Max Financial Services Limited
Q3 FY22 Earnings Conference Call
January 28, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY'22 Earnings Conference Call of Max Financial Services Limited.

I now hand the conference over to Mr. Mandeep Mehta, Chief Financial Officer, Max Financial Services Limited. Thank you, and over to you, sir.

Mandeep Mehta: Thank you. Good evening, ladies and gentlemen. Thank you for being part of Max Financial Services earnings call. My name is Mandeep. I'm CFO for Max Financial Services. Before proceeding with performance highlights, I'd like to introduce my other colleagues who are with me on this call. I have Mr. Prashant Tripathy, MD and CEO of Max Life and Mr. Amrit Singh, CFO and Head of Strategy for Max Life.

On a consolidated basis, our revenue excluding investment income, is at INR 14,160 crore, growing at 21% in 9M FY '22, in the most challenging business environment. As you're aware, COVID has put in some specific business challenges. The Consolidated pretax profit for 9M FY '22 is at INR 236 crore, lower than last year primarily on account of the provisions or the reserves created for pandemic, and certain one-offs that were recorded in same period last year.

Moving on to the key business highlight for Max Life:

Max Life individual APE has grown by 23% to INR 3,700 crore in 9M FY '22. Market share is at 10%. On two-year CAGR basis Max Life grew by 16% while private industry grew by 11%, achieving Q3 growth of 28% driven by growth across channels. Proprietary channel grew by 28% in Q3, and 15% in nine months. Strong growth of 27% in Banca channel has also been recorded in this period.

NBM for period ending December, stood 25.1%, , and VNB grew at 20% year-on-year basis at INR 942 crore. For last five years, the VNB has grown by 27%. Max Life MCEV is at INR 13,412 crore at the end of Dec'21. MCEV on operating basis has grown at 18.1% annualized, which increases to 19.2% after excluding one-off impact of COVID-19, including non operating variance RoEV is 18.2%.

Gross premium grew by 21% to INR 14,415 crore, and renewal premium grew by 19% to INR 9,128 crore. 13-month persistency improved by 270 basis point to 85.3%, and 61-month persistency by 55 basis point to 54.2%.

Death claim run rate has come down since September '21, after peaking in July '21, and unutilized pandemic reserves at the end of December '21 are at INR 208 crore. Individual sum assured of new business has grown by 17% in Q3 FY '22 led by growth in protection. Solvency surplus of over 150% of RSM is at INR 1,842 crore with solvency ratio at 207%. AUM at the end of December '21 is at INR 1,02,471 core, and with this Max Life is the fourth largest manager of private life insurance AUM. PAR funds size is almost INR 52,000 crore.

We continue to maintain our rank of 18 in Great Places to Work in FY '21, we are also at rank 55 among the Great Places to Work in Asia. And continuing from FY '21 survey that we reported earlier, we are ranked number 1 in. Customer Loyalty as well.

Max Life has also received IRDA permission to set up a new company for pension fund management, and formation of that company is underway. Max Life has also launched a new par product called Smart Wealth income plan in Q3 FY '22. We also conducted India Retirement Index study in partnership with Karvy Insights. India's retirement index stands at 44, health and financial preparedness, a key retirement concern amongst Indians.

MLIC has formulated and launched ESG strategy comprising of four pillars, which is work ethically and sustainably, care for people and community, financial responsibility and green operations. Details of this ESG journey is included in the Investor Release deck.

To sum up, Max Life will continue trajectory of driving strong shareholder outcomes with Axis as a new JV partner. Good progress made on five pillars of Max Life strategy vis-à-vis predictable and sustainable growth, product innovation to drive margins, customer centricity across value chain, digitization and analytics as foundation and augment human capital as mentioned earlier.

On that note, I'll hand over to the moderator to open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session.

The first question is from the line of Swarnabha Mukherjee from B&K Securities. Please go ahead.

Swarnabha Mukherjee: A couple of questions from my side. First one was on the product mix. So, sir, for this quarter, what I see is that a larger contribution has come from ULIP. Now, is it the only factor that has impacted our VNB margin, as given in the change in mix? Or is there anything else to read into that? In addition to that, sir, on the traditional side, as you mentioned with the launch of the PAR product, and also the longer variant of the Smart Wealth plan, what is the traction that we are seeing now? Because those were I think launched towards the end of the quarter. So that would be my first question, sir.

Prashant Tripathy: Thank you very much for your questions. This is Prashant. And thanks to everybody, for taking out time, we recognize that it's Friday at seven o'clock. So we really appreciate your interest in our financials.

Your observation is right. I think, if you recall my guidance, last quarter, we did speak about being in the range of 25% to 26%. We are in near abouts. And it was very important for us to recognize that there is a balance needed between sales momentum, sales growth, market share and product mix. And we took that tactical call. Also, if you notice, the change in product mix predominantly is in our partnership channels, Axis Bank. And at the end of the year, typically we have contest like MDRT, and that contest actually also resulted into higher share of ULIP. But if you are asking the question about why we are lower than last year on new business margin, that's the only reason why we are lower. The product mix was focussed more towards non PAR last year and this year it has higher ULIP mix. But the good part is we saw a lot of traction on our new sales. Our new sales are up 30%. Our proprietary channels have also grown 28%, which is really fantastic. So both relationship and own channels saw growth rates north of 28%. That was quite good about the quarter.

On the question that you asked about margins, Amrit, do you want to take that?

Amrit Singh: Yes. So I think Prashant did answer that the decline in margin comprises largely because of product mix, but if you look at a sub segment level, actually our margins have held steady whether it is non PAR savings, protection or ULIP. In fact for Q3FY22, we have seen an improvement in the margin profile of our participating business given the new launch of the product that we saw for ourselves. This product actually has had a very successful launch. We crossed INR 100 crore in the shortest time ever, for any product launch that we have done for ourselves, and you can see the increase in PAR mix, which has kind of come through. And the growth in PAR business continues to be very robust in this particular financial year.

Swarnabha Mukherjee: Sure, sir. Any comments on the Smart Wealth longer variant also? Any additional traction that you are seeing from that side?

Amrit Singh: So, I'm assuming you're referring to the participating Smart Wealth income plan that we have launched, which actually has a longer variant. Are you referring to that?

Swarnabha Mukherjee: I'm referring to the guaranteed product. Guaranteed side.

Amrit Singh: So we, I mean, if the question is that on non-PAR we have, it's a very healthy mix of both long income and short income. So, it's a very healthy mix. This product has now been alive for over a year and a half kind of a period actually. And we have been doing quite well on this particular product. We just added a couple of variants with PPT of 7-8 years, . Those have also been adopted and embed quite smartly within the channel.

Swarnabha Mukherjee: Another question was on the distribution, sir. If you could share the contribution of Axis Bank in the APE for 9MFY22, or Q3FY22.

Amrit Singh: It's around 67% in Q3

Swarnabha Mukherjee: If I'm allowed to squeeze in one more question, about the individual protection, so, your plans on the pricing going forward from this segment, and if you can throw some color on the retention levels that you have on these products?

Prashant Tripathy: Yes. So protection, actually we took some calls in the first half of the year, really driven by what was happening during Delta variant, and took some calls around our underwriting norms. That, of course, caused our retail as well as group protection to go down and that's quite well mentioned, but what we have done is now we are increasing the proportion and as I have been saying, this is a very strategic area for Max Life Insurance, we do want to grow and in Q4FY22, we have started to grow at total protection level, we have started to grow every month on the retail book alsowe have been in discussion with reinsurance partners, as time has passed. Of course, there are some increases which are anticipated because reinsurance rates will go up, basis their experience. And we are out looking a price increase. Right now, as things stand, we are in negotiation with them. So, it will be hard for me to tell you exactly what number but it will be a nominal price increase that we're out looking. That price hike should come as soon as we finalize our negotiations with our reinsurance partners. We are going to protect our margins. So whatever increase comes out, we're going to pass it down through the price. As far as retention is concerned, that's a normal trend which is happening I think, out of the experience that COVID posed to everybody and to the reinsurance partners, there is a requirement for Max Life Insurance like all other life insurance companies to retain more. I'm expecting that our current retention, which is today at around INR 20 lakh, that will go up. I think it will go up to more in between INR 30 lakh to INR 35 lakh. So that's the retention that we will have. And we are quite pleased about it because this is a strategic area. We have lot of learning behind us. So, in a way, it's a very positive move because that creates better alignment of purpose as well as better understanding between the reinsurance provider and the life insurance company. That's the extent of price hike as well as the retention that we're out looking.

Moderator: The next question is from the line of Madhukar Ladha from Elara Capital. Please go ahead.

Madhukar Ladha: Hi, good evening. Thank you for taking my question. First on the non-PAR business and the business mix that can shape up. So, what I'm understanding is that the non-PAR business is now getting very competitive with other players offering competitive IRRs. And margins have sort of come off. That's what some of the feedback that I have got. So, what has been our experience?

Second, is in an environment where short term rates sort of rise and you see a flattening of the yield curve, do we think that we will be able to sell the same level of non-PAR protection that we have been doing for much of this year? Or do you think that the mix will again sort of start off gravitating towards PAR and ULIP?

And the last question, just sort of on the COVID hit. Can you tell me what the COVID hit has been for 9MFY22, for hit in the P&L?

Amrit Singh: Firstly, non-PAR margin profile for us YTD actually has improved. And even in the last call, we had indicated that last year, we had a new launch of the product, which has now run full cycle. So, on a YTD basis, the non-PAR design product actually has improved for us. Now, taking a cross section of Q3FY22, the margins are stable as compared to last year Q3. So this summary that you said of there is a shrinkage of margin, we haven't experienced that. And also, you will remember that a non-PAR design is a mix of many things. You have various income points, various premium payment times that you have, which you can optimize for, to ensure the margin remains protected. So that's what has happened in Q3FY22.

Now, coming to your question around what's the movement on the spreads effectively, let's say the short term versus the long term. I think so far, we monitor this very closely. It is an important pricing decision for us of how we moderate pricing and consider variants. So far, we have seen, long term moves faster than the short term. Short term has also increased, but the increase of long term is higher. So, it is so far supporting us., Historically in India the yield curve has been more flattish. And that's how it used to be before COVID era. And as and when that happens, I think a couple of things happen. Firstly, an increase of interest rate also gives you an opportunity to increase IRR because the margin sensitivity is that if interest rates go up, it actually helps us. So, we will take the right call of how to moderate this particular number of where the IRR can move up and down. That's a moderation that we'll do whenever the curves move in that particular direction.

Madhukar Ladha: Do you think the supply of FRAs we can get impacted because if let's say the yield curve flattens then it would be less attractive for the banks to write that many FRA, right? I mean because the spreads for them would reduce. Is my understanding correct on this?

Amrit Singh: I mean, the lock-in FRA rate that will come to us will become lower, I mean, from their attractiveness perspective, obviously, there is a difference between the short and long. So just that the FRA rate that we lock in or we get for ourselves, potentially can come off a little bit. The spread that we're getting over G sec can come off -- can come under a bit of a pressure for us, and that's how you offset it by offsetting the IRR of the customer.

Madhukar Ladha: Right, right. Understood. Go ahead on the COVID thing.

Amrit Singh: On COVID, so we don't disclose specifically COVID deaths and COVID value separately. We took a INR 100 crore P&L impact for beefing up the provision last quarter which we're aware of. Apart from that we have not done anything in this particular quarter with respect to COVID. And our closing position and provision sits at INR 208 crore.

Madhukar Ladha: So, the additional for nine months is INR 100 crore on the P&L.

Amrit Singh: That's right.

Madhukar Ladha: And the closing is INR 208 crore. Okay. Thanks. Thanks a lot.

Prashant Tripathy: Madhukar, when we look at our position and the types of claims that we're receiving notwithstanding any other variant coming our way, with how we see Omicron I think we are sufficiently provisioned and I don't see any risk to our balance sheets, unless a new form of Coronavirus comes our way.

Madhukar Ladha: Understood, sir. Thank you. Thanks a lot.

Amrit Singh: Also, Madhukar, this INR 208 crore does not include IBNR. IBNR is separate for us. INR 208 crore is clearly earmarked for pandemic provisions.

Moderator: Thank you. The next question is from the line of Sanketh Godha from Spark Capital. Please go ahead.

Sanketh Godha: Just wanted to understand our protection business is broken down into ROP and pure term. And the retention what you are trying to highlight that it will increase to INR 32 lakh to INR 35 lakh will be applicable to both the products in the same way, or we will have a differentiated approach with respect to ROP and pure term.

Prashant Tripathy: Yes, I think it it gets applied to sum assured. So, I suppose it will get applied to both.

Sanketh Godha: Okay. And what will be our ROP contribution to be total term, whatever we do right now?

Prashant Tripathy: About one-fourth of total.

Sanketh Godha: The second thing which I wanted to understand is that the new PAR product in general, given we always were good in PAR, will that new par product will come with a better margin profile, because it’s in income plan. Will it come with a better margin profile compared to the existing PAR we had so within the PAR can be margin accretive?

Prashant Tripathy: Yes, it is. Thank you for highlighting. Yes, that's correct.

Sanketh Godha: Okay. And finally, one last one if I can squeeze in. The 67% is the Axis Bank contribution. Then if I do a back calculation, it seems that the non-Axis Bank have declined sharply in 9MFY22 around 25% to 30%.

Amrit Singh: Let me just interrupt you here. 67% I gave you wasQuarter 3 . For Nine months the number is 65%.

Sanketh Godha: Okay,. Fair enough. Then finally, on an annuity business, if you can put = an updateon that because every player has become recently very aggressive with annuity. And we are little behind there. On the scales on the scale of how much it is ideally should be contributing to the total APE So if you can give your inputs how you want to build this business and because you're even applied for a NPS license, I mean, the NPS is going to form. So just wanted to understand how do you want this product to drive the growth and how – any lever can come from this particular product from some margin expansion point of view going ahead?

Prashant Tripathy: That's correct. I mean, this definitely is an area of focus and Sanketh, if you did participate in the call that we had done in the month of December, to talk about Max Life Insurance’s next four years’ strategy, you would have seen that this area is one of the most important areas. We are doing multiple things. So, retirement is going to become a business unit within the organisation. Currently, it is driven all through the channels. We are of course setting up the pension fund management business, there will be people dedicated to not just in our own channels, but also separately source annuities.

We did start to focus on it earlier this year, actually end of last year, and we have about 49% growth on our annuity like business this year. If we were to look at two-year CAGR, it is upwards of 100%. So we are one of the fastest growing over the last two years, and we hope to accelerate this.

We are of course late in the game. If you look at our overall proportions, it comes only close to 1% versus 3% to 4% for the large players, but we hope to catch up very quickly.

Sankenth Godha: Okay. And probably last one. Credit life doubled almost in nine numbers year-on-year, from INR 26-odd crore to INR 51 crore. So still it remains a tactical call or we have changed our focus to make it more of a margin driver or a core business to be part of total utility induction.

Prashant Tripathy: No, like, we have always maintained., rather than giving it any name of tactical or strategic, this an important area for us but we are selective about margin accretive business and hence we will pick and choose. So, we are not out looking very significant growth in this area, we will only focus on those relationships, which give a better margin profile.

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

Avinash Singh: Two questions. First, on individual protection. If we see in terms of number of policies, almost, it has declined by 30% in the first nine months across the price hike. Now, again, going forward, because there's some sort of a price hike imminent, now, what sort of growth, you would see in maybe FY '23, what you expect to see in terms of how this individual number of policies trend will behave? How you expect them to behave?

And secondly, sorry, I joined the call late. I don't know if you addressed, but is there any update on the two fronts, that 5%, I guess, that option to buy from Mitsui Sumitomo's stake in Max Life. And another is Axis Bank incremental. I mean, beyond that initial allotment, they have the option to go up to 20%. So, what that would be?

Prashant Tripathy: Avinash ji, always a pleasure to hear from you, and hope you're doing well. If you look at our individual retail business of last five years, we've grown over 49% year-on-year, and we have a very strong view on protection. Last two years were unusual, you would agree. The first year, we were writing a lot of business and about came the Delta variant, and of course, the supply side constraints emerged, because of which a number of policies actually went down. I'm hoping that in quarter four, we will start to see growth, not just on the APE basis, but also on a number of policies basis. So, the big reason of reduction in number of policies that you see is only because of protection. And like I mentioned to you, we are on growth path now. In December, we grew on retail protection. So in Quarter 4, I'm reasonably sure you will start to see growth on the number of policies.

On the other two questions that you asked, as we mentioned to you, we have filed for approval, and that approval is pending with the regulator. And in due course we hope to receive the approval. Of course, the regulator has, at this point in time it's his own timelines to approve it and it is taking a bit longer, which I appreciate, and we are in touch with the regulator, we have responded to all the questions. So, I'm very optimistic that it should come our way.

On the other one, I think it's consequential subsequent to this approval, I think over the next 12 months, further approval requests will be sent to IRDAI. We are on the path to get the approval and we will update you as and when we receive the rules from IRDAI.

Avinash Singh: Just a follow up on the first, again. Because now the protection of course, because of pricing catching up with diversity, the mortality trend on the individual protection, and prices going up, do you incrementally see the behavioral aspect of customers changing as sort of again going more towards or demand for ROP product increasing? Because I mean, the ticket sizes of protection is increasing. So, I mean simply for risk cover. Of course, ROP is, of course, that also has a higher premium for that return of premium product part. But do you see behaviorally sort of a demand for ROP increasing at the prices for pure protection is increasing?

Amrit Singh: Avinash, actually, offline channels typically are the ones which sell ROP in higher quantum. Largely, it also optimizes for the ticket size for an offline incentive to be right for them. And given that in the first six -seven months, we were very cautious about protection business and once the wave was behind us, we have started pressing the pedal on protection business. It will take some time for the offline channels to start picking it up. So, till that time, the ROP business contribution will appear low. And Prashant indicated ROP number at around 25%, which has come off a little bit largely because very strong momentum is being experienced in the e-commerce channel, in the online channel where ROP is not necessarily the favorite product. ROP becomes a favourite product from an offline channel, and you will see once offline starts coming back in line, even the ROP contribution start increasing. So that's what I'll say. From a consumer, it's a bit of a both, consumers and a distributor led play, which causes ROP to increase.

Moderator: Thank you. The next question is from the line of Harshit Toshniwal from Premji Invest. Please go ahead.

Harshit Toshniwal: Just two questions, Amrit. So I mean, clearly, when we look at our business mix, and possibly as we look at FY '23, one that ULIP is doing well and an overall level and at the same point of time, just want to understand that to be non-par is now at much reasonable mix of 24% to 25%. So wanted to reinforce and get your sense on the margin guidance that should 24% to 25% be a more sustainable levels on a medium term basis?

And the second question is on the non-PAR piece . So if I'm not wrong, I mean, one, one and a half years ago, we had a lot of unused FRA, which gave us the benefit on the non-par with respect to margin. And just wanted to understand that isn't that our construct and our FRA arrangements allow us to make slightly better than industry margin in that segment? North of 30% to 35% kind of margin. And I mean, just want to understand if there is a product construct slightly different than what industry construct is like?

Prashant Tripathy: Yes. Let me first take the first question. On margin guidance, like I've been saying our guidance will be anywhere between 25% to 26%. While you see the ULIP mix for this quarter to be on the higher side. Like always, we try to balance it and you will see that happen. So, it will be an optimal mix between growth and margin that we drive. So, my guidance will be about 25% to 26%. And as time passes over the next three to four years, we do expect it to go upwards in the range of 27% to 28% because we have huge aspirations towards growth, towards focus on protection, annuities. So, we are anticipating that margin should trend up starting from 25% to 26%.

On your second question, I don't think there is any differentiation. I think most of the players in the market are working with FRA. So, the only delta that can emerge is your ability to negotiate and find the best rates and play with the margin. So, we make reasonably good margins , what I can confirm to you on non-PAR book. I feel very optimistic, and we hope that if everything works, well, we should be in the range of about 30% to 35% as a target. We could land up in quarters at around 25%. But the target will be to be between 30% to 35%.

Harshit Toshniwal: So, one thing on the last piece on that. So that 30% to 35% margin or non-PAR, that's large. I mean, we had an advantage or the FRAs because I think in Feb-March ’20, we had agreed on to a lot of FRA rates which were favorable for us and gave us the benefit over the last one, one and a half years. So this 30% to 35% is sustainable even at a more normal level of operations?

Prashant Tripathy: Sorry, Harshit. I didn't talk about margin as 35%. I said 30% to 35% of APE should come from non-PAR

Harshit Toshniwal: Got it, got it, got. Sure. Okay. This particular 25% to 26% margin, just out of curiosity, I mean, nine months we are at 25%, obviously, Q4 to generally a ULIP heavy quarter for us.

Prashant Tripathy: Yes, Harshit, if you look at last quarter, it was a ULIP heavy quarter. We ended up with 20%, almost close to 25%. So, we are hoping that it's quite real because in the last quarter, sales are also more which gives you an advantage on better leverage. So hopefully we'll end up between 25% to 26%.

Moderator: Thank you. Next question is from the line of Adarsh Parasrampuria from CLSA. Please go ahead.

Adarsh Parasrampuria: My question is that I’m just trying to understand the duration this product across the sector right, which is non-PAR, more non-PAR, more PAR, on the longer duration has increased over the last two, three years, which obviously comes with higher margins as well. I’m just trying to understand, obviously you partly answered it in the non-par mixed target that you have. But overall just wanted to understand how that plays out if you take the whole traditional business together?

Prashant Tripathy: Basically, if you look at our target mix, we generally try for 60%, traditional 40% ULIP. I mean, that will be something which is closer to ideal, I mean, better will be for us two-thirds traditional, one-third ULIP. In some quarters, it may go up or down. And within the traditional side, of course, it's a good mix of short term and long term. There is of course, a desire to move more and more towards long term, provided we manage the risk well, definitely, that is kept in mind. So that is matched. But ideally one would like to have a good balance between long term and short term. If you sell short term a bit more, you're able to drive the business more. And you can get good growth, because long term actually requires a commitment to pay over a long period of time. So basically, it's always a right balance or optimal point that one is looking for between short term and long term. Yes, you're right the long term gives better margin, but at the same time risk management, hedging etc are instruments or mechanisms that one should always keep in mind.

Adarsh Parasrampuria: And related question, Prashant, is that given that the large mix shift between this long term versus short term happened in ’21, and you did talk about maybe investing in ’22, but then recouping a part of operational efficiency in margins over ’23, and ’24. Where are we on that? So, should one expect product mix margin improvement will be lesser next two years, that will you be able to squeeze something on the opex?

Prashant Tripathy: I think that we did squeeze a lot on opex. Last couple of years and of course, there is an increase in opex that you see, but I can confirm to you that it's all variable to sale. So really at on ground level, we have been quite tough on expenses. We have been trying to control the expenses quite considerably. Last year, definitely many things around compensation decisions, number of people deployed, etc, also helped us and we are on that journey.

I think if you were to look at us, our sales, versus maybe top three players, there's a delta between us. If you were to look at our renewals versus top three players, there's a delta. So, I think a large part of margin upside that we might end up getting will also be out of scale, because expenses are not going to, especially the fixed expenses are not going to increase in the same proportion. So, and I mentioned that from 25% to 26%, to 27% or 28% journey that we should see over the next three- four years that will happen maybe 60% to 70%, because of more focus on annuities, riders, protection and about 30% because of expense leverage that we might end up with.

Adarsh Parasrampuria: Got it, Prashant. And maybe just one last question is one of the peers has a saying that we will reinsure only beyond INR 1 crore, right? So anybody can spin it both ways. One could be that there's a little bit of riskiness, hence, you need to retain a little bit more than the second aspect could be that overall, the pricing of reinsurances got a lot sane, or on the other extreme, quite expensive. So, I rather retain it in my books, and it will be more profitable, right? So, I wanted to check after this hike or whatever you're negotiating, are we it, or there is more to come in terms of tightening?

Prashant Tripathy: I think this increase, one has to see in two contexts. I think, the first one was all of us were pricing very aggressively to start with, a few years ago, four or five years ago, the **IALM** table that we'll use will be early '20s. That's kind of the number. But as time passed, you'll realize that the kind of target segments that we were all going to, the mortality experience was a bit higher. Unfortunately, a big part of that burden was carried on or carried by the reinsurance providers. And then came COVID. And after COVID there was further impact. Now, if you look at the reinsurance providers, I think the rate increase, they are trying to recoup some of the losses that they have had. But more so it's tactical over one or two years. And we need to just include that and make that as a part. They will, of course, increase over a long period of time, but the way it will come in pricing, will be far more moderate than the recoup that they're trying.

Now, in that context, I think expectation of the reinsurance provider that you also take a bit more risk is very logical. Now, we, in our understanding, going up to, I mean, retaining all risks absolutely doesn't make sense because it creates huge burden on your capital requirement, it adds to risk and at the end of the day, this is a game of risk sharing. We are in the business. Customer is sharing risk with us; we share risk with somebody else. I think a marginal increase of the kind that we're talking about gives a good exposure to the outside party, as well as retains some risk in our books. It optimizes for capital requirements. So, I'm very comfortable. And I'm of the opinion that as much as possible, one should share risk. I don't think by keeping too much risk in our books there is a huge opportunity to make tons of money, because if that were the case, the reinsurance companies would be making a lot of money right now, which they are not. So I think we are trying to do is find the right balance. Is the price increase it? Looks like, basis all our experience, looks like, I think if things were to improve, which I hope it should, it may go down. So, I'm just keeping my fingers crossed. It's a very long-term contract to be honest, Adarsh. So, we don't have experience of what will happen after 10 years and 15 years or somebody doing the book. We are just learning through it. But hopefully, I think we have hit the high point.

Adarsh Parasrampuria: And the last one is as an outsider, how do I track the underwriting experiences that will reinsurers are having with each company because eventually that will come to the fore, right? Today just about that we are -- as an outsider I see it is it's an APE growth, right? But beyond the point, it's also a lot to do with underwriting. How are we placed basis how you would benchmark or the feedback you get from reinsurers? And any way we can track this from the outside?

Prashant Tripathy: Yes, I mean, basically, two ways you could track. First, look at how the claims are. If there's discontinuity in claims and your claims are coming much higher, then of course, there is higher than expected run rate. So, very crude way of looking at that. The other way is when companies talk about operating variances, you could dig deeper to find out the root cause. I mean, really operating variances come out of either persistency related issues or claims related issues. So that's the other way you could find out. As far as we are concerned, we are pretty comfortable. I think we all had a tough time, one-off hopefully, to manage through COVID. So, it really doesn't make sense to look at operating variances or whatever over last eight months, six, seven months, but hopefully going forward. That could be one marker that analyst community in general could be in need for.

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

Nidhesh Jain: Thanks for the opportunity. Sir, can you speak about some how the trends from the digital initiatives that we have put out and how the trends of sales from our own website or from the aggregators that we have tied up?

Prashant Tripathy: So that's really one of the fastest growing areas for Max Life Insurance. As you know, last quarter we grew a close to 100% year-on-year in digital space. So, we are seeing tremendous growth there, not just from the aggregator platforms, but onto our platforms also. That's really doing wonders. We also took a decision. Like, we mentioned, we hold 30% of the market at this point of time on the aggregator as well as direct platform sales, for protection. So that part is going really well. We also started in a small way selling savings and capital guarantee kind of designs, and very quickly, our share went up on the largest aggregator platform platform from 1% to 10%. So that entire part is doing very well.

We are also, working on many initiatives and projects. You would have seen in media that we have come up with very innovative solutions for homemakers, a segment which was not catered to. So we are going to go there. Other plans of very innovative designs are going to come up. So that part is working very well. And you may remember, Nidhesh, that's our one of the top priorities for next four, five years to grow that area. So, we are well on that journey. As far as the other elements of digitalization is concerned, again, we have made very good progress. There is work that we've done in the digital area for our agency channels. We have very recently launched a state-of-the-art activity management solution, which has also propped up our overall productivity. That is working very well. The total push towards the cloud, we have moved and taking from maybe 18% to 39% over the last nine months. So that's also worked very well.

We have integration with Axis marketplaces. This is called Thanos. And that we are just trying to put more and more products on the Axis marketplace. And that's another area of focus. We have within our HR area as well as investment area, we implemented SAP just now to take care of future growth. So, there’s 360-degree work taking place at this point of time around digitalization and hopefully, next time we have a meeting like we did in the month of December, we will also update you as to how we are making progress in them.

Nidhesh Jain: Sure. And can you say what is the contribution of this channel to our overall APE as of now?

Prashant Tripathy: It will be a smaller number, to be honest. We have done about more than INR 3,700 crore APEs. So, in that context, maybe 2% to 3%, my sense, 3% percent. What is the number? Just digging the number out, give us a second.

Nidhesh Jain: Sure.

Prashant Tripathy: 4% is the number, Nidhesh, 4%. On VNB basis, it will be significantly more. we don't disclose margins at channel level. So I won't be able to do that, but it will be significantly more.

Nidhesh Jain: And sir, on the operating expenses, how should we think about from the next two to three-year perspective? What portion of our expenses are fixed where we will get the benefit of the scale, and if you can quantify what could be the impact on the margins because of operating leverage over the next, let’s say, two to three years.

Prashant Tripathy: So, I think the operating leverage will come, but if we – like, we shared last time in the -- not in the Analyst call, but separately as Management. We are on a very expeditious, ambitious journey to increase sales on our e-commerce platforms, our own channel, through protection, annuity, et c. So, I think next year is the year where we will have to make investment in people, setting up teams, enlarging leadership capacity, which we'll do that, maybe seek consulting help. So, I think you will see some increase next year. But hopefully, once we do that, and that starts to come through, you will start to see operating leverage. So I'm saying over the next 12 months I won't give a picture that there'll be a lot of operating leverage, but beyond that, most definitely.

Nidhesh Jain: Understood,. And lastly, and the Axis Bank channel now, it is already open architecture for the last two to three years. So, how the market share trends in that channel? And how are we preparing ourselves if they completely open up for the other life insurance company.

Prashant Tripathy: So, it is an open architecture, and the open architecture is already with two other people along with us. So it's fully open architecture to the level of regulatory permissible number of players. And we have learned, how to play in open architecture, which is great, but at the same time Axis Bank, being our promoter and shareholder is hugely supportive of all the aspirations that Max Life Insurance has. And will be working long with us to make sure that we continue to grow through Axis channel at a very healthy pace. Unlike other open architecture platforms, the only difference that you have to keep in mind is there is a direct shareholding relationship also. Which is not common with other open architecture platforms.

Moderator: Thank you. The next question is from the line of Nilay Jethani from BOI AXA Mutual Fund. Please go ahead.

Nilay Jethani: Sir, my first question was on the protection side of the business. So, I've been hearing from last now two to three calls that we are going slow on protection due to supply side pressure, testing etc, not available. This quarter, we saw around 11% y-o-y growth. So, going ahead, are we seeing the supply side pressures taking a backseat and an individual can see growth from your own, or still the policy remain same, we will go slow considering Wave 3 etcare still in transition?

Prashant Tripathy: No, actually, the first one. Going forward, I think we have a view on Omicron, and we believe that it is not going to be as negatively impactful for any kind of business, especially around protection. So, we are very positive. We do want to grow. This is a specific area. So across all elements of protection, which is pure term, riders, health, we are hugely bullish, and it is going to be an area of investments for Max Life Insurance. So, I'm gonna say, going forward, I'm quite optimistic that you'll start to see growth in that area.

Nilay Jethani: One question on the margin side, I had. So you guided that we would like to be the VNB margins in the range of 25% to 26%. So the background from which I come from is ULIP, considering the strong equity market performance, will see a decent growth. Whether you try to pull it off, or whatever it is, but will try to continue to grow. Interest rate, expected to go up. So, banking products may or may not, but in general case have become competitive. So non-par will see some shakiness over there. So by and large, the low margin in will see a decent growth, whereas high margin business may take a backseat. So, what confidence it gives you to maintain that 25% to 26% VNB margin?

Prashant Tripathy: Yes, I mean, if you look at our mix in Q2FY22, we had a margin of 29%, which was more skewed towards writing for non-PAR which we rebalanced. And if you look at our mix, in Q3FY22, there is a reasonable rebalancing that has taken place between ULIP and traditional side of the business. And despite doing that, our margin is about 24.9%. So, I think the business will work towards finding the optimal point between growth and margins. And I'm very hopeful that we will be able to hit the sweet spot with about, if we write too much of ULIP, like we have written in Q3FY22, maybe more towards 25%, those kinds of numbers, and if we are able to balance it better, maybe towards 26%. That's where the confidence comes from. Because as it's a seasonal business. So, we do more and more sales. And that also has a benefit on overall leverage. And that also drives margin. So I'm very hopeful that we should be able to, on a longer period basis, which means about full year basis, maintain a overall profile of about 25% to 26%.

Nilay Jethani: One last question on the online side. So we said that online is going northwards of 50-70%. So wanted to understand when you sell it on plan online, so requirement for testing et cetera are curtailed or conditions remain same, or do we have a policy of up till a x lakh or x sum assured, we won't go for the testing et cetera. So what's the purpose of that fees going 70%?

Prashant Tripathy: Yes, Max Life Insurance has 100% Health Check. 100%. So, everybody who buys from us protection, has to go through the health checkup. But what we have done is, we have eased the journey which means our ability actually to get the health check up done, have the result come quickly etc is of a higher order. And I think that's the way we will go. That's the guidance also from the reinsurance providers.

At this point of time, we're not anywhere close to finding tons of flexibility around it, especially for high sum assured cases. So we do 100% test at this point of time.

Moderator: Thank you. The next question is from the line of Neeraj Toshniwal from UBS. Please go ahead.

Neeraj Toshniwal: The question is on riders. So, just wanted to get some sense on that. Our attachment rate is improving vis-à-vis past quarter. And whether you're just selling riders to protection or also ULIP as some features within that and with their margin for that fulfilling ULIP has improved?

Amrit Singh: Okay. So, if I got your question, your question is where are we attaching riders. So, riders are being attached all across. Actually, now our entire product portfolio suite is in such a manner that riders can get attached all across. So, even in ULIPs, the riders are getting attached. But as I must say proprietary channels actually have been far quicker to embrace it. And wherever the proprietary channel is actually attaching a rider on a ULIP design, there is a margin augmentation which is happening on the ULIP as well. But because overall volumes are still low, I mean from our overall margin perspective and VNB perspective it’s a small contribution number.

But I think we are picking up good healthy momentum. For example, for the last quarter, we have grown over 100% on our rider base. And for the year we are somewhere around 45% kind of levels actually with respect to our growth rates also. So there is momentum that we are seeing and slowly some of those practices are also gonna get shifted towards our non-proprietary channels.

Moderator: Thank you. The next question is from the line of Haresh Kapoor from IIFL Asset Management. Please go ahead.

Haresh Kapoor: So just couple of questions. One is your retention for the protection business has gone up from INR 20 lakh to INR 30 lakh to INR 35 lakh. Could you answer that question in terms of sum assured? What is your average sum assured? What percentage of the overall business gets retained now compared to previously?

Amrit Singh: So our average sum assured is in the range of INR 80 lakh to INR 90 lakh. That's how the range has remained. Now, what Prashant mentioned is actually we are in the process of negotiating and in discussions, actually. Today we are retaining around INR 20 lakh on our books. And in our negotiations with the reinsurer, this is likely to increase as

Prashant actually highlighted earlier during the call. More in the ranges of 30% to 35% kind of retention levels.

Haresh Kapoor: So, it will be probably around 20% to 30% right now? The current number?

Amrit Singh: It is around 25%, yes, 25% current number.

Haresh Kapoor: 25% current number. And if it goes to INR 30 lakh to INR 35 lakh, then that will become 35% to 40% of the business or higher?

Amrit Singh: It will be in that range, I don't want to give a specific number because it's still under negotiation.

Haresh Kapoor: Yes, you can just speak about range. It should be fine. So it should be around 30% to 40% or 40% to 50%?

Amrit Singh: So it will be lesser than 40%. More, I think, between, anywhere between 30% to 40%.

Haresh Kapoor: The other part is, just talking about, margin for business, maybe this year around 25% to 26%, maybe next year itself it's in that range. So, the growth from a VNB standpoint will broadly come from APE. So if you can comment a little bit around that, first is that December growth has been pretty strong for you and the industry as well. So how much of their growth has come from new product introduction, and what has been the pros there? Do you see growth again being strong in January? I do know that last month of the quarter is stronger and January is not really a comparable from a December number. But do you see growth rates good and how should the year shape up and maybe anything for next year as well? Because when we look at your numbers, it has broadly been in that INR 350 crore to INR 450 crore number for multiple months during the year, so, from June to November. So there is a lot of base which is favoring you. So next year how do you see that growth if you can just talk broadly will be helpful? And even January, December?

Prashant Tripathy: I mean, it will be hard for me to give you a number, but last five years our growth rate, five year CAGR is 19%. We've grown last five years 19%. So one would look at accelerating that a little bit and doing better than the five year CAGR. Quarters will go up or down for a variety of reasons. So, I wouldn't quite be driven. As far as this quarter is concerned, of course, we have had, January is, because of Omicron variant, etc, we have seen impact on footfalls, we have seen impact on people falling sick. So, we just need to see how it generally plays out. But one would work hard towards maintaining the growth trajectory and do well. Let's keep it at that level.

But over a long period of time, like we mentioned in the month of December also when we met with many of you, we are out looking robust growth of a better than five-year CAGR kind of a numbers over the next four or five years.

Haresh Kapoor: Yes. And can you just answer that question, in December, how much of the growth was from new product, introduction?

Prashant Tripathy: I don't have those numbers. Maybe we could provide that to you separately. We had to two new products that we launched. One in non-par, and one in par. But I must say a lot -- a large part of growth also came from ULIP, which is not out of new products.

Haresh Kapoor: Sure. And last thing from my end is your market share and Axis Bank channel, if you can comment on that.

Prashant Tripathy: Yes, I mean, it goes up or down. But currently closer to maybe 80%.

Moderator: Thank you. We'll take the next question, which is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Hi. Most of my questions are answered. Just one clarification. And this was essentially on the rate hikes for protection policies. I think what you mentioned is that currently you are in negotiations with the reinsurer, and whatever is the hike that comes in, you will fully pass it onto your customers. And I think you also kind of mentioned that you're going to look at increasing the retention rates. So does it mean that the overall margins of the protection business go up after this?

Prashant Tripathy: Yes, I mean, one will try to. But at the end it's a combination of many things, market sources, how much margin can we generate, but one thing is very sure that the margins are not going to get diluted from where we are.

Nischint Chawathe: Sure. And just one last more question is on the Axis Bank. I don't know if you mentioned it, but would you have some kind of medium-term outlook or guidance from the bank in terms of where your market share would settle? I think you mentioned somewhere close to 80%.

Prashant Tripathy: Many a times, we don't even know the market share. So, what I told you is my high level estimate. What I can tell you is the growth journey that we have crafted for ourselves, which is a very strong growth overall, as well as from Banca channels, has been presented to the Board. Most of the members of top management are there on the Board. So we have a common understanding and blessing from Axis Bank towards driving the growth of Max Life Insurance. And I think we're very optimistic that that we will continue to get the support which is required to traverse this journey.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the Management for closing comments.

Mandeep Mehta: Thank you. Thank you ladies and gentlemen for joining on Max Financials earning call. We look forward to such interaction in future. Wishing you a nice and safe weekend. Thank you very much once again.

Moderator: Thank you. Ladies and gentlemen, with this, we conclude today's conference call. On behalf of Max Financial Services Limited we thank you for joining us, and you may now disconnect your lines.

-End-
