



## SBI Life Insurance Company Q2 & H1 FY18 Results Conference Call

October 31, 2017

### **SBI Life Insurance Management Team:**

**Mr. Arijit Basu – Managing Director and Chief Executive Officer**

**Mr. Sanjeev Pujari - President (Actuarial and Risk)**

**Mr. Abhijit Gulanikar - President (Business Strategy)**

**Mr. Sangramjit Sarangi - Chief Financial Officer & Investor Relations**

**Moderator:** Good day ladies and gentlemen, and welcome to the Q2 and H1 Financial Year 2018 Earnings Conference Call State Life Insurance Company. 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. In case you need assistance during the conference call please signal the operator by pressing “\*” then “0” on your touchtone phone. I now hand the conference over to Mr. Arijit Basu, MD & CEO of SBI Life Insurance Company.

**Arijit Basu:** Thank you very much. Good evening to all and welcome to the results call of SBI Life Insurance for the quarter and half-year ended September 30, 2017. Along with me are Sanjeev Pujari, President Actuarial and Risk, Abhijit Gulanikar, President - Business Strategy and Sangramjit Sarangi, Chief Financial Officer and looking after Investor Relations. It indeed gives us a lot of pleasure to address you all on the first earnings call that we are having after having been listed on October 3, 2017. We have a slightly detailed presentation later, but I thought that we would start with the highlights of what we have been able to achieve for the quarter ended September 30, 2017 and the half-year ended September 30, 2017.

In terms of topline this has indeed been a very good quarter for us. Individual new business weighted premium has grown by 46% from 1,343 crores in the same quarter last year to 1,954 crores as at the end of Q2 FY2018. On a half-yearly basis this growth is 48%.

Very heartwarmingly our renewal premium has grown by 35% as compared to Q2 FY2017. The embedded value of the company, which is the core strengths of all our profitability as on September 30, 2017 stands at 18,082 crores, this has grown from 16,538 crores as at March 31, 2017 on a compounded annualized basis this reflects a growth of 19.5% over the last declared IEV. The profit after tax for half-year ended FY2018 was 538 crores showing a growth of 26% on a year-on-year basis. For Q2 only the profit growth was 6%. So both, the long-term profitability and the accounting profits of the company has kept in pace in what we have been achieving in the past few financial years and also kept pace with the revenue growth of the company.

I will take the opportunity now to go a little more in detail into the performance. I mentioned the focus was more on the individual segment, where the core insurance component of the business lies and the profitability is less volatile. Our individual new business premium on Individual Rated Premium basis has grown by 48% in half-year ended September and by 46% in the quarter ended. This is almost similar to the growth that we had in the same period in the last financial year.

In total individual new business premium, that is taking single premium into account, we have grown by 44% in the half-year ended September as well as in the quarter ended September. Our total new business premium in protection term as we sell protection both in the individual platform and on the group platform has grown by 10% in the half-year ended September,30 and by 11% in the quarter ended September in Q2.

This again is a very good performance and we are happy that we have been able to grow our protection business. The only area where we have consciously degrown as a matter of strategy is in our group new business premium fund management or group new business

saving where we have reduced our quarterly figures from 1,205 crores to 248 crores that is almost a 79% decline in Q2 and 66% decline in half-year. This has been consciously done by us because this is a segment which had a share of around 33% of our total new business in the previous financial year. We thought that this is something, which we should bring down gradually and keep at reasonable level.

Renewal premium very heartwarmingly has grown at 35% during this quarter from 2,197 crores to 2,971 crores in Q2 and for H1 we have grown again at 34%, from 3,714 crores to 4,951 crores. Just to compare as against 34% growth in this half-year, we had grown at 26% only in the previous half-year of 2016-2017. The Q2 growth of FY2016-2017 was 24%. This has translated very well into our profitability and efficiency parameter, which I had mentioned just sometime back. Just to repeat again, our profit for the quarter is 225 crore which is 6% more than in the corresponding quarter of the previous year and just to give a comparison in the same quarter last year we had grown only by 3.5%. However, for the half-year we have grown at 26% in our net profits from 428 crores to 539 crores, growth of 25.9% and in the half-year the same corresponding period of FY2016-2017 we had grown only at 5%. The Indian embedded value which I disclosed at upfront, we are now at 18,082 crores which we have grown from 16,538 crores as at March 31, 2017 and this translates into an annualized compounded rate of 19.5%, which is very healthy. Just to mention that all the private companies which disclosed their Indian embedded value as per the current disclosures this is significantly the largest figures that we have.

Our value of new business also has come in at a very healthy 525 crores for the first half-year and our value of new business margin is 15.6% which is marginally better than 15.4% which we had disclosed as at March 31, 2017. On the long-term profitability also we are on the right track growing at a very healthy pace and at the same time as you know the final valuation of the company depends on the core embedded value and this has grown in a very healthy manner and at the same time we have been able to show a very good net profit growth because of the fact that we have done well both in terms of our topline new business premium growth as also our renewal premium growth.

As a consequence, our assets under management have also shown a very healthy growth of 20.6%. We were at 87,108 crores as at the end of September 2016, we have now crossed a 1 lakh crores and it is 105,067 crores as at the end of September 30, 2017. Our earnings per share has also increased from Rs 4.28 at the same period last year to Rs 5.39 and for the half-year ended 2017-2018 our return on equity has improved to 18.4% from 17.3% last year.

We are very happy also to report that there are two other important matrix which we had shown to all the analysts and investors when we went to the IPO, one relating to the cost advantage which SBI Life has been maintaining and the operating expenses has been significantly lower than the peers and also on our persistency. On both the count, we are very happy to report very good numbers. Our operating expense ratio that is the total operating expense divided by the gross written premium that operating expense ratio has come down for the half-year from 9.4% to 8.6% and for Q2 it has come down from 8.3% to 7.8%. Just to remind we were already significantly better than the industry and these numbers have kept on improving.

Our total cost ratio is marginally higher. At the end of the half-year it is at 13.3% as against 12.9%, which is because of a rise in our commission space. Our commission payments had become very low due to the nature of the product mix that we have, so there is a marginal change in the product mix has led to a slight increase but the core figures, which leads to the cost, which is the operating expense continues to go down.

Our quality of the business or the quality of the sales that we do is reflected in our surrender ratio and again we have been able to improve this significantly over the past few years and the good work has been sustained in the first half and in Q2. Our surrender ratio, which is the ratio of surrenders to the assets under management that has come down from in the half-year it has come down to 7.8% as against 10.9% for the same period last year and for the quarter Q2 it has come down to 6.8% from 10.75% in the same quarter of the previous year. So this again is a reflection of the fact that people are renewing their policy and less is being surrendered, which is good news for our company and for any life insurance companies.

Our persistency ratios are on the right track. We had already crossed the 80% in terms of the half-year persistency or annual persistency, we have improved it by 20 basis points from 81.13% to 81.33% for 13<sup>th</sup> month which is best amongst the top two or three players and even for Q2 we have improved by almost a little further by almost 1.4% from 76.12% to 77.48%. 37<sup>th</sup> month persistency for the quarter we have improved from 63.12% to 67.80% and for the half-year we have improved from 67.22% to 67.79%. 61<sup>st</sup> month persistency is down, as anticipated, on account of single premium component, five years ago was on higher side. As over the period composition of regular premium and single premium has changed over a period of time, which is reflecting in movement in 61<sup>st</sup> month persistency. However, we are focused on the regular premium part of this 61<sup>st</sup> month component where again we have shown an improvement by 1% same in line with the improvement noted for 13<sup>th</sup> and 37<sup>th</sup> month. So on persistency again, we are doing a lot of hard work and it is reflected in the results that we are showing.

Our solvency ratio continues to be healthy at 2.09 as against the regulatory minimum of 150% or 1.50.

The other points that I wanted to mention, is the fact that we have two major distribution channels, Bancassurance and Agency. Both of them are continuing to do well. Agency has shown a growth of 25% this year significantly more than last year and Bancassurance, of course, continues to drive the business and it is showing a very high growth like we have been doing in the past. So both channels are contributing very well for topline.

I would sum up by saying that we had gone for the IPO with a set of numbers over the last three to five years where we had shown a certain metrics on quantity that is topline growth and on qualitative parameters like persistency and operating expense. This Q2 results and the half-year results is not only identical to what we had been achieving in the past, but we have actually been able to improve upon those.

With that I would like to thank you again for joining in on this important day for us and would be happy to take any questions that you may have on the results. Thank you very much.

- Moderator:** Thank you very much. We will now begin the question and answer session. First question is from the line of Avinash Singh from SBICAPS Securities. Please go ahead.
- Avinash Singh:** Good evening. Thanks for the opportunity. My first question is we have been doing quite well in the two distribution channel, banca and agency, but the two other channels I mean online and direct that has been a sort of very profitable and fast growing distribution channel for some of the peers, we are not doing quite well and those channels are also very meaningful to increase our protection. So going forward how are you getting to address this or what are we doing to improve performance in these two channels?
- Arijit Basu:** Online channel is also under our focus. I would like to only have a different view on the fact on one of the points that you mentioned that online is a very inexpensive channel which is not true at all. Online is expensive. The expenses do not come in the form of commission, but it comes in the form of the amount of investment that you need to do to sell a policy. Having said that online is important. The numbers look small compared to the total business that we do, especially when you are doing new business volume of 7,000 crore plus on annual basis. If you do something like 20 or 25 crores it looks very small; however, the focus remains and we get a significant number of policies through the online channel. We do not have a direct channel that is our own employees selling product. As a company's strategy we feel that this is not something which SBI Life would like to do as of now. Apart from these two channels, some other channels also which works for us are brokers or corporate agents other than banks which we term institutional alliances, there our strategy is that we will take quality business, so as you know SBI Life continues to have the lowest share of complaints related to unfair business practice, where we have also significantly improved to a ratio of 0.16%, which is way below that of the other players and our experience has been that in the two channels that we are able to control more effectively, which is the SBI channel and the individual agents who are tied to us, we are able to see a better traction in terms of controlling any kind of unfair business practice so therefore, we will welcome the other partners to do better business, we would like it to be done with quality which is why we may not be growing as fast as the other channels. However it does not concern us because we look at the overall topline growth for the company and if we are able to have a growth in excess of 45% in the individual segment, I do not think you need to, at the moment, get too concerned about whether the smaller channels are delivering or not.
- Avinash Singh:** That explains but in terms margins I mean if you look for the other peers in what direction margins have moved in our case also it has moved to a positive direction, but the improvement in the margins versus full year 2017 the first half that does not look that great if we compare with the peers, yes it has improved, so what explains in the terms of product mix it is also slowly moving away or rather towards a balance like away from ULIP so what has resulted in sort of a margin expansion mean lower than what other peers have reported?
- Arijit Basu:** During the IPO, we have very clearly said that these are healthy margins based on the product mix that we have and our entire focus will be on ensuring that these margins continue to sustain over a period of time and we have delivered exactly the same. Our strategy is sustained growth in embedded value, ultimately margins are important because they should reflect in both the improvement in embedded value and the overall profitability. Our growth in embedded value is 19.5%, with the margins be slightly higher than what it was in the past. As the product mix changes, this may continue to improve there are various other factors also which will lead to improvement in margin we will see but it is in line with

what we had promised. We had not promised any kind of significant uptick on the margin front, we had promised continual healthy growth on the Indian embedded value, which we have delivered.

**Avinash Singh:** Thank you.

**Moderator:** Thank you. The next question is from the line of Adarsh Parasrampurua from Nomura. Please go ahead.

**Adarsh Parasrampurua:** I just want to focus on two things, one clearly is on the persistency that you explained right, so can you just walk me through whether this the impact of that single premium was not there last year and how much is the change of that in this quarter vis-à-vis what number we have seen on persistency last year?

**Arijit Basu:** As I said single premium impact is only on the 5<sup>th</sup> year. As you see, on the 13<sup>th</sup> month and 37<sup>th</sup> month we continued to improve. For the 5<sup>th</sup> year, persistency ratio is at 62.08%, and if exclude single premium the ratio has improved from 42% to 43%.

**Adarsh Parasrampurua:** Sir second question pertains not just to this quarter but in general wanted to understand in terms of our assumptions on what surrender rates you assume on ULIP, so I just wanted to understand the nature of your ULIP do you like what part of our ULIP would be single premiums in case you can quantify that would that be material?

**Sanjeev Pujari:** The way we calculate or set of assumption is that the business is classified into different components. Basically, we study the persistency for single premium separately, for regular premium separately, even within the ULIP portfolio, which is historically very different from time-to-time and also for different product segments and on different generator. Also, we study the experience to see that the assumption that we take is very specific to that product segment historically.

**Adarsh Parasrampurua:** Again my question is not more related to the persistency but more in assumption related to what you would have given in your DRHP and I think I just needed some clarity on that was I just wanted to understand the nature of your ULIP products like I believe your competitor sells a lot of five-year pay products and I just wanted to understand what is the nature of recurring ULIP product you sell only five pay that you sell or a single premium. Can you split your ULIP between these three categories and I will come to why I am asking the question but in case you can broadly indicate that mainly even for FY2017 will be helpful?

**Abhijit Gulanikar:** Single premium component is very minimal less than 5%- 6% of our total ULIP premium with the single premium. Five Pay will be very large that will constitute probably 80%- 85% of our ULIP product and the remaining will be others. So broadly, the ULIP mix so our portfolio is also dominated by five pay products.

**Adarsh Parasrampurua:** Since you also have a large five-pay and I am just coming to one assumption sensitivity which I think is fairly important in ULIP that mass lapsation. The assumption that you have on ULIPs after the surrender period, which you put in your DRHP and I am just looking and comparing it two peers given that both of you all have similar 80%- 85% of your policies coming from a five pay policy and I can see there are different sensitivities that you have vis-à-vis your completion on a 25% lapsation after surrender. You have a negative sensitivity

while ICICI and HDFC have a positive sensitivity so I am just trying to understand is this a difference in the nature of your product or does it like how should I give this in terms of an assumption used for because this is the most sensitive part of the ULIP assumption?

**Sanjeev Pujari:** No the nature of the products are pretty much the same, because we are basically in the same market and same set of products, which since 2010 has been regulated. So we do not see it is anything do with the nature of the products. This is something that we have faced earlier also during the IPO stage. We could explain our numbers because 25% mass lapse after the surrender period would have an impact definitely. So our impact obviously is bigger than what peer is showing. In fact peer is showing at some stage some kind of improvement because of mass lapse. We really could not explain their sensitivity to this kind of mass lapse. There could be some kind of difference in interpretation in the way the mass lapse is applied and at what stage otherwise the nature of the business is pretty much the same.

**Adarsh Parasrampur:** No, because I was just asking more so because again this was more sensitive when it look like your assumption would be after fifth year lower than 25% fall rate and they would be higher than 25% fall rate?

**Sanjeev Pujari:** So it depends on what your current Lapse rate would be after the surrender period and then on that you apply the mass lapse assumption. So if you are at a mid level.

**Adarsh Parasrampur:** Yes.

**Sanjeev Pujari:** If it is 25% it will get better if it is that 60% it will get worse. I do not think so, we are not able to explain the peer figures, and it looks very different.

**Adarsh Parasrampur:** And the last question from my side is on protection can you just speak a little bit about your volumes and numbers on credit product please?

**Arijit Basu:** On the protection front we have actually grown. The total new business premium protection has grown by about 10% on half year basis and even in Q2 we have grown significantly. We have focused on credit life which is our largest component and also we have grown healthily in the non-credit life i.e. group term insurance product like employer-employee plans. In group protection, we have actually grown by about 25% - 26%. This focus will remain. Just one other point that I had missed out and maybe would like to make is on the topline growth of 48% that we showed in the half year and we continue to maintain the significant lead in the topline growth although our numbers were very high.

**Adarsh Parasrampur:** Sir last question I will squeeze in, your margins from FY2017 is just like 10- 20 basis points higher you have been able to maintain margins and you have run down your group saving business quite a bit so I am just trying to understand whether the margins in any of your other products segments would have gone down or that was never considered in the denominator for EV in the margin earlier?

**Sanjeev Pujari:** No the group savings also because it is single premium in terms of margin it does contribute very positively. Almost at the level of the company's margin, so that has not really made any difference.

**Adarsh Parasrampuria:** Okay so you are saying the margin there also would be 15% so it does not matter whether that run down or not?

**Sanjeev Pujari:** It does matter marginally only, it does not make any significant difference.

**Adarsh Parasrampuria:** Thanks a lot Sir.

**Moderator:** Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

**Nidhesh Jain:** Sir my question is on the VNB margin how so some of the competitors are using the actual cost basis to calculate VNB and some of the competitors are using projected cost basis where they say that in H2 the volume is high and cost is low so they smoothen the cost and so how we had calculated the margins on actual cost basis or assume cost basis?

**Sanjeev Pujari:** When you are doing a calculation on the Indian embedded value based on the APS guidelines you have to take the actual cost, the latest cost that is available in the book. So when we disclosed the embedded value for March 2017 it was based on the actual cost of product in last financial year. What you see in the September numbers, as we do not have a full year's cost and it is difficult to estimate the cost for the broken financial year, so it is actually based on the last year's cost.

**Nidhesh Jain:** Sir, will it be reasonable to expect that the margin for the full year will be slightly or significantly better than 15.6%?

**Sanjeev Pujari:** Essentially that has been our estimate because when you grow in volume say at the rate of 35%, your cost does not really grow to that extent and there is a significant component of fixed cost in your book so obviously there is the economy of sale, which would come through the volumes that is both on new business as well as the recent business book provides. Historically, our experience of the cost has become better over the last three-four years and it will continue to be better.

**Nidhesh Jain:** Here because for some companies we have observed that the full year margins are almost 100 basis points higher than the half year 100, 150 basis points higher than the half-year margins?

**Arijit Basu:** So even for SBI Life, I am sorry to interrupt, if you compare the two years we have so far declared it was 14.2 as on March 2016 and we improved that to 15.4 as at March 2017. As Sanjeev, explained that we have do not do any kind of cost projection or assumption so we have gone by last year's cost and the conclusion that you are drawing seem to be correct that this should show an improvement by the time we declare March 2018 results.

**Sanjeev Pujari:** Having said that the margins were fairly optimal I would say so for a company at this stage.

**Nidhesh Jain:** No just because of the nature of the business because H2 is a very strong in terms of volumes and while the cost remains same the margins should be higher in H2 versus H1 even if we have the same assumptions for both half, is it possible?

- Sanjeev Pujari:** That is right.
- Nidhesh Jain:** Secondly can you share the product mix in terms of total APE?
- Arijit Basu:** NBP split by product type for half year - ULIP is at 56% Non-PAR is at 25% and PAR is at 19%.
- Nidhesh Jain:** Out of this 25% around 6% is protection is it reasonable to say?
- Arijit Basu:** That is right absolutely correct, it is I think slightly below 6%.
- Nidhesh Jain:** On a Y-o-Y basis how was the product mix looking I am just wanted to understand which product has contributed to higher growth?
- Arijit Basu:** PAR and ULIP contributed highest. The share of PAR has gone up from 10% to 19% and the share of ULIP has gone up significantly from 37% to 56%. The share of Non-PAR products of 53% last year has come down only because we significantly reduced our group fund management portfolio and with more protection this time it is only 25%. We have decided to focus a little more on the PAR products i.e. traditional products so the correction in the individual business and ULIP share, our aim is to keep it at level of 65% to 70%, so we were able to do that correction also in the first half year of this year.
- Nidhesh Jain:** Sir for other companies also we have observed that the PAR products has gone up in this first half despite equity markets being very strong so is it anything which is changing from a consumer perspective or the companies are trying to increase the share of PAR?
- Arijit Basu:** For our company, we identify the places where we have sold ULIP and analysed the nature of customers. ULIP is a product where you have to be financially literate and understand the product well. So, we as a strategy in those places, ensures that our sales people also offer the PAR products and they have picked up well. Also, there was one PAR product, which we had launched in the beginning of 2017 calendar year, which has done very well. This product had features of wealth accretion and called as Smart Bachat. In terms of number of policies, ULIPs had actually crossed 50% and PAR was a little lower. But PAR and Non-PAR, together now are more than 50% and ULIPs are slightly below 50% in number of policies sold but as ULIP ticket sizes are higher; the premium is close to 70%.
- Nidhesh Jain:** Lastly on the going forward how should we see the product mix evolving?
- Arijit Basu:** From our perspective, we have been looking at the following few things. Firstly, what is the nature of demand, secondly what is the kind of clientele that we sell to, thirdly what are the products that we offer and then lastly what is the impact it has on our margins. Based on this at the beginning of the financial year, we thought that ULIP percentage in the individual segment of close to 80% does not reflect our client base, so we decided to bring it down by about 10%, which we have significantly achieved in the first half year. In second half, we would like to keep it at that level, unless there is a change in the market condition. PAR share at about 25% and the balance coming from Non-PAR. On overall basis, there would be group product and protection product sold on the group platform, which will contribute to the Non-PAR share to around 25%-30%. So, overall basis we expect ULIP to be at around 50% Non-PAR segment at around 30% and PAR segment at around 20%. We have a mix of

around this then the profitability calculation that we have estimated for the long-term, relating to margins and embedded values will be achieved. Further, we also have to take a look at persistency gains that we are seeing in the recent past that should also sustain. A good product sale would mean that these products is renewed and is persistent. We are delighted with the significant growth in renewal premium of 25%-26% that we have been able to achieve in the last two years, this year we have taken renewal premium growth to 35%, which is the most heartwarming thing for the management and we would certainly like to keep at this level which depends on the nature of the product that we are selling to the customers.

**Nidhesh Jain:** Thank you Sir. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Kajal Gandhi from ICICI Direct. Please go ahead.

**Kajal Gandhi:** I have two questions basically one I wanted the breakup of your group insurance breaking into how much is fund management savings and all? Second what you had mentioned on your ULIP business currently that 55% is that what you are looking for in the individual segment but kind of growth that you are seeing there right now is that growth has to come down when you think the other regular individual premium can go up so much in order to sustain the kind of growth that you aim?

**Arijit Basu:** Group savings contributes, for the first half-year is at 742 crores as against 2,167 crores in the same period last year. Protection we have improved from 220 crores to 242 crores. Out of 242 crores, around 180 crores are on the group platform and 62 crores would be on the individual platform. The ULIP growth has been close to 40%, PAR growth has been at 77% that is because of the correction that we are doing. If we are aiming overall growth of 35%-40%, we will have a slightly higher growth in PAR as compared to ULIP. To reiterate, this year in first half, we have seen PAR products have grown by 77% and ULIP products grown by around 40%. Both are very healthy signs. It has overall translated into a growth of 48% and under individual Non-PAR segment, grew by 18%.

**Kajal Gandhi:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Dhaval Gada from Sundaram Asset Management. Please go ahead.

**Dhaval Gada:** Thanks for the opportunity and just couple of questions to you. Firstly, if you can give me the EV walk for the first half of the year?

**Arijit Basu:** We will just mention the broad figures embedded value as on September, 30 is 18,082 Crores as compared to an embedded value of 16,538 Crores as on March 31. Any further detail if you want we can address the same.

**Dhaval Gada:** Sir, what was the unwind during the quarter and what was the operating variances change positive or negative during the first half and if there were any dividends or economic variances during the first half year?

- Sanjeev Pujari:** The total growth in EV during the half year was 1,544 crores from 16,538 to 18,082. We have not done a detailed movement, but broadly VNB is 525 crore and unwinding is 660 crore. Together these two basic components account for 1,185 crores and this leaves around 360 crores for the variance. As per our rough estimate, the operating variance would be somewhere around 160 crore and the economic variance would somewhere around 200 crore, so that explains to 360 crores.
- Dhaval Gada:** No dividend during the first half right.
- Arijit Basu:** Nothing else.
- Dhaval Gada:** Sir, this estimated operating variance of 160 crores, any specific reason you would like to attribute?
- Sanjeev Pujari:** We have not change any assumption as such so basically this is the profit that flowed through during the half year, the revenue profit, which would be in excess of the profit in the EV estimates.
- Dhaval Gada:** And this actual on what measures have they improved like biggest would be is it to do with cost or some other measures which led to this?
- Sanjeev Pujari:** Yes it will be on cost, on interest rate and also on the mortality.
- Dhaval Gada:** And the balance non-operating variance is largely to do with the rates right?
- Sanjeev Pujari:** Yes it is to do with rate both on the equity side as well on the tax side.
- Dhaval Gada:** Sir, just one more aspect in terms of persistency. In the 13<sup>th</sup> month, in general, it has been a very gradual process of improvement. Why we are not able to go beyond 81%, 82% and move to the 85%, 86%, any specific reason that you would like to attribute?
- Arijit Basu:** Actually, if you had looked at our persistency say three years ago we were somewhere around 75%, 76% on the same calculation basis. There has been about 5% improvement between say FY2014 to FY2017. Now, having crossed that hurdle of 81%, one of the reasons why we think that it will improve gradually is because of the fact that we do a lot of traditional selling. Our experience as well as the experience of the industry is that this is one of the positive things about ULIP mainly because it is sold to higher net worth or more financially aware people and so the renewal tends to be very high. Even our ULIP renewals also are significantly much better than traditional. But, in the recent past the positive trend is that even in traditional we are getting a lot of traction and the renewals are improving and the persistency is going up. Our internal target is around 83% to 85%, so we hope to see that we continually grow in that direction.
- Dhaval Gada:** And this 83% to 85% is for FY2018 or beyond?.
- Arijit Basu:** Slightly longer but maybe two years or so, but study improvement we will continue to see.

- Dhaval Gada:** Just one last thing sir if you could explain one of the low margin business which was the fund management business we scaled it down and I would have expected that margins should improve slightly more than what it has done during the half so am I reading too much into it or is there anything?
- Sanjeev Pujari:** The fund management business margin that goes into the calculation it is very similar to the overall margin of the company roughly around 15%, so it is going up or down does not materially affect the overall margin.
- Arijit Basu:** It is not so much due to the margin but it can impact your profitability because the way you get this business is by offering a certain interest rates. In FY 2016-17 many corporate placed business with us because the rate of interest that we had offered in the earlier years was higher than the immediate players. We reduced the interest rates in the previous year. If you wish to compromise on that, in the sense that you raise your interest rates we can get this business because of brand value and the trust that the clients have placed on the Company. But as this would impact the profitability, we have to balance it out. Considering that we get average company margin only, we keep our interest rates very balance. We took a call that some amount of fund management that we will continue to reach out based on trust and relationship but we will not go over- board on this business.
- Sanjeev Pujari:** It is not the margin because of which you would like to do less of this business. I would say it is not a major part of the business because of the risk that you run and trying to manage this business. Firstly, the pressure on interest rate that you have to give to the corporate clients and secondly, because it is very lumpy. When they put in big money they are free to take it away also and then you have to manage the risk for the company that is the reason why overall you should say the proportion of group saying business to the extent we can manage your risk rate.
- Dhaval Gada:** Sir just out of curiosity just last point, what is the bankbook of the fund management business total outstanding?
- Abhijit Gulanikar:** 16,000 crores of AUM.
- Dhaval Gada:** 16,000 crores of the 1,00,000 crores close to that.
- Arijit Basu:** 1,05,000 crores is our total AUM, around 16,000 crores is only for fund management.
- Dhaval Gada:** Thank you so much Sir. Wish you all the very best.
- Moderator:** Thank you. We will take the last question from the line of Harshit Toshniwal from ICICI Securities. Please go ahead.
- Harshit Toshniwal:** Few questions one on this group one only coming from the last we just wanted to know so most of these are variable insurance nature products so the way I thought the product is structure is that we give a very minimal 1% or 2% guaranteed return and some kind of bonuses above that so is that product really risky. I just want to understand the way it is structured the group fund management business or basically the kind of absolute guarantees, which we give in this kind of product?

- Sanjeev Pujari:** Well there is no forward looking guarantee that means you do not guarantee the future rates but again once you credit a particular rate to the customer then obviously the capital as well as the rate that you have declared stays guaranteed with the product.
- Harshit Toshniwal:** So any say broad sense of what kind of rates would that be 2%, 2.5%, and 3% in general in the current scenario?
- Sanjeev Pujari:** No we have got two sets of products. I think what we are talking about is the new one where you have to declare the interest rates quarterly in advance. Unless you give a realistic rate, you would not be able to do any business here because it has to reflect the earnings in your books.
- Arijit Basu:** This is basically, just to explain the nature of the product. This is the gratuity corpus of the Corporate. Let say, the company has a gratuity corpus of 1000 crores and decides to invest to earn a return along with minimal insurance component. The corporate gives us the fund to manage and give back a return at the end of the year. It depends on the yield that we are earning on our investments made out of these funds after keeping a margin.
- Sanjeev Pujari:** Yes I think what you are talking about is the current product where there is a minimum guarantee that would be 1%, but what you actually give would be much higher on that.
- Harshit Toshniwal:** So can you give me a figure for that around?
- Arijit Basu:** It depends on the yield that we are earning. 6.8% in the new variant and slightly higher for the old variance. For example, assuming that instead of 6.8%, if we offer 7.2%, we will get good volume of business, but that is not what we want. If you want to attract good funds business volume, you have to give high rate and it can severely damage company's profitability. The next logical question would be then why do companies go for this business, it is mainly for the topline and we were also doing this significantly at one point in time, when our overall individual business was not growing at this rate. Now, that we are come to a stage where our individual business is growing at 35% to 40% we should take we should take this opportunity to bring this kind of business down to a reasonable level. Our aim is to keep this at around 20% of the overall business at the maximum. Last year it was close to around 30% and this year it has gone to around 15% or lower, maybe by the end of the year, we will be at around 15%- 20%, which we feel is a healthy mix from our embedded value and profitability perspective.
- Harshit Toshniwal:** Sir, just one more question if it is allowed, I was trying to compare the sum assured to premium basically the price of your protection products so those are very much costlier when I compare it to other private peers, so any specific reason for charging that high rates?
- Sanjeev Pujari:** I think what possibly has happened, the rates in the market have moved down severely for many other companies, so for many other companies the rates have almost become 50% of what they used to be earlier. Our rates are higher, it is just because of the fact that we have not revised our premium for the term products so frequently, but again just to catch up with the market, we have got two major products on the individual protection term product line, offline one is the smart shield for which the rate was revised very recently and has come somewhere close to either fourth or a fifth in the industry.

- Harshit Toshniwal:** So what would be the sum assured to premium for that new one roughly?
- Sanjeev Pujari:** In terms of league table, as mentioned, it will be somewhere around figuring in the fourth best or a fifth best and the other one is the what we sell on the online that is the e-shield that is currently undergoing a revision so there the rates would look better.
- Harshit Toshniwal:** Sir just last follow up question, how many of your agents would be inactive so when I classify it as who do not do even one policy a year what percent of your total agency do you have?
- Abhijit Gulanikar:** The way to look at it is we have about 20%-21% of agents who will sell policy every month, of course they keep on changing and we typically lose a reasonable number of our agents if they do not sell two policies. So, every year we have 95,000 plus agents and a reasonable number of them do not sell any policy and they get out of the system and get replaced.
- Arijit Basu:** Abhijit is talking of month not a year. If you were to look at year then all our agents are active. We have much stricter internal norms and our basic minimum norm is one policy a month and our slightly higher elevated norm is two policies a month. So two policies a month is what is leading us to this kind of growth which is around 19% to 20% of our total agents. So out of 95,000 agents we have, around 20% of them achieve two policies a month, that is 24 policies a year and rest agents will get one policy per month.
- Harshit Toshniwal:** Sir when I look at your agent productivity so the counterintuitive part is you have more of the rural and semi urban customers compared to other peers still the ticket size which your agent does is much higher compared to the rest of the industry. So how can that be –is it only because of the increase productivity or there are other factors also?
- Abhijit Gulanikar:** For us, if you see between banca and agency, the agency ticket size is lower and that kind of tells you that our agents are more in non-metro areas selling slightly more traditional products etc., it is essentially a factor that we are able to sell more policies per month than most other companies in the industry.
- Harshit Toshniwal:** Because I was trying to look that number of agents active?
- Abhijit Gulanikar:** 30,000 typically, it is semi urban and small towns where we are able to sell most of our policies including large towns, our agency does well.
- Harshit Toshniwal:** So your agent productivity significantly higher than peers so even though you are into the metro and non-metro cities.
- Arijit Basu:** I think the feedback given by the agents is the one, of course, we would like to take some credit for the kind of training and engagement initiatives and the another one is that the SBI life brand value vis-à-vis the other insurance product brand, which makes it easier for them to sell an SBI Life policy as compared to a policy of a private life insurance company that is why LIC still continues to have a marginal lead over us in terms of agent productivity.
- Harshit Toshniwal:** Thanks a lot. That was helpful.



SBI Life Insurance Company  
October 31, 2017

**Moderator:** Thank you. We do not have any one in the question queue now. I now hand the conference over to Mr Arijit Basu for concluding remarks.

**Arijit Basu:** Thank you very much. We would like to thank all of you who have assembled today. I know many of you have been a part of the SBI life journey. Again to sum up, internally we are satisfied that in the first half of the year, we have been able to continue the journey that we have shown to investors. I hope the analysts will be able to understand this aspect and it will be appreciated by the investors also. Thank you very much for very patient listening. We will be happy in case you have any further or detailed questions to ask, Please do send it to us and we will be very happy to response to it a detailed reply. Thank you very much.

**Moderator:** Thank you. On behalf of SBI Life Insurance Company that concludes this conference. Thank you for joining. You may now disconnect your lines.

\*\*\*\*\*

Note:

*This document may contain forward-looking statements based on current expectations of SBI Life management. Actual results may differ materially from the forward-looking statements due to various risks, uncertainties and assumptions.*

*Please note that the transcript has been edited for the purpose of clarity and accuracy.*