HDFC Life Insurance Company Limited

Q1 FY25 Earnings Conference Call

July 15, 2024

Vibha Padalkar: Good evening. I would like to welcome everyone to our earnings conference call for the quarter ended June 30th, 2024. Our results, which includes the investor presentation, press release and regulatory disclosures, have already been made available on both our website and the stock exchanges. Joining me are Suresh Badami, Deputy Managing Director; Niraj Shah, ED & CFO; Vineet Arora, COO*; Eshwari Murugan, our Appointed Actuary and Kunal Jain, SVP - Investor Relations and Business Planning.

**Mr. Vineet Arora was inadvertently referred to as Executive Director and COO instead of COO*

Moving on to key highlights of Q1 FY 25. Starting with operating performance. We have kicked off the year on a strong note, achieving a robust YoY growth of 31% based on individual APE, translating to a 2-year CAGR of 21%. This healthy growth is bolstered by strong performance across all metrics. We registered an increase of 22% in the number of policies and a ticket size expansion of 7%. Our growth outpaced both the private sector and overall industry, on a YoY as well as a two-year CAGR basis.

We experienced growth resurgence in tier 1 markets, whilst maintaining strong growth in tier 2 and 3 geographies. Tier 2 and 3 markets continue to account for two thirds of our business in terms of APE and three quarters of our business in terms of number of policies sold. We observed healthy growth in the number of policies across both savings and protection segments, as well as across geographies. The proportion of 'New to HDFC Life' customers in Q1 remains robust, exceeding 70%. We achieved a strong growth of 46% in retail sum assured, driven by expansion in retail protection, higher sum assured multiples for savings products and robust rider attachment.

Regarding our product mix for the quarter, ULIPs accounted for 38%, non-par savings for 35%, participating products for 16%, term for 6%, and annuities for 5%, based on individual APE. While we began the year with a high ULIP mix, we have been successful in lowering it during the quarter. We anticipate this moderation to continue in the coming months, driven primarily by product launches across other categories. We have observed strong growth in non-par products, with the segment achieving a YoY increase of 41%. Additionally, our continued introduction of newer variants within the Click2Achieve umbrella has resonated well with customers, with the latest variant garnering Rs 100 crore of new business in merely 16 days.

Retail protection experienced significant growth of 28% based on individual APE and a robust 36% on a two-year CAGR basis. This is despite us continuing to follow a calibrated pricing and risk management approach. The credit protect segment remained flat due to slower disbursement in certain lines of business and increased competitive intensity across select partners. Our focus remains on building a sustainable and profitable business in this segment, and we are prepared to temporarily step away if a segment or a partnership becomes unviable. We continue to be ranked amongst the market leaders in both credit protect and retail protection segments and are committed to maintaining sustainable and profitable growth in the overall protection segment.

The annuity business in India is still in its early stages, presenting significant long-term growth potential. Despite intense competition and aggressive pricing by some peers, we continue to adopt a calibrated growth strategy, focusing on enhancing our product offerings while maintaining pricing discipline. Together, annuity and protection contributed 47% to our overall new business premium.

Moving on to key financial and operating metrics. Our Q1 value of new business was Rs. 718 crores, reflecting a healthy 18% growth both YoY and on a two-year CAGR basis. Our new business margins are 25.0% compared to 26.2% last year. The margin compression is primarily due to the product mix and continued investments in infrastructure, manpower, and technology.

We are committed to investing for long-term growth by expanding our geographical reach and tapping into new customer segments. These initiatives will help drive our growth trajectory over the next 3-4 years. As the year unfolds, our focus remains on achieving absolute APE and VNB growth. We will be flexible in trading off margins within a range, in order to pursue these objectives.

Our embedded value is Rs. 49,611 crores as on 30th June, with an operating return on embedded value of 15.5%. Profit after tax has grown by 15% year-over-year, reaching Rs. 478 crores, driven by an 18% increase in profit emergence from the back book. Our solvency ratio stands at 186%.

To strengthen our solvency position, we will be raising sub-debt up to Rs 2,000 crore, in one or more tranches, over the next 12 months. This sub-debt raise will help fuel our growth aspirations.

Renewal collections grew by 10% year-over-year. Persistency for the 13th and 61st months improved to 88% and 56%, respectively, marking increases of 108 basis points and 282 basis points versus the previous year.

Next, on distribution. The bancassurance channel experienced over 40% growth in individual APE. Our counter share in HDFC Bank continued to be healthy, reaching 66% by the end of the quarter, up from 56.5% in Q1 of the previous year. Our close collaboration with partners ensures that we are able to offer the relevant products that suit the needs of our bancassurance partners' diverse customer segments.

The agency channel achieved strong growth this quarter, with a robust 2-year CAGR of 17% based on individual APE. We are expanding our agency network by enhancing capacity for future growth, which includes expanding our footprint, recruiting top talent and investing in technology and capability development in order to improve productivity. We led the industry in net agent additions, adding over 18,500 agents during the quarter. Additionally, we expanded our network by adding 60 new locations this quarter, taking the aggregate number of branches to around 600.

Further, we continue to actively forge strategic partnerships and have recently partnered with Upstox, Fino Payments Bank, Peerless Financial Services, amongst others. These collaborations will enable us to reach new customer segments, expand into new markets, and strengthen our presence.

Now regarding our subsidiaries. The AUM of HDFC Pension Fund Management grew by 67% YoY and surpassed Rs. 88,000 crores. We continue to build the pension business, maintaining a market share of over 43%. We are advancing our expansion efforts in GIFT City through our subsidiary in Dubai and are already seeing encouraging results in the NRI segment. Going forward, we aim to enhance our footprint by introducing more products tailored to their needs. The recent expansion of the scope of remittances under the Liberalised Remittance Scheme (LRS) will enable us to extend our offerings to Indian residents as well.

Update on Project Inspire. Our technology transformation initiative is progressing as planned. We are on track to launch our group business transformation between Q3 and Q4 this year. The business process re-engineering under this project will greatly improve operational efficiency, establish a unified data platform for enhanced decision-making and collaboration and bolster our risk management capabilities.

Moving to regulatory update. We welcome the IRDAI's progressive reforms outlined in the Master Circular on Life Insurance products. Measures such as mandatory policy loans to enhance liquidity, extended free look-in period, robust processes to address customer grievances and higher value to customers on early exits should further the regulator's vision of insurance for all by 2047. We are confident that these reforms will significantly strengthen the life insurance proposition in India, making it simpler, more transparent and ultimately more attractive to prospective customers.

As indicated in our press release on the stock exchanges, we anticipate a gross impact of approximately 100 bps on the company's new business margin due to higher surrender value payable on early exits. Impact for us is limited due to our balanced approach to business. We have consistently employed a calibrated pricing strategy and maintained a prudent approach to risk management, as demonstrated by our regular quarterly disclosures over the past few years. Our actual experience of surrenders is negligible based on which our assumptions factor in close to zero surrenders. This implies that we have not been factoring in any surrender profits after the customer pays the first renewal premium. This is illustrated on slide 8 of our investor presentation, where most of our customers prefer to continue their policies in paid-up status rather than surrendering them. Our persistency experience is also strong and improving across cohorts and geographies.

We are reasonably confident in our ability to mitigate this impact without compromising our customer value proposition. We endeavour to achieve this primarily through restructuring distributor pay-outs using a combination of deferment and clawbacks. We also believe this regulation will improve market conduct, moderate competitive intensity, and benefit players who have been relatively prudent.

In conclusion, the substantial gap in financial protection across India presents a compelling growth opportunity for our sector. We are committed to securing India's future through innovative insurance solutions. We believe our dedication to excellence is visible in our consistent, predictable and sustained performance over the years, where we have doubled on our key metrics over multiple blocks of four years. Looking ahead, we remain focused on maintaining this high-growth trajectory while prioritizing Value of New Business growth.

For a detailed overview of our results, please refer to our investor presentation. We are now open to any questions from the audience.

Moderator: Thank you very much. Our first question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: A few questions. The first one is regarding the sensitivity to taxes and the corporate tax rate being increased. If I see your sensitivity to VNB margins, it appears reasonably high. Just wanted to clarify that when you are showing the sensitivity from corporate tax going to 25%, are you also assuming all the exemptions being taken away? Or it is like that, okay, 14% where it's applicable going to 25% and then you are showing sensitivity? Because there is reasonable variance in sensitivities as far as VNB is concerned.

I wanted clarity on how are you calculating these sensitivities? Second is related to credit life. Can you help out a bit more, is the competition intense in mortgages or in short tenure products like personal loan, micro finance and durables? Where are you seeing intense competition? And has that led that on a like-to-like basis, this quarter, the margin profile overall on the group side of the product being lower than what it was last year same quarter?

Niraj Shah: On your question on tax, which we have it on Page 26 of our investor deck, we have also given a note there, which talks about what our assumption is when we are taking this impact. It's assuming that the current tax rate of 12.5% plus surcharge changes to 25%. And the policyholder and shareholder segment surplus get taxed at the higher rate. Essentially, everything gets taxed at the higher rate. It is not allowing for any benefit of policyholder surplus being tax exempt, which was envisaged in the DTC. We will have to wait and see how this really pans out, but this assumes that everything gets taxed at this rate. And it's not factoring any other exemptions that may or may not be available in the future.

Avinash Singh: Okay. Just a follow-up. So whatever exemption you are assuming, you are assuming that policyholder surplus that gets taxed in par as well as your shareholder PBT, both getting taxed at 25%?

Niraj Shah: That's correct.

Avinash Singh: So, you are assuming 25% taxation. In that way, if you are having certain par business, then you are penalizing yourself a lot more in the sensitivity table because it is the par business where policyholder surplus will get taxed?

Niraj Shah: Yes, Avinash because while DTC was very clear in terms of how it wants to treat policyholder surplus generated out of those segments, we don't know whether it is going to come in that form. So, we didn't want to make any assumptions of lower tax on that segment and hence we have taken the maximum rate on everything. We will have to wait and see how it really comes out.

Avinash Singh: Pretty advance taxes, I mean at both point you are going to tax at 25%.

Vibha Padalkar: I just want to add here that there was a particular reason why the rate is 12.5% plus surcharge. I won't go into the technicalities of it, but I think it is somewhat misunderstood given that the last three terms DTC has not been talked about. There was a particular reason like I said the rate was what it was, going back ~25 years, there was an IRDAI Committee which then subsumed the way policyholders and shareholders profit together, Because the intention was not to tax profits emerging from policyholders' funds and to tax shareholders.

So, this was seen as an amalgamated or an averaged-out percentage. I think a lot of younger people who are tracking it perhaps don't know the back story on why it is what it is as against just that there was a random rate that possibly is being applied in life insurance, but like I said, this is probably not the forum to get into the details. If anyone is interested, we can always go back in history as to why the overall landed cost is at ~14.5%. On your next question, Suresh you want to take this.

Suresh Badami: Just to set the context on credit life business and your question on competitive intensity, I would like to clarify we work across the spectrum with more than 200 partners which is across banks, SFBs, MFI, NBFCs and other ecosystem players.

Secondly, we work on almost every possible line of business whether it's mortgages, whether it's LAP, whether it's commercial vehicles, personal loan or autos. There is a fair amount of spectrum that we work in terms of the type of partner as well as the line of business. Even within that we work with many other partners which are there in certain geographies, we don't work in certain states, so it varies in terms of where we are present and what is the profile of the underlying customer to whom the loan is disbursed. And finally, even in terms of product, we have a very clear strategy in terms of what kind of value penetration is that we can do. What are the products that we can offer in terms of riders? It is not an easy like-to-like comparison on how you can offer the pricing.

In simpler lines we do find that other players are also coming in. But given the experience that most of the partners have had with us over multiple years we have probably got the best in terms of the lowest claim repudiation ratio, in terms of the claim settlement TATs, in terms of what is the value penetration that we are able to bring.

We are working to ensure that our margins remain stable. I don't think it is true that our margins have decreased. In some places where quality of business is not good, we are letting some of that business go. In some places the disbursement on the credit life on the underlying

loans itself has slowed down in certain lines at the partner's end, there obviously the numbers have come down.

As a calibrated strategy we are very clear to say that we will work in a certain margin range and ensure that value penetration, where we cover the loan to the maximum with our partners and that's broadly been the way we have been working on the credit life pricing.

Vibha Padalkar: To add here on the pricing and irrationality sometimes and we will stay fairly balanced on this. In the past on credit life where it doesn't make sense, we have exited certain lines of coverage and then down the line the partner has come back to us because that can't continue forever by a new insurer. There will be penetrative pricing, but down the line if they raise prices then due to partner's strong relationship with us in the past means that they will come back. So, we just have to build this brick by brick and that's why it will always be two steps forward, one step back, but we are in there for the long haul in terms of the relationship.

Avinash Singh: And how is the pricing environment in GTI this year?

Suresh Badami: That remains competitive as every year. In most cases there were a few players who have been looking at it, but that is sometimes balanced more with the relationship that we have with that particular corporate and the overall relationships we have got. But that is the segment which remains competitive in terms of pricing, which is why if you find that we are at a certain market share, we don't want to go beyond that market share.

And in any case, every year it keeps getting renewed. Wherever we find it reasonable or where we find our existing relationship which comes in for renewal, we go back and ensure that stays with us.

Vibha Padalkar: And to add over there, because of this one-year churn you end up paying stamp duty every year and that makes it onerous. If GTI was say for three years, then it could make very different commercial sense than this annual bidding out to the lowest insurer. So again, there will remain calibrated.

Avinash Singh: Got it, very clear. Thank you.

Moderator: The next question is from the line of Prayesh Jain from Motilal Oswal.

Prayesh Jain: Now that you had time to look at surrender charges and there is a talk in the industry that there will obviously be aggressive selling in Q2 and then possibly we will go through a period of new product launches in Q3. So how should we look at the industry from the next 9 months' perspective? And within that what would be your strategy in terms of premium growth. How should we look at it from the next 9 months' perspective?

Vibha Padalkar: Prayesh, this aggressive selling is something that we don't like, and we did not do it when the budget changes were happening. We did not resort to fire sale and even more so now because the product will actually be better for the customer in the event that they want the liquidity. So

just because somebody might be saying okay the IRRs might drop and so take my product right now, we are not going to do that, it's going to be absolutely business as usual for us between now and the transition period.

Prayesh Jain: Got that. And from a margin perspective, the product mix has been favourable. Share of protection and annuities have gone up sequentially. But still margins have come off and its primarily due to expenses. How do we look at full year margins?

Vibha Padalkar: Like I mentioned even in the April call, we are focusing on two outcomes. One is growth that is faster than industry growth. This is new business retail APE growth. And second is in terms of VNB growth, again getting back to doubling every four years in a very consistent manner. Margin will be to some extent an outcome, while at the same time we don't intend for it to yo-yo excessively. And by that, I mean not to the extent of 300, 400, 700 basis points. that's not what we have in mind, but a little bit here and there. The reason for saying that is clearly there is an uptick of unit linked over the past several months, thanks to the markets. And so that is something we cannot ignore. Second is that customer acquisition continues to stay to be important so that we can upsell to the customer down the line. And so, we will remain range bound as far as unit linked is concerned while at the same time deliver VNB growth.

Prayesh Jain: Last question on retail protection, is there a pricing action that's happening in the industry? And is there some pressure from reinsurers? What will be the reason for a major re-pricing action?

Niraj Shah: On pricing we have always maintained that this is an ongoing exercise whether it is protection or annuities or non-par. Like in any product in any industry, you will review pricing based on what the raw material cost is. In our case what the experience is, depending on which customer segments are you addressing and so on and so forth. If you are referring to a media report that was there a couple of days back, I think there hasn't been any change that we made which is significant. What was reported in our context wasn't appropriate. For one segment which is above 60 there was up to a 5% change in price and this business is less than 0.1% of our overall business. So honestly nothing of any consequence at all and pricing will evolve based on how deep we go into the country in terms of customer segments. It is not really going to be something which is out of the blue. It will emerge over a period of time, after which we will review our experience, look at our pricing, talk to our reinsurers and, of course, we have to compete in the market as well. A lot of these things will come into consideration and as we have articulated across all our businesses; we will maintain a calibrated approach. With our pricing, we are reasonably comfortable with the kind of share we have in the market, and we would like to continue maintaining that discipline.

Moderator: The next question is from the line of Madhukar Ladha from Nuvama Wealth Management.

Madhukar Ladha: I wanted to get a sense of this new slide about surrenders that you have added in the presentation. I wanted to understand what paid-up policy actually means. These are non-surrendered policies, but they have stopped paying premiums. How does that really flow into

your VNB? Maybe you could clarify that part a little bit and then I can ask my follow-up questions on this?

Eshwari Murugan: When we calculate margin or the profitability, we look at what is the proportion of policyholders who will pay premiums and continue to be in-force throughout and get the full benefits. We also have an assumption for policyholders who will discontinue premiums during the tenure of the period but will not surrender. They will continue with the policy for a prorated benefit. And then we also have assumptions for policyholders who could completely exit the policy. Now as shown in the slide, the experience for us, in both non-par savings and par on the policy holders who exit is negligible. We only have policyholders who continue paying premiums or policyholders who stop paying the premium but continue the policy and those are the two assumptions we have factored in our calculation of margin or VNB. So that is what we are trying to explain here. Because of the change in regulations where surrender value has gone up, since we don't assume any surrenders in our calculation there is no impact on the margin post year two. The only impact we have is in year one where our experience is quite good. And further, we have conservative assumption in year one as well. Our experience of lapse or exit in the first year is even lower than assumption and that is what we are trying to explain in this slide in terms of what the experience is, what our assumptions are and what is the relation is in terms of the impact on margin.

Madhukar Ladha: Okay. Just a follow-up on this. When a paid-up policy holder, he's probably paid up for two years and then stopped paying premium, when the policy matures for him, that's what you mean, he will not surrender the policy and the policy will mature in a partly paid status. What benefit does he get at that point of time?

Eshwari Murugan: He will get prorated benefit. To give an example, suppose a policyholder has taken 5-pay policy of INR1 lakh premium and suppose the maturity value is INR10 lakhs. He stops paying premiums after say 3 years, he pays premium only for 3 years i.e., he has paid 60% of the premiums he had committed. He will get 60% of the sum assured and instead of INR10 lakhs, he will get INR6 lakhs at maturity. This is what is called as prorated benefits.

Madhukar Ladha: Understood. Wouldn’t the margin on a prorated benefit policy be marginally lower than the margin you get on a fully paid-up policy?

Eshwari Murugan: That could vary depending on when the policy is made paid up, what is the original premium paying term is taken, the structure of the product, what kind of benefits in terms of composition. For example, in par, it could depend on sum assured, the bonuses, etcetera. But what is important is that the impact on margin will depend upon what is the assumption on how many policyholders are making the policy paid up and what is the experience. Since we keep calibrating our assumptions to the experience on the policies becoming paid up, whether it is higher or lower profit, that's already captured in the margins. So as long as the experience is going to be in line with assumptions, we don't see any major impact on margin. And as you see in our EV disclosures, our operating variance has always been positive. Our assumptions are slightly conservative when compared to the experience, that's why the operating variance is

positive. It's not a question about whether the policies becoming paid up or premium paying or surrender. It's more about whether the experience is in line with the assumption. The major change that has happened in the regulation is the change in surrender value. And there, we don't have any impact because of the factor that we already explained.

Madhukar Ladha: Understood. And another question for Vibha and Suresh. With these changes happening, the industry would be in a flux, and you will probably be back on the ground board designing products and talking to distributors. What is the feel that you are getting? I think it's very important that we are able to defer the first-year commissions over maybe the first two years or first three years. Do you think that the distributors will agree? And this also to a certain extent depends on whether the industry, the manufacturers actually come together and are able to do this, right? What are your thoughts on this?

Vibha Padalkar: We have put out a likely impact based on what Eshwari just explained. We will have bespoke conversations with some of our key partners. But that will happen in an organic way. There is no fire situation per se because our assumptions, not only the assumptions of how much is getting surrendered, but equally or if not more important is to be fairly restrained in terms of aggression on IRR. If one is more aggressive on IRR and there have been competing products that give 70 bps to 100 bps, if not more, even today, in terms of differential in IRR. If that's going to happen and one is really banking on surrender profits beyond the first year, then one is going to hurt more and what one has to return back to the customer will be more. For us, there is repricing of new business that we write very, very quickly if the macro situation moves. So given that, we are having conversations, but not on an SOS basis. It's a little bit more organic. I mean, we are in multi-time in most situations. The conversations between us and our distributors will also depend on the conversations they are having with other manufacturers. It's a dynamic process. Suresh, you want to add anything.

Suresh Badami: I think broadly, Vibha covered it. Given the quantum of change, impact on us is probably lesser than other players in the industry, and I'm sure everybody is assessing their impact. We can look at three-four options. One could be to say that we continue, we have a clawback, we have a deferral, or we look at maybe lower IRR. Obviously, IRDA would want the product to remain as good for the customer with better thresholds. Our objective would be to say, do we look at deferral, which will probably lessen the impact on each of the manufacturers. Or if the partner has extremely high persistency and we are comfortable, maybe we will just continue and have a little bit of a clawback. We really don't want to jump into this immediately. I think we are having, like Vibha mentioned, discussions with each of our partners. And in turn, they are having conversations with their respective insurers, given that we are probably in multi-tie with different insurers at different partners. We will probably think this through and by end of September, we will be in a fairly more comfortable position to say as to what we would want to do.

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

Suresh Ganapathy: I have two questions. One is on margins and in general, the VNB growth outlook. So, first on VNB margins, you are at 25% for this quarter. You mean that you will have a further 100 basis point compression because of the new surrender rules that is not a fact, part of this 25% that has been reported in Q1, how should we look at it that further from 25%, you're going to see any impact?

Vibha Padalkar: Suresh, the 25% is for the quarter. And usually, the margins get better as we move towards full year because of seasonality. The business is much more while your fixed costs remain more or less the same. Margins do pickup and so on a full year basis, wherever we are likely to end before these regulatory changes, again, on that margin, it will be 100 basis points impact, if we did nothing.

Suresh Ganapathy: Okay. So, impact due to these new rules are not a factor of this 25%. And the second thing is, still you are saying you want to double your VNB in four years, that's a 19% CAGR. Now the problem there, Vibha, is indeed the upside from margins is very limited. All said and done, the margins have a downward bias across the industry, not only for you. In that sense, you are actually indirectly indicating that you want to grow your APE at 20% plus for the next four years. Isn't that a tall ask? We have not seen 20% for quite some time. So, you think you can do that over a period of four years consistently?

Vibha Padalkar: Yes, I'm reasonably confident, Suresh. Because we are assuming the current dynamics of competitive intensity, relative advantage, the products being the same. And just now we are going through a massive overhaul of product, something that we knew all along, and that is something that's happening right now. And that itself could reveal a very new normal. Another one that could be fairly disruptive is, for example, IFRS. Under IFRS, the way we see unit linked now in terms of top line and the competitive intensity with unit linked, that could undergo a significant change because a lot of that is going to get shaved off. And only the net income will reflect on your income statement. We are assuming a ceteris paribus from now for the next four years, there are already some visibilities of large changes where we feel we have a competitive advantage. Third point is on HDFC Bank. And as you know, just over the past maybe seven-eight months, our counter-share has meaningfully gone up. And it will organically, as we work more closely together and so on, will go up. And a little bit of product tweak. For example, if I were to see my agency channel, that has term at about 12%-13%. While at HDFC Bank, it's low single digits, like 3%-4%, closer to 3%. That itself is going up to, say, 5% just because there's a little bit of focus, can have a meaningful uplift in margins. We have many tongs in the fire to keep chipping away and to see how we can continue to add margins while there will be investments that we need to make in business, but we feel that the doubling in 4 years is still doable. Niraj, do you want to add?

Niraj Shah: Yes. Suresh, and just to your point in terms of inherent margins going in one direction, which is downwards. We don't necessarily think that because in each of the product segments, there's an opportunity to improve margins. A couple of things, one is obviously scale. Second is also the ability to attach embedded protection across, not just in term products, riders, but also the savings products. All of these things, along with dynamics being very different as you go

deeper into India. The ability to preserve inherent product margins and even expand on that in a calibrated manner is very much possible. So not all the VNB growth needs to come from top line growth. Some of it can come from mix like we discussed and also increasing inherent product margins.

Vibha Padalkar: And again, I want to add a final piece. For example, when you look at sum assured, the growth in our sum assured is significantly higher than our APE growth, which just again means protection is growing. 46% growth in individual sum assured, all of these are large chunks of mortality cover, which is the result of sum assured. The fact that we are raising sub debt, also means that we are writing more of protection business. We are slowly moving towards higher margin, brick-by-brick and also 70% of our customers are new to HDFC Life. This quarter as well as last quarter that we talked about and before that. Ability for us to upsell to them is that much more at a slightly reduced cost and therefore, uptick in margins. Agency channel is another one where we are investing quite heavily in Tier 2/3, as we have talked about in the past, including the Exide Life acquisition that's grown significantly higher than company level growth even in the first quarter. But it is in a growth phase and investment phase. All of this should start delivering and reaping dividends for us in a slow but sure manner. And that's why we say that it's not going to happen overnight, but that's why we said four-year doubling should certainly happen.

Suresh Ganapathy: Thank you. One procedural clarification question? New IRDA regulation is effective when?

Vibha Padalkar: From 1st of October. So last date of selling under the current structure is 30th of September.

Suresh Ganapathy: Just to understand this better, have we already started filing the new products? Or will you start new product filings in Q2 with the regulator and then you will have to launch on 1st October? How well prepared you are with respect to some of your new product structures, because the approval from IRDA will also take time? There could be a lead lag issue in between.

Niraj Shah: All the existing products, which need to be made compliant with the new regulations do not need to be filed for approval. They have to be self-certified by the companies as per their product management committees, which is a board level committee. We certify it, and we can launch it as soon as we are ready to operationalize. It does not have any lead time as far as IRDA approval is concerned. Of course, any new product that we launch now, depending on which process it needs to follow, whether it's use & file or file & use, will require prior approval in certain categories. That will be an ongoing process. Also, you would appreciate that what's happened over the past few months is that many products are now getting launched in use & file, so the bandwidth to approve products by the regulator has improved. That has actually brought down the lead time to launch new products. While it's an exercise, we will be in a position to offer all the products that matter and will comprise most of our existing business, we should be able to offer it by October 1 without any disruption.

Moderator: The next question is from the line of Aditi Joshi from JPMorgan. Please go ahead.

Aditi Joshi: My question is related to the margin walk. In full year 2024, we had some negative impact coming in from expenses. I'm just wondering that for the first quarter, do you have such impact persisting? Or how was the walk for first quarter, if you are able to share your view, please?

Niraj Shah: So last year, if you recollect what we had said is we had 130 basis points gap. Out of that, about 70 basis points was on account of lack of operating leverage because on an actual basis, we grew at 1%. I mean, of course, on normalized basis, we grew at 11%.

But that scale gap is what caused a significant part of that margin gap and the rest of it was the product mix. In the Q1 context, everything is pretty much product mix because the scale is back. The growth was 31% for the period. You will see a positive fixed cost absorption of 0.3%, but we have a 1.3% negative on the product mix, which is largely the unit-linked mix increasing from 25% to 38% on a like-to-like basis.

Vibha Padalkar: I just want to add that, while for the quarter, ULIP mix was 38%, but exit rate in June has come down to about 35%.

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

Gaurav Jain: I just have one question. We are at 186% solvency margin as of June '24, with this sub-debt raise, if we were to do it on this base, how much will the solvency go up to? And post the sub-debt raise, will we still have room to raise more sub-debt? Or how do we think about capital raising?

Niraj Shah: Our headroom today, based on the regulatory limit is about INR 2,000 crores. We will see in terms of how we want to go about it. We have an approval to raise this over a 12-month period in one or more tranches. The solvency position that we are comfortable with is in the 180% plus range, so we would like to operate in that. And I think the first tranche at least that we will raise will in all probability help us to maintain that level for the foreseeable future and then we can use the rest of the headroom based on our requirements. We are also expecting over the next 12 to 18 months risk-based capital regime to kick in. When that happens, our understanding is that we will be able to write more business with the same amount of capital. The regulator will obviously take a view in terms of how they want to establish that regime. But based on our interactions with the regulator, we believe that if you're writing long-term business prudently with appropriate risk management, you should be able to write more business with the same amount of capital.

Vibha Padalkar: And to your other question, it would add about 20% to 22% if we raised the entire INR 2,000 crores.

Moderator: The next question is from the line of Swarnabh Mukherjee from B&K Securities.

Swarnabh Mukherjee: A couple of questions. One is on channel. So, you had mentioned that you were having conversations on how eventually, the commission structure, etcetera, will pan out. I just wanted to understand from you in our open architecture channels as well as, say, the agency

channel, since multiple players will have a varied approach on how they are going to pay out, you will also have varied approach based on what kind of business you source from a particular channel. Can there be a risk that there can be aggression from players in terms of commission that can move counter shares in those channels? Just wanted to understand how you think that can be a risk or a challenge in, say, open architecture or agencies, which one would be tougher to correct? And secondly, in terms of IRR cut on the non-par product where there is the impact of this new regulation, just want to understand from your perspective, how do you see the product competitiveness vis-a-vis say other similar products like, say, FDs?

Vibha Padalkar: I'll take the second one. Our product competitiveness should definitely go up. And like I mentioned earlier, today, one is that we reprice with a lot of frequency as and when interest rates move materially. That is number one. And number two is, even today, there is a material difference in IRRs, and that IRRs can't come out of thin air. It has to be funded from somewhere either by the customer or by the shareholders or the company. From that point of view, we believe that there will be some calibration in IRR due to the surrender charges going down. And therein, if it's very similar, then we can only get at a better place than the intense competitive intensity today in non-par. Suresh, you want to answer the first questions.

Suresh Badami: I think the first point is related, in the sense that market share depends on IRR of the product, which is the pull. The second is the commissions that are available in the market. And three is the resources that you put for supporting the partner. Now given the lesser impact that we have, we do believe that it may lead to a higher competitive advantage over a period of time in terms of what we should be able work out with partners as a combination of all three, whether it's resources on the ground, whether it's the IRR on the product in terms of the differential as well as the commission structure, whether it is deferred or whether it's slightly lower commercial or clawback. So those options are all available. I don't see this market changing dramatically. At least for us, we don't see a huge shift. There will be obviously some change here and there. But with some of our top partners, we should be able to work out something which is clearly better than what we were as a relative advantage to competition.

Swarnabh Mukherjee: Right, sir, just quickly wanted to follow up that on the HDFC Bank channel, do we expect the counter share would remain around that 70% range, which is our aspiration, in the new scheme of things?

Vibha Padalkar: I'll just leave it by saying that it's our parent. In the last 7-8 months, counter share has gone up very meaningfully from 56%-57% to ~65%, in that range. And as far as 70%-72% share is concerned, I think it is a matter of time before some of that organic movement upward should happen regardless of surrender charges, no surrender charges. Whatever it is that they're selling, share of that should go up organically.

Moderator: The next question is from Vinayak Agarwal from Jefferies.

Vinayak Agarwal: I had a question on the non-par savings business. So, the absolute amount of business done in the quarter, about INR860-odd crores seems to be quite reasonable. How do you think the

momentum builds on from here? And how should we think about the growth in this segment, as last year subsequent quarters saw some decline due to change in tax norms.

Vibha Padalkar: I will start off and then hand it over to Suresh. We are seeing good traction in this category. We are seeing traction both in above 5 lakhs and below 5 lakhs. We are seeing traction in Tier 1, 2 and 3. So any which way we cut non-par, we are seeing traction. And this is something we have been saying all along that once this whole focus on tax starts weaning away and it has to happen because ultimately, money has to flow somewhere.

Not everything can flow in equity. And that is exactly what we are seeing. Also, there are new product launches to get mind share. There are some of the other aspects to it, for example, on pension, which has a very unique way of delivering value on a post-tax basis to the customer, especially the slightly older customer. So, it is holistic growth.

Suresh Badami: I will just add, I think the market continues to remain large for the non-par given that the customers will finally have to invest household savings, whether it is in fixed deposit or any of these products. Non-par savings is a competitive product compared to some of the other fixed benefit kind of products which are available in the market on the guaranteed product side. We believe the non-par product still has a fairly large scope in terms of growth.

In some of our products like Click 2 Achieve, which we have now launched. It's a very unique do-it-yourself kind of a product. So, when we go out with a product like that in the market, I believe it is for us to expand the market in terms of activation of specified persons in the banca channel or our financial consultants in the agency channel as well as the number of new unique customers that we bring in. And like Vibha rightly mentioned, the Tier 2, Tier 3 expansion, especially on this product will get us more ticket size as well as the number of unique customers.

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

Nischint Chawathe: How much was the growth from HDFC Bank this year on a year-on-year basis?

Vibha Padalkar: It was 41%.

Nischint Chawathe: And you said that counter share increased to around 65 from 55 on year-on-year basis?

Vibha Padalkar: Yes. So about 18% growth is due to counter share increase and about 20-22% is just a holistic increase.

Nischint Chawathe: On the agency side, your growth is still at around 10% versus some of the peers who have been growing at around 20-25%. So, we are not sure when the investments in agency are really going to play out in terms of numbers.

Suresh Badami: Our agency growth is around 14%. And on overall 2 years CAGR, our growth has been around that, so it is fairly good. Two, three things that are happening in the market. There is a shift in

terms of the unit-linked contribution as a source of the business. So, we don't really compare. I think we are very clear to make sure that ours is a profitable agency business.

We calibrated in terms of how we grow based on a certain product mix. The third thing, the Exide agency channel, which had come on board, we are investing a lot in that, so that will take some time. And hopefully, the pickup will happen over the period.

And on the growth in the Tier 2, Tier 3 market, we have expanded to some 60 branches. We are looking at it in terms of the number of new agents that we have added, that continues to be the best in market also. There is an NOP strategy that we are putting into place. We have invested heavily in our retiral advisory financial consultant program. So, the building blocks are clearly in place.

On the Tied agency side, because of more business from the greater than 5 lakhs in certain segments, it slowed down, but now the base effect has fallen into place, and we should be able to grow significantly. We added like 18,500 agents net in Q1 of FY25, which was the highest in the industry. So, the distribution is building. The locations are expanding. I think the Exide channel has also been growing. So fairly confident that the agency channel will start firing.

Moderator: The next question is from the line of Supratim Datta from Ambit Capital.

Supratim Datta: If you assume that these 10% of people who were going to fully paid-up policy status as compared to surrendering their policy, now surrender because of the higher SSV, then what will be the margin impact? Have you done any sensitivity analysis on that?

And the second question I had was that if I look at your non-par savings policy tenure, then it seems like it has gone up from 16 years in fourth quarter to 21 years now. What is driving this change and how would the margin of a higher tenure product be compared with a lower tenure product?

Eshwari Murugan: On the first question, if the policyholder now surrenders compared to keeping it paid up. Economically, the value to the company will not be different because if you see how the surrender value has been defined, it is linked to the paid-up value and it is a present value of the paid-up benefit at the current G-Sec rate. So, for company it will be very neutral, whether the policyholder continues in a paid-up status, or he surrenders.

But for the customer, it is a good proposition to continue the paid-up policy because he continues to get to death cover though it is lower. And he also gets the logged in interest rate for a long tenure. The contract may be 20 or 30 years. So, he gets the benefit if he continues in the paid-up policy. But from a company perspective, the impact on margin will not be material because of the way the linkage is between the paid-up benefit and the surrender value.

Niraj Shah: On your second question in terms of the increase in tenure, that is something that we have been consciously driving because longer-term products can offer better value to customers. And this has been enabled by our new launch of Click 2 Achieve that we had launched a few months

back. We have been launching new variants in that, which encourages customers to stay for a longer period of time and get a higher value proposition.

And that completely sinks in with the economics for us also. The longer the policy term and premium payment terms, the better the margins as well. So, it works for everybody, and that is something that we have been driving consciously as well.

Supratim Datta: And what would typically be the margin differential? Could you give us some sense that versus a 13-year policy versus a 21-year policy, how would the margin differ?

Niraj Shah: We cannot get into specifics on that, but it will be meaningfully different. And I think one thing you can maybe look at is in terms of a non-participating product, the margins are higher than company average. You can expect a significant delta on that for a longer-term policy. It is fairly meaningful.

Moderator: The next question is from the line of Nidhesh from Investec.

Nidhesh: Do you see any change in the new business strain with the higher surrender value post 1st October?

Niraj Shah: Not in our case because of what all Eshwari had mentioned, prudence in pricing as well as surrender assumptions does not result in a very significant change in our reserves. So that does not affect our accounting profit. But the impact would be different for different approaches that companies may follow.

Nidhesh: And why don't we go with the strategy of no change in the commission structure and try to gain market share because the impact on us is quite low versus some of the other peers. So why don't we take this opportunity as a market share gain opportunity versus maintaining neutral profitability as a strategy?

Vibha Padalkar: Nothing that is off the table. We will explore all options with different partners. However, I think our regulator is also looking at a little bit of collaboration with partners in seeing how payouts can be more back-ended. So that is also a tacit kind of expectation from the regulator. But we will have all sorts of options and iterations between now and 30th of September.

Moderator: The next question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: First is on the VNB walk. I know it is a very small number but there is some change in assumption. If you can give some details of which assumptions have, we changed? Is there any change that we should know about?

Second, on the surrender value itself. It is very useful data that you have put across on slide 8 about how much surrenders you actually face in the different years. But given that the surrender format now is such that probably after third or fourth year the customer can actually get 100% of their principal back unlike earlier when it would be at 50% or 60%. So, in that

situation, are you also accounting in for any change in customer behaviour? Or have you thought about how will you go about that?

Eshwari Murugan: On the first question, the assumption change we do as a year-end exercise based on the experience that are emerging. We have changed the assumptions in mortality, persistency across product segments. It had a small nonmaterial impact on the margin, which is what is getting carried forward to the quarter 1 of this year because whatever was reported in last Q1 didn't have this assumption change. So, if you see the last full year disclosure, you will see some similar impact in the VNB walk.

On the second one. There could be some difference in the customer behaviour because of surrender value. But the reason we say that behaviour may not impact us is because today we are not assuming that any customer will surrender for a lower surrender value and the company will make a surrender profit. So, if our assumption is that no one surrenders then we do not make any profit currently.

And going ahead if the customer surrenders, he gets the value which is equivalent to the paid-up benefit that you would have anyway assumed. So, there will not be any impact on the margin. So, the customer behaviour will not impact our company's margins so much. Whereas if we would have assumed surrender there could have been some impact.

Vibha Padalkar: And just optically, 13-month persistency could look bad, but not the economics of it.

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

Sanketh Godha: Just on the ULIP business, I want to understand to what extent our ULIP today has higher sum assured, that is more than 10x? And to what extent it has supported the margin. I remember last time it was around 60-65% of the total ULIP that we were selling, had higher sum assured. So, is there any further headroom available to improve the margins or hold up the margins even if the contribution goes up on ULIP?

And then the second is you are raising sub debt maybe during the year, then the difference between what you will pay as interest and where you will invest, how much likely impact it will have on VNB margins? If there is a 100-bps difference, I believe that impact could be somewhere between 70-80 basis points. So just wanted to understand how it will play out.

Niraj Shah: So, on the first one on unit-linked, we had mentioned a few quarters ago that we have started attaching riders as well as the multiple of sum assured shows that customers which were used to taking, say 10x have moved to 20x in the last couple of quarters and it has in fact, started expanding beyond 20x as well now.

So, there is room and customers are preferring to use this as a vehicle to not just save but also to get meaningful protection in the same product. So that journey is very much on and moving in the right direction. Also, our rider attachment as a journey which started a few years back is still in its very nascent stage. We are yet to see the full benefits of the rider approach in terms

of multiple riders per policy. So that journey has just started. So, the headroom is very significant from here on.

Sanketh Godha: What is the weighted average sum assured today in ULIPs? And what extent of the business you sold in ULIP has higher sum assured?

Niraj Shah: So, I mentioned the 20x was the number some time back. Now it is close to 30x.

Sanketh Godha: And in the proportion of the total premium, how much is higher sum assured?

Niraj Shah: So, we don't look at it that way. And I think it really depends in terms of which channels are selling, what kind of tenure etcetera. So, we don't really have that as a target. We are basically just seeing if customers across the board are willing to consider buying protection through this in a more meaningful manner and that is happening, and we are quite happy to drive that as we go forward. On subordinated debt, we will raise it over a period of time, and we will decide the timing based on our requirements as well as the market appetite.

And in the past the sub-debt that we carry has a fairly negligible negative carry of about 20- 30 basis points because we have the ability to invest. All the sub debt that will be raised will get invested and we don't expect negative carry on that to be significant because we don't necessarily need to match the duration of what we raised with where we invest given that we have a fairly large book. We will be able to minimize the negative carry and will not have any material impact on our VNB.

Sanketh Godha: Perfect. But honestly, what is the need to raise capital. Because if you look amongst all the companies, you guys are the ones who have raised the highest amount of capital whether it is sub-debt or direct equity. So, 186% solvency is still healthy. You also said that our safe number is 180%.

Is it only because you expect more growth in HDFC Bank, or your high sum assured strategy or more ULIP demand is resulting in more strain and that is the reason? This is it difficult to understand why you need sub-debt because your solvency is still very healthy.

Niraj Shah: Yes. So, it is healthy. It is just that our preference is to not be in a situation where we have to manage growth just because the capital is getting to a 180% zone or 175% zone. Anything above 150% is great. That is absolutely fine given that we know directionally we are in an excess capital regime today, but it is the regulation. And we have our internal policy based on the current regulation.

So, we don't want to be in a situation where we need to manage those tightly when the growth is indeed moving in the right direction for longer-term products as well as for protection. So yes, to your point, sum assured is increasing faster than overall company growth and capital is getting deployed for a longer period of time. So, we want to do this ahead of time. And if the cost of carrying the sub debt or the negative carry is minimal, we don't see a reason why that should be an issue. To your point on equity, you know the reason for that. It was basically o

fund the acquisition. There was no other requirement for that. So yes, that is our thought process.

Eshwari Murugan: Just to answer your question on competition. The solvency ratio for all the players is coming down because of the reason that Niraj just mentioned, the type of contracts the companies are writing. So maybe some companies have been at 300% solvency ratio, may not be raising capital, but if you see the trend for every company the solvency ratio is coming down.

Sanketh Godha: And a data keeping question, your unwind rate seems to have been off in the current quarter, 7.8%. Anything to read there? Is it only just because of the yield curve movement? And lastly, if you can break down your economic variance number into equity and fixed income, INR400 crores?

Eshwari Murugan: The unwind rate is 8.1%. It's mainly due to the yield curve change offset by some positive outlook on equity. Last year, it was 8.2%, this year is 8.1%, 10 basis point reduction. On the economic variances, it is mainly coming from equity. The equity market rose around 8-9% this quarter compared to our unwind rate of 8.1% that is giving a positive upside in the equity. On the debt side, there is a small increase because of the short-term curve reducing by 8 to 10 basis points, that is a small amount. Most of the economic variance is from equity.

Moderator: The next question is from the line of Aravind R from Sundaram Alternates.

Aravind R: I have two questions. One is that in the current quarter versus the last quarter and sequentially, VNB margins have declined. Despite mix of ULIP coming down, and non-par and protection mix has going up sequentially, VNB margins have declined. Is there anything to read here, like in terms of lower profitability in the product or like investments in any particular channel or like your tech investments leading to this VNB margin decline?

Niraj Shah: Not really. Inherent product margins are only either sustained or improving. In product mix on year-on-year basis obviously, there is a big movement as you can see, 25% versus 38%, in Unit linked. On a sequential basis, there is not much difference in product mix. But yes, the difference is largely on account of absolute scale of business that gets done in quarter 1 versus quarter 4. That is probably the difference.

Aravind R: Also, annuity has degrown in this quarter, when I compare it year-on-year. Any reasons like do we expect annuity to pick up again in the coming quarters?

Niraj Shah: Yes. So, we mentioned this earlier as well in terms of having a calibrated approach. There are multiple sources of annuity business. It is a fairly large market as we see it going forward as well. It is going to be a long-term opportunity. But there is some irrational pricing in certain pockets. We have to take that into account, and we are not in the business of writing business which is not viable for us in terms of either managing the risk or the pricing.

We will take these calibrated calls. We had a similar kind of conversation on Credit Life. So, it applies to all our businesses wherever we see some sort of pricing or risk management, which

we are not in a position to compromise on, we are happy to step back temporarily. And given that the opportunity is long term we are not really worried about missing out on certain parts of growth, which are not viable.

Vibha Padalkar: And just to add here, the surrender charges will have an impact on deferred annuity. And so, we do see some level of calibration coming through post 1st of April on this product segment.

Aravind R: Sure. And just one last question, if I may ask. Do we see any pushback from agency or any distributor or any other channels in terms of implementing trail commission or like in any other structure of commissions?

Vibha Padalkar: We are in very early stages right now. No one will agree immediately. I'm sure there will be some bit of convincing, some bit of expectation from regulator and so on. So, I think those conversations are on as we speak. And as you will understand we don't want to really put out everything in a public forum for some of these private discussions.

Moderator: The next question is from the line of Dipanjan Ghosh from Citi.

Dipanjan Ghosh: First, on the non-par business, you clearly mentioned that growth has been across a spectrum, be it geography or ticket size, but if you can give some breakup of the low-ticket growth in non-par versus the 5 lakh plus growth in non-par for the quarter? Second, just a data keeping question. If you can give your HDFC Bank mix in your individual business for the quarter.

Niraj Shah: So, the product mix by channel is there on page 16. HDFC Bank is a subset of bancassurance, and its reasonably representative of the product mix. Unit-linked is in the 40s in HDFC Bank, and non-par is fairly healthy in the mid- to -late 30s. And as Vibha mentioned earlier, the term mix is increasing fairly steadily.

So that's probably the mix. So, it is not very different from the other bancassurance channels, but by and large, moving in the direction that is right from a customer perspective as well as for all the stakeholders. As far as growth on non-par, it's across the board. And obviously, as you will appreciate, on a very low base, greater than 5 lakh growth is extremely high.

It's not a number that we want to talk about, but it's just a base effect. So, there is a fairly healthy growth of over 30% on up to 5 lakh as well. And on a very low base, the growth is much higher in greater than 5 lakhs.

Dipanjan Ghosh: Just a follow-up. I just wanted to know that out of the INR100 of individual APE that you have written, how much would the HDFC Bank for the quarter?

Niraj Shah: About 51%.

Dipanjan Ghosh: How much should that be in the base, 1Q of last year?

Vibha Padalkar: I'll just explain. So, we grew about 40%, and about 18% is because of the share increase. And the rest, about 22%, is just normal growth. And HDFC Bank has also grown at about 22%-odd, in the mid-20s, all put together.

Moderator: The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities.

Rishi Jhunjhunwala: Just a couple of questions. One is now our EOM is at decadal high. And even adjusting for any kind of reclassification of commission payouts, it looks like both on year-on-year and sequential basis, it has gone up. So just wanted to understand what is driving that, have commission payouts gone up? And the second question is, when you are offering a guaranteed-return product, what kind of rate of return do you make or do you assume. Is it higher or lower than GSec plus 50 bps?

Niraj Shah: So that really depends on the product pricing, which is based on the tenure in which the investment is happening. So, the rates that we offer to the customer ranges anywhere between, in the current context, maybe, from say, 5.5 to maybe 6.5. So, for us to give the customer 5.5 to 6.5, we need to have a spread to manage our risk as well as account for the baseline profitability and cost of capital.

So that is factored into our pricing. And that is the reason why we reprice fairly dynamically based on how the interest rates move. And we have been reasonably disciplined in this manner ever since we launched this product category over 5 years back. So, we have broadly managed to maintain our spreads even in a fairly intensely competitive environment. And we have done that through multiple things.

One is, of course, the strength of the distribution that we have and also the new products that we launch from time-to-time, in which the customer and distributors as well are able to see beyond just the rate. And like in protection, there are many other considerations that go in when a customer is buying a product, so that works fairly well for us in the segment.

Rishi Jhunjhunwala: The only reason I asked that question is for the surrender regulations, we have been allowed to discount with a factor of GSec plus 50 bps. So, what I was trying to understand is, at a portfolio level, on guaranteed return product, do we end up earning more than that or less than that?

Niraj Shah: More than that.

Rishi Jhunjhunwala: And just the first question that I was asking was on EoM as a percentage of net earned premium, is now up to almost 22%. It is pretty much at a decadal high, and even adjusting for any kind of reclassification from opex to commissions, it seems like our commission payouts have gone up substantially because it is visible in the sequential pickup as well. So just trying to understand what is driving that?

Niraj Shah: If you see the total expense ratio for full year FY24, it was within 20 basis points of the previous year. And the commission structure started changing last year after the EOM

regulations that were effective from beginning of last year. And that journey continues as we speak in FY25 as well.

So, nothing really materially different from that. Our cost of acquisition on a like-to-like basis hasn't really changed meaningfully. At the margin level, there could be relationships in which there could be some changes. But at a very broad level, there are no significant changes in the overall cost of acquisition.

So, the overall cost of acquisition is at similar levels and the expense ratio is also fairly close to where it was at the beginning of the period. For quarter 1, the change that you see in the expense ratio is more in terms of the investments that we made in terms of infrastructure as well as people that we have deployed in partner branches, nothing much to do with the commercial arrangements.

Moderator: The next question is from the line of Arul Selvan from Independent Advisors Private Limited.

Arul Selvan: I just had one book-keeping question. On Slide 33, it says that your current solvency ratio is without assuming the impact of the dividend, so could you just tell me what would be the solvency ratio after including the impact of the proposed final dividend?

Niraj Shah: Around 5% impact on solvency after assuming impact of dividend payout.

Moderator: The next question is from the line of Neeraj Toshniwal from UBS Securities.

Neeraj Toshniwal: So wanted some sense on the distribution. Obviously, we have already mentioned a 41% from HDFC Bank, of which 18% growth is from wallet share change. But is it correct to understand that last year, in the second quarter, we already had a higher wallet share. So, you will have a normalized growth from banca in Q2. So, is it the right understanding?

Vibha Padalkar: Not the entire Q2, it started moving up slowly from August and meaningfully from September onwards.

Neeraj Toshniwal: And in terms of agency channel growth, it looks a little tepid. Obviously, ULIP could be one of the reasons, but how do we see that growth picking up from the second quarter?

Suresh Badami: We did address this in one of the earlier questions also. I think there are a few input parameters which are in place for the agency, and we do believe a little bit of the base effect of last year will help us grow our agency faster. So, the Exide agency channel is expanding. With Tier 2, 3 expansion, with the new branches that we set up last year, that should help us expand into newer locations and newer geographies.

Third, of course, is the fact that we have invested heavily in terms of training as well as a lot of new products that have been launched, which are being picked up by agency. So, we do believe that the agency should also pick up in quarter 2 as compared to quarter 1.

Neeraj Toshniwal: Any view on composite license?

Vibha Padalkar: So, we are hopeful that it gets introduced in both the houses of parliament. And hopefully, it gets passed. We have been waiting for quite a long time. And if that were to happen, we will evaluate our options. But the bigger picture is how do we expand the pie, not much interest in doing the same thing. But this hopefully should open up a lot of new product and innovation ideas. And that is what we will be focused on if this comes through.

Neeraj Toshniwal: Have you already started evaluating the kind of products we will be launching if at all, this makes through?

Vibha Padalkar: Yes. We do have some ideas internally.

Moderator: Thank you. The last question is from the line of Raghvesh from JM Financial.

Raghvesh: So, on the group protection, you mentioned credit protect was flat Y-o-Y. So how much of a decline did we see in the group term? And how does group term business fare on the margin as compared to the company level margins?

Vibha Padalkar: So, both are almost flattish. And yes, these are profitable segments when you get it right. But credit life is a lot more impactful than GTI. GTI for us is small, it will probably remain small. As we have said in the past, we will do GTI only where it makes sense. And given it's a largely one-year business, we find it difficult to ignore past experience and so on. But it's fairly negligible for us in terms of margins or premiums.

Raghvesh: But the Y-o-Y decline in protection comes out to be around 15%. So if the credit protect was flat, this has to be a substantial decline.

Vibha Padalkar: GTI itself is not substantial.

Suresh Badami: Credit protect is also not a substantial decline, is flattish.

Vibha Padalkar: Where do you see substantial decline?

Raghvesh: I see around 15% when I try to back calculate from the protection number.

Vibha Padalkar: Maybe we will connect offline.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I now hand the conference over to Ms. Vibha Padalkar for closing comments.

Vibha Padalkar: Thank you, everyone, for joining today's call. Please feel free to reach out to our IR team in case of any further queries. Have a great evening. Good night.