Max Financial Services Limited

Q2FY18 Earnings Conference Call Transcript
November 14, 2017

Moderator Ladies and Gentlemen, Good Day and Welcome to Max Financial Services Limited Q2 FY '18 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. I would now like to hand the conference over to Mr. Mohit Talwar, Managing Director of Max Financial Services Limited. Thank you and over to you, Mr. Talwar.

Mohit Talwar Thank you. Welcome everyone, my name is Mohit Talwar, I am the Managing Director for Max Financial Services. I would like to introduce two of my colleagues, Mr. Prashant Tripathy who is the CFO for Max Life and Mr. Jatin Khanna who is the CFO for Max India and he also heads up the Investor Relations function. Before we start the results update, I thought it is important to basically just touch up on and quell certain rumors which have been making news in different media. I wanted to just clarify that with regard to the merger with HDFC last year, the reason we kind of pursued that merger was that we saw significant value creation opportunity and strengthening of both franchises through a merger. This was the only reason why we progressed these discussions when HDFC reached out to us. As you are all aware, this merger is now behind us and I want to clarify that there is no discussion on any other merger with any other player, so all these rumors are highly speculative and should be kind of ignored.

In fact, for us it is business as usual and we have gone back to the stage of where we were in early 2016, when we were looking to actually acquire another life insurance company and with so much of opportunities now emerging in this space, we are actively looking around for such opportunities. As far as the Axis Bank partnership is concerned, this is a stable relationship like it is with our other distribution partners and as far as Axis goes, this partnership is fully secure till 2021. Our growth plans remain as robust as ever. We had our best performance over a decade in FY which continues even in FY18. We are on course to meet our 20-20-20 aspiration by 2020 on sales, margin, and EV growth. All our channels are delivering positive profitable and productivity-led growth with a balanced product mix and increasing contribution from protection products. The quality of the business across vectors remains top quartile.

Let me now move on to the key highlights of Max Financial Services for H1FY18, very happy to share that Max Financial had a robust revenue growth of 13% at Rs.6,002 crore. Consolidated PBT was at Rs.197 crore at a headline level, this is down 37% Y-o-Y; however, last year was not an ordinary year given our merger discussions. Max Life's MCEV has grown at 17% on an operating basis to Rs.6,946 crore, this is net of dividend. Value of new business has increased Rs.204 crore and that has grown 16% Y-o-Y. The new business margin remains stable at 18.1% which is down 40 bps only versus last year due to the reduction in interest rates, which is being compensated by a shift in product mix towards protection-oriented products. The new business margin for H1FY18 on management's expectations of sales and cost for full year FY18 would be close to 20% compared to 18.8% for full year of FY17. Max Life's individual adjusted sales has grown at a strong 19% to Rs.1,112 crore despite maintaining the focus on traditional and protection products. This would have been higher had we gone more into the ULIP space.

The strong focus on digital, the e-commerce channel has grown 60%, online savings product is being launched shortly. Protection sales grew by 51% year-on-year resulting in 100 bps improvement in protection mix from 4.1% in H1 FY17 to 5.1% in H1F Y18. Gross written premium grew a strong 14% to Rs.4,808 crore, 13% growth in renewal premiums to Rs.3,236 crore is led by a record improvement in the conservation ratio to 91.3%,this is up 420 bps and is one of the highest in the industry. Trends in expense ratios, conservation, and persistency, all continue to show a healthy Y-o-Y improvement. Claim settlement at 95.12% is best in class. Solvency surplus at Rs.2,059 crore results in a solvency ratio of 295%. AUM at Rs.47,756 crore Y-o-Y increases 20% primarily driven by growth in the controlled funds and there has been no attrition in the leadership team since the merger announcement and all retention plans are in place.

In summary, we feel that Max Financial Services is delivering a strong performance for the shareholders via Max Life. We had in our last call spoken on a 20-20-20 growth by 2020, so I am pleased to say that, we are already at 20% growth and 20% margins and we focus our efforts to get to a 20% ROEV sooner than 2020. With that, I would like to hand it back to the moderator to open the floor for question and answers.

Moderator Thank you. The first question is from the line of Prakhar Agarwal from Edelweiss Securities. Please go ahead.

Prakhar Agarwal Sir, just couple of questions from my side, first is on protection side of the business, so we have reported around 5% protection business this time, which was around 7% last quarter if I am not wrong, any element of seasonality in here which is why we are seeing some sort of slow momentum in protection or is just anything to read into it?

Prashant Tripathy You may remember that in the last call also, I had mentioned that we will expect it in finally for the year in the range of about 5% - 5.5%, so we are well on that trajectory, just to give you a sense of numbers so the individual business is close to 5%. We have not added the group business which is the credit life business if we were to make an adjustment and add that also that will be about 1%, so on individual basis, we are 5% and total business is 6%.

Prakhar Agarwal Any ballpark targets in terms of individual and including credit protect business, what sort of protection?

Prashant Tripathy Basically, we focus more on individual and we are in trajectory to reach close to 10% in three years' time, so the objective has been to go above 150 bps every year, so we will be in the range of about 5% - 5.5% as we finish the year.

Prakhar Agarwal Sir, I know that you do not share product wise margins, but ballpark what is the difference between margins in terms of protection and individual in group, both credit protect and individual side of the business, what will be the ballpark difference in margins between these two?

Prashant Tripathy I will not be able to disclose the exact margins, but the individual margins is higher than group.

Prakhar Agarwal Sir, when we are saying about margins going up to around 20 odd percentage points, which is currently about 18%, what are the three triggers apart from protection that will probably drive up the margins?

Prashant Tripathy Basically, if you look at the seasonality of the business, only about 35% to 40% of the total year sales comes in the first half and because a significant part of the cost in the business is fixed in nature, typically you would see overrun in the first half and those overruns go away in the full year, so what management expects is that at the total year expense numbers and the sales trajectory that we are following, we hope that the full-year overruns will be close to zero, which will take our margin net of overrun will be equal to the structural margin which is little over 20%.

Prakhar Agarwal We do not tweak our assumptions in between, we do get at the end of the year only?

Prashant Tripathy We currently do it only twice at the end of first half and then finally.

Moderator Thank you. We take the next question from the line of Avinash Singh from SBICAP Securities. Please go ahead.

Avinash Singh Two questions, the first one is more on your group profit before tax, that the number in the Q1 was also down 38%, now first half year down 37%, the explanation from your side is that higher realized profits, but can you guide what the trajectory because what is sort of realized gain was there in the second half so that we can have a sort of idea about how the second half is going to pan out because that PBT number from H1FY18 is even lower than what it was in H1FY16, so even if we go H1FY16, the number was close to Rs.245 crore?

Prashant Tripathy I think that is a good question, lot many times the statutory profit numbers are quite dependent on product mix, so compared to 2016 if you were to look at the overall mix of the product that would have changed. This is an interplay of the product mix with respect to statutory profit, but more specific to your question of 2017 profit versus 2018, you may recall that there was a sudden increase in 2017 profit versus 2016 as well predominantly because of interest rates falling and we chose to realize some of the gains on the fixed income securities on shareholders side, some of those events are not highly repeatable and that is why, we always highlighted that the profit for 2017 had a strong element of one off, so if I were to look at the profit of this year, I think it will be more align to the run rate that we saw in a few years before FY17, which will be somewhere in the range of about Rs. 550 crore or so.

Avinash Singh You mean to say that Rs.550 odd crore profit for the full year is sort of a relative and comparable number to look?

Prashant Tripathy I do not want to give a guidance, but that kind of a number will be equal to how the profit trajectory work before FY17.

Avinash Singh My second question on the product mix and your strategy I do appreciate and understand that you are focused on more sort of a margin and that is why you are keeping the product mix balance, but I have got two concerns one is that even if the certain product, the margin is lower, it will ultimately generate some new business value at a lower margin of course, but is it right thing to do to let go that business by not offering certain products. The second thing in your bancassurance, if I were to look at your peers who are selling we are different large retail banks, how is Axis or Yes Bank customer different from those banks because like if I were to look at the customers of say ICICI Bank or State Bank or even HDFC Bank, a lot more demand is there for the ULIP product in the last two years, whereas your Axis Bank channel or Yes Bank channel is still selling relatively lesser amount of ULIP, so how is this two set of customers different that you are still able to sell these products or is it that the case that okay these customers are going away because you are not offering the product of demand?

Prashant Tripathy First of all very valid question, you would notice that the mix of ULIP is changing for us though not as high as some of our peers. I think the premise on which you asked the question is that customers just come in and ask for ULIPs, that is not how the life insurance sales work. Life insurance sale is about need based selling, and we believe in ensuring that we sell to the customer what is right for him irrespective of a big rally in the stock market, so you will see that our Unit-linked sales is not really aligned to what some of our peers are doing. It does not quite mean that we do not sell to those people, we of course sell to those people, we end up selling the non-par designs and par designs depending on the customer profile and the ability to take risks.

If we continue to sell ULIP, we will be able to do more sales and hence it may be on a margin basis may be accretive, but in our experience, selling right to the customer and making sure that every incremental sale is not just beneficial to the company as to the top line, but also ensure that the health of the business, persistency, and setting the right expectation of the customers are also aligned and hence we have always had a bias towards keeping our product mix a bit more distributed and diversified, so as you have noticed the share of traditional design continues to be higher in our product mix and that really solves not just for the margin of the company, but also solves for the long-term health and our long-term strategy of selling protection as well as long-term sales.

Avinash Singh A quick follow up, how are you hedging your long-term sort of interest risk in your non-par selling products because I think you sell sort of a long tenure, long premium paying term non-par products, so how are you hedging your interest rate risk there?

Prashant Tripathy We buy interest rates swaps, we have back-to-back banking arrangements with some of the banks to buy swaps and we make sure that the cash flows are protected and hedged, and that actually reduces the risk of interest rate quite significantly for us. We also cede bit of margin in that process, but we are okay with that.

Avinash Singh Largely, you are completely hedged whatever you are probabilistic model suggests that okay future premium, so you are interest rate risks are largely held even in case of non-par products?

Prashant Tripathy That is correct.

Moderator Thank you. We take the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada Sir, first is on group business profits, how much did that contribute in the first half of 2018?

Prashant Tripathy We do not as a matter of our disclosure, we do not go product by product and disclose the profits, but it is a reasonable business for us.

Dhaval Gada More Than 50% or more than 30%, some range?

Prashant Tripathy Our share is not that high from group, my sense is that it will be around 10%.

Dhaval Gada For FY17 also it would have been a similar range, right?

Prashant Tripathy Yes, it is 10% to 15%, but it is not a very large component for us.

Dhaval Gada The second question is on the incremental rate of guarantees offered on the non-par savings product?

Prashant Tripathy If you would please Dhaval clarify what you mean by incremental rate of guarantee?

Dhaval Gada On the new business that you are doing on the non-par saving side, what are the guarantees that you are offering?

Prashant Tripathy Generally guarantees keep changing depending on the interest rate regime and as per the latest flexibility that IRDA has provided to us, we can change the product, so if the interest rates fall, we have the flexibility of changing the guarantees and that is a concept we follow, so guarantees are not frozen but typically the interest rates guarantees will be in the range of about close to 4.4% to 4.6% at this point.

Dhaval Gada Last question is, probably to Mohit, I understand that last year we had engaged with the HDFC Life for merger, but we see the market sort of lumpy cost structure at Max Financial continuing even in the first half, so just wanted to get a sense is the kind of investment that we are making at the Holdco level will it continue, some color as to how do to rationalize because the way I am coming on this one is, we made about Rs.500 crore of VNB in FY17 and Holdco sort of cost to the about Rs.50 crore on that, I am just trying to get a sense? **How do you see the cost structure Max Financial service shape up going forward?**

Mohit Talwar It pretty much remains the same, it is status quo, but nothing really has changed as far as Max Financial Services is concerned after the demerger which took place in 2016, the idea was to actually continue with the holding company with life insurance underneath that, so those costs which were there in 2016-17 is likely to continue even in 2018 considering that there is no merger now in the offering.

Dhaval Gada Sir, just a follow up on that, we spent about Rs.40 odd crore last year on legal and professional expenses at the holding company level, this year for the first half we spent about Rs.16 crore, can you explain the need for spending such high amount on legal and professional expenses just some color on that part, what are these, I understand the employee cost but the other expenses could you clarify if possible?

Jatin Khanna We were in the middle of a merger, so obviously there were lot of cost coming pertaining to that merger, which is why you see lot of very high legal and professional expenses, but as we move forward, they will obviously come down, and therefore, it is a little bit of higher number last year because of some of those costs.

Dhaval Gada Which is what my question was for the first half we saw that decline, so that is what I was sort of indicating towards, so should we see that number sort of trend lower?

Mohit Talwar I thought your question was more from the point of view of compensation for people who are in the Max Financial Services and the answer to that was that will kind of continue and you will have normal increases there, but yes things like legal cost and all of that we should see that going down because really there is not any large event which we are working on at this point in time.

Moderator Thank you. We take the next question from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati Sir, my question is more on the protection business, so what was the growth in Q2 FY18 specifically year-on-year growth?

Prashant Tripathy The protection business has grown, my sense is that we were 4% last year and we were 5% this year, so however the base has grown by 20%, so my sense is that it will be closer to 30% growth on protection.

Hitesh Gulati Sir, just trying to understand margin, like we have 18.1% margin this year, we had 18.5% in H1 last year that came up to 18.8% last year, what was the reason for that to increase only till 18.8% and not higher let us say till 20%, because right now we have something close to 18.1% and we are guiding for close to 20% for the full year, I am just trying to understanding this better?

Prashant Tripathy In our business when the interest rates fall and they fell quite drastically last year and the first half of this year, the margins actually go down, so what happened between 18.5% to 18.1% versus last year to this year is the reduction in interest rate and that has been compensated by this 30% increase in the protection business, but on a structural basis we are sitting at close to a little higher than 20% margins. As I mentioned to you in the first question, generally in the first half of the year you will see overruns and because of those overruns, the net of cost overrun margin is around 18.1%. As we would finish the year, we expect that the delta between the structural margin and net of overrun margin will either go down becomes zero or almost get eliminated because of which the full year margin will be closer to 20%. Now, why does it go up with respect to last year of 18.8% to this year 20%, predominantly because of higher protection.

Hitesh Gulati Actually my question was that last year 18.5% from 1H went to only 18.8% for full-year, so what were the reasons for that being a lot higher last year?

Prashant Tripathy It was an impact of the protection growth first half versus second half kind of remained flat, but a bigger reason is interest rates kept on reducing through the second half of the last year as well.

Moderator Thank you. We take the next question from the line of Nidhesh Jain from Investec Capital. Please go ahead.

Nidhesh Jain My question is on growth for overall individual APE growth is around 19%, but the industry as a whole is growing somewhere close to 23% to 24% and private sector players are growing close to 30% and within distribution mix also if I look at growth in proprietary channel is close to 10% to 12%, so how do we look at the growth vis-a-vis the industry growth for our company?

Prashant Tripathy If you were to really break it down between different types of players, you will find the private industry doing more growth than LIC. Again within private, a large part of the growth is coming from unit linked. We have for many years communicated to you that we do not believe in hugely ULIP loaded product strategy and we always like to keep our product mix balanced for ensuring that the quality of sale is superior; to make sure that the financial outcomes are superior; and to make the business less volatile with respect to capital market swing, so because a large part of the growth is coming in the market currently by ULIP which is not our strategy, you will find us growing a bit lower and like we have always stated, we will cover that up by the financial outcomes especially in terms of margin and VNB growth. As we go along, we have always maintained and very similar to what Mohit mentioned we are out looking something which is 20-20-20, so we do want to grow at a respectable pace, which is closer to around 20%, but we do want to make sure that the returns from the business and the margin outcomes of the business are equally superior and as long as we are balanced on the three really then the performance of the market in terms of just new sales growth becomes less material to us.

Mohit Talwar I would like to just add here, I am not too sure how many of you would have been aware of what transpired in the period 2008-2010. If you recall, the market at that point in time was also predominantly led by ULIPs and then you had this 2008 crash happening and then the capital market obviously went through a major downturn now the impact of that I think it was probably 12 months after what happened in the West, but when it did hit India at that point in time, you found that suddenly the growth rates just tapered off in fact you went through a period when the insurance sector degrew and was derated, and what also then tends to happen, you have huge customer complaints because these products may or may not have been mis-sold, I do not know, but at that point in time it was very evident that it was, and consequent impact also happens in terms of renewals, so while the party is on it is great, but God forbid if there is a downturn, then you know you could end up in a situation which would really impact the whole sales process and the ethos of the company for what you really stand for and so we obviously have a very balanced view on something like this, and therefore, this is a strategy which has worked for us in the past and going forward it continues to work for us.

Jatin Khanna I also want to add a little bit here that the North Star of this business is Return on Embedded Value, so really the value creation happens on embedded value growth, VNB. If you grow at 35% or 40%, but grow your embedded value at 12% to 15%, it really does not help. I think it is very important to balance out the growth with profitability, so that your value creation equation plays out favorably. So clearly our focus is on the North Star ROEV, which is where we are somewhere between 18% -19% and we would like to take it to 20% by 2020 for sure, if not earlier.

Nidhesh Jain Thanks for the detailed explanation and on the proprietary channel which includes I think direct channel as well as agency, the growth has been muted for last couple of quarters, so any reason to get worried about that or?

Prashant Tripathy I would not quite worry about that I think you will start to see traction and the very fact that you will notice that the mix of our own channel in last three years is more or less flat, it goes up or down, so we were 32% than 34% than 32%, which means the growth in proprietary channel is same as how the company is growing. Of course, ideally we would have made a few more investments in building out franchise channels, if we were not going through the merger which we had to kind of strategically review in light of merger. We are going to reinitiate some of those investments to build the proprietary channels further and as we speak, we are in the process of looking at our strategic planning exercise for next three years and some of those investments will get kick started, which will provide for the selective growth of franchise channels.

Nidhesh Jain Sir, lastly on the product mix, do we expect share of ULIP to go further up or it will likely to remain?

Prashant Tripathy I think there is an ideal product mix that we would look for and that ideal product mix that has will be about 60% traditional and 40% ULIP and within that 60%, we would like to be around 35% to 40% par, around 20% to 25% non-par and within non-par we will look for about maximum 15% of interest rate guaranteed products and about 10% of protection, so progressively you will find us move in that direction, of course, it takes a while to alter the product mix, but we will progressively move in that direction.

Moderator Thank you. We take the next question from the line of Manish Shukla from Citigroup. Please go ahead.

Manish Shukla First to Prashant, protection mix if you look at last 18 months March '16 to date, it is significantly going up and as you rightly said probably protection premium has grown at around 30% versus 20% overall mix, which means in volume terms it would be even higher because protection ticket size is lower, so the point I am trying to understand is what has changed meaningfully in the industry in the last 18 months either in terms of distribution or reach that we are having this kind of large volume of protection business especially if I were to factor in the direction of 10% or protection that you are seeing, the volume of protection business will be that much more higher, so what is changing either in terms of distribution, customer awareness, what is driving this?

Prashant Tripathy That is a good question, I think this is the fundamental shift that is taking place within the industry and being caused by both sides, demand side as well as supply side and demand is more demographic so as a particular segment of young people living in large cities understand the level of sum assured which is required for them to protect their family as that evolves as well as for the industry because slowly the industry is realizing that if one needs to make margins and build a successful franchise it ought be doing what it is meant to do which is to provide protection, so I think it is a combination of demand side and supply side which is driving this growth. On one of the charts on page number 15, you would notice that we have mentioned that 19% of our customers actually came to us through digital doors and most of these customers actually came to buy protection because we only sell protection on our digital network, so you would guess that 19% to 20%, so one in five policies are protection policies that we are selling, that is how big it has become. I am sure it will be similar for at least the large players, so it is coming definitely because the level of sum assured per capita in India is considerably lower than peer countries and developed countries, so I think that trend will continue which is great for the buyers as well as sellers.

Manish Shukla Sir, typically when we talk of ULIP products, one real concern is that as Mr. Talwar also pointed out, if market tanks than what happens, but there is nothing in the protection momentum for you to make you fear that this momentum could moderate or reverse?

Prashant Tripathy A lot many times it is not about demand, in life insurance business one needs to be extremely careful about your processes of underwriting, and I am very proud to tell you that all such protection, security features are already built and we are building this business bit by bit. You will be surprised to know that for the Internet side of business where we sell only protection, we have started to see the persistency which is significantly upwards of 90%, so it is turning out to be a good business which is liked by people, which is profitable. I will only mention that industry needs to be a bit careful about underwriting, beyond of that it has no such risks associated unlike unit linked business.

Jatin Khanna I think thematically so long as government keeps pushing digital economy, I think the propensity of people to buy more and more online will go up and as that goes up, the protection sales goes up.

Manish Shukla Next and related question is that how long or how far where our competition strikes driving down protection margins, pricing starts hitting into margins?

Prashant Tripathy My sense is significantly faraway, I guess it is a game of risk and return and the higher risk that you take, the higher return you would expect, so there may be some shave-offs as we go along, but I have seen margins hold up quite well in last three years.

Jatin Khanna Also I think lot of people have tried to play this pricing game in protection products and we have seen that they come up with some sort of aggressively priced products and they figure out that their underwriting is not adding up to the risk which they are taking, so they withdraw those products. I think to that extent, of course there could be a little bit pressure on the pricing, but it does not look like that there could be considerable amount of pricing pressure on the protection product at this stage.

Manish Shukla One question to Mr. Talwar, now we would have the third life insurance company listed very soon, any thoughts of listing the operating company or you are comfortable with the current structure?

Mohit Talwar I think we are comfortable with our current structure that was the whole premise under which we went through a demerger not very long ago to basically create what was the first pure play quasi-listed life insurance company and so it has held oout very well for us. Earlier, we would be penalized on account of holding company discounts and I would like to believe that with the structure we currently have that discount has disappeared or it might be absolutely minimal, so there are no plans to actually go and list the downstream business.

Manish Shukla The only reason I ask it is because now if we have pure play insurance play listed, the risk that the Holdco discounts starts creating at some stage might go up, that is the only reason why I was asking that question, I appreciate that you are the first one to do it when you did it almost 18 months back, but now the fact that there would be three listed life insurance companies of meaningful scale, there might be a risk correction at some stage, the Holdco discount can start creeping in again?

Jatin Khanna There is a business advantage to having the structure and you know some of our bancassurance partnership we have struck through is predominantly because of the way we are structured, , so the current structure helps us to pick up some strategic relationships.

Mohit Talwar Just changing gears from that, I think time has proved the fact that there is not a discount as we speak. Now I hear what you are saying that there are two other, three other life insurance companies which have been listed, what it really does is it gives a choice, which may be a few years ago investors probably did not have that, but apart from that, I am not too sure whether there are backlash of a holding company discount will come and actually bite us because really nothing has changed it's only one business and that is the life insurance business, so time will tell I guess, but for now this is what the structure is and then we hope to continue with it.

Moderator Thank you. We take the next question from the line of Harshit Toshniwal from ICICI Securities. Please go ahead.

Harshit Toshniwal Sir, couple of questions first when I look at the pure protection business, on a half yearly basis if I compare it then it is growing around 50% YOY, but on a quarterly basis this quarter particular growth in basically YOY comparison has not been very significant, it could be around 15%?

Prashant Tripathy We were expecting a new product to be launched, unfortunately it came only towards the end of September, so that is why you would have seen the growth to be reasonably high in Q1 not so in Q2. We hope to catch up in Q3 again. This market is very dynamic, it keeps changing with competitive pressures and activities by different competition. As we speak, we are one of the top players especially in digital space and we are quite agile, but there will be times a month or two when it will take us a while to kind of catch up, so that is an outcome of the product approval delay.

Harshit Toshniwal Just a follow up on this question, if this is the case then just want to know what is an average lifetime or utility of a particular protection product because if you are saying that new product needs to be launched maybe in six months, seven months then the longevity of any kind of innovation is very limited, will that be a valid point?

Prashant Tripathy When the market evolves of course we will like to do new things, the last product was already there for couple of years, so we kind of renewed it. This happens to all products design including ULIP, your field staff, your partners actually require rejuvenation by adding more features and making it equivalent to what is being sold in the industry. I would not quite agree that the life cycle is that small. Having said that, some of these additional features make that product more attractive, however, the basic fundamental features of protection of life over long period of time remains the same.

Harshit Toshniwal Another thing Sir, you highlighted a lot about that why ULIP maybe on a cyclical downturn, these might be impacted to enough in 2008-09 situation was there, but just want to understand that currently with all the surrender caps involved in the ULIP and the cap on the charges, if I look from a policyholders perspective, ULIP is better product than traditional because at the surrender point if I want to surrender in a traditional, my charges are still very high which is not the case in ULIP currently, so you think that there is a fundamental shift compared to 2008 ULIP and today's ULIP because of why ULIP maybe a better product than a traditional savings?

Prashant Tripathy What is better for the customer is determined by many features including the features of surrender as well as feature of retention. We create the contract of people who retain rather than who surrender that is the philosophy that most people follow. The company does not benefit too much because of the surrender. On the other hand, par policyholder's benefit out of surrender, so when somebody enrolls or empanels to be a par policyholder, you would expect him to continue rather than surrender. Having said that, I think the ULIP products have become reasonably attractive from customers perspective if they were to surrender or if there were to continue, however, the customer behavior is driven by looking at the performance of the stock market, so if the stock market comes down people start to surrender and hence some of the assumptions that you make in terms of creating your margins or your financials or earning out of asset management fees etc., maybe deeply impacted and it is our core philosophy that we want to build a sustainable, a predictable and a profitable business, which continues rather than being exposed to the whims and fancies of stock market, it is a different philosophy that we follow with respect to other people. In that to process, if we have to cede some bit of ULIP sales, we are okay with that.

Mohit Talwar There is also TCF element to this whole thing, TCF being Treating Customer Fairly, now who knows how that product may have been sold and how it is interpreted by the customer and those are some of the vagaries of this business and actually the harsh reality of what happened in the earlier years, and that is something that was the reason why all these regulations came into being, because of the fact that the customers are badly impacted and now as you probably know, you got TCF committees which are mandated by IRDA for insurance companies, so this whole thing is how you treat customer fairly and a downturn such as that for ULIP if it happens, which way and how a customer starts looking at it is something which is a question mark. So, we would rather be on the side of caution on issues such as customer satisfaction and Treating Customer Fairly.

Harshit Toshniwal Broadly, you believe that for you the strategy will be very much the similar way to focus more on traditional and little bit less on ULIP compared to the industry?

Mohit Talwar Like Prashant mentioned, an ideal mix which we are kind of targeting is a 60:40 and within that there are these sub-limits which he talked about par and non-par, that is how we would like to approach.

Harshit Toshniwal Sir, last one, there were news of you increasing stake in Lakshmi Vilas Bank?

Mohit Talwar Disregard it please.

Harshit Toshniwal Yes, we can disregard it because I thought that because there are two news one of merger with some other company and one of this Lakshmi Vilas Bank, so you believe both of these news needs to be not ignored?

Mohit Talwar Yes and I can tell you that tomorrow and day after some more news things will come into the market, so I would just request all of you intelligent people to kind of take it with a little pinch of salt.

Moderator Thank you. We take the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada Sir, just one follow up on the 2020 target that you said, could you give some color of how the distribution mix will pan out at this point?

Prashant Tripathy I guess the distribution mix will come, of course the desire is to make sure that our own channels reach closer to 40%, which currently are between 32% - 33%, however, it does not quite mean that we are going to choke the other channels. If all channels grow by all means it is good, we have one third. The desire will be to increase the own channel proportion to around 40%, but at this point of time with the mix we are fairly comfortable. We will of course work in the direction of minimizing concentration risk, but equally the bigger effort will be to make sure that all the channels contribute significantly towards the growth of Max Life Insurance.

Dhaval Gada Within that, you would want the online channel to be more within the 40%?

Prashant Tripathy All agencies, our direct channels and online channels.

Moderator Thank you. We take the next question from the line of Avinash Singh from SBICAPS Securities. Please go ahead.

Avinash Singh One question on your solvency capital Max Life, I mean of course it is very comfortable, so not much concern there, but the kind of your dividend policy you have and your product mix shifting to more to protection that is sort of capital intensive, you have consumed sort of a 50% capital over the last one year, so what kind of solvency you are comfortable, but of course regulatory is 150%, but where is your comfort range, and is that current consumption based on dividend and all this things continue, what sort of capital allocation plan for future? Secondly, just to confirm, you said 19% of your protection is being sold through your online channel, right?

Prashant Tripathy I will answer the second question first, 19% of our individual customers come through digital and all of digital is protection sales. The first question is if you look at our capital position, we are close to about 282% of solvency after we pay out the dividend and in my sense that 282% will be good enough for us to be able to declare if required all our profits as dividend for a couple of years after which we will require to hold capital. When we hit our solvency number of about anywhere between 180% - 200%, after that we will start to keep some bit of profit within the company to make sure that we remain in the range of 180% to 200% and the balance will be declared as dividend.

Avinash Singh My second question, you said 19% of all your customers come via digital and mostly they are protection, so out of that protection you sell what sort of a sale is via online, that has to be pretty high then?

Prashant Tripathy It comes with the mix actually, I will say about ~ 50% of that sales comes through aggregators and our own channels.

Avinash Singh Okay 50%, so rest 50% via bank or others.

Prashant Tripathy At this point, but we are working very hard to grow that.

Moderator Thank you. That was the last question. I now hand the floor over to Mr. Mohit Talwar for his closing comments. Over to you, Sir.

Mohit Talwar Thank you for participating, I think it was very productive and I think your questions were very enriching, so we hope to do more such calls in the quarters to come. Thank you for taking time off. We will speak again.