ICICI Prudential Life Insurance Company Limited
Results Conference Call – Year ended March 31, 2015 (FY2015)
28th April, 2015

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Moderator: Ladies and gentlemen good day and welcome to the ICICI Prudential Life Insurance Company FY 2015 Results Conference Call. We have with us today Mr. Sandeep Batra – Executive Director and Mr. Binay Agarwala – CFO of ICICI Prudential Life Insurance Company. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Batra. Thank you and over to you sir.

Sandeep Batra: Thank you. Good afternoon and thank you colleagues for being on this call. I will go through our presentation which will take about 15 to 20 minutes post which my colleague Binay and I will answer any questions that you might have.

We can straight jump to Slide #4 which talks about the India life insurance growth story. In the chart we are presenting data for FY2002, FY2008 and then FY2014. Since 2008 was the year when there was a financial crisis, you will see difference in performance of the industry prior to and post 2008. A few points that I want to highlight over here are:

- The life insurance industry on retail weighted new business premium basis grew at a very rapid pace of around 28 percent between 2002 to 2008 and then had a negative growth. But if I see over a much longer period it has been growing at the rate of over 10% which is essentially the rate at which the financial savings have grown during the same period.

- The second point is on two items, which are essentially on what we do 1.) We manage funds and 2.) We cover risks. Both assets under management and sum assured have grown at a rate significantly higher than the growth rate of retail weighted new business premium indicating 1.) Industry becoming more mature and 2.) Increase in protection penetration. But if you look at the numbers both in terms of sum assured as a percentage of GDP or the premium as a percentage to GDP, they are still well below the world averages.

Slide #5 basically talks about favorable demographics. Moving over to Slide #6 which talks about household savings. The point that I want to make is that the financial savings till FY2010 varied in the band of 10 to 12% of the GDP, however it fell to about 7.2% in FY2014. We believe that the financial savings are now on a cusp of growth primarily being driven by lot more confidence in the economy. We also believe that the property and the gold growth story is going to be muted and financial savings are going to play a significantly important role. As you have seen in the previous slides that our growth, to a large extent, is driven by growth in financial savings. We believe that we are well poised to benefit from any increase in the financial savings.

Moving to Slide #7 which talks about share of insurance funds in gross financial savings, we see that share of insurance funds touched almost 26% in 2010 and since then it has come down to 17% in 2014. As confidence again comes back into the economy, we believe that the financial savings will continue to increase offering an opportunity for insurance to expand at a macro level.

I move to Slide #8 now which talks about our estimates for the insurance markets. As stated earlier we do believe that the growth in insurance penetrations will move largely in line with growth in the nominal GDP hence we have projected a 15% CAGR for insurance as a whole which gives us huge opportunity to 1. Increase our topline and 2. To drive sum assured / protection business which is going to increasingly become part of our focus given the low sum assured to GDP ratio in India.

I am moving to Slide #9 now. The life insurance industry over the last five years has not grown. In fact even in 2015 it has had a negative growth of about 10.3%. This is despite the fact that the markets have been doing well. But within that space you will find that there is a distinct pattern coming out with the private life insurance sector for the first time in the five years growing by 15.9%. Within the private sector if you diagnose a little further you see that the insurance companies that have grown are the ones which have focused on 1. The linked products. 2. Those who have got a strong bancassurance tie up and 3. Those who have focused on products and processes.

Moving to the key strategic initiatives which is on Slide #13. This slide reiterates what we have been doing over the years. We will continue to focus on enhancing our market leadership and our primary focus has been on offering a superior value proposition to our customers. We believe that the product proposition that we have is arguably one of the best and one of the most transparent amongst all the life insurance companies and that is the reason why we have been growing. We will continue to strengthen our multichannel distribution architecture which consists of agency, corporate agents, bancassurance and direct distribution channel which is essentially a proprietary sales force. Along with improving cost efficiency and persistency we will continue to evolve our robust 1. Control framework and 2. Risk management practices. Two additional points that I would like to make

- To achieve our strategic objective of market leadership we internally manage micro markets. We have almost more than 30 micro markets and we track market share in each of these markets and try to enhance our position over there

- The second part of our core strategy going forward is going to be a focus on protection. We intend to grow the protection business at a rate which is going to be two to three times of the overall new business growth.

I will move to Slide #14 which is essentially on the results for FY15. The important point that I want to make over here is that we have been giving a consistent ROE of over 30%. In FY15 our ROE stands at 33.9% and we also have a very healthy solvency ratio of 337% against the regulatory requirement of 150%. This is despite the fact that over the last four years we have been declaring consistent dividends. In fact during the last four years we have declared a cumulative dividend of about Rs. 2,800 crore. Despite that we still have a solvency ratio of 337% which also implies that we can more than double our assets under management from the present number of about Rs. one lakh crore without requiring any further infusion of capital.

Slide #15 is essentially the breakup of the premiums between retail new business, retail renewal and group premiums

I request you to move to Slide #16 which essentially talks about how our growth has been significantly different from that of the rest of the players. For FY15 we have grown at 41.3% with the market as a whole declining by 10.3% and the private sector growing at 15.9%. If you see from a long term perspective, since 2003 we have grown at a CAGR of about 29% whereas the industry has grown during the same period at about 11%. On a more near term basis for the last three years we have grown at about 18% whereas the market has declined by 5% and the private sector has grown marginally at about 4.5% odd. So we do believe while the industry is expected to grow over the next three to four years at 13 to 15%, we expect to continue to outperform the growth in the industry as we have been doing in the past.

I request you to move to Slide #17 which is essentially on market share. Our market share on an overall basis within the industry moved from 7.2% to 11.3% and within the private sector from 18.9% to 23.0%. So we would be about 1.5 times the size of our nearest competitor in FY15 which is a significant lead. I will skip over Slide #18 and 19 which is about our consistent leadership and product mix and request you to focus on the distribution mix. Slide #20. While we have grown as a company at 41% it is important to know that our each and every channel has grown. The bancassurance channel grew at about 50% odd and the non-bancassurance channels combined grew at about 27% with the agency itself growing at about 22%. From an agency perspective, our agency has adapted to the new products and digitization in a big way, which has helped us to manage our costs.

This brings me to the next slide, Slide #21. Despite the 41% growth in topline, our expenses have remained almost flat at about Rs. 22.58 billion for FY15. If you see our cost to retail WRP ratio the number has dropped from 69.3% to 49.1%. It is a significant drop of 20 percentage points driven by combination of 1. Product mix because our unit linked products have a lot less commission 2. A fair amount of efficiencies that we have driven through digitization. We do believe that with the digitization that we have done, we need not add any significant amount of either manpower or branches because today an iPad or a tablet is virtually a branch where entire sales process, KYC and servicing can be completed. Moreover it also helps us ensure that mis-selling is curtailed because the communication which goes to the customers in terms of product features, their cost structures and benefits are much more transparently told to the customer through a tablet. We even do KYC through digital means by having a backend tie up with both Aadhaar as well as ICICI bank. So if you have an Aadhaar card or an ICICI Bank account you virtually do not need to give us any kind of KYC document at all. So this has helped us to significantly improve efficiencies, to reduce costs and has given us confidence that we have a strong ability to leverage this infrastructure as we continue to scale up.

I move to Slide #22. Along with the top line growth we must talk of quality as well. We have had a marginal reduction in surrenders. They have dropped from 1.1% to 0.9%. We will certainly like to improve this further. The 13 month persistency is close to 79%. This is the 11th month number the 12th month number will be available in May. The important thing that we are talking about is that we are targeting to have a persistency of over 80%. We do believe that within the industry this should be amongst the best persistency numbers and it is going to be a critical driver of our margins.

Slide 23 talks of our performance on customer service parameters. Whether it is claims settlement ratio or grievance ratio, our performance has been significantly better than that of the industry. Talking of claims, our claim ratio of 94.1% for FY2014 was the best amongst the private life insurance players. Our grievance ratio stood at 185 in FY15 compared to 253 for FY14 which is again amongst the best. This actually gives us confidence that the quality of sales that is happening is of a good quality.

Slide 24 talks of assets under management. I think you would have seen the advertisements around about a month back when we crossed the milestone of Rs 1 lakh crore. Debt and equity contribute around 50% each to our AUM. On fund performance which is on Slide #25, we have been consistently outperforming the benchmarks since inception. In fact 98% of all our funds have outperformed the benchmarks since inception.

Coming to the embedded value disclosure, these are the new disclosures that we have made for the first time in line with investors' expectations as well as a part of good governance practice. We would be moving from Traditional embedded value to Indian embedded value or IEV which is essentially very similar to market consistent embedded value. A few points that I want to make over here are:

- Our absolute new business profit on targeted acquisition cost was Rs. 643 crore on APE of Rs. 4,744 crore, implying margin of 13.6%
- The new business profit on actual acquisition cost or post overruns is Rs. 270 crores

I would like to say that we are focusing on improving the margin significantly through our three fold strategy. 1.) Continue to focus on cost 2.) Improvement in persistency 3.) Increase in protection business.

I will move to Slide #28 which is around the analysis of movement of Indian embedded value and ask Binay to take over.

Binay Agarwala: Our embedded value has moved from Rs. 117 billion to Rs. 137 billion over the period. One important thing to notice is EVOP or embedded value operating profits (shown encircled in the slide). The reason why that is important is because the investment variances can be volatile and over the medium term this variance is supposed to average out. So what really drives the operating performance of the company is the EVOP number and there are four components to it,

- The first component is unwind, which is essentially the discounting impact of the opening embedded value playing out
- The second component is the new business profit
- The third component is operating assumption changes. We have looked at our experience and seen that we could improve our assumptions leading to a positive Rs 1.6 billion impact on EV

- The fourth component is operating variance. Despite the assumption changes we have a positive variance of Rs 2.12 billion that means that the actual experience is better than the assumption which are built into the EV.
- The next bar, the 'economic assumption change' bar basically refers to the shift in yield curve from 31st March, 2014 to 31st March, 2015 whereas the investment variance captures the three impacts one is mark to market impact on bonds due to change in yield, second higher equity prices and third is higher expected fund management charges because of higher FUM. The last block is the dividend plus the associated tax which is dividend distribution tax and hence our net number of Rs 137 billion of EV.

Sandeep Batra: Now we would be happy to take any questions that you might have.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: I have a question on the actual and expected NBP changes. How does the expectation and actual converge based on your experience and what is the impact of persistency on this experience of expected versus actual NBP. So if you look at 36 month persistency or 5 year persistency how does it change the NBP assumptions?

Binay Agarwala: The way we set our assumptions is that we actually don't anticipate improvement in persistency. All our assumptions on persistency lag actual performance. So if you look at the Slide #28 which gives an analysis of movement you will see that there are no negative variances. So all our persistency assumptions in aggregate are actually lower than actual persistency numbers and hence we have a positive variance.

Amit Premchandani: Is this the experience of FY15 or this is the experience of FY13, FY12, FY14, because the start of the assumption is with respect to IEV of

FY14 so is the actual experience consistent in the previous years also?

Binay Agarwala: Basically what you will see in that chart is persistency assumption being computed after taking weighted average across all cohorts of policies. So once you average our business across all cohorts of policies you will see that there is no negative variance because of persistency.

Amit Premchandani: And on the unwinding variance that we have seen in EV this year, is it mainly to do with change in reference rate?

Binay Agarwala: If we talk of variance that is just a one year discounting impact, since IEV by nature is a discounted number and we view it one year forward so that unwind movement of about 10% is because of the discounting impact.

Amit Premchandani: So it is because of the change in discount rate that you have mentioned.

Binay Agarwala: No, it's not a change in discount rate rather it is the unwind of the discount because it was a present value and you are bringing it forward by a year thus you unwind that number.

Amit Premchandani: I am just looking at Slide #38 where the reference rate for 2014 and 2015 is quite divergent. So is there any impact of that on the unwinding?

Binay Agarwala: The impact of shift in yield curve will come in the economic assumption change and investment variance.

Moderator: Thank you very much. Our next question is from the line of Vishal Goyal from UBS Securities. Please go ahead.

Vishal Goyal: On this MCEV can you also share what would be your traditional EV?

Binay Agarwala: Vishal we would not be sharing that but just to answer your question little differently, the main difference between IEV and TEV really is the discounting rate between the two regimes. In the TEV world we would have discounted at about 14% which is the risk free rate plus risk premium, while in IEV we are discounting at the current yield curve which is risk free curve so in the TEV world the EV number would be slightly lower because of this discounting impact.

Vishal Goyal: But then unwinding should be higher, correct?

Binay Agarwala: Yes.

Vishal Goyal: Okay. And last question from my side, what do you think would be the impact of this third draft which is there on open architecture for corporate agents like bancassurance?

Binay Agarwala: We are assessing the situation at this point of time. It depends in what shape and form it comes out. If it comes out exactly in the same shape as it is today it would be short term disruptive but at the same time for a company like ours which has got the best product suite, it would also open up opportunities. To summarize, although it is short term disruptive but long term may be positive also.

Moderator: Thank you very much. Our next question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: Just two quick questions related to the bancassurance guideline. The draft keeps a cap of 50%. Is that what is being suggested? Please clarify.

Sandeep Batra: At the end of fourth year, yes.

Suresh Ganapathy: At the end of fourth year 50% and does it talk about moving toward 25 % or that has not been discussed at all?

Sandeep Batra: No, that is not there anywhere in the paper.

Suresh Ganapathy: Okay and has there any timeline being set by IRDA to take final call on the matter or how exactly does it proceed?

Sandeep Batra: Insurance companies have given their comments, I understand even the people from banking side have given their comments. So they will look at those and then take a final call on this matter.

Suresh Ganapathy: Sure and just one last question. Your new business margins at one point of time were closer to 20% and they have come down to 11% steadily year-after-year. There is also talk about regulation on expense capping in traditional line of business. Lot of companies are doing extra expense allocation and stuff. So is there a possibility that your new business margins can further come down from this level or do you think more or less 11% is the bottom. I am talking about on the traditional EV basis margins that you have reported.

Sandeep Batra: For a company like ours, I don't think capping of expense allocation in traditional line of business affects us adversely because our overall expenses are very tightly managed and we have one of the best expense ratios in any case. So if the regulation comes, I don't think that it is going to have an impact. To answer your question on margin, the drop in margin was a result of the change in regulations and tight caps on commission charges and surrender penalty which IRDA had put first on linked products and next on traditional products. We believe that the worst is over and as I did explain at the beginning of this call that we do expect the net margins to start moving up driven by the three-fold strategy of focusing more on protection, continuing to work on our expenses and improving our persistency even further.

Moderator: Thank you very much. Our next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Just one quick question on the EV growth. For FY15 if we just see the number vis-a-vis the FY14 number the EV has grown at 17%. What in your sense was the key reason for such a sharp growth that too post dividend? Was it the 41% growth for the company or the investment variance number which was quite good?

Binay Agarwala: In order to have a consistent perspective on understanding change in EV, looking at EVOP as a ratio of opening EV might be more relevant and that number is 15.4% for us. Because the investment variance can be fairly volatile over time based on market, the number to really track is EVOP as a percentage of opening EV.

Ashish Sharma: So investment variance is high because the market has been on such a good run and it will not always be there to give such a boost to the EV. Just wanted to check.

Binay Agarwala: Yes.

Ashish Sharma: And in your sense then on a consistent basis, is 14 to 15% growth in EV a realistic sort of a number?

Binay Agarwala: The way we look at it is that the current Return on embedded value (RoEV) which is EVOP by opening EV is about 15%. As we grow our new business profits to higher levels that Sandeep explained earlier, RoEV should be 15% or higher.

Ashish Sharma: Perfect. And secondly on the growth part what reflects or explains such a sharp growth of 41%? Is it has more to do with sentiments as the outlook for the capital market sort of had improved? Do you think this is sustainable given the high growth number you have?

Sandeep Batra: I think the factors which we believe drove our growth at 41% are: one is certainly as you mentioned about was change in the sentiment but I think sentiment change for everybody in the industry. We were better positioned with the products that we had. So we do believe that the unit-linked products that we had were lot more customer friendlier and helped us in our growth. The additional thing is I think what we have done is in our process and digitization initiatives which I eluded to earlier e.g. selling through tablets has made a big difference. Earlier a significant amount of sales used to not get finally fructified because of back and forth happening between the agent or the FSC at the bank and the customer. Now virtually a policy can be issued to a person in matter of hours on an email and if, as I did mention, he has either an Aadhaar card or an ICICI Bank account number we have got a back to back tie up so the person does not even need any further KYC document. Digitization initiatives have helped us drive our sales much more seamlessly. Whether a 41% growth on top of this is achievable might be difficult to say but we do expect to outperform the industry growth as we have done during the whole of the last decade.

Moderator: Thank you very much. Our next question is from the line of Suruchi Jain from Morning Star. Please go ahead.

Suruchi Jain: You already mentioned the difference between TEV and IEV is just in the discount rate. Is that correct?

Sandeep Batra: Yes the biggest difference is the discount rate, other than this, the returns across asset classes are assumed to be the risk free rate in IEV compared to risk free rate plus expected risk premium in case of TEV and in IEV use of actual expenses is required while in the TEV the expenses are at a targeted level.

Suruchi Jain: And just wanted to understand the drivers for your operating cost going forward and to what extent do you see it as a percentage of RWRP going forward? What is the lowest level the cost to RWRP number can fall?

Binay Agarwala: If you look at our expenses over the last couple of years, we have been hovering around Rs 23 billion in absolute terms. And Sandeep alluded earlier to our rationalization of expenses in terms of manpower and offices. For us most of the rationalization is done. From here onwards, the way we see it, cost might go up but it will go up at a slower pace than the top line growth and hence we should see the cost as percentage of RWRP number inching downwards but the sharp movement from 69% to 49% is unlikely to repeat itself. But we do see this number to slowly inch downward as we show growth.

Suruchi Jain: So is there a minimum ratio number that one could expect?

Sandeep Batra: Difficult to quantify that.

Moderator: Thank you very much. Our next question is from the line of Manish Shukla from Deutsche Bank. Please go ahead.

Manish Shukla: Despite a 40% odd growth in your new business premium the commissions are actually down 11% odd Y-o-Y. Could you please explain what is driving that?

Sandeep Batra: For the new products the commissions payable are lower than what they were for the old products. Moreover when IRDA had tightened the regulations to ensure more value is given to the customers, we did a couple of things 1.) We cut down our costs 2.) We also made our distribution more efficient by reducing the commission payouts

Manish Shukla: I am just comparing FY15 to FY'14. Because IRDA guidelines were in-force in FY14 as well right and bulk of the growth is for ULIPs in FY2015.

Binay Agarwala: To answer your question, the commission rate which was about 14.5% last year is down to about 7.7% because of two main reasons. One is that the unit linked mix has gone up from 66% to 84% and unit linked commissions are lower than traditional commission. Two, the cap on traditional commissions came into effect only on 1st October last year, while for the complete full year of FY15 the cap on commission on traditional policy in form of commission being linked to premium payment term was applicable. A combination of these two has reduced our new business commission rates from 14.5% to 7.7% and that is why we see the reduction in commission expenses.

Manish Shukla: Sure. The second question is on new business margin. Just wanted to get a broad sense on how does the new business margin compare between ULIP and traditional for you? So if overall it is at 13.5%, how would the ULIP and traditional margins look like?

Binay Agarwala: Basically the way we look at it is in form of two components. One is savings and second is protection. Across the savings category, the number is not very different. For protection, the margins are significantly higher.

Manish Shukla: And lastly the post overrun margin is less than 6%. For that to get to double digits you did mention the objectives and target that you have in mind but do you have any timeframe for the post overrun margins to go from sub-6% right now to double digits?

Binay Agarwala: We are targeting a two to three year time frame for achieving that.

Manish Shukla: Okay. And the P&L profit is growing at about 3 to 4% for last two years. Will that be similar in the near term?

Binay Agarwala: It is going to be in single digits primarily because of our high new business volume will lead to some amount of new business strain and secondly from FY16 we will have to start paying some amount of income tax because we have wiped out our accumulated losses. So given these two factors it is expected to be a single digit number.

Moderator: Thank you. Our next question is from the line of Nilesh Parekh from Edelweiss Securities. Please go ahead.

Nilesh Parekh: First question is pertaining to the product profile. We have seen about 85% being contributed by ULIP, can you just give a sense of what is the target over the next 12 to 18 months in terms of the product profile?

Sandeep Batra: We really don't target a product profile, rather our strategy is we let our customer choose from our product portfolio. But what we are going to focus on is having a lot more pure protection into our portfolio and we expect the protection business to grow at a rate which is going to be higher than the growth of our new business.

Nilesh Parekh: So when you talk about pure protection out of the 15% which is traditional what would be the pure protection number in last year?

Sandeep Batra: Currently it is about 1-1.5%, so we want to grow that significantly.

Nilesh Parekh: Yes, but ULIP will continue to be the main stay. So basically what you are saying is that it is where the demand is.

Sandeep Batra: Let the customer decide. Right now they seem to like it.

Nilesh Parekh: Right and in terms of the mix in terms of debt and equity?

Sandeep Batra: Roughly half comes in debt and half comes in equity and of course a lot of customers choose to start with debt and systematically move to equity as well. From a consumer proposition this is a great proposition. Unit linked, as you are aware, from personal investment point of view is a great product where you can choose the asset allocation and keep on changing it as your view about the market changes. So lot of customers start with debt and move systematically into equity over a year and then the next premium starts.

Nilesh Parekh: The other thing Binay mentioned that although it's important to look at the EVOP but there is always a big component of investments variance and this year is obviously has been good both for bonds and equity and investment variance is almost about 15 to 17% of the EV currently. So is this susceptibility of EV on investment variance has more to do with ULIP proportion or some other player with high traditional mix will also be susceptible?

Sandeep Batra: Actually both high traditional mix companies and high ULIP mix companies would be susceptible. In fact we are little less susceptible because most of our income is fee income.

Nilesh Parekh: Okay. And we just talked about the operating assumption changes. Qualitatively speaking, what are the changes being made?

Sandeep Batra: So the main two changes are 1. To keep persistency in line with experience. As I said we don't anticipate improvement. As improvement happens we reflect that and 2. Renewal expenses again gets adjusted for actual performance during the year.

Nilesh Parekh: So the operating assumption changes with any change in persistency assumption and I understand the experience has been better.

Binay Agarwala: Persistency assumptions have been changed as well as some changes in renewable expenses. Both are on positive side.

Moderator: Thank you. Next question is from the line of Tabassum Inamdar from Goldman Sachs. Please go ahead.

Tabassum Inamdar: Thanks, most of my questions have been answered, need just data points. Can you share details of what is the agency force and number of employees now and how that is expected to change?

Sandeep Batra: In terms of the number of employees we are about 11,000 employees. Number of employees will change only to accommodate more frontline employees but we don't expect this number to change significantly. In terms of number of agents we have a headline number of about 132,000. But that number, as you are aware, is not really relevant because it depends on the termination policies of different companies. IRDA in fact has issued new guidelines which allows agent licenses to be perpetual. Earlier there was a three year cycle in which agents' license were renewed.

Tabassum Inamdar: Just one more thing, your banca sales seems to be fairly high now at 60%. With this if bancassurance guidelines are implemented then wouldn't that impact the growth at least for FY16 and where is that number you want to settle, whether 60% seems fairly high in terms of proposition of bancassurance sales.

Binay Agarwala: Tabassum we really don't target a particular kind of number. We continue to invest in all the four channels that we have. This year we have also tied up with Standard Chartered as a bancassurance partner and we are one of the few companies which has seen growth in its own agency. So we will continue to invest in agency as well as in quality corporate agents. We also have our proprietary sales force. As a company we really don't target a bancassurance number at all but this is more in consequence or an outcome.

Sandeep Batra: And if you compare our banca proportion to that of some of our peers, our bancassurance percentage is actually not highest. In fact some of our peers have a much higher bancassurance proportion.

Moderator: Thank you very much. Our next question is from the line of Prakhar Sharma from CLSA. Please go ahead.

Prakhar Sharma: Just a couple of things. I wanted to get some clarity. In terms of your investment variance given that you have now switched to MCEV approach, would it be safe to assume that on a portfolio basis you are more or less building 8% sort of return on investments based on current yields? Basically, this year investment variance has been quite high, so I just want to understand what the reference growth is or increase in AUMs that is built into the EV assumptions. Is that closer to 8-8.5%, given the current bond yields?

Binay Agarwala: In IEV it will grow at the reference rate which is a proxy for risk-free rate which is right now at 8%.

Prakhar Sharma: Okay, secondly could you just give us the total numbers on this first year premium, renewal premium and single premium. You have given bits of it through retail and group but if you can just give the total number of rupee crore value of first year premium, renewal premium, and single premium.

Binay Agarwala: The total premium is about 15,300 crores as I said. About Rs. 9,900 is renewal premium and the rest is initial premium and group.

Prakhar Sharma: Secondly just quickly on expense overrun. You did mention you are targeting to recoup that cost overrun aspect in two to three years' time. Does that imply that in three years' time you would like the leakage to become zero so that whatever is your reported NBAP will more or less flow into your EV flow also?

Binay Agarwala: As I did mention we would like to take post overrun margin to double digit number and we will continue to focus on that and whatever is flowing is the net new business profit number into EV.

Prakhar Sharma: Done, just wanted to reconfirm that. Second, on the sensitivity just want to get some clarity. If I look at this Page #29 table, when you say discontinuance rate coming down by say 10%. So are we referring here to say that if the surrender ratio reduces by 10% there is an 18% upside to NBAP number? Is that how I should look at?

Sandeep Batra: Combination of both persistency and surrender for example if first year persistency instead of 80% becomes 72% or 88%. It is not surrender, it is combination of both.

Prakhar Sharma: Yes, fair point. Second looking at the expense ratio sensitivity, when you say management expense are you including commissions and every other cost?

Sandeep Batra: Only the renewal expenses because initial expenses don't come in the picture at all, they are netted off at the inception itself so this is only sensitivity of renewable expenses.

Prakhar Sharma: Okay. And why is the sensitivity to mortality assumption so high at least at the level of NBAP. Given that you have such a large ULIP book, mortality sensitivity is quite high. Can you just discuss that?

Sandeep Batra: Sensitivity to mortality is high because of two factors: 1.) Because of term products or pure protection which have higher margins as compared to saving products. 2.) Because of minimum sum assured cover of 10x of premium that we offer.

Prakhar Sharma: Okay. And my last question is basically on the same table. Most of the parameters have a linear relationship. Basically one aspect will have same positive or negative implication on NBAP and IEV. Just one thing which is the reference rate has an inverse correlation. Fall in rates will have a decline or negative impact on NBAP versus a positive impact on IEV. Is that because the AUMs get restated to a lower discounting rate?

Sandeep Batra: It is because of the mark-to-market impact on the whole book.

Moderator: Thank you very much. Our next question is from the line of Bhushan Fhuse from Soham Capital. Please go ahead.

Bhushan Fhuse: I have two questions basically one is on the surrender value, your surrender value is 0.9%. Can you throw light on what this number stands out for other leading private players?

Binay Agarwala: We won't like to comment on competition.

Bhushan Fhuse: Second is on the IEV. It stands at Rs. 13,712 crores. What kind of numbers do you expect going forward and the growth in the IEV going forward?

Sandeep Batra: As I said the RoEV is around 15%. Then it will depend on the dividend payout as well the investment variance but RoEV which is the EVOP to opening EV ratio should be in excess of 15%. The final number will depend on the investment variance during the year.

Bhushan Fhuse: Okay, in that sense this question is basically on the plans for the primary markets are we expecting any numbers specific number as compared to the multiple on IEV there you are looking at a stake sale or primary markets?

Binay Agarwala: As an operating company we wouldn't like to comment what the shareholders have in mind. So anything which relates to the shareholders you may put the questions directly to the shareholders which are ICICI Bank and Prudential Plc.

Moderator: Thank you very much. Our next question is from the line of Sanket Godha from JM Financial. Please go ahead.

Sanket Godha: Just wanted to understand which channel contributes the most to cost overrun?

Binay Agarwala: We don't disclose channel wise profitability or cost overrun.

Sanket Godha: Okay. And one small question with respect to the sensitivity. When we say the 10% increase in discontinuous rates sensitivity is 16% we are referring to 2.70 or 6.43?

Sandeep Batra: 2.70

Sanket Godha: And just from future point of view what are the sustainable new business margins we are looking? What kind of margins we are targeting going ahead and if we want to improve the margins what would be our strategy to achieve it?

Binay Agarwala: We have three pronged strategy to move the net margins upwards 1. More protection into the portfolio 2. Improvement in persistency and 3. Improvement in the cost ratios.

Sanket Godha: Okay. And just from the growth point of view we have grown at 41% in this year, so what is the sustainable growth going ahead given the fact that ULIPs have contributed significantly in this year. So going ahead what kind of targets or numbers you are looking at?

Sandeep Batra: As I did mention we expect the insurance industry to grow in line with the financial savings growth or may be little more than that and we believe that we have always grown at greater pace than the growth rate of the industry and we would like to continue to do that.

Moderator: Thank you. And next question is from the line of Manish Shukla from Deutsche Bank. Please go ahead.

Manish Shukla: Just one question. The five year lock in ULIPs whose sales were started in 2010, their lock in should start expiring sometime this year and given the buoyant equity markets what's your estimate in terms of surrenders? Do you expect them to again start going up sometime this year?

Sandeep Batra: Manish our assumptions are based on what we have seen historically when three years got over for different cohorts of business. So they are benchmarked on that and based on that the predictions have been done for the new book as well. We will obviously have to wait and watch and see how the new book actually behaves.

Moderator: As there are no further questions I hand over the conference to Mr. Sandeep Batra for closing comments. Over to you sir.

Sandeep Batra: Thank you so much. The session was really interactive. We are doing it for the first time and I really appreciate all of you for participating in this call. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of ICICI Prudential Life Insurance Company that concludes this conference call. Thank you for joining us and you may now disconnect your lines.