ICICI Prudential Life Q4FY20

Financial Results & Highlights

Brief Company Introduction

ICICI Prudential Life Insurance Co. carries on business of providing life insurance, pensions and health insurance products to individuals and groups. Riders providing additional benefits are offered under some of these products. The business is conducted in participating, non-participating and unit linked lines of businesses. These products are distributed through individual agents, corporate agents, banks, brokers, the Companys proprietary sales force and the Company website.

Standalone Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	-7648	16054	-147.64%	12947	-159.07%	21940	41400	-47.00%
PBT	172	278	-38.13%	304	-43.42%	1069	1163	-8.08%
PAT	179	261	-31.42%	302	-40.73%	1069	1141	-6.31%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	-7648	16054	-147.64%	12947	-159.07%	21940	41400	-47.00%
PBT	171	278	-38.49%	303	-43.56%	1067	1161	-8.10%
PAT	179	261	-31.42%	302	-40.73%	1067	1139	-6.32%

Detailed Results:

1. The company saw an income decline of 148% YoY in Q4 periods. PAT fell 31% YoY in the same period.
2. This fall in income is mainly due to the impairment in investments due to the recent fall in Indian equity markets.
3. There was a 20.9% growth in the Value of New Business (VNP).
4. APE (Annualized Premium Equivalent) fell 5.4% YoY in FY20. The savings portion fell 11.5% YoY to Rs 62.65 billion while the protection segment grew 54.6% YoY to Rs 11.16 billion.
5. The new business premium grew by 20.4% YoY. The new business Margin was at 21.7%.
6. Total AUM declined 4.6% YoY in the FY20.
7. The Embedded Value grew 6.5% YoY to Rs 230.3 billion.
8. The company maintained a solvency ratio of 194%.
9. As of 31st March 2020, the AUM was at Rs 1,529 billion and had a 60:40 debt to equity mix. 93.9% of debt investments were in AAA-rated bonds.
10. The cost to the TWRP ratio declined by 110 bps to 10.4% in FY20.

11. Expense ratio excluding commission increased 100 bps to 10.3% in FY20.
12. The company reported improvement in persistency across all time periods with 13-month figures improving to 84.6% vs 83.2% a year ago. 49th-month persistency reduced slightly to 63.8% vs 64.6% a year ago.
13. The return on embedded value declined 5% YoY to 15.2% in FY20.

Investor Conference Call Highlights

1. The company has filed for a revised protection product with the regulator and has instituted the pricing change based on the change in underlying mortality. This change is expected to expand the target market for the product.
2. The management has emphasized that the company's balance sheet is resilient enough to withstand much more severe system shocks than the one driven by COVID-19. The company is confident of maintaining solvency and liquidity at current levels despite future uncertainty.
3. It has been observed in the past that due to under penetration of the insurance industry, even when natural catastrophes have resulted in extensive loss of life, the claims from the company's existing customer base has been negligible. Even then the company shall hold additional reserves for excess potential COVID-19 claims.
4. The company has seen digital interactions with customers rise dramatically since the lockdown started. Daily chatbot interactions have increased 42% while Whatsapp interactions have increased 61% and mobile app logins have increased by 94%.
5. The company's claims settlement ratio stands 98%. The average time taken for claim settlement has improved to 1.6 days in Fy20 from 2.3 days in FY19.
6. The management has stated that the improvement in the VNB margin has been mainly due to the change in the effective tax rate of dividend income.
7. Around 74% of VNB is coming from the emerging businesses of protection and non-linked savings.
8. ICICI Bank remains the most significant distributor for the company with 46% of total company APE coming from this channel in FY20.
9. The management has admitted that ULIP shall remain subdued in the near future and VNB for Q1FY21 will also remain subdued.
10. The management remains optimistic of its medium-term goal of doubling FY19 VNB in 3-4 years.
11. The company added 23,000 new agents in FY20 to its sales force. More than half of the agency business has been from non-linked savings and protection products.
12. The bancassurance channel also saw good growth in both the above-mentioned products. Protection APE for this channel grew 137% YoY while the annuity business grew 70% YoY in FY20.
13. The partnership distribution channel also saw a significant focus on the same products with almost 80% of all businesses form this channel coming in the protection and non-linked savings businesses.
14. The credit life segment also grew 50% YoY with an APE of Rs 2.35 billion in FY20. It contributed to 16% of total protection APE in FY20.
15. The management has admitted that first-year premiums for ULIP have been on a declining trend for the past few years because of sentiment and market conditions. The management has decided to focus on expanding VNB on absolute terms and drive this by improving product mix. As ULIP is the lowest margin product for the company, greater focus will be applied to developing products

from other categories. The protection category remains the primary focus area here for the management and the company going ahead. Retail protection is expected to be the driver in this area.

16. The management is confident of maintaining a VNB growth rate of 19% to 25% despite the COVID-19 situation and the economic damage caused by it and the lockdown.
17. The management is confident that the demand for the protection products both in the individual and group categories shall rise post-COVID-19.
18. The management has disclosed that it has zero NPAs in its balance sheet right now.
19. The management has clarified that the company has not launched any COVID-19 specific products but its default protection product does cover death by COVID-19. The change due to COVID-19 in the protection product that the company is instituting is in the medical underwriting process.
20. The management has clarified that the ticket size for the protection product has almost doubled mainly because of the launch of the limited pay option where the policyholder has the option of shortening the pay period. This was well received and exercised by many customers. This was especially exercised by self-employed customers which are almost 75%- 80% of the customer set.
21. The management has clarified that the growth in the number of policies may appear subdued due to a variety of factors including the rise of group cover policies where a large group of people has been covered by a single policy. Thus the number of policies should not be taken as a proxy for the number of lives covered.
22. The management maintains that maintaining a high level of persistence is one of the paramount objectives whenever the company is making any product or designing any sales process.
23. The company is mainly seeing fraud cases in less than Rs 50 lacs of the sum assured category. One of the ways to prevent large fraud is to allow only an appropriate amount of cover based on underwriting considering the income level of the person covered. The company is also using various data repositories from the credit bureau, insurance information bureau to apply analytics to identify suspicious fraud patterns.
24. The management has stated that the reason for the introduction of the limited pay was essentially customer-driven.
25. The management has stated that the company has indeed pushed for cost management to keep fixed costs as low as possible in current uncertain times. Thus discretionary expenses like sales rewards and new recruitment have been put on hold.
26. The management has clarified that the starting point for the price increase is the price increases has been the increasing prices demanded by reinsurers. The company is committed to passing on all such price increases to maintain its margins and thus have had to increase prices of final products accordingly. The management is confident that due to industry under penetration, price increases should not adversely affect demand.
27. The company has seen a YoY increase in inquiries for protection products in April while ULIPs have declined YoY in the month.
28. The company conducts background checks and data gathering for customers with sum assured of Rs 50 Lacs to 1 Cr. Above this amount, the company does a telemedical interview of the customer with a doctor depending on the specific customer. Beyond Rs 2 Cr which is typically for more affluent customers, actual medical tests are required for underwriting.
29. Right now, around 25.7% of protection APE is from retail policies while the rest is from group policies.
30. The management has stated that currently the surrender rate has been drastically reduced because no one wants to surrender in the current time of low market prices for equity markets.

31. The company has seen persistency remain almost unaffected from the COVID-19 disruption. Furthermore, it has also seen persistency in protection products increase after COVID-19 appeared.
32. The VNB margin for protection has fallen from 109% in FY19 to 86% in FY20. This is mainly because of the rise of limited pay products in this category which has a smaller margin compared to regular pay keeping in mind that both options have the same absolute VNB. Another reason for the fall is the fall in benchmark interest rates in the past year.
33. The management has stated that in the protection business, half of the sum assured is reinsured while the other half is retained by the company. In case of savings products, all of the sums are retained by the company.
34. Within ULIP, 60% of the corpus is invested in equities. In participating businesses, 25% is into equity, the rest in fixed income. In guaranteed return products, all the allocation is in fixed income. The average ticket size in ULIP has gone up from Rs 1,60,000 to Rs 1,83,000 while in par the ticket size has gone up from Rs 60,000 to Rs 64,000. There has been demand compression in ULIP as the customers in the bottom segment in ULIP have moved on to par.
35. The management does not believe that there will be any big impact from the 30-day grace period on offer for insurance payments as it is unlikely to affect persistency over the course of the year going forward. This is mainly because insurance savings is a long term commitment and customers will only break it and withdraw when they are at last dire straits.
36. The management has stated that when the solvency of the company will be near 150% only then will the company get triggered to raise additional capital. The management does not expect such a case to happen as it has not occurred even in the stress tests that the company has undertaken.
37. The sharpest reduction in costs has been in variable costs for the company. This is because the management has reduced discretionary elements like distribution commissions and others.
38. Interest rate sensitivity for VNB has gone down YoY. Last year the interest rate sensitivity for 100 bps increase in reference rate was 4.3% which has gone down to 2.4% in FY20. This is mainly driven by a change in the product mix.
39. The management has stated that the only way maintenance costs will worsen is if persistency drops sharply and the book becomes smaller.

Analyst's View:

ICICI Prudential Life is one of the front runners in the life insurance industry in India. The company has established itself as one of the mainstays of the private insurance industry since its start more than 40 years ago. The company has done well to shore its reserves and maintain balance sheet resilience in the face of the ongoing crisis. The performance of the company's protection business is particularly encouraging. The management has stated that during the upcoming uncertain tomes, the company shall focus on maintaining its solvency, reducing costs, and promotion of its fast-growing protection business which is expected to increase in demand as the COVID-19 situation goes forward. But the company could still face major hurdles in its path from the uncertainty in equity markets and the reliance on ULIPs which are still the most sold products for the company. It remains to be seen how the COVID-19 situation unravels and how the company adapts and maneuvers the uncertainty ahead. Nonetheless, given the company's market position, storied track record, and reach in the market, ICICI Prudential is a pivotal insurance stock to watch out for.

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