# Max Financial Services Limited
## Q1 FY23 Earnings Conference Call
## August 02, 2022

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**Moderator:** Ladies and gentlemen, good morning, and welcome to Max Financial Services Limited Q1 FY'23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amrit Singh, Chief Financial Officer, Max Financial Services Limited and Max Life Insurance Company Limited. Thank you, and over to you, sir.

**Amrit Singh:** Good morning, everyone, and welcome to our earnings call for the quarter ended June '22. Our results have been made available on our website and as well as on the stock exchange. I'm also joined by Prashant Tripathy, MD and CEO of Max Life Insurance.

I will hand over to Prashant to share the developments during the quarter.

**Prashant Tripathy:** Thank you, Amrit. Good morning, everyone, and thank you very much for taking out time to be on the call this morning. Let me first begin by sharing a couple of achievements of Max Life Insurance. Staying true to its purpose, Max Life once again emerged as number one in the claims paid ratio with 99.34% claims paid in FY'22. This is the third year in a row that we're number one. We had earmarked INR 500 crore of reserves in March '22 to settle any future pandemic related claims, which remain unutilized as on 30 June 2022.

Max Life was also recognized among Best BFSI Brands 2022 by the Economic Times, selected among India's Most Trusted Brands of 2022 by WCRC International. Before moving on to business updates, let me share some of the developments on regulatory and macro front. With the vision to drive insurance growth for all, the new IRDAI Chairman has introduced changes to lower the compliance burden and also has enabled ease of doing business through rationalizing regulatory provisions.

Many more changes are expected to happen at a rapid pace. We see all of them as welcome step, which paves the way to deepen insurance penetration, build customer confidence and more importantly, bodes well with the purpose of our organization. We are very happy about some of the developments which are going to take place, and we believe that it's going to help life insurance as a sector.

On macro front, financial markets have remained volatile amid continuing geopolitical conflicts and subsequent inflationary pressure. Most central banks have increased interest rates, leading to net outflows of FIIs over last few weeks. The current volatility is expected to continue in near-term, and we are already starting to witness some pressure in consumer demand in certain categories of the business because of this. However, we need to witness the progress on macro front over next few weeks or months to see how it evolves.

Moving to the quarter 1 business update for Max Life Insurance, let me pick up our strategic areas of focus. Firstly, on building a predictable and sustainable growth engine. We do want to share that we are maintaining our growth trajectory in quarter 1. Our new business premium grew by 20% and total APE grew by 15%. Our focus on building proprietary channels resulted in growth of 32% in quarter 1, experiencing strong momentum in both online as well as offline proprietary channels.

Offline channels grew by 34% and online channels grew by 24%. Within online, our SEO leadership and best-in-class issuance continue to put us in leadership position in online protection sales, and we have launched many new initiatives, including combo plans, homemaker campaign on website, NRI segment in Policybazaar and progressive web apps to deepen our presence in online markets. These steps have enabled us to grow online savings portfolio by 10x year-on-year in quarter 1 of FY'23, though on a smaller base.

In the offline proprietary channels, the growth is driven by improvement in active agents, which is year-on-year up 33%, which in turn is driven by positive changes and simplification in adviser rewards program. Our focus on variabilizing agency resulted in increase in the share of variable agency by about 200 basis points year-on-year. Banca grew 8%, which is lower than the 32% that we witnessed in proprietary channels and the predominant reason for slower growth in Banca for Max Life Insurance was the full-blown impact of open architecture.

However, the base impact of counter share is expected to run off by quarter 3 of FY'23. I'm happy to share that Max Life's counter share in Axis is being maintained since January, and multiple initiatives, coupled with strong governance is in place to improve it further. We have been working with our bank to ensure that the growth momentum for Max Life Insurance at the bank counter comes back quicker.

On product innovation to drive margins, which is our second strategic area, we're happy to share that product mix has remained very balanced in quarter 1 of FY'23 with par about 17%, non-par savings at 27%, ULIP at 38% and protection at 18%. In line with our strategy to focus on retirement business, we have embedded annuity products in the mainstream product category for our distribution and build product superiority on features, pricing and innovation, which enabled us grow annuity by 125% in quarter 1 in FY'23.

Synergistic to our individual offerings, we have received Certificate of Registration from PFRDA for Max Life Pension Fund Management and all necessary requirements for obtaining certificate of commencements have been complied with. We expect the operations to start in quarter 2 of this year as soon as Certificate of Commencement is received from the regulators. Regulatory inspections just got concluded last week.

Non-par savings business grew by 20% as we passed on the benefit of interest rate increase to consumers without affecting profitability. To increase penetration in online savings space, we launched smart fixed return digital plan with simplified onboarding process along with instant confirmation of issuance.

Total protection grew by 7%, supported by strong growth in group protection business. Retail protection, however, de-grew by 19% year-on-year, which definitely can be attributed to a natural demand increase that we have seen in the quarter 1 period of both of last year FY'21 and '22 due to COVID and some moderation in demand. However, on a 3-year CAGR basis, retail protection grew at 14%. As we have shared in past, protection is a very important area of business, and we are very hopeful that by every passing month, we will start to witness growth in this segment.

ULIP grew by 21% on the back of launch of a new ULIP design, which is called Flexi Wealth Advantage Plan, with industry first features like auto debit boosters, 5 pay whole life variants and return of all charges and new ESG fund, which has already mobilized about INR 87 crore in quarter 1. These concentrated efforts, put in innovation of new products while focusing on increasing their profitability led to a VNB growth of 23% in quarter 1. Our new business margin improved from 19.7% to 21.1% year-on-year.

We calculate margins on the actual cost basis and hence, because of seasonality, you would have noticed that every year, our first quarter margins are lower and the margin improves subsequently quarter-on-quarter. So just to clarify, it is consistent with the methodology that we followed every year. And hopefully, by the time we finish the year, we will take it closer to how the last few years ended. We always report NBM on actual cost basis.

The third priority area is customer obsession across value chain at Max Life and that is quite reflected in the claims paid ratio number that I just shared with you. In quarter 1 of this year, 13-month persistency of regular pay premium was at 84% and 61st month persistency is at 50%. For FY22, I'm happy to share that on a number of policy basis, Max Life Insurance, on both 13th month and 61st month persistency is at number one and number two position respectively.

Performance on customer satisfaction experience is also measured through a globally established metric called Net Promoter Scores. During the first quarter, we witnessed an improvement of 2 points from 49 to 51 in the overall company NPS scores. Max Life also bagged the Best Customer Initiative and Best use of Relationship Marketing at the Customer Fest Award in 2022.

On the fourth priority area, which is digitization for efficiency and intelligence in quarter 1, we have strengthened our underwriting practices with the industry-first launch of in-house underwriting AI models for fraud prevention. The objective is to curb diagnostic center-related frauds through an in-house intelligence model, which can grade the diagnostic centers, identify mirror reports and provide a deviation score to share additional insights on the health of customers. Max Life also launched Video Point-of-Sale Verification for the verification of high-risk customers as an additional measure for controlling mortality-related risks and improve the quality of sales.

To offer frictionless experience to our customers, Max Life also introduced common in-house dialer, a single platform to implement multiple functionalities, operating centralized campaigns, generating real-time insights from call metrics. Early trends post implementation show 40% improvement in agent efficiencies. Also to have standardized online payment checkout experience across all the customer journeys. Max Life has developed a unified payment platform. The platform will minimize redirection during the payments journey, thereby increasing the overall payment success rate for online transactions and improving NPS.

Our digital transformation has positively affected customer loyalty and agent productivity. In addition, growth in Max Life's cloud footprint now is at 46%, significantly higher than last year. And that has helped us improve the company's infrastructure resiliency, which can now easily support business spikes such as during new insurance product launches.

I'm now going to hand over to Amrit Singh, the CFO of Max Life and Max Financial Services to share with you some of the key metrics for the quarter.

**Amrit Singh:** Thank you, Prashant. I'll focus on some of the financial metrics that Prashant hasn't spoken of. On a consolidated basis, Max Financial revenue, excluding investment income is at INR 4,003 crore, growing at 17% in quarter 1, FY'23. The consolidated post-tax profit for quarter 1, FY'23 is at INR 68 crore, 91% higher than last year, primarily on account of lower tax expense compared to previous corresponding period.

Max Life renewal premium has grown by 17% to INR 2,619 crore. Gross premium grew by 18% to INR 4,103 crore. Max Life MCEV stands at INR 14,152 crore at the end of June '22, with an operating RoEV of 13.5% for the first quarter of FY'23. The MCEV has remained flat on account of economic variances, which is expect to reverse once matter situation settles down. Policyholder OpEx to GWP ratio improved to 16.9% from 17.4% year-on-year.

Max Life quarter 1, FY'23 profit before tax is at INR 91 crore, an increase of 18% year-on-year, aided by growth in back book surplus. The profit after tax is INR 77 crore for Max Life. Max Life solvency ratio stands at 196%, and AUM is at INR 1,07,140 crore as on June '22, a growth of 14%. To conclude, we remain committed to our purpose of inspiring people to increase value of their life and work across all possible areas of business to make it happen.

We are now happy to take any questions that you may have, and I will now hand over the call to the moderator to open the floor for Q&A.

**Moderator:** The first question is from the line of Swarnab Mukherjee from B&K Securities. Please go ahead.

**Swarnabha Mukherjee:** I have 2, 3 questions. First one on the product side. So ULIPs, as you have mentioned, the performance has been on the back of the new product launch, generally, we are seeing a weaker environment of ULIPs when other peers reported their numbers also and normal market coming through. Now do you think this momentum in ULIP is going to sustain in the upcoming quarters? Or after the initial push, do you expect it to normalize a bit in line with the rest of the market?

And also in terms of your ULIP sales across different channels, what I see is that the growth was coming much more from the proprietary channel than the Banca channel, sir, in Banca, PAR has actually seen a better growth. So are we having a differentiated strategy across channels in terms of product mix? So that is my first question, sir.

**Amrit Singh:** Your observation is actually right. So for the quarter, our ULIP proportion and you see sequentially over quarters, it will appear higher because of the launch of a ULIP product. We do intend to keep the overall product mix similar to how it was for the full year. And you will see some moderation that we do as we progress into the quarters going forward.

With respect to demand momentum, historically, it has always been the case that whenever the markets have become choppier, 6 months, 12 months later the life insurance ULIP product demands have got impacted. But as we speak, we haven't experienced any of those trends yet. Maybe if the continued underperformance of the market remains, there could be certain pressure points that we'll get. But more importantly, even we are intending to have moderation in ULIPs as we look forward. So you will see some bit of a change in the mix.

For your question on differentiation, whether we do any differentiation in proprietary and non-proprietary channels with respect to product mix. That's always been the case that one of the thing that we drive, we optimize for both the customer segments availability to various channels and also the cost structure dynamics of certain channels to optimize the product mix. So that's a play that we have always kept. So yes, we do differentiate the target mix between channels.

**Swarnabha Mukherjee:** One question on the embedded value side. So your operating RoEV is slightly lower than what we generally see in your range is. Is there any operating variance playing out or any operating assumptions strengthening over the quarter? And is this number, basically the operating RoEV that you have mentioned, is this from the end of FY'22?

So operating variance, are you calculating from what it was at the end of FY'22 and then annualizing or this is 1Q last year versus 1Q this year?

**Amrit Singh:** Yes, that's what happened. So the first quarter, largely because of being lower on sales and higher on expense, there is always an emergence of maintenance operating variance, which comes. But as the year progresses, this does disappear with respect to the negative operating variance that you will see on the maintenance side. Because we just annualize it, it does appear a bigger number, but as time progresses during the year and that seasonality goes away, the operating variance will move out with respect to maintenance overrun.

**Swarnabha Mukherjee:** Sure, sir. And just 2 quick questions. One is on the group protection, is this largely from credit life? And if yes, who are your key partners apart from Axis? And second is share of Axis in your overall APE.

**Amrit Singh:** So individual partner level metric we won't share. But if your question was where is the growth coming from? The growth for us has come out of a little bit of term life actually during the quarter. The credit life growth is in line with how the disbursement growth is. We have been sharing consistently that this is a bit of a tactical play. And last year, both the mortality experience emergence, we have renegotiated some of our contracts. And we have optimized for the portfolio that we're holding and the partner that we are working with, but credit life continues to remain a tactical play for us.

**Swarnabha Mukherjee:** Okay. Sir, and my question related to the share of Axis was more pertaining to your overall mix, which you earlier used to disclose. So would it be possible to say?

**Prashant Tripathy:** So it is consistent with how it's been maybe 1% or 2% lower because our propriety channels have grown more, but majority of our sales actually comes from the bank.

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

**Avinash Singh:** A couple of questions. The first one is particularly on protection, I mean, yes, the slowdown now probably led by demand challenge is there, and it is not for you. But by considering the realistic scenarios and the macro, by when do you expect the growth in number of policies to return? I mean, I see in the Q1, a decline is close to 19%, 20%, but based on maybe policy count, the decline is even surplus, because some partly compensated by, of course, ticket size increases. So I mean, considering the entire macro environment, by when do you expect this to turn around, because this kind of a slowdown is now for almost like 5, 6 quarters, and that's not just for you, for everyone. So that's number one.

And second, in terms of the sales in retail APE, the share of web aggregator, where do you classify that? And what would be that amount? I mean web aggregator/broker, I mean, non-bank channels, but not proprietary?

**Amrit Singh:** If I got your first question right, your question was around the protection business that is being seen with respect to the first quarter performance on the retail side.

**Avinash Singh:** Yes. I mean when do you expect growth to come back? I mean it is just not Q1, I mean last few quarters have been weak for entire industry. And we say that, okay, there is enough protection demand and I mean the customer segment level, but the weakness.

**Amrit Singh:** We are hopeful that in quarter 2 itself you will see a recovery with respect to growth in protection volumes. Again, it's a bit of a base play out. I think it is important to understand that both in FY'21 and '22, these were the periods when the COVID fear was actually at the peak, and there was very heightened demand, et cetera. And also a little bit of upfronting that happened with the protection volume during the quarters in these financial years. Some bit of that moderation will happen. In the second quarter we do expect that the growth should come back on protection business.

**Avinash Singh:** Okay. And on the second question, that's on the share of web aggregator /brokers in your retail APE?

**Amrit Singh:** So I mean, on the online space, it continues to remain in the ratio of 40% our own website, 60% for aggregators and brokers of the online business.

**Avinash Singh:** Okay. And how much is your total online?

**Amrit Singh:** Online, just give me a second. It's around 6%.

**Prashant Tripathy:** Of the number of policies that get generated from the online channel is significantly higher. We do closed about 21% from our online channels. It's more our customer acquisition engines that we have.

**Avinash Singh:** And a couple of quarters back, I recall you had launched some protection product, particularly targeting non working women. I mean, of course, I understand that the market will be sort of something new category you have entered into, I mean the industry has not been offering that product. I mean what has been experienced so far? Is there sort of a demand that will make any difference? Or it's just like that the one of another product.

**Prashant Tripathy:** You're reasonably good Avinash, yes, actually we feel very good and proud of this segment that we have created. And we are already seeing month-on-month volume buildup and by every passing month I'm seeing months on months increase. So we are hoping to do a respectable business.

**Moderator:** The next question is from the line of Nitin Aggarwal from Motilal Oswal Financial Services. Please go ahead.

**Nitin Aggarwal:** So a couple of questions. Like, firstly, how do you now see the pricing in the non-PAR business moving? Do you think it is getting too aggressive? Another leading insurer has reported very strong growth in non-PAR. And related to it, like, how do you see the margins therefore trending in this segment?

**Amrit Singh:** On non-PAR, I think margins are stable as how they were for the previous quarter. And over the last year same quarter, there has been an improvement. But I must at the same time say that the yield curve movement does help for some bit of that. But at the same time, it's important that we keep the product proposition strong. So we do have passed on some of these benefits to the consumer as well with respect to an improvement in IRR and we'll keep doing so. But the margin has been kept stable or has improved as we see from previous quarters last year.

**Nitin Aggarwal:** Right. And the overall pricing as such?

**Amrit Singh:** Growth perspective, non-PAR category for us in the first quarter has grown around 20% and a category which has a robust growth momentum that benefited.

**Nitin Aggarwal:** Okay. And secondly, Amrit, if you can also talk about how the Bancassurance share do you likely to see moving like we have seen good ramp-up on the agency channels, but Banca has been like going soft. So how do you see this mix moving? And if you can also detail out the share of Axis Bank within this?

**Amrit Singh:** Yes. So on Banca, we have been sharing that, given the open architecture that we are experiencing in both our counters, at Axis and Yes Bank and the scale-up that happened last year. There is a very high base of which we are kind of sitting on. And it will take 2 quarters before some of that basis has settled. But once those quarters are behind us, the counter share will stabilize. And Prashant mentioned in his opening remarks that the counter share has now remained stable for over 6, 7 months. And once counter share is stable and the base is kind of settled over previous quarter, we would start seeing an improvement in the growth trajectory as well. So whatever will be the planned growth rate, it will be similar growth rate that the Life Insurance companies will also accrue.

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

**Madhukar Ladha:** So a couple of things. First, the margin improvement that we are seeing, now I remember in your earlier meetings and commentary, you had mentioned that you would be investing in the Banca channel and in the other channels as well. So first, have we sort of done that? Or have we pushed that back. So what I mean to say is, how much of will we see sort of softer margins even going ahead in Q2, '23?

Second, you mentioned that the product mix is really driving better margins. But if you see individual protection is down in the mix, individual protection and year-over-year is down about 250 basis points and so credit protect is probably up 250 basis points. So is it more driven by the channel of acquisition or non-par business? Are we seeing better margins over there? Or have we changed assumptions a little bit? Maybe you could give some color over there. I think these 2 would be my questions.

**Amrit Singh:** I heard actually a couple of questions there. So on margins, the reason for expansion of margins and your observation is right to see the mix and compare it to the last quarter same time, it's very similar. In fact, probably if individual protection is lower than the non-PAR and the annuity and the group elements have been higher. But the big reason for actually margin improving is across all categories, and it is across participating and non-par category

Participating category, you will recall we had launched a product around November, December, which was a better margin profile product, which has now become the part of the mix. And similarly, the non-par margins have actually improved because of certain shift within the products that we actually have in the non-par suite as well. So it's a bit of a play of some of these things, which has actually helped us.

And even the protection margin in this quarter is better than the protection margin, how it was in the last quarter, same period. You will recall that at that point in time there were some reinsurance changes which had happened last year in that quarter, which had a bearing on the margin, which is actually now gone. So individually, all categories, actually, whether it is protection, whether it is PAR, whether it's non-PAR, there has been an improvement in the margin profile and further mix of products which actually are more accretive. So that's the dominant reason why the margin profile has actually improved.

With respect to assumption change, we have done no assumption change in the quarter. So that is not the reason which is actually driving. You asked the third question, which is, around expense and how do we see it. And whatever we have shared in the previous quarter, we have continued to committed to increase our distribution and far across the channels and more specifically in our open architecture channels. So as to have a differentiation edge and we are increasing that manpower. It does take some time to increase that manpower probably on the OpEx side, you're not seeing that, but we do anticipate the OpEx to stay higher or stay elevated because it will be important imperative for us to build a distribution muscle to continue delivering strong sales up.

**Madhukar Ladha:** Got it. So your earlier margin guidance of between 26% and 27% that remains?

**Amrit Singh:** Yes, that's right.

**Moderator:** The next question is from the line of Aman Agrawal from Carnelian Capital. Please go ahead.

**Aman Agrawal:** My first question was on this business target, which IRDAI seems to have given to the life insurance companies. So how do you think this will shape up the industry like? Will it lead to more competition for the players given everybody will be targeting growth and higher pricing pressure? Or like do you think the overall price will expand and it won't affect the profit materially?

**Prashant Tripathy:** It's really heartening that IRDAI is pushing the life insurance industry towards growth. And my assumption is what comes along with that is, all the facilitation, all the help, all the favorable decisions that could aid growth, of course, these are aspirational plans and Max Life Insurance will try to do its best to come as close to those plans as possible. There are suggestions and requests that the industry has put forward to the Chairman. And depending on how the outcomes turn out to be, we will drive more and more growth.

Irrespective of the numbers being given, I think we have to focus more on purpose. I think the industry, the players, as well as the regulators, all the important stakeholders do want to drive growth, which is definitely a very positive news for the industry.

**Aman Agrawal:** Right, sir. My second question was on the solvency, like right now our solvency is at around 196%. So do you think we will need a fund raiser, this will be sufficient for the next 1 or 2 years?

**Amrit Singh:** We are actually guided by internal threshold that we compute basis stimulations. Basis that threshold, we are actually comfortable for over 1, 2 years. And that's how the position stands.

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

**Nidhesh Jain:** Sir, firstly, is there an update on the Axis Bank transaction? I think we have been waiting for the regulatory approval for the MSI transaction. Is there any update on that?

**Amrit Singh:** So there is no incremental update to share at this point in time, Nidhesh. There is conversation with the regulator in play. We are in no receipt of any incremental information from them. So we are working, forward for this to get close soon in.

**Nidhesh Jain:** Sure. Secondly, in the holding company, the operating expenses have come down to around INR 10 crore per quarter. So is it a new normal? I think earlier our expectation is that for the full year, the OpEx will be around more like INR 60 crore. So this INR 10 crore per quarter is a new normal or we should expect INR 60 crore annual OpEx run rate for the HoldCo?

**Amrit Singh:** This is in line with what we've been sharing that we are working towards rationalizing the OpEx at the HoldCo level. And you can assume this to be the new normal there with respect to expense line.

**Nidhesh Jain:** Sure. And lastly, from a 2 to 3-year perspective, how should we think about the margins for our company. There are a couple of companies who have reached 30% VNB margins, and it seems like that could be the new normal for them. How should we think about our VNB margin from a 2 to 3-year perspective?

**Amrit Singh:** So they have been speaking about this, Nidhesh, the competitive intensity also is increasing and across categories of non-PAR and protection. Now it's potentially possible to reach those on excel basis but keeping competition in play, I think 100 basis points, 200 basis point improvement in margin is definitely a possibility. But 30% level might be a bit high. And we are biased towards driving growth, so some bit of spend towards that will come in play.

**Nidhesh Jain:** And what we remember is that we have guided for 25% to 26% margin in the last quarter for FY'23. Has that trend changed to 22% to 25% or 25% to 26% guidance?

**Amrit Singh:** 26%, yes, I think that's a figure largely because of the spend increase that we are anticipating to continuously keep growing, which will have some bearing and that spend increase is going towards distribution buildup. So it's consistent with what we shared last quarter.

**Moderator:** The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

**Prateek Poddar:** Yes. I just wanted to check with you, you guys mentioned about demand moderation. Are you seeing it currently or you are anticipating?

**Amrit Singh:** So on protection, we have seen it. But on ULIP category, it's an anticipation of if economic condition continued to remain the way they are or if they become worse, so it's a bit of an anticipation there.

**Prateek Poddar:** And non-PAR?

**Amrit Singh:** Non-PAR continues to be robust. I think actually, at this quarter, if you really see each of the product categories, except for protection, there is healthy and strong growth, even non-PAR has grown 20% for the quarter overall.

**Prateek Poddar:** Okay. And just wanted to check with you, Amrit. With the way the yield curve is behaving, will there be pressure on margins on the non-PAR side? Or could there be a lower offtake? Or that doesn't seem the case given the things which you are seeing on ground in terms of demand?

**Amrit Singh:** Yes. I responded. So on the non-PAR side, we would have benefited more from the yield curve movements, the way they have happened. But we have passed on some of that benefit to the consumer with respect to improvement in IRR. And we'll continue to keep doing so to keep the product competitive. And hence, whatever gain potentially can come because of the curve will get offset by what we try to pass on to the consumer. And within the mix, again, I always say that there are many other levers within the non-participating savings mix as well, that we can continue playing, which is longer income design, all those things that we have controls over to ensure that the margin remains protected.

**Prateek Poddar:** Got it. And lastly, I just wanted to check, I don't know whether this was called out. On the online protection side, was there growth this quarter on a Y-o-Y basis or over there also on the online channel also we witnessed a degrowth on a Y-o-Y basis?

**Amrit Singh:** It was a bit flattish.

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

**Neeraj Toshniwal:** Just wanted to understand on a like-to-like basis, VNB margin, if you start giving this fixed cost absorption like our peers, what would have been because I know there's seasonality, but to have a better idea of the VNB margin, I think we don't show in the VNB walk the kind of absorption impact, which would kind of reverse in the future quarters? If any color on that will be helpful.

**Amrit Singh:** The only color that I can provide there, Neeraj, is that the methodology, etc, all remains consistent of how we allocate cost or where we allocated on basis of actual and whatever gain that you saw last year over as quarter progress, not just last year, actually you go back many years, you will see from the first quarter movement to the quarter 4, there is an improvement that starts a appearing. So you will see similar improvements as well in this year as the year progresses.

**Neeraj Toshniwal:** And in the online bit more color on that would be helpful, how much we have grown in online? And what is driving sales, protection have been flattish?

**Amrit Singh:** We mentioned that we have entered into the savings category. And that category has grown multi-folds, though on a low base, which is where the growth is actually kind of coming for us.

**Neeraj Toshniwal:** Sorry, what has grown the interest rate, annuities has grown for us in the online space?

**Amrit Singh:** Online, we have entered the savings category as well last year, and that is what is kind of driving growth for us, where protection has remained flattish for the quarter.

**Neeraj Toshniwal:** How much was growth, if you can quantify on online?

**Amrit Singh:** 24%.

**Neeraj Toshniwal:** And that is 6% of the overall mix?

**Amrit Singh:** Yes, right.

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

**Sanketh Godha:** Amrit, just wanted to understand our dividend strategy going ahead. We did not pay any dividend last year, at least Max Life did not pay any dividend last year. So to conserve capital, is the same strategy we're going to follow going ahead?

**Amrit Singh:** Sanketh, that's a fair understanding. We have indicated that for the aspiration that we have laid out for ourselves, we will be consuming capital and retaining dividend to provide support would be one of the strategies that we'd follow. So Max Life is not anticipating to give out any dividends to Max Financial Services.

**Sanketh Godha:** Got it. Perfect. And this impact of solvency from 201% to 196%, definitely there is some bit of new business strain. But other than that, any mark-to-market hit on the derivative contracts or FRA, has led to that impact, if you can quantify that impact on the solvency? And do you see that, that impact to further, if there is an impact of FRA on solvency, do you see that to play out further in the subsequent quarters? Or we think it has largely played out in the current quarter?

**Amrit Singh:** So your observation is correct. Actually, the impact on solvency and to, obviously, the strain elements of it has come from those derivative contracts which you have seen reflected in the fair value change account in the balance sheets of Max Life. But as we speak, actually, all of that has corrected, it has reversed. So that impact would have been of the 196%, maybe 3%, 4% actually if you add back to it would be the derivative impact.

**Sanketh Godha:** Got it, Amrit. And the another point, if you can quantify the negative economic variance number for the quarter, though you have not given the walk, but just wanted to understand how much it is as a percentage of the opening EV for us?

**Amrit Singh:** So we don't do a detailed analysis actually in the first quarter. Typically do it in 6 months’ time frame. But as I mentioned that this is largely the maintenance overruns in the first quarter because of the seasonality in the business. And as time progresses this goes away, that's the large reason for the operating variance to actually have happened.

**Sanketh Godha:** No, no, my question was not on operating variance, Amrit. I understand that point what you have told, my more point was towards economic variance number, the investment variance number, which impacted every insurance company probably. So in that sense, I was asking, can you quantify that number to us?

**Amrit Singh:** Yes,it was around 3-3.5%. Minus INR 477 crore is the negative operating variance.

**Sanketh Godha:** Negative economic variance, sorry, minus INR 477 crore, you said, right?

**Amrit Singh:** Yes.

**Sanketh Godha:** Okay. Perfect. And on the non-PAR growth, which you said is around 20%, given annuity has grown by 125%. If I do the ex of annuity non-PAR savings growth, whether it is in single digits or is it still in mid-teens because we don't have annuity numbers for like-to-like quarters, so we just have growth numbers. So just wanted to check that part?

**Amrit Singh:** So your question is that adjusted for annuity, what is the non-PAR growth?

**Sanketh Godha:** Yes. Sir, basically, because it's a new product which would help us to report that 20% kind of a growth.

**Amrit Singh:** I don't have it readily available actually at this point in time, but I will have it sent to you separately.

**Sanketh Godha:** Okay. Perfect. And final one. See, these better profile products, both in PAR, non-PAR or properly in ULIP, were largely launched in second and third quarter last year. So that benefit should normalize going ahead because that benefit of better product profile within PAR and non-PAR will not be there incrementally. So the delta expansion, what we saw around 140 basis points on year-on-year in the current quarter, should we expect that number to moderate given it is already there in the previous quarters?

**Amrit Singh:** Yes. So PAR was launched November, December. So yes, it will start getting moderated at that point in time. And non-PAR is a bit more of a certain particular products selling more than the other products in the suite. If you are able to maintain that, that benefit does come through. But as I've reiterated, we are increasing the intensity with this distribution spend and operating expenses. So some bit of drag will get created in this particular year because of that reason.

**Moderator:** The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

**Nischint Chawathe:** The share of Bancassurance has gone down this quarter. And I know you discussed the base effect with Axis and Yes. But just curious, how do you see this ratio kind of settling by the end of the year or probably, let's say, exiting the year? Would it be something similar to last year? Or would probably be kind of gain market share on a year-on-year basis?

**Amrit Singh:** The proprietary channels are expected to gain share as compared to non-proprietary. Non-proprietary, the bank stabilization, we do expect it to start coming through in quarter 3, quarter 4, so that's when the base will start stabilizing.

**Nischint Chawathe:** And any sense in terms of how many basis points of kind of Y-o-Y proprietary gains would we see? This quarter, obviously, it appears to be very active, but anything you could guide for maybe 1 year or 2 years down the line as to how they settle? Or how do you see this going?

**Amrit Singh:** I mean over a 2 or 3-year kind of horizon, the non-proprietary share acquisition it should inch up to 35, 65 kind of ratios from the 30 that we were operating last year.

**Moderator:** The next question is from the line of Nilesh Jethani from BOI Mutual Fund. Please go ahead.

**Nilesh Jethani:** My question was related to the recent article on the newspaper, which said that corporate agents would be allowed to do more than 3 tie-ups with life insurance companies. So just wanted to understand today with regards to top 10 or top 15 distributors, what is our position there? What are the low-hanging fruits over there, which we can do easily if the proposal becomes a reality? And according to you, what time does it take from this proposal coming into reality and the first tie-up being in place?

**Amrit Singh:** I mean, 3 moving to 9, I think it just opens more counter for players like us. And we will go aggressively out in the market. We have strong experience and expertise of handling all sorts of banks and all sorts of complexity within the bank. So that actually becomes a strength point for us. And we will be fairly aggressive trying to see whoever is opening up for counters, we'll want to participate in that opportunity.

And I think your next question was that timeline, it's a bit in the regulatory realm actually. We haven't even got a draft out yet. It is a conversation that some news articles which have been picked up, post the draft, there will be industry consultation and then the final elements will come through, very difficult for us to give a judgment on how much time would that take when this becomes a reality.

**Nilesh Jethani:** And one more question on that was, today, with the top 10, 15 corporate distributor, with how many guys you would be present and according to you, what are the low-hanging fruits over there, which you can do tie up easily?

**Amrit Singh:** At this point in time, because of the 3 cap, there is only so much opportunity. But if 3 is becoming 9 and it all depends on the stance that various banks take. Difficult for me to give a judgment on it. I think the least that I can say is that whoever is in open architecture and decides to expand that open architecture, you will see us participate in some of those counters, aggressively. And we're hopeful that we will secure wins in those counters actually. Among the big distributors, we do work with Axis and Yes, which are among the big top 5, 10 distributors, the rest is all opportunity.

**Nilesh Jethani:** Got it. Second question was on the credit life side. So now already into Q2, are we seeing any slowdown as far as the pickup is concerned, the credit life or some deceleration in the growth or growth momentum continues? Any understanding and any sense on going forward also, what is the attachment rate today with our partners? And has there been any improvement in that attachment rates?

**Amrit Singh:** So credit life, obviously, the fundamental buildup that it works on is, disbursement growth and disbursement momentum of any particular partner. And then attachment rates and then the ticket sizes kind of come through. Disbursement momentum has continued to be quite robust in the first quarter when you look individually at partners. From attachment, we are already operating very high levels of attachment. We attach upwards of 65%, 70% and even 80% in certain categories of product. The benefits that we are getting today is disbursement momentum and also some enhancement in ticket size, because the rates got renegotiated over the last couple of quarters. So the same protection is now a bit more expensive to the consumer. And those are reasons which are driving the growth element.

**Moderator:** The next question is from the line of Shreya Shivani from CLSA. Please go ahead.

**Shreya Shivani:** I am with just one question and one request on data disclosure. So the question is basically around your target product mix, I can see that though you had launched a PAR product last year and has been driving growth. The share of PAR has been at 20% and first quarter, it might be lower, but largely at 20% since past 2 years. So do we plan to keep it at that level? First, my question is on that? And second, on the data disclosure is, you guys used to give in your public disclosures, the linked PAR and non-PAR-wise breakup of benefits paid and operating expense, etc, until last year. That's missing from FY'22's public disclosure, it's quite useful to have that breakup actually. That's it from me.

**Amrit Singh:** So on your first question, with respect to the product mix, a very similar product mix of how we ended up last year is what overall we will work towards, where obviously driving annuity and protection is always within the focus. And quarter 1, typically, because of the ULIP launch, there is a higher proportion of ULIP, which is evident. But as we move forward, you will see some bit of moderation that will happen. Now PAR is at around 20%, maybe it will be 20%- 22% similarly where it ended last year. So that range is where we are looking it to continue to be at those levels. On data disclosure, so you're saying the PAR and non-PAR disclosure? Sorry, I didn't get that.

**Shreya Shivani:** So there are these public disclosures, L 4, 5, 6, 7. These have benefit paid commission, operating expense details. Those till last year, you had the segments of operating expense, how much was in linked, how much was in PAR, how much was in non-PAR, so that was quite useful data, so if that can be repeated.

**Amrit Singh:** Everyone will get a circular from the regulator, standardizing the schedule, and we have made ourselves consistent. So we have done in line with what the regulator has actually asked for.

**Shreya Shivani:** Okay. Because what happens is, other life insurers, at least in their annual report, I can get that breakup, if not in the public disclosure. So here, if it's not in the public disclosure, then I just can't find that data. So I mean, that's my request, yes. That's it for me.

**Moderator:** The next question is from the line of Swarnab Mukherjee from B&K Securities. Please go ahead.

**Swarnabha Mukherjee:** Just a quick follow-up. So your VNB have a positive sensitivity to interest rate movements. I was just wondering how much that would have contributed to the expansion in the margins for this quarter? And for, say, if I isolate categories like non-PAR savings where there is a repricing element that is there, if you can also guide us regarding the sustainability of these margin in the non-PAR category, in case you reprice it higher in response to competition?

**Amrit Singh:** So I did mention that on non-PAR, obviously, the sensitivity comes through because of there is interest rates move up and changing the IRRs to the consumer, the margin profile will look better. But the reality is that we will also change the IRR to the consumer. And hence, consequently, the margin expansion opportunity gets offset with what we price, what we give out to the customer. And we have been reiterating that to keep the product competitiveness, we will pass on some of these benefits that we will see for ourselves on the yield curves and the interest rate movement to the consumer so that the product remains competitive across other categories as well.

During the quarter, again, I did mention that we have done a repricing. And also there is an improvement in the non-PAR, which has come on account of shift between the product suites that we have within non-PAR category. So if you are asking that with further improvement in interest rate that there could be an expansion on margin, my answer to you would be that you should not assume that any benefit of the interest rate play, we will pass on to the consumer, so that the product competitiveness remains strong.

**Swarnabha Mukherjee:** Sure, sir. And other way round also, I mean, given the recent trends of the 10-year yield, etc, and yield curve also, with the interest rates also settled down somewhat, then do we expect, again a normalization of the pricing?

**Amrit Singh:** This we keep doing. The interest rate movements and how the relative product categories are looking, this is like an ongoing process that we do and we follow. And we have the flexibility to change this on a monthly basis as well. So we will leverage and use that flexibility that we have for ourselves.

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

**Amrit Singh:** Thank you. And thank you, ladies and gentlemen, for being on our call. We look forward for more such interactions in the future. Thank you once again and have a good day. Goodbye.

**Moderator:** On behalf of Max Financial Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.