operating assumption changes was positive Rs 1.00 bn. We continue to have positive persistency, mortality and expense variance. The total operating variance was Rs.3.08 billion. Since we have accounted for part of persistency improvement through assumption change and margin improvement, persistency variance is lower than last year.

Our profit after tax for FY2017 was 16.82 billion. We have a strong capital position with a solvency ratio of 281%. The board has also announced a final dividend payout of Rs.3.5 per share, subject to shareholder approval.

**Summary**

To summarize we are operating in a large and high growth potential market with a record of consistent leadership across cycles. We have a customer centric approach across the value chain from products to claims management and strong focus on quality metrics. Our multi channel architecture is backed by a strong technology platform. We have a robust and sustainable business model with strong capital position.

Thank you and we are happy to take on any questions that you might have.

**Moderator:** Thank you sir. Ladies and gentlemen, we will now begin the question and answer session.

**Atul Mehra:** How have persistency assumptions been baked into the numbers at this point of time and now that we have seen the year end margin of about 10.1%, so what does this really reflect in terms of persistency and what we would have baked in?

**Sandeep Batra:** We have changed 13th month persistency assumption of linked products from 80% to 82.5% and at the same time the 13$^{th}$ month persistency assumption for protection product was changed from 90% to 85%. This has been reflected in the operating assumptions which show a positive for about Rs 1 billion.

**Atul Mehra:** But given that we have been rallying at about 86% now, so how do we see this trajectory now, as experience continues we would tend to up the assumptions further to 84%- 85%?

**Satyan Jambunathan:** Atul, typically the way we have approached it is to say that what we are comfortable with we reflect. If you will recollect, 82.5% was the persistency that we delivered in the last year and this year we improved on that. So what we have done so far is to reflect the experience that we saw last year and continue it into this year as well. We will continue to watch through the year on whether the persistency continues to sustain at these level, if it does, then we will have an opportunity to review it again at the end of fiscal 2018.

**Atul Mehra:** Right and secondly sir, my question was on the pure protection business growth for Q4. So if you just back calculate that, it is coming to about 40 odd percent. So why has this been some kind of dip in terms of trajectory for growth in Q4?

**Satyan Jambunathan:** Atul, you will recollect again that we saw the strongest part of our protection business from December 2015 onwards. Thus the last quarter of FY2016 was a fairly strong protection business for us. In the first half of this year because we were operating against a low base of fiscal 2016, we saw much higher growth rates. Even in the earlier results, we had mentioned as we go through the end of the year we would expect the growth to moderate a little bit and the mix also keeping in mind that protection tends to be less seasonal as compared to savings which tends to be more seasonal.

**Avinash Singh:** Hi, three questions. My first question would be on a broader market. So where do you see the medium term potential in the next five or ten years where the protection premium as a part of the new business premium will reach because at the moment it is around 4% for you but for the market it's very little. So in the medium term where do you see this going forward? The second question on persistency is that it is driven by customer behavior and persistency is high for the unit linked business when equity markets are doing well as is the case now, so do you think that this improvement in persistency is sustainable or will it deteriorate in case of a market dip? Thirdly, in terms of your embedded value, you have benefitted significantly from the economic variance because the interest rates have come down, you had a positive impact and so has been the overall operating variances. On a normalized basis, where would you see your return on embedded value going? Not just operating return part but overall?

**Sandeep Batra:** On the protection side, I think we still believe that we have started the journey from an Indian context. If you see our protection APE is about 260 crores while we have grown by about 87% during the year and still have a small base. We do believe that this business is going to grow at a much faster business than the savings side, given all the numbers that we have talked about in terms of an overall context over a longer term it could be much larger than what it is today. If you could jump to slide 27 which talked about protection opportunities, the protection premium as per our estimate which includes renewal, group everything was about 6700 crores for the year FY2017. These are our estimates by the way. If I look at retail risk premiums collected by general insurance company between health and motor, they have collected about 80,000 crores, I am not saying that we are getting there tomorrow, but it clearly shows that Indians buys protection, it shows that there is an opportunity, the challenge for us is how we go about executing the strategy of covering a significant part of the country.

Second question you mentioned persistency is dependent on the stock market movement. We believe that persistency is largely a function of how a product is sold. If you sell a product on a long-term basis, and you tell a person to invest systematically over a five, ten year period, there are higher chances of getting good persistency. While markets do play an important role, but they play an important role in all categories of financial savings products including unit-linked, participating, mutual funds, etc. So there is nothing unique to the product propositions that we have. We believe the way we have been able to drive persistency into the organization is largely a cultural change. We look at persistency and the renewal premium in the same breath as we look at new business. You will also see on slide 37, persistency across product categories; unit linked, participating, non-participating and protection are showing a similar trend and when we talk of unit linked, it is not necessary that the entire amount of unit linked is equity. In fact only about 47% is equity and 53% is debt, making it a more balanced portfolio. So we do have reasons to believe that the persistency will hold up and as a management team we are completely committed and focused on it.

Coming on the economic variance, last year this was a negative number given what had happened to the market, this is not really a reflection of how we did perform. Similarly dividend is determined by the Board, subject to shareholders' approval and it is not really an operating thing. The ROEV last year was about 15% and this year it has moved up to 16%. Our focus will be to continue to focus on improving the value of new business driven by protection. The single biggest important driver of the EV was the value of new business which improved from 412 crores to 666 crores. As long as we continue to drive value and increase VNB, these numbers should hold up. Avinash does it answer your question?

**Avinash Singh:** Yes broadly. One follow up, because you are looking to grow VNB and to create absolute value rather than just looking at the margin as a metric. Now this means that you are going more into protection and at times even other than linked products. This means you will consume more capital. So what sort of a threshold you have for your solvency. At the moment it is really strong but up to what level? I mean of course regulatory limit is 150% that is far below your current position, but what is your comfort level of solvency?

**Sandeep Batra:** Given the situation that we are in Avinash, we are not really dwelling on this in great depth at this point in time. As you rightly pointed out, we are at 280% against the solvency margin requirement of about 150%. We will reassess the situation in about a year's time and see at what level we are going to be comfortable, but really at 280% we are in a comfortable situation. You will also see that the dividend payout ratio has been about 60%, so as solvency ratio goes down, we also have the lever of reducing the dividend payout in line with dividend policy which says dividend payout ratio of 40%.

**Nitin Agarwal:** Sir on the mortality and morbidity variance, the positive variance that we have seen this quarter, are we using our own tables or we use LIC tables to benchmark it?

**Satyan Jambunathan:** Nitin it doesn't really matter what you are using to benchmark it because eventually it is only a point of reference. What comes out here is how much better is my experience from what I have assumed in calculating the EV and the VNB.

**Nitin Agarwal:** So what will be average age that you will be working with on the mortality side?

**Satyan Jambunathan:** Different product segments will have different average ages. For example our protection product average age tends to be much younger, closer to 30 years, whereas for the savings product this would be much older in excess of 40 years of age.

**Nitin Agarwal:** With regards to longevity in protection business, approximately how much it will be building in?

**Satyan Jambunathan:** Longevity is a function of at what age you are looking at. So it is very hard to say what the longevity that is built into this is. What is important I think is to establish that we are indeed having an experience which is better than what we have assumed in quantifying the value metrics.

**Nitin Agarwal:** Okay and, when I see the persistency improvement across the curve, we have seen improvements across all tenures except for the 49th month. So any color on this as to why we have not seen improvement in this band?

**Satyan Jambunathan:** If you will notice, our best periods of persistency improvement were during the last three years. Whereas what is reflected as 49th month persistency is a cohort which was sold 4 years back. So it was before our significant improvement in persistency journey started. So as a new generation start to go into their 49th year onwards, one would expect this trajectory to improve.

**Nitin Agarwal:** But the 61st month has already shown an improvement which is even more dated?

**Sandeep Batra:** Nitin, the 61st is also a function of product structure change which happened in 2010 where the minimum lock in was moved from a three year to a five year. But to actually assess how the 49th month persistency has moved, if you look at the slide on persistency, the 61.1% should be taken as a logical progression from the 61.6% that you see in the 37th month in fiscal 2016.

**Nitin Agarwal:** Right. The other question is on the protection business, where growth has been pretty strong at 87% but as you have indicated in the presentation also, the industry itself is very small. So how much do you think this space can grow across the segment, now that you have indicated the segments also this time and what is the profitability across different protection segments? Some idea on the profitability across the segments will help.

**Satyan Jambunathan:** Protection segment is really going to be a function of what is the term for which it is being sold. So if you have a mortgage based product, typically it will be a 15 to 20 year term. If you have another kind, it will be a shorter term. The retail protection typically tends to be 25 to 30 year term. So that in a sense reflects a relative profitability which really comes from the term of the underlying business. In terms of opportunity where can this go, I am afraid your guess is as good as mine but the way we look at it really is, that the level of penetration relative to some of the other markets that are comparable when you look at sum assured as a percentage of GDP suggests that there is a lot more opportunity for this business to grow even into the future.

**Nitin Agarwal:** Okay and lastly on the VNB, now this quarter we have seen an improvement with VNB coming more than 10% and if I compute the implied VNB for the fourth quarter, it works out to a little over 11.3%. If I see the growth in the protection business and the savings business over the nine months and between the 12th month and the 9th month the growth is fairly uniform between the savings and the protection. So does this mean that the margin improvement has not happened in the last quarter because of the growth in the protection but because of the general improvement?

**Satyan Jambunathan:** One thing you have to keep in mind is that we review assumptions at the end of the fiscal. So when we make the changes, for example, the persistency assumption change that we described, that change applies to the full year's business, and all of that number is what you see as Q4. So you cannot quite look at Q4 on a run rate basis ever for an insurance business since it will also contain catch up effect of assumption changes.

**Nitin Agarwal:** Right. The persistency assumption that we have changed from 80 to 82.5 and from 90 to 85, so over there, I believe we are still leaving something for an upward revision on the next year because I see that the protection business itself has a persistency much higher than the number we are budgeting in. So we can see these benefits coming in year on year. A lot of the EV growth has happened outside the core business because of these variances and because of the assumption changes on the economic front.

**Satyan Jambunathan:** Couple of comments I would have Nitin. One is that I also described our approach to setting assumptions and how comfortable we are making sure that it first establishes itself through a track record before we reflect it, which means that if we hold our last year's performance, then there is potential for revising it or reviewing it at the end of fiscal 2018. I am not so sure it is appropriate to say that assumption changes and variances are outside of the core because they are integrated to the core. Apart from just reporting a VNB we also ensure that the assumptions that are used in VNB and the EV are realized. So our objective along with growing VNB is also to make sure that the experience is as good if not better than the assumptions that have been used in reporting.

**Nischint:** I was looking at your segmental surplus and in the non-par segment; we are able to see some kind of a drop between FY16 and FY17. So I was just curious, how should I be reading that? This goes down from I think 454 crores to 232 crores.

**Satyan Jambunathan:** Yes, so there are two factors that play out in that segment Nitin. One is the non-par protection business which is growing, effectively means that it is incurring new business strain. So that results in a reduction in the profit. Second on the savings space on the non-par side, we have not been writing any incremental business which means that part of the business is not seeing a new business. So what you are seeing is the combined impact of both of these two coming through. If I were to go into the next year, clearly the protection business growing would also mean that the new business strain will continue and again in this year, we would not have written too much of non-participating savings business so that trend from that segment should not be very different from what you are currently seeing.

**Nischint:** Okay another question was on expense ratio, so if you could give some guidance as to where we are headed out there? There is a small or marginal rise but how should one be anyway looking at it?

**Satyan Jambunathan:** Again a very big part of what is happening on the expenses is a function of each of these segments and how they are doing. We have been articulating that our objective is to make sure that for the savings business, the cost to total weighted received premium continues to be in check but we are comfortable and happy to invest in growing the protection business and that's exactly what is reflected here. So for the fiscal '17 as well, for the savings business we have continued to maintain the efficiency but the growth in the protection business with a higher cost ratio means that the overall cost to TWRP has gone up. If I were to look forward at a similar level of development of the business, we think this should still be fairly stable at about 15% levels in the short-term.

**Nishant:** A couple of questions, in protection what would be the mix of protection business to total premium for the industry leaders and can you give some guidance as to how long it will take and second, within the protection business can you give us some segmental color as to what part of the business is say direct, what part is linked to mortgage, what part is linked to say any other credit which the banks may push? So some bit of idea over there would be awesome.

**Satyan Jambunathan:** Nishant if you can go to the slide 10, it sets out the various segments of where the protection business is coming from. It sets out the mortgage, the group protection and the retail term separately. The online business primarily comes in the retail term. For us, online is still a much smaller portion and the other channels are larger contributors. If you go to the annexures, to slide 36, that also tells you what is the mix of protection in each channel's business. With respect to market leaders, it is very hard to determine who the market leader in protection is because no company other than us has been giving out protection numbers standalone. So maybe collectively we can encourage others to disclose more. But from what we understand from the retail business, we will compare quite favorably with anybody else in the market.

**Nidhesh Jain:** Sir, the persistency assumptions change that you have mentioned, it is across the cohorts or just $13^{th}$ month persistency assumption has been revised?

**Satyan Jambunathan:** For the $13^{th}$ month there is significant revisions, subsequent also there is a small revision consequent to the 13th month improving. But the significant one is in the 13th month.

**Nidhesh Jain:** And sir, secondly on the assumption of mass lapsation that we have made after five years applicable to our ULIP policies, is there any change in assumption on that aspect?

**Satyan Jambunathan:** No, there isn't.

**Nidhesh Jain:** Thirdly if I look at the variance on account of persistency last year, it was around 200 crores, and this year also we have had around 200 crores of variance assumptions change. While the persistency has improved substantially versus last year, so I was expecting that the variance in absolute amount should be slightly higher.

**Satyan Jambunathan:** You are correct Nidhesh, by that extension, that's what should have happened, but what you see as persistency variance is a combination of what comes through various lines of business. We also described that for the protection business we have been seeing slightly lower than expected persistency, which we have reflected in the assumption change. So that is what is causing the expected trajectory not coming through, at an aggregate level.

**Nidhesh Jain:** Okay, so it is on account of protection business, that is why the expected trajectory has not been there.

**Satyan Jambunathan:** Yes. And you also have a situation, for example, in the traditional business, where improved persistency could actually mean a little less of profits because it may depend on some kind of a persistency related surplus. But that's not a problem in our minds because it is more important to make sure that the persistency is good enough for the customer to realize value on his investments.

**Nidhesh Jain:** And sir, can you also share the breakup of this 8% to 10.1%, how much is because of persistency change assumptions?

**Sandeep Batra:** The combination of protection and persistency

**Satyan Jambunathan:** Nidhesh, since we have not put out segment specific margins, we really haven't put out a breakup of the change in margin as well.

**Nidhesh Jain:** And sir, lastly, sir, can you give the breakup of economic assumption change and investment variance separately if possible?

**Satyan Jambunathan:** We have not put it out separately, but I don't think that should matter. Economic assumption change will be a yield curve drop, we already have set out sensitivities to that, and the investment variance comes from the market performance. At the end of the day, both of these are coming from market readings directly and are not really assumptions.

**Nidhesh Jain:** Yeah. Just two questions, one is on sensitivity to persistency. I have noticed that sensitivity to persistency versus last year has slightly reduced from 12.6% to around 10% on the Value of New Business side.

**Satyan Jambunathan:** Right. So, overall Nidhesh what you will see is that the sensitivities on Value of New Business have become slightly muted. One of the big reasons for that is that the Value of New Business itself has gone up in aggregate. So what you see here is a mix of underlying elements from a product mix perspective and the absolute level of VNB which causes the sensitivity. So we don't think this change in sensitivity is very significant. It only reflects the change in the underlying product composition that is there in the portfolio.

**Vishal Goel:** So, there's couple of questions. Sir, one on the ANW, there is increase of around 12 billion and when I look at the profit numbers, which is roughly 17 billion, and if you adjust the dividend, is there some reconciliation there?

**Satyan Jambunathan:** It will also contain a change in the market value of investments Vishal. So the adjusted net worth will be, opening adjusted net worth plus profit for the period, less dividend and DDT, plus minus any change in the market value of the investments, that's what shows up.

**Vishal Goel:** Shareholders investments, correct?

**Satyan Jambunathan:** As well as non-participating; any non-participating portfolio where it is all attributed to shareholders interest will also open this.

**Vishal Goel:** Okay. And dividend for the year, I think, there are like two numbers, correct? One is what you proposed and one is what you have adjusted from your EV calculation. So what is the math, like?

**Satyan Jambunathan:** Before the change in the Accounting Standard on dividends, which became effective from April 1, 2016 where dividend is now accounted in the period in which it is paid. So what you see is dividend outflow in the EV only reflects the Q1 and Q2 dividends that we have paid out, the proposed dividend, final dividend will reflect as an outflow after the AGM, which will be Q2 of next year.

**Vishal Goel:** Okay, fine. So a part of the dividend will reflect in the next year EV. Then, last question is on the persistency. So we had Rs.2 billion of positive variance last year on persistency. This year if you look at opening assumption change and the variance, again the number is roughly 2 billion. So we have used some positive experience into the VNB, but then what it says is that there is no real improvement which has happened in FY17 over FY16. Is that right or i am missing something?

**Satyan Jambunathan:** No, you are not missing anything Vishal. Just like I described a few minutes back, that improvement in the persistency on the unit linked business is also offset by the slight worsening in the protection persistency, and like I described, for some of the non-linked savings business better persistency could mean slightly lower profits. That's what is reflected there.

**Dhaval Gada:** Hi, just two, three questions. Firstly, if you could comment a little bit about the distribution and how the direct channel is sort of gaining share. So how much is the online versus direct sales or tele calling or other means of direct channel and where do you see the share of direct channel stabilizing in the overall distribution mix.

**Satyan Jambunathan:** Dhaval that has not really changed. Within direct, it is still predominantly sales by our own sales force to our existing customers. Online has grown, but it still is a fairly small contributor within the direct segment as well. Going forward, if you look at the direct business, you are right, the online will contribute to a bigger share as we go ahead. The second also is that the existing customers and the amount of New Business, which comes from existing customers for us is still quite small. Roughly 20% of our New Business comes from existing customers. So, at least that suggests to us that there continues to be an opportunity to leverage on existing customers going forward. So that's what we intend to continue doing into the New Year as well.

**Dhaval Gada:** Right. Do you think there is a possibility of mix of direct channel increasing to 15% to 20% of overall business?

**Satyan Jambunathan:** We don't quite look at it that way Dhaval, because that also then reflects a comment on how my other channels are going to do. We would like to think of every channel as having a fairly robust opportunity to grow and each one is a fairly different approach to our customers. So, for it to grow to a 15%-16%, we are really saying some other channels needs to do not as well, that's not the way to look at it. More important for us is to keep all channels growing.

**Dhaval Gada:** Right. Also while the full year numbers are not here, but on the agency front, what are the big changes that you have done not just in this year, but in the last few years, and how do you see the growth momentum sustaining in this channel, which has broadly been around 30% and what kind of growth rate is sustainable and is the model evolved for a steady state, mid-teens to high double digit kind of growth rate.

**Satyan Jambunathan:** Dhaval, there are only two levers to growth opportunity. One is what the opportunity out there is and whether we do believe that that opportunity of savings and protection is strong or not. The second is the channel efficient enough and positioned well to be able to leverage that opportunity. We think that the opportunity for both savings and protection growth over the next few years continues to be quite meaningful and given what we have been able to get from our agency force in terms of efficiency, which is reflecting in the growth of agency over the last few years, we see no reason why agency as a channel cannot continue to capitalize on the growth opportunity.

**Dhaval Gada:** Right. How is the acquisition versus maintenance OPEX changed this year versus what we have disclosed in the offer document; and if you could provide the free surplus and required capital.

**Satyan Jambunathan:** At this stage we are not providing the breakup between free surplus and required capital and also the acquisition and maintenance. I don't have those numbers readily available.

**Dhaval Gada:** But broadly how would that numbers be.

**Satyan Jambunathan:** I don't think it has changed too much over last year.

**Saurabh Dhole:** Main point is on the protection business. Firstly over say next four, five years, what proportion of your entire business will this particular segment contribute? Like currently it is about 4% of your entire product mix. And secondly, now that you stressed so hard on growing this particular line of business, I just wanted to understand what kind of changes does this particular step make to your cost structures and what kind of changes do you have to make to your distribution partnerships?

**Satyan Jambunathan:** Saurabh, it is very hard to actually call what proportion this protection business will settle down to. We see the opportunity to grow the protection business as being much higher than the savings business potential and we think that for a few more years the protection business can continue to grow much faster than the savings business. The mix eventually is an outcome, you can have a year of very strong savings growth and find that the protection mix has gone down, that wouldn't bother us because as long as each is growing to its potential, that is actually a good place to be in. The second question that you asked with respect to expense implications of protection on expenses, clearly because protection is a smaller ticket size and because there are more processes involved in fulfilling protection business, such as medical underwriting, initial expenses tend to be higher, but as it goes past the initial year, then the cost starts to normalize like any other part of the business. So, for the period where the protection business is growing significantly is where we have seen the cost ratios go up a little bit. But we are not very concerned about it because this segment has much higher profitability and if indeed the objective is to grow the Value of New Business, which perhaps has grown by over 60% in the last year, it is a worthwhile expenditure in the pursuit of that Value of New Business, which already reflects the full cost that was incurred to procure the protection business. With respect to the question on channels from a protection perspective, you are right; there are certain distributors or certain channels that would be more amenable to protection. For example, web aggregators tend to have a much stronger presence in the protection business. Also we have a number of lending institutions, non-bank finance companies and home finance companies, with whom we work with to attach the mortgage-related products to the loan disbursement that they have. So part of our strategy to grow the protection business also, is to develop the partnership that we already have, as well as to seek new partnerships where we see a greater protection opportunity coming through.

**Thomas Wang:** I just got two questions. One is on the Value of New Business. What would be the impact of the changing economic assumptions and then secondly just on the demonetisation premium growth benefit after that, how do you think about the growth in rest of 2017?

**Satyan Jambunathan:** Okay, so let me take the demonetization affect first. We have seen the strongest portion of our growth during the year from the November onwards period. We believe structurally demonetization is pushing the economy more towards financial savings and given that a large part of our new business is savings products, we think it has also been positively impacted by the demonetization move. If indeed the intended consequences of demonetization play out, even in the medium to long term, we would expect financial savings to settle at a higher level. And given that the products that we sell and the distribution reach that we have is quite strong, we see no reason why we should not be well-positioned to capitalize on that opportunity. The first question of yours, did you want to understand the VNB without the economic assumption change or without all assumption change?

**Thomas Wang:** The economic assumption change.

**Satyan Jambunathan:** Okay. The economic assumption change impact actually was quite small. If I look at the yield curve from the start of the year to the end of the year, and if I take the 10-year point as illustrative, it is roughly a 30-35 basis points change. So it would have contributed a little bit to the change in the VNB, but not a whole lot. The larger portion of the VNB change would have come from the protection mix going up from 2.7% to 3.9% of the new business, and from the persistency assumption. Some amount would have also got contributed by the expense ratios on the savings business, given that the growth and therefore the expense ratios have actually been positive on that.

**Sandeep Batra:** Thank you all for being on the call. If you have any followup questions, please feel free to write to us. Thank you for your interest.