"Life Insurance Corporation of India

Q1 FY'25 Earnings Conference Call"

August 09, 2024

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Moderator: Ladies and gentlemen, good day and welcome to the LIC's Q1 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and 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 star then zero on your touch-tone phone Please note that this conference is being recorded.

I now hand the conference over to Mr. Siddhartha Mohanty, CEO and MD, LIC. Thank you and over to you, sir.

Siddhartha Mohanty: Good morning, everyone. I am Siddhartha Mohanty, Chief Executive Officer & Managing Director (CEO & MD), LIC.

On behalf of the senior management team, I warmly welcome you all to the results and performance update call of Life Insurance Corporation of India for first quarter ended June 30th, 2024. The results and a presentation can be accessed on our website and on websites of both the stock exchanges, BSE and NSE.

Along with me on this call, I have Managing Directors, Mr R Doraiswamy and Mr. Sat Pal Bhanoo. Senior officials of the Corporation present on this call are Mr. Dinesh Pant, Appointed Actuary & Executive Director and Mr K. R. Ashok, Executive Director from the Actuarial team, Mr. R. Sudhakar, Executive Director (Marketing & CMO) and Mr Hemant Buch, Executive Director (MBAC) from our Marketing team, Mr. Ratnakar Patnaik, Executive Director (Investment - Front office & CIO) and Mr K. Seshagiridhar, Executive Director (Investment – Back Office) from the Investment team, Mrs. Manju Bagga, Executive Director (Pension & Group Schemes), Mrs. Rachna Khare, Executive Director (CRM/Policy Servicing), Shri C. V. Ramana, Addl. Executive Director (CRM/Policy Servicing), Mr. Sanjay Bajaj, Head (Investor Relations) and Mr. Shatmanyu Shrivastava, Chief (Finance & Accounts).

I would like to thank all of you for sparing your valuable time to join this call today and listen to the LIC team.

Let me now mention the key business, operational and financial highlights for the quarter ended June 30th, 2024.

Premium Income

For the quarter ended June 30th, 2024 we have reported a Total Premium Income of INR 1,13,770 crore as compared to total premium income of INR 98,363 crore for the quarter ending June 30th, 2023 registering a growth of 15.66% on Year on Year basis.

The Individual New Business Premium Income for quarter ended June 30th 2024 is INR 11,892 crore and for the corresponding quarter of last year, it was INR 10,462 crore. It can be seen that we have grown by 13.67% in Individual New Business Premium Income on Year on Year basis. Renewal Premium Income (Individual business) for quarter ended June 30th 2024 is INR

55,300 crore as compared to INR 52,311 crore for quarter ended June 30th, 2023. Therefore, for the quarter ended June 30th, 2024, our Total Individual Premium Income including renewals is INR 67,192 crore as compared to INR 62,773 crore for quarter ended June 30th, 2023.

The Group Business total premium income for quarter ended June 30th, 2024 is INR 46,578 crore comprising of New Business premium of INR 45,570 crore. In comparison for quarter ended June 30th, 2023 last year, the Group Business total premium income was INR 35,590 crore and comprised of New Business premium of INR 34,398 crore. Therefore, for quarter ended June 30th, 2024, the Total Group Premium has increased by 30.87% as compared to similar period of previous year.

Our market share by First Year Premium Income is 64.02% (as per IRDAI) for the quarter ended June 30th, 2024 as compared to 61.42% for the similar period ended June 30th, 2024*.

If we were to split this total market share of 64.02% into segment wise share of individual and group business, we would have a market share of 39.27% in Individual business and 76.59% in the group business for the quarter ended June 30th, 2024. On a comparable basis for the quarter ended June 30th, 2023, the respective market shares for Individual and Group business were 40.84% and 72.50%. At this stage, I would like to mention that for full year ended March 31st, 2024 our overall market share was 58.87%. Therefore, you can appreciate that we are making rapid strides in regaining market share now.

<u>Seen on APE basis the break up of business is as follows:</u>

Total Annualized Premium Equivalent (APE) for quarter ended June 30th 2024 is INR 11,560 crore which is comprised of Individual APE of INR 6,747 Crore and Group APE of INR 4,813 Crore. Therefore, on APE basis, the individual business accounts for 58.37% and Group business accounts for 41.63%. Further of the Individual APE, the Par business accounts for INR 5,132 Crore and Non Par amounts to INR 1,615 Crore. **As you can see our Non par share of individual APE is 23.94% and Par is 76.06% for quarter ended June 30th 2024. You will remember that our Non Par share for quarter ended June 30th 2023 on APE basis within the overall individual business was 10.22%. Thus, our individual Non Par APE share has increased from INR 608 crore to INR 1,615 crore and from 10.22% to 23.94% as a result of our intense focus on Non Par business. There is a growth of 165.63% in individual Non Par APE on Year on Year basis implying that the momentum we built on Non Par products is continuing.**

<u>Profit After Tax</u>

The Profit after Tax (PAT) for the quarter ended June 30th 2024 was INR 10,461 crore as compared to INR 9,544 crore for the quarter ended June 30th 2023, an increase of 9.61%.

* *Erratum: to be read as "2023"*

VNB and VNB Margins

Net VNB is INR 1,610 crore for the quarter ended June 30th 2024 as compared to INR 1,302 crore for the quarter ended June 30th 2023. It can be seen that the VNB has registered an increase of 23.66% on Year on Year basis. Further, the net VNB margin for the quarter ended June 30th 2024 is 13.9% as compared to 13.7% for the quarter ended June 30th 2023 showing improvement by 20 basis points on a Year on Year basis.

Solvency Ratio

The Solvency Ratio as on June 30th, 2024 improved to 1.99 as against 1.89 on June 30th, 2023.

Assets Under Management (AUM)

Assets Under Management (AUM) as on June 30th 2024 was INR 53,58,780.97crore as compared to INR 46,11,066.52 crore as on June 30th 2023. **Therefore, our AUM has shown a growth of 16.22% on Year on Year basis.**

Product Mix

We continue to focus on our strategy of increasing the proportion of the Non Par business. We have modified two products, namely, LIC's Jeevan Akshay-VII and LIC's New Jeevan Shanti and reintroduced during April-June 2024 quarter. While we are discussing the Q1 activities here, I am sure all of you have seen the recent product launch announcements from LIC during this week itself. We shall explain more about these launches during our subsequent results calls.

No. of Policies Sold

During the quarter ended June 30th 2024, we sold 35,65,519 new policies as compared to 32,16,301 new policies in quarter ended June 30th 2023 registering a growth of 10.86% over the corresponding period of last year.

Agency Workforce

As on June 30th 2024, the total number of agents was 14,24,847 as compared to 13,43,540 as on June 30th 2023. The market share by number of agents as on June 30th 2024 stands at 48.64% as against 50.94% for June 30th 2023. As already informed to you earlier in FY24 Analyst Call held on May 28th, 2024, we have started working on a project to transform our agency business to make it future ready and to be the best in class always. The project is called "**Jeevan Samarth**" and we have on boarded global firm AT Kearney to lead this project.

On number of policies sold basis, the agency force sold 34,69,809 policies during the quarter ended June 30th 2024 as compared to 31,19,611 policies during the corresponding period of last year registering an increase of 11.23%. It can be seen that approximately 97% of our policies in the quarter ended June 30th 2024 were sold by our Agency force. Even on premium basis, approximately 96% of New Business Premium came from our Agency channel in the first quarter of current financial year.

Contribution by Banca and Alternate Channel

During the quarter ended June 30th 2024, BAC i.e. Banca and Alternate Channel collected New Business Premium aggregating INR 411.27 core which was INR 336.36 crore for the quarter ended June 30th, 2023 registering a growth of 22.27% on a Year on Year basis. With this the share of Banca and Alternate Channel by New Business Premium has increased to 3.46% for the quarter ended June 30th, 2024 as compared to 3.22% for similar period last year. Further, the Banca and Alternate Channel sold 55,795 policies for the quarter ended June 30th, 2024 as against 62,970 policies for the quarter ended June 30th, 2023 registering decline of 11.39% on Year on Year basis.

If we look at the contribution of purely Banca channel, it contributes approximately 70% of New Business Premium to Banca and Alternate Channel.

Our Overall Expense Ratio for the quarter ended June 30th 2024, was 11.87% as compared to 12.85% for the first quarter of last year. As you can see, there is decrease of 98 bps on Year on Year basis.

Persistency:-

On premium basis, the persistency for 13th, 25th, 37th, 49th and 61st month upto the quarter ended June 30th 2024 stands at 78.23%, 72.16%, 67.53%, 66.97% and 61.62% respectively, as compared to 78.37%, 72.11%, 70.75%, 64.54% and 62.73% respectively upto the quarter ended June 30th 2023.

On number of policies basis, the persistency for 13th, 25th, 37th, 49th and 61st month, upto the quarter ended June 30th, 2024 stands at 67.81%, 59.24%, 54.73%, 54.08% and 49.39%, respectively, as compared to 66.15%, 59.28%, 57.72%, 52.04% and 50.79% respectively upto the quarter ended June 30th, 2023.

Therefore, persistency has improved for 25th and 49th month on premium basis and on number of policy basis it has improved for 13th and 49th month, Year on Year.

Operational efficiency and Digital Progress

In our digital initiative through the Agent assisted ANANDA app, we have completed 2,49,643 policies through this App during the quarter ended June 30th, 2024 as compared to 2,22,167 policies for the period ending June 30th 2023 **thereby registering a growth of 12.36% on Year on Year basis.** There is a growth of 88% in number of active agents in ANANDA app for the quarter ended June 30th 2024. Further, I am happy to mention that ANANDA app has also been integrated with WhatsAPP.

Claims

On the claims front, during quarter ended June 30th, 2024, we have processed 40,54,920 number of claims which includes 38,68,253 maturity and survival benefit claims. On an amount basis during first quarter ended June 30th 2024, the total maturity claims were INR 41,954 crore and the total death claims were INR 5,467 crores. On a comparable basis for first quarter of last year, ended June 30th, 2023, the maturity claims were INR 34,612 crore and death claims were INR 5,147 crore. Therefore, the death claims are higher by 6.22 % and the maturity claims are higher by 21.21 % on a Year on Year basis.

Awards and Accolades

The list of awards won during Q1FY25 is presented on Slide 58 of the results presentation which indicates that our customer-centric efforts have been recognized by various industry platforms.

Overall, I believe this has been a quarter where we have fired on all cylinders and delivered growth across parameters and I believe we are on track to meet our objectives.

Before I close my opening remarks, I would like to list down significant achievements during the quarter:-

1. There has been a sharp increase in our Q1 FY 25 market share to 64.02% from 58.87% for full year ended March 31, 2024. Also, first quarter of FY 24 we had a market share of 61.42%.
2. Our overall APE growth is 21.28% on an Year on Year basis. This represents strong underlying growth in both Individual and Group Business.
3. Our Non par share of Individual business has further grown to 23.94% for Q1 FY 25 as compared to 10.22% of the same quarter of previous year.
4. VNB has also increased by 23.66% on a Year on Year basis for this quarter
5. VNB margin have shown as positive bias with a 20 basis points increase to 13.9% for Q1 FY 2025
6. While maintaining growth in all parameters we have kept a focus on costs and as you can see the Overall expense ratio is down by 98 bps to 11.87% in Q1 FY 25.
7. Our agency is growing in numbers and now stands at 14.25 lakhs as at end of Q1 FY 25 increasing by approximately 6% Year on Year.

Now, I would like to end by stating that:

*"***LIC is progressing on its stated objective of gaining market share after having focussed on, during the last year on consolidating changes in product mix, channel mix and margin improvement. We are committed to further optimizing our product and channel mix and improvement of margins. With the digital transformation exercise underway we intend to create a seamless experience for our customers and partners. We thank our customers, shareholders, distribution partners and employees whose continuous support allows us to create superior sustainable value as we move to next stage of our journey."**

I now request the moderator of this call to open the floor for the question and answer session. Thank you very much,

Moderator: The first question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Yes. Hi. Good morning. Thanks for the opportunity. Couple of questions. The first one is around this new surrender regulation. So virtually, this increases the payout to the lapsing policyholder. Now, if I were to look at LIC's premium persistency drop at 13 months or nearly 20%, 22%. Now in today's context, those lapsing policyholder will be getting a zero. Now going forward from October, they will have to be paid depending upon the formula calculated number.

Now that -- mean that, okay, you will have to sort of compensate to those policyholder by sort of a cutting benefits on the persistent policyholder or tweaking your commission structure or taking a hit to the margins. So can you just elaborate and help, I mean, what would be the strategy? How to compensate for the sort of at least this 13 month extra payout that comes under the new regulation? So how is that going to happen? That is my question number one.

Second question is on the margin front. If I look, I can understand that, okay, the margin on the non-par individual side could be an outcome of increased benefit payout due to maybe competition, increasing guarantee, increasing annuity rates and also on the group side, it could be a mix of factors, including how the composition is changing between group saving, annuity and maybe term. That is right.

But a big puzzle that, okay, how is that margin is such a sharp drop on participating side, particularly because now even in the profit sharing and all are nearly 90/10 and all. So what is driving this kind of a margin drop in the pool, par saving side because your scale is too big. So what is happening here on the individual participating side that is driving your margin so low.

Yes, so I believe the two questions the first one was on how are you sort of going to respond to this new surrender regulation when you will have to sort of at least if I look like the 20%-22% of the lapse in premium at the 13th month today you are I mean based on regulation you are not paying anything. Now going forward and of course I mean this surrender of money was anyway going to the largely to the PAR pool.

So going forward I mean the impact has to be felt by the possessing policyholder, the distributor in terms of commission tweaking and also some bit in the margin, so how are you sort of foreseeing this impact of now the new surrender regulation with the lapsing policyholder being paid, is going to play out across these previous stakeholder. So that was my question number one.

And second was that okay, on the margin I understand that on the group side they have so many things that play out even the kind of annuity rates you offer even within group the kind of product changes that happen so that margin change over your other stories on the group non-PAR side I mean because of the change in guarantees and maybe you'll -- having lower margin those parts we understood but at your scale. And this thing I mean what is driving down this PAR margin

Y-o-Y I mean that's the material drop. And you have a bigger scale and I mean so what is happening on the individual PAR side margin?

Dinesh Pant: Yes I will repeat what I had mentioned earlier. As far as -- so as far as the surrender value portion is concerned we all appreciate that yes. This entire -- the focus is now about how to strike the right balance for the people who are exiting policy during the term of it. And for the continuing policy of those. That's why we all appreciate there has been a very long engagement within the industry and also with the authority on this matter

What would be the right approach here? We appreciate the regulations which are behind these principles which are laid down there. And we also note the master circular which has come about. As we intend to implement those few factors we need to consider is that, first of all, as far as the first year lapsation is considered the requirement to pay -- for all policies only applicable when the term is of five years.

For the policies beyond five years term, the requirement is that first year full year premium should have been paid. So when we consider 13th month persistency, the number which comes in the numerator is not inclusive of all policies which have actually paid for the full year, these could be policies which are paid only for one month, which are paid for a quarter or half year and may still not be eligible for surrender value payment.

So to that extent, the impact gets mitigated in lapsation, but that's not our aim. What we are looking forward is, as an institution and company, we continue to intend to provide the services in a manner that our policies continue to remain persistent and not first year, second year, third area. Therefore we're still engaged, industry is also engaged in how to assure smooth implementation and orderly implementation. So that we can strike the right balance for the continuing policyholders and all the stakeholders vis-a-vis and the people who are surrendering their policies for whatever reasons during the term of the policy.

And yes, as you rightly mentioned, there could be many alternates to whatever is the final form of implementation, which we will consider different solutions, including the review on ticket size, the mode of payment, the structure, the design, which can also include a review of the cost, including distribution cost, but we try to strike a balance. We have to be cognizant about the interest of all the people who are involved, including our distributors, and we try to do it in a manner so that any adverse impact is reduced to the extent possible. We continue to seek more clarity and more ways for effective implementation for the regulations also so that will be our approach when we consider these things.

Second aspect which you talked about on the VNB margins, as you rightly mentioned, VNB margin is dependent on the business mix of the company. It also depends upon the marketing strategy of the company -- overall company because VNB margin is really significant parameter from shareholder reporting point of view. But more significant VNB has a value because that is a value which is coming, which is, therefore, the combination of the business mix and the margins there.

So sometimes, we do take strategic decisions to bring down the margins so that the VNB growth can happen, which we have seen, actually, that's one of the reasons that if you see in the first quarter, we have been able to achieve good, not only APE growth, but also VNB growth of 20% which was just around 5% in the last year because we took a calculated decision in which the benefits were readjusted.

In specific to the PAR segment, which you're talking about. PAR is also big, has got a big bandwidth of products, large number of products. Within them, the margins are different and significant. So there also business mix is one of the things, which drives the value of VNB margin within it.

But another important component is the risk-free rate or the discounting rates that are used for the valuation of VNB margins and VNB as such. And we have seen the southward trend in the RFR during this period, which has also significantly impacted the VNB margins in the participating line of business, specifically be mentioned. I hope that answers your query.

Avinash Singh: So quick follow-up on the first surrender regulation. So, very specific now, will it be possible -- because you have a large agency distribution, there is first year's commission, will it remain viable to not have a clawback or a trail-based commission for the policies that if likely lapse say in 13 months specific. So I mean, under the new surrender regulation, will it remain viable that you still have the usual payout structure that you are doing today, if the policy were to lapse, say, in 13 months after paying one year premium?

Dinesh Pant: See we mentioned about surrender value regulation. And if we read the regulation, clearly, I don't think we insurer, we have got challenges. The bigger challenge is possibly is from some provision in the draft circular, not -- but it is not draft circular but the master circular. So regulations are consistent with the pricing rate. So that's not a big point.

Will it be possible? This world is full of possibilities. Many solutions are possible. Claw back is one of them, but it's not a necessary provision. We'll try to see ultimately the final shape in which we have to work out. We are in constant interaction within our teams, marketing teams, whenever product, review our product, redesign has to be considered. We have to consider all the aspects. So everything is possible. Claw back is an option but not a necessary option.

At this stage, we will not like to pre-empt and say this is going to be -- everything is possible, like the review on the ticket size is possible. But I think every action has got an implication. So we have to see what is the best possible combination of decisions that we have to take in product review. Product review anyway is a very regular for us and it's a continuous requirement for us. Whether product regulations are there or they are not changed, still review will always be there from the persistency point of view also we have to consider all these aspects. So yes, this is an option but not a necessary action that is envisaged.

Avinash Singh: And sir, one data question, if you can help. I would believe, around INR14 lakh crores your equity investment. How that is spread across your PAR and non-PAR book? And what is the fair value gain sitting in these two books?

Dinesh Pant: See, not talking about specific numbers, but as a conscious decision for the participating business, we consider that because it is law of discretionary benefit. We would always be happy to have an equity backing ratio of around 15% to 25% in that way, ideally around 20% plus going forward. As far as non-PAR business is considered, I'm talking about the business, which is for the consideration of policyholders liabilities, largely because the guarantees are involved and the guarantees being involved, there is the requirement of asset liability matching to that extent.

So a very small portion of equity backing is there. But our ASM fund has got substantial amount of equity backing. So this is a mix in which we consider the nature of the business, the requirement of maximizing and or rather optimizing the benefits for that class and also ensuring ALM in that context. So that is -- in principle that is the approach we are taking.

Moderator: The next question is from the line of Suresh Ganapathy from Macquarie Capital.

Suresh Ganapathy: So I had a question on your, again, margins. So what do you -- I mean, the fact that we are giving increased benefit pay-outs to the customer and it's a strategic decision that we have taken, perhaps that's what is causing a reduction in both PAR and non-PAR margins that you're talking about. And also, we are looking at the surrender value regulation. So how do you look at the full year margins? You were around 16% to 17% for FY '24.

I know there is a complex product mix aspect also. Would that also be -- considering that do you think you can maintain margins on a full year basis? And also carrying on Avinash's question on the equity book allocated. I mean, you're saying that the guaranteed products and non-PAR has a higher, what we call, government securities. But when I look in the part of your IPO document, you have allocated a massive INR 5 trillion to your non-PAR book equity at the time of IPO out of INR 9.8 trillion.

So I think right now, out of INR 14 trillion, it looks like even almost 50%, 60% of the book would be allocated to non-PAR if I look at your IPO document on an outstanding basis. Can you please provide a clarity on that?

Dinesh Pant: Yes, to the second part of the question, I think please note what I've mentioned. I clearly mentioned that for the participating business, this is the equity backing ratio. When you're talking about non-PAR book size you're including the assets allocated to ASM, available solvency margin fund which is our non-PAR fund. So there the allocation is there, but the accretions from that fund is -- goes to the shareholder side.

Therefore, the allocation which you are seeing from the books that read – get that solved. And that's why I clearly said that when I'm talking about lowest equity backing ratio, that is in the context of the liabilities which are in the non-participating contract. So that is great. And the first question?

Dinesh Pant: And the first question was about surrender value?

Suresh Ganapathy: No, no. The overall margin outlook, sir. How we do look at the full year margin outlook versus last year.

Dinesh Pant: I'm aware that some people have given their estimates on this thing, I'd like -- not like to get into this. For example, let me say, for example, even if you go by the version that the surrender value has to go up, the actual outcomes were different on the customer areas. Does it necessarily mean that when the surrender value factors should go up, surrenders should also go up. It may happen, it may not happen.

For example, strategically an insurance company may come up with the products with high ticket size where the surrender behaviour is less or with the different duration or different appeal to the customers. So I personally feel it will be sort of speculating without -- because the customers behaviour for this type of surrender factor is not available with us at this point of time. And that will evolve.

And I'm saying that there will be some continuous thinking about balancing the benefits for continuing policyholders vis-a-vis the withdrawing policyholder. We still are saying that something from here onwards, may change here because the regulation allows for provisions for that thing.

So if we consider the products as of today. And then they continue to be the case, then definitely surrender values have -- give us impact. But we all will appreciate that if these surrender values have to be done or increased surrender values have to come into play, and there will be requirement for re-review and redesign of its products so that value can be protected.

Now that may have an impact on the business volumes, that may not have an impact on the business volumes, that may create higher acceptibility of products or lesser than that, possibly time can tell. So it's not something which is very static and on those basis it can be projected what is the impact. We are confident in that insurance companies together along with the authorities will work out the ways and the avenues in which the growth of the business will continue.

And the profitability and the margins to all the stakeholders will also continue to be reasonably good and fair. So we will all -- we'll continue to strive in that direction -- think in that direction.

Suresh Ganapathy: And just one final question on your strategy. I know it's a bit complicated, but the point here is you are bringing down your PAR margin – PAR as well as non-PAR margins, more so on the non-PAR margins. I was looking 1Q FY '23 was 72%, 1Q '24 is 43.3% and 1Q '25 is 39.8%. So you've consistently brought down the margins by a massive 30 percentage points over the course of last two years just to push up the non-PAR growth.

So, I mean, how long can this continue? I mean the point here is you really want to prioritize growth over margin? How do you strike the right balance, especially when you are also going to see a regulatory change because it looks like growth is coming at the expense of margins.

Dinesh Pant: Yes, it's a very good question also. But if you would see that when we have brought down margins in some other products, we have also introduced products with higher margins in between. Now we -- during this period, it's not that we have been continuously bringing down on margins. For example, for the annuities, while in the last quarter of the previous financial year, we did bring down our margins and increase annuity. We have reviewed and revised our rates in the current quarter.

So it has to be attuned to, as we said, our larger focus is to ensure that our VNB growth, VNB by amount that is actual profit numbers are sustainable and upward looking. And that all of us, all -- anybody who understands and appreciates the insurance business, it is going to be a combination of the APE growth. We can have very significant high margins and stay with it, but the business volume may not come about there. So it doesn't result to any VNB as such.

So therefore, it is going to -- and so what we are trying to do is, as on the competitive lines of business, wherever we have to -- we have no option, but we have to make our products as competitive as anybody else is giving. So when we give it, we are simultaneously bringing out other products and some of them have been blockbusters for us, introduce them through better benefits, products which are value proposition for the customers, they are good for the shareholders and they are good for even our internal stakeholders. So those type of products also we've introduced. We continue to rebalance. Actually this is something, which should be noted that despite of the challenges on the VNB front for the industry itself and large of it is also coming from the discount effects that we talked about. For LIC, the quarter-to-quarter VNB margin is better than the last -- first quarter of the last year.

And we have seen our trajectory changes from first quarter towards the fourth quarter, and that is what directionally we are expecting and working for.

Moderator: The next question is from the line of Supratim Datta from AMBIT Capital. Please go ahead.

Supratim Datta: Hi. Thanks for the opportunity. My first question is on your hedging strategy. So last quarter, you had indicated that you are working towards putting up a hedging strategy for your non-PAR book, just wanted an update on that, where has that progressed? And how far are you towards putting up a hedging strategy for your non-PAR book that would be the first one. The second one was on the VNB walk. There has been a 230 basis point impact due to change in assumptions.

Just wanted to understand what's contributing to that? What has moved, so if you could help with that. That is something that I would like to understand. And lastly, the last quarter you had mentioned that you were working towards the composite license and what opportunities that could throw up. If you could give us an update on what's happening with composite license, how and what work have you done in the last three months to take -- to make use of it when it's available?

Siddhartha Mohanty: I would answer the last question first regarding composite. Actually, we know that there will be some amendments, so that composite license is coming. For that, we have -- I've already given statement. We are now exploring all possibilities to have some stake in some stand-alone health insurance company. So that because internally, we examined it’s not appropriate to develop our internal health insurance vertical. So better to acquire some stake in some company. So that work is going on. I think this year something will materialize.

Regarding your hedging strategy, we have our derivatives policy in place. We have taken approval and our team is working on that any further…

Dinesh Pant: Yes. In fact, yes, we have our hedging strategy in place by the Board investment policy. We have already tied up with bankers on that thing. And as our non-PAR portfolio increases, we have actually started to work upon that already. Besides that, in fact, I'm also aware that within industry there's also called whether the direct participation of insurance companies into this segment would also be considered, which is a very good idea being thought about and currently at a thought stage. So we'll remain open to utilization of these hedging strategies for the business.

K.R. Ashok: As regards the assumption -- impact of assumptions on VNB Walk-- the major impact comes from the fall in RFR. And there's a minor -- actually additions to the assumption in the way of better improvement in mortalities, which we have observed in case of term and group businesses that has been updated because as per the standards, we'd like to factor in whatever the information we have up-to-date basis.

And then we have also observed that there is an improvement in the withdrawal assumption in case of group that is towards betterment. So these three are the most prominent assumptions that we have made. And the major being the fall in RFR, which has impacted the margins in a negative way.

Supratim Datta: Got it. On the mortality experience before in term insurance, what is that contributing to -- have you looked into that, that could be one follow-up. On the composite license, sir, thanks a lot for the clarification. I just wanted to understand that you are looking on taking up stake in one of the SAHIs. All the SAHIs are privately held, so are you looking at acquiring something? Or would it be a strategic stake? What are your thoughts on that? If you could give us some clarity, that would be helpful.

Siddhartha Mohanty: Actually, at this stage, we are exploring all possibilities, which will be in the best interest of LIC, all its stakeholders that we are exploring and when we finalize you will also be able to know that.

K. R. Ashok: So your first question was not very clear because there is some…

Supratim Datta: Yes, sir, you had said that on mortality the experience was poor in term insurance, which was one of the contributors to the adverse assumption change?

K. R. Ashok: No, no. Actually, in case of term and group, it is better, only impact, negative impact is the fall in RFR. The other contributions are positive in nature.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe: Hi, Thanks for taking my question. Again, going back to the same point on the margin change in the book. So what I understand is that the change that we can see on the PAR side was not because of benefit enhancements. So I think in your VNB walk, you've sort of cited two reasons for change in margins. One is impact of product benefits and the other is impact of assumptions.

And I think what you seem to be now saying is that the PAR book is affected purely by impact of assumptions, is it?

K. R. Ashok: See, there are two impacts on PAR book. One is, there is multiple parts in the PAR book, which each has a different profit signature. And there is the business of mix within the PAR group is also impacting to some extent the margins of PAR. And the most important contribution to the movement in the -- we observed in the movement in the PAR book is due to the RFR.

Management: I think we lost him right?

K. R. Ashok: I'll repeat once again, see Par book consists of different products with different profit signatures and the business mix also contributes to the movement of that we observe in the Par business. And more importantly in respect of Par business, the impact of RFR fall is profound.

Nischint Chawathe: So because if I look at it, now this year onwards, you have almost 10% sort of economic share and shareholders have almost 10% economic share in the par book. And if we had kind of sustained it at 5%, what we had during IPO probably margins would have been around 4%. So does RFR have so much of an impact? I think is what my question is.

And kind of coming back to the broader question on margins, I understand that at this stage, it's a little challenging to sort of give an outlook on margins. Obviously, a product mix shift is definitely helping you. But at the product level for par or non-par, is there a particular threshold margin below which you would probably not want to go and then say, or probably on a risk adjusted basis, it doesn't make sense. And you would then say that look, beyond this, all of it is something that we'll pass on to our -- either our customers or distributors. So if you could give us something in your mind saying that we can't go below a particular percentage, whether it's a 5% or 7% or whatever and beyond that, we will pass on.

Dinesh Pant: See, I'm just clarifying on that issue. Yes. It's that is one significant aspect of business. But we also need to appreciate that nature of products, which participating and non-participating are differentiated, but at times very similar also. And within the participating there is book size there could be products. Again within the par is book size as explained in my first response and the VNB margins within the products will also significantly change.

So if we have a product, which becomes a very blockbuster or very hero, attractive and taken with open arms in the non-par side, and we have got a similar product in non-participating book size, and there is going to be a trade-off. And so for a short period of time, that will impact. So the business mix is bound to change when you are taking a strategy towards a particular line of business and that is something possibly which can't be seen on a quarter-to-quarter basis, it has to be allowed to settle down over a period of time and then see.

As far as your point about benchmarking you're referencing, I think I indicated in my earlier response also. What we are looking for is a very robust and sustainable growth in VNB. So I think we have to work on overall strategy of business mix, business volumes and VNB margin. As a reference point, definitely another indication, which you have seen from our results in the past that we have always referenced and benchmarked to the corresponding period of previous period and try to go upwards from there.

So the strategy is to gradually move upwards in this business margin over our last -- within the first year, it was around 15.2%. We moved to 16.8% at the end of the year. And that is the direction in which we are moving towards possibly 20% plus in near to middle term. And of course, during that period, because the numbers on the margins only come after the quarter is over or the period is over. So to what extent that strategy of mix and VNB margin change or sacrifice or, in fact, not allowing it to be sacrificed has worked out is seen at the end of the quarter and recalibrated for the next quarter.

But the direction is that we are going consistently towards upward trajectory to be in line with the industry. We have seen in the industry also. There are some -- there have been achievements of high 20s or 30s and they have settled down and comes down. So there will be always a shift in the -- what is the industry level VNB margin, but we are very confident that over some period of time, our business mix average is changing and changing sharply actually in the right direction will be the extended benchmark for the industry.

Nischint Chawathe: Got it. Just one small question and maybe this is probably a suggestion is that if you could break up your equity book between -- basically your investment book between equity and debt. And again, that breaking up into par and non-par because I believe last year you had made some transfers for equity from the non-par. Basically, the equity share in the par book had gone up. So when we try to kind of corroborate the market value of LIC's investment, it just helps us to understand how the allocations are happening. So maybe if you could either share a number or maybe subsequently kind of put it in your quarterly presentations.

Dinesh Pant: Sure. Sure.

Moderator: The next question is from the line of Prayesh Jain from Motilal Oswal Financial Services. Please go ahead.

Prayesh Jain: Sorry to harp on this VNB thing again. So on the par side, have we moved from 7.5% sharing to 10% sharing. And you've been alluding to the fact that the mix has been adverse in the par side, which has kind of dented the margins. Could you give some more granularity as to what is the kind of mix that is impacting whether it's the tenure of the products or it's the different nature of the product that's kind of impacting this? That would be my first question. I'll ask other questions later.

K.R. Ashok: See, if we look at the par products, there are different types of products, which cater to different customers. And we have observed that the customer -- the product -- the customer profile that is the distribution of term as well as the distribution of the ticket size has changed, and that is the contribution -- that has contributed to be impact on the margins.

Prayesh Jain: And we have moved to 10% sharing, right?

K.R. Ashok: Yes, yes, yes, in spite of it because the RFR impact as we have -- the RFR's impact is more profound and we see in the long term and therefore the impact on interest rates.

Prayesh Jain: Yes. The other question is you alluded to, on the surrender charges you have mentioned that more than -- if the premium is not paid for more than 1 year, then only -- then the surrender charges impact will not be there in the first year. Could you give some persistency color on that particular cohort where the premium has been paid for more than 1 year, what is the kind of persistency for you guys in the 13 months for that kind of a cohort?

Dinesh Pant: I think you will appreciate one thing that by overall analysis is that yearly policies tend to lapse the least. The highest persistency -- lapsation, sorry, happens in the policies where the ticket size is small and the mode is either quarterly or monthly that has been the trend. So -- but again, we can't speculate based on that because if the benefits change people may tend to change their preferences also, customer behavior will change. That's what I was indicating and that how it pans out, how the customer behavior changes just because surrender value factors changes, customers will anyway lose some part of his investment, not that he's gaining out of it. So it does not necessarily mean it will translate into higher surrender.

So all the factors will have to be considered. If we can tailor our products and make them more, in fact distributor behavior and all those things can be linked together. Insurance companies can cross out the design. But yes, it has got an impact. It has got a financial impact on the way we have the products right now. It's challenging work that we have to take care of.

But we cannot say for example this 5 year thing we hardly have any product where less than 5-year term is available. So that's not going to impact us for that for sure, something. That's because 1 year he is going to pay surrender values, we are not going discourage people for taking clearly more. That's also for sure.

We work out and we'll discuss out those things and we'll look into our product design accordingly, and engage in the discussions wherever they are required and where they are fruitful to find the right way forward.

Prayesh Jain: And secondly, there has been a recent push towards ULIPs, how do you see that kind of scaling up? And if I -- whether I've heard it correctly that your medium-term target for VNB margins is 20%. With this kind of -- so do you think that can be achievable with your focus -- increasing focus on ULIPs and those products?

Dinesh Pant: We mentioned about 20% plus just to clarify. So 20% is not a number, but 20% plus is a way which we are thinking. ULIP has got the importance in the portfolio, not necessarily from the margins point of view. You might appreciate that point. ULIP has got its advantages in the current set up of schemes, and therefore, insurance rules. We also, as I said, because it's a customer preference which is very important. If customers have got expertise given margins are low because that cannot be the only criteria just because margin is low and customer need is there we will not fulfill it.

So at times, it's not only that decision to provide which products or which direction, is not necessarily constrained or bound by margins only. So that's -- let's be clear on that. However, for the top line, for satisfying customer -- for the larger, I should say, leveraging those products for satisfying more customer needs, ULIPs are going to be important. So that's the directional way in which we are going towards it.

But we are also focusing our big margin is coming from a number of saving products. So that continues to be our face book. The growth in saving non-par is even much higher than the ULIPs, in our case ULIPs is around 134% in this quarter, where we are almost 600% growth in our non-par savings, representing it overall around 160% plus growth in our non-par non-linked products. So that's the direction in which we are.

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

Sanketh Godha: My question is pretty simple, assuming the surrender rules are implemented on the current product structure, if you don't do any tweaking, what is the likely impact on the margins? Which means just how much we need to just to protect the margin is the reason I'm asking that question assuming what is the likely impact on the margin? That's my first question.

The second thing is that your drop off rates assumed to be 20%, 22% at this month. You also said that there are some policies, which are quarterly, half yearly and they are part of the 22%. So if you can break out -- break up that premium of 20%, 22%, which is dropping off, how much is less than 1 year premium thing -- I mean the paying term is quarterly or high frequency compared to annual? That's my second question.

And lastly, somewhere the par business seems to be struggling to grow. Anything to read between how -- is it because you have increased focus on non-par, so natural victim is par, or you think someday this business will come back and contribute to the growth. Yes, those are my questions.

Dinesh Pant: Yes. Yes. See, first of all, I just said I would not like to assume anything. We are -- still we are perennial optimists, we have to remain optimistic that something better will come about. So I don't see any reason to assess. In fact, we have assessed, but it's not about VNB margin let's be clear. The surrender value is not an issue about only VNB margins per se. It is about the best value provision from the customer. That's how we look into it.

As I said earlier also, margins -- let's be very clear about it, margin is something which can any product design. We have to design a product which can have a margin. So that cannot be the ultimate focus. The focus is about how that margin leads into the business growth and industry growth and for us as the company growth. So that may be achieved. So at point of time, the 20% or 25% or 100% is not that significant. But what is the ultimate value which coming in terms of the business growth and the margins. That's going to be the consideration. And that is the direction in which we are working.

And the second part of the question is, yes. See, we need to appreciate something that it has been a big problem for LIC to move away, not actually move away, but to rather think it's not that we are moving away from participating business. And we have got a set of clients at a point of time, they will decide what type of product they want to do. So there's a function of their needs.

For example, let's talk about ULIP. ULIP is driven by market sentiments and what market understanding customers have. So it is not necessary the insurance company is pushing. At times it is sought by the customer that's why it is done. Same customers suppose you come out with a new products. As a strategy, we felt that we have got good number of -- enough number of products in participating.

And in case they grow, we can come out with more guaranteed type of products, which customer needs. So it's not only from business calculation of margin point of view. We consider it's a value proposition good for the customer point of view and for us as the insurer also that's why we've come out with more offerings.

So it is possible that at a time -- and the customer would have a budget of its own and how much they can spend in a particular year. So possibly, if they rather spend on larger investment is our largest surprises happening was non-par product, the same customer at that point of time may not be able to afford or buy a similar par product. So it's functions or the outcomes cannot be seen in a short period of time. So it's not that we want to reduce par business and grow into non-par business. Our ultimate aim is that we want to offer all the product solutions to the customer and tell them the value of the guarantees as well as the choices for the discretion, and they are doing it.

As a Corporation, we have realized that we have been in par business for long, and there was an effect of saturation in that market. We do not see substantial growth at this point of time in par business, but we still expect and we are working towards reasonable growth in participating business also. In fact, in the recent quarter, we've seen uptick in our participating sales also and the volumes also as compared to the trends which were there in the previous year.

So as a company, the directions from CEO & MD is continuously there is what we have to offer is the value provision for the customer, and that is what is happening. The great growth is coming in the non-par segment is the outcome of the number of products, which have been appreciated by the market that we have been able to offer.

An area which has been largely untapped from the point of the distributor, the policy holders, which have been there. So that is happening. And possibly there is a dent as an outcome of that in the participating business. It's not our conscious strategy to reduce par business. We want to improve our book size on both the sides. But we realize exceptional growth can come from non-par at this point of time as compared to the participating.

Sanketh Godha: Got it. Sir, the second question, which I asked basically out of the 20%, 22% drop off, which we experience after 12 months or 15 months. How much is less than 1-year premium paying plan because naturally, it will not be part of your surrender rules. So you'll benefit out of it. So just wondering whether we can assume it is 50% or less than 50% of the drop off what you experienced in 13 months.

Dinesh Pant: See, what will happen, Sanketh, while -- I don't see -- as I was explaining earlier, I won't see much purpose in examining the current portfolio. If that is something to be done, we will re-design our products to ensure that they are in line with what we want them to do, right? So I'm not bound by offering the same thing, which I'm offering currently.

So I have to first decide if this is a direction, these are the decisions which are going to make. And we will make decisions in a way to protect that. Of course, that can have business implications because suppose we increase the ticket size or retail decision, that can help persistency, but then we have to see whether it has got -- it will be really better outcomes or that will change. That's an area which -- that's the reason we'll appreciate that this long discussion and potential discussion has happened on this front, whether it is immediate thing is good or it is to be a gradual approach, which will work out, but we have to comply with whatever is the expectation of the regulator.

We only have the right to discuss and present our case before them and ultimately we'll do what is required and comply with those things and take -- design review to ensure that customers continue to invest as best as possible, distributors continue to get benefits, which are as best as possible and shareholders' interests who are involved into the business are also fully protected in plan with expectations that we create for.

Moderator: The next question is from the line of Gaurav Jain from ICICI Prudential Mutual Fund.

Gaurav Jain: Just two questions from my side. One is on the new launches or so the Jeevan Utsav product that we launched has really helped us ramp up the non-par APE side of it. So are there any new launches that you are working on, either on the non-par or anything on the annuity or, say, protection ULIP. So if you can help us understand what kind of new launches are you thinking on?

And second is on the distribution side. So if there are any steps. I can see there is some increase in the Banca APE and the Direct APE also. So if you can help us understand what are the strategies that we are taking on the distribution side to increase the more mix coming from these other channels also?

Siddhartha Mohanty: You see recently, we have launched 2 very innovative term product, Yuva Term and Yuva Credit Life. And already we are getting very good response, getting traction in this market. And in coming days also, we'll be launching some more products depending upon whatever feedback we get from our customers as well as from our field force. It's a continuous process as our appointed actuary told depending upon market need and other things also. The margin all those things. So keeping those things in mind, we will be continuously launching innovative products. So that is one thing.

Second question was marketing strategy. You see, our Banca has already improved. Focus will be on Alternate Channel and digital marketing also without compromising Agency Channel. Agency Channel will grow, but the share of other channel we plan systematically, it has to grow up. And already Banca has shown in last quarter, Q1, they have shown. We are more focusing on Alternate Channel apart from bank Alternate Channel means broker, IMF, corporate agents, those will be focus area in the current year.

Moderator: The next question is from the line of Dipanjan Ghosh from Citi Group. Please go ahead.

Dipanjan Ghosh: Just one question from my side. When I look at your persistency ratio trajectory between Q1 of last year with Q1 of this year and the decline in some of the buckets especially the early ones. I wanted to understand if you can give broad color on the product categories which have witnessed a decline? Or is it across the board that you have witnessed a deteriorating persistency trend.

Also if you can break it up between some of the customer cohorts in terms of high ticket versus low ticket? Yes, that would be my question.

Dinesh Pant: As far as this 13-month persistency is concerned. I think on the policy basis, it has improved as compared to the last year on a premium basis it is there. But the changes are very small. The difference is because we have taken certain decisions in the previous years, in which we have reviewed various products where the persistency experience was not good, particularly on the micro side. So possibly, there is a shift from growth businesses to some other lines of businesses.

But as far as policy is considered in the policy this 13-month persistency is actually by policy basis that has improved. So from 66.15% to 67.81%. So that's the case. And these are the cohorts, which are over previous period of time. Another important aspect of persistency, which needs to be noted is that for the corporation, we have a very, very different role from many other possibly because of that we have more than 6 decades and we have always been trying to balance between ensuring just a number of persistency and also making our availability. This insurance for all concept, reaching for every nook and corner. So persistency can be possibly significantly improved if the ticket sizes are increased. But then there's a deprivation to the last segment of society, which can afford lesser amounts, so they have to be given smaller ticket size also. But by the nature, and we have seen that in the lower ticket size, the persistency experience is less because of the affordability issue.

So in case certain percentage is lapsing, that's one way of looking at it in that segment. But a certain segment, which can afford and continues with that policy. If we do not provide them those ticket sizes, then possibly we can never benefit from the benefit of the insurance. So that is some call, which is very critical and important for us. And these persistency ratios, again, line wise and business-wise are different. We also show very high persistency in term business and all those things, but this is largely coming from small ticket size for business contribution.

And we continue to review. We have reviewed a lot of products in that direction, but that has also impacted business volumes also. So we have to look into that aspect and the persistency, we are closely monitoring, doing all the efforts in that direction. And in fact, trying to incentivize the behavior of distribution also as well as in the product designs, we have tried certain experiments.

At times it takes a little time for them to get implemented because the numbers other than 13th months are the ones, which have been done in the previous period. Another important aspect is that this way of persistency calculation as seen from public disclosures and some of the companies may not be including micro business into it.

We do include micro business into our persistency calculation. That made a small impact, but nevertheless has got an impact. So we have, therefore, had to review our micro insurance products. That's what we'll continue to do. We realize the importance of persistency and that remains a focal area for the corporation.

Dipanjan Ghosh: Sir, just a follow-up, sir, would you like to give some color between ULIP, par and non-par savings in terms of how the persistency trends have been? I mean, excluding the ticket size and the customer cohort in terms of the product category, which class has witnessed pressure?

Dinesh Pant: See overall, the experience is, I wouldn't say but our non-par savings would give the best persistency to us. In that also, the term business would give the best persistency followed by non-par saving products. Of course, the annuities give good persistency there also. Then there comes -- participating business has got lesser persistency as compared to that mainly because of the ticket size is again being less available in various products there historically also.

And ULIPs also show lesser persistency. But within ULIPs some of the products have shown -- new products have shown very good persistency. The old products that we had the persistency. Within ULIP also, the trend is different across different products. So that's why we are having a close look into which products to continue, which products to now redesign and which to break out.

Dipanjan Ghosh: But would it be fair to assume that on a Y-o-Y basis, par has witnessed some pressure, the small ticket par. Par has -- in the 13-month par has witnessed some decline in trajectory?

Dinesh Pant: You are talking in context or persistency?

Dipanjan Ghosh: Yes, yes.

Dinesh Pant: Yes, some of the products within par, which have got lower ticket size, their persistency seems to have dipped. Therefore, we'll have to -- we'll review those products.

Moderator: Ladies and gentlemen, that was the last question for today's conference call. I would like to hand the conference over to Mr. Mohanty for their closing comments.

Siddhartha Mohanty: So thank you friends. Thank you for patiently listening and for your very, very thoughtful questions, and we hope that we have been able to answer all your queries to your satisfaction. Given the momentum in our business and rollout of various strategic initiatives, we are hopeful and confident that we'll be able to demonstrate all-round growth and improvement in parameters as we move forward. Thank you very much, and have a good day. Thank you.

Moderator: On behalf of LIC, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

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