# MANAGEMENT DISCUSSION & ANALYSIS

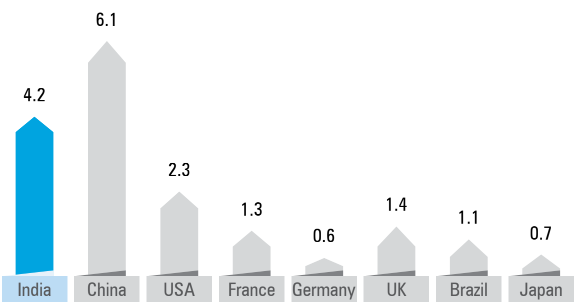
## I. GLOBAL ECONOMIC ENVIRONMENT

Global growth in 2019 slowed to its lowest since the global financial crisis of 2008-09. Two key factors-rising tariff-related trade tensions, especially between the US and China and general policy uncertainty-contributed to this downturn. Moreover, intensifying trade barriers and the contingencies associated with it affected business sentiments and market activities. In advanced economies and China, these challenges resulted in structural slowdowns. Concurrently, the emerging economies witnessed weakness in domestic consumption. The overall macroeconomic stress resulted in global GDP growth of 2.9% in 2019.

With this downtrend, firms across the world turned cautious on capital expenditure. There was a pick-up in second quarter of 2019 for household goods, but it weakened thereafter. Over the course of the year, central banks of major economies cut interest rates to strengthen market activities. Lower interest rates and supportive financial conditions reinforced consumption of goods and services, while also encouraging job creation. Tight labour markets and gradually rising wages, in turn, supported consumer confidence and household spending.

Globally, growth was expected to revive in 2020. In fact, the International Monetary Fund (IMF) expected global GDP to increase to 3.3% in 2020 as against the 3% growth recorded in 2019. However, the advent of the COVID-19 pandemic in the first half of 2020, injected an unprecedented amount of uncertainty into the global economy. Governments across the globe have taken measures like fiscal packages, rate cuts, quantitative easing and others to fight the economic fallout of the pandemic. The revised estimates by the IMF shows contraction of 3% in global GDP growth. The recovery of the global economy largely depends on the curtailment of COVID-19 in 2020 and development of vaccine against it.

**World GDP Growth 2019** (%)




Source: World Economic Outlook – IMF

## II. INDIAN ECONOMY OUTLOOK

It was a challenging year for the Indian economy. India saw a decline in its growth rate from 7% in FY 2019 to 4.2% in FY 2020. The slowdown was attributed to weakened investments, slow domestic consumer demand and a turbulence in the non-banking financial industry. Various international organisations such as World Bank, the IMF and rating agency Moody's have cut down the GDP forecast for India. Disinvestment of Public Sector Units (PSUs), merger of public sector banks, incentivising start-ups and Micro, Small and Medium Enterprises (MSMEs) and reduction in corporate tax rate were some of the steps taken by the government to bring India back to growth track.

As the world economy struggles to fight against COVID-19, India is no exception to it. Slowdown in consumption, curbs on travel and other restrictions would hurt businesses and bring down growth in the current year. The rating agencies have slashed India's growth to below 2% in 2020.

However, this seems to be a temporary moderation as, the fundamentals of India's economy remain strong. Once the pandemic recedes, India's growth is expected to bounce bank in the subsequent quarters. The government has already taken various measures like rate cuts, liquidity infusion, loan moratorium for borrower and others to revitalise the economy.

## III. LIFE INSURANCE INDUSTRY DEVELOPMENTS

The life insurance industry remains resilient as it continues to grow at a healthy pace across the globe and maintain profitability at the same time, despite challenges in the global economy. The use of technology and data analytics tools to improve the overall insurance operations is the need of the hour. The global life insurance premiums grew by 2.2% in 2019 stronger than the 1.5% average of the previous 10 years. This was largely contributed by emerging economies, where premiums grew by 9.6% in 2019. India's life insurance industry stands at ₹5.08 trillion in terms of total premium as of FY 2020. It is expected that the individual savings business will be hit by rising unemployment and falling incomes due to Covid-19 pandemic. Having said that, the insurance industry is well capitalised and it has the capacity to absorb the Covid-19 earnings shock. The reinsurers have renegotiated the reinsurance rates on the back of adverse mortality experience for most insurers. Companies intend to pass on a major part of the hike to customers. The term insurance pricing is the lowest in India and as the companies increase their geographical reach, the rate hike was on the cards.

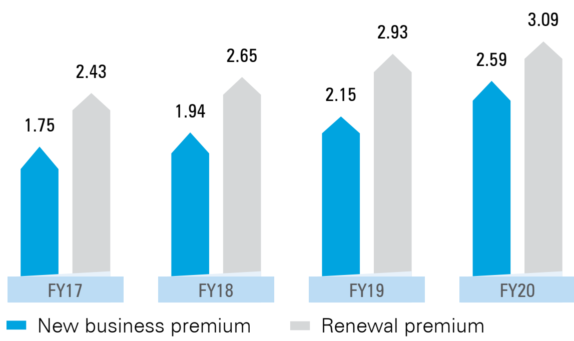
According to data published by Swiss Re Group, India has the world's 10th largest life insurance industry in terms of total premium. India's share in the global life insurance market was 2.73% in 2019. The global life premiums are forecasted to fall by 1.5% for the next year.

**Life insurance penetration**

Life insurance penetration in India, which is measured as a ratio of premium to GDP rose marginally from 2.74 in 2018 to 2.82 in 2019 while density which is measured as ratio of premium to total population also increased marginally from 54.0 in 2018 to 58.0 in 2019.

In FY 2019, gross premiums written reached ₹5.08 trillion in India. Renewal premiums accounted for 57.7% while new business premiums contributed the remaining 42.3%. Total life insurance premium grew at a CAGR of 16.04% since the privatisation of the industry in 2000. The industry's Assets Under Management (AUM) grew to ₹35.33 trillion in FY 2019. (Source: IRDAI Annual Report 2019)

**New Business Premium and Renewal Premium** (₹ in trillion)




Source: IRDAI Annual Reports

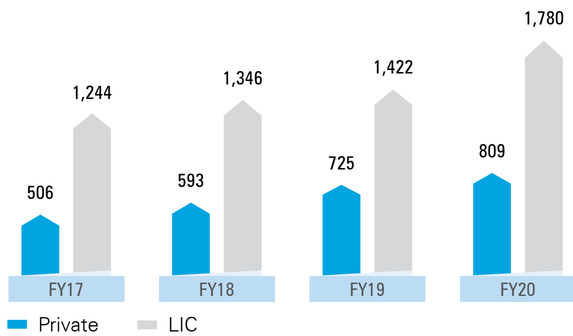
**New business premium, market share, product mix and distribution mix**

The domestic life insurance industry registered a growth of 20.6% for new business premium in FY 2020. Private players grew by 11.6% while Life Insurance Corporation (LIC) grew by 25.2%. More than 28 million policies were sold during FY 2020 by all insurance players including LIC. While LIC grabbed a market share of 68.7% of total new business premium, the private players took a share of 31.3% during FY 2020. In terms of individual rated premium, private players have fared better, capturing a market share of 57.2% while LIC held a share of 42.8% in FY 2020.

The product mix for LIC has remained consistent in recent years. LIC focuses more on traditional products and its share in Unit-Linked Insurance Plans (ULIPs) is negligible while private players have a well-balanced mix of traditional and ULIP products. For private players, share of traditional products has increased from 58% in FY 2017 to 66% in FY 2020 while share of ULIPs has decreased from 42% in FY 2017 to 34% for FY 2020.

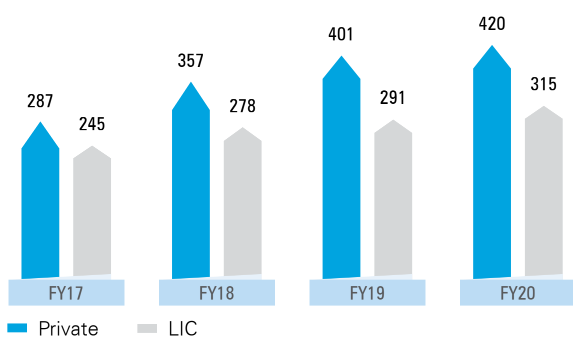
In terms of distribution mix of individual new business premium, private players are strengthening their presence through the bancassurance channel in recent years. However, agency channel continues to be the predominant channel for LIC with a share of 95% in individual new business premium in FY 2020. Share of agency channel in individual new business premium of private players has reduced from 30% in FY 2017 to 25% in FY 2020 while bancassurance share has been stable at 53% from FY 2017 to FY 2020.

**New Business Premium** (₹ in billion)




Source: Life Council data

**Individual Rated Premium** (₹ in billion)




Source: Life Council data

## IV. OPPORTUNITIES, RISKS AND WAY FORWARD

India continues to be one of the fastest growing life insurance markets in the world. With the help of solid economic growth and higher disposable income, the industry is expected to maintain this golden run. India is in a favourable position with an expanding young population and increasing investment and savings rate. The insurance regulatory body has taken various steps towards ensuring transparency for customers and encouraging innovation for the industry with the sandbox introduction. The life insurance industry has welcomed these new measures and see them as a

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good opportunity for growth. Financial savings in the country are on the rise on the back of ascending income levels, improving awareness about insurance, under-penetrated market and a widening working age population.

**A. Opportunities and strategy**

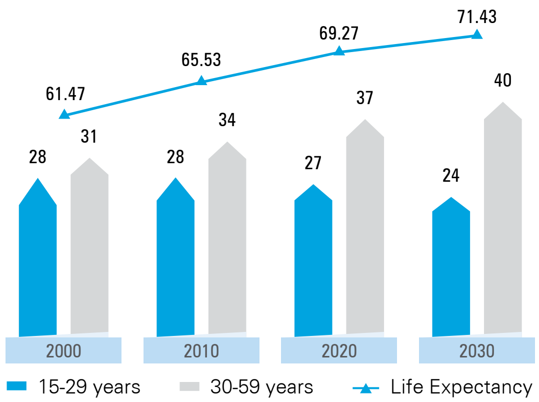
India's life insurance industry is globally among the top 10 with New Business Premium (NBP) delivering a CAGR of 12% over FY 2015-19. The growth in NBP is among the fastest in the world. Despite this tremendous success, the domestic life insurance industry remains under penetrated with the sum assured to GDP significantly lower than major developing and developed markets. This gives the Indian life insurance industry immense potential to expand, providing a long runway for growth for private players. This outlook is supported by several factors as enumerated here:

**i. Demographic dividend**

India remains one of the two largest countries in the world in terms of population, representing ~18% of the world population. Its population is expected to overtake China by 2027. The share of working population is expected to reach 40% in 2030. Given the improvement in medical science, life expectancy is also expected to reach 71 years by 2030.

**Strategy:** The Company is well positioned to take advantage of the demographic profile of India. It offers wide range of products for various types of customers in different age groups. With the rise in working population, the sale of pure protection products as well as ULIPs are on the rise. This capture of market share is enabled by the unrivalled distribution network of the Company with 186,495 trained insurance personnel, comprising of 130,418 Individual agents, 53,096 Certified Insurance Facilitators (CIFs) and 2,981 Specified persons (SP) on the ground. The Company has achieved a growth of 27% in its protection business in FY 2020. It continues to raise insurance awareness and develop innovative products to capture a sizeable market share of the younger population.

**Increasing share of working population (%) and life expectancy (years)**



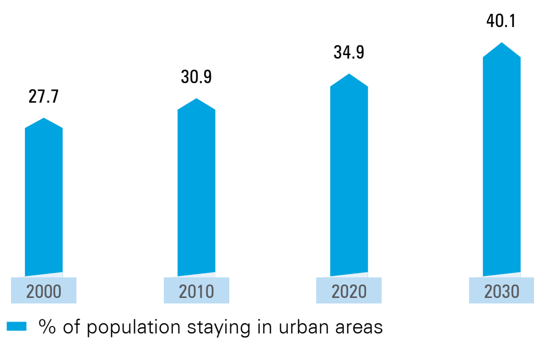

Source: United Nations - World Population Prospects, 2019

**ii. Growing urbanisation**

The size of the urban population has been on the rise with better employment and lifestyle opportunities in these areas. India's urban population is expected to accelerate at 2.4% CAGR between FY 2015 to FY 2020 as compared to overall population growth of 1.1% during the same period. The share of the urban population rose steadily from 27.7% in 2000 to an estimated 34.5% in 2019 and is expected to increase up to 40.1% by 2030. (Source: United Nations - World Urbanisation Prospects, 2018).

**Strategy:** The Company offers a customised portfolio suited for specific customer segments depending on their requirement. With rising per capita incomes and growing nuclear families, there is a need for increased coverage. The Company has a high-ticket size product-Smart Privilege-that provides higher coverage and is suitable for High Net-Worth Individuals (HNIs). Another product-Smart Humsafar-is a double cover joint life product providing financial protection against the death of both spouses.

**India's growing urban population (%)**



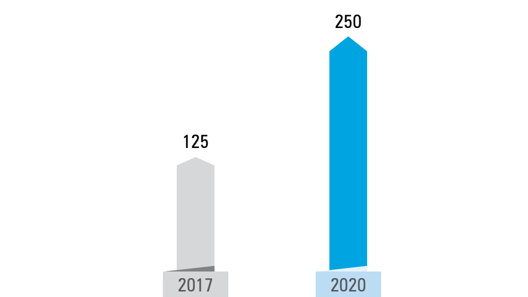

Source: United Nations - World Urbanisation Prospects, 2018

**iii. Digital penetration**

Digital technologies have already disrupted business functions across industries, and the insurance sector remains no exception. Digitisation remains the key to future growth of the life insurance industry; and the adoption of technology can ultimately lead to increased customer satisfaction. The Indian e-commerce industry has been registering an upward growth trajectory and is expected to surpass the US to become the second largest e-commerce market in the world by 2034. The Government of India has increased its budget to promote Artificial Intelligence (AI), Machine Learning (ML) and other digital technologies to promote its Digital India Programme. Such investments from the government will make technology adoption fast and easy among people and industries.

**Strategy:** The Company continues to deploy new digital technologies as an enabler across all aspects of its business, including products, distribution and services. This deployment results in enhancing customer experience across various touchpoints. The Company has adopted various mobile and web-based applications for both customers and sales representatives. It uses different digital marketing tools and data analytics to increase penetration and capture the market share. This has led to an increase of 56% in policies sold through online channel and web aggregators.

**India's internet economy (US $ in billion)**



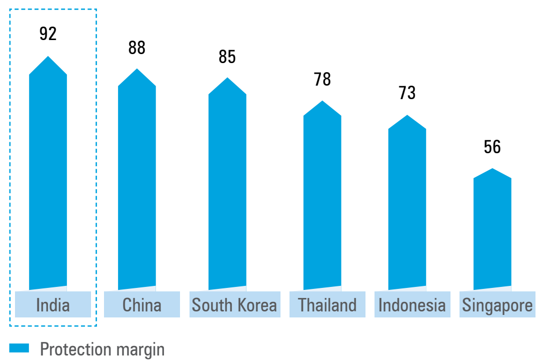

Source: IBEF – Ecommerce

**iv. High protection gap**

Despite a thriving life insurance industry in India, the market remains under penetrated with low risk coverage. This coupled with high protection gap provides tremendous untapped potential for growth of India's life insurance industry. While 'protection margin' is the ratio between protection gap and protection needs; 'protection gap' is the difference of resources required to maintain the standard of living and resources readily available (such as savings, life insurance, etc). According to Swiss Re report, while the protection gap for India at US$ 8.5 trillion is higher than its major global peers, the protection margin at 92% is also one of the highest in the Asia Pacific region. This highlights that majority of the population still remains under-insured. Also, credit protect remains one of the growing and high-focused segment.

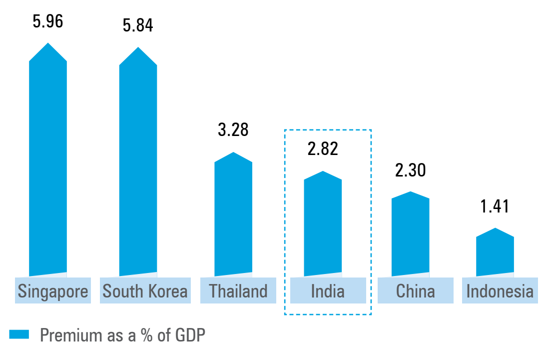
**Strategy:** The protection business continues to focus area for the Company and it offering in this segment includes individual protection, group term and credit life protection (loan coverage). Unique products like Poorna Suraksha and Sampoorn Cancer Suraksha offer protection as well as other benefits. This continued focus on protection will help reduce the protection gap in India.

**Protection margin highest amongst peers (%)**




Source: Swiss Re, Economic Research & Consulting 'Mortality Protection Gap Asia-Pacific 2015'

**Life Insurance Penetration (%)**




Source: SwissRe Sigma 4/2020

**v. Continued financialisation of savings**

There has been an increasing preference among the target population towards financial savings in the last few years. Under financial savings, there is a significant inclination towards life

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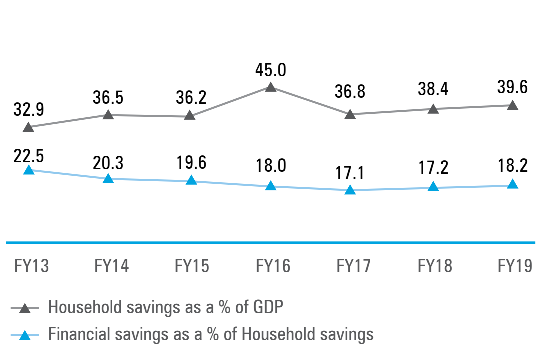
insurance since it caters to both protection and long-term savings requirements. Moreover, the government is also undertaking various steps to bolster financial inclusion. People at large are now favouring life insurance as a part of their financial planning.

**Household Savings and Financial Savings (%)**

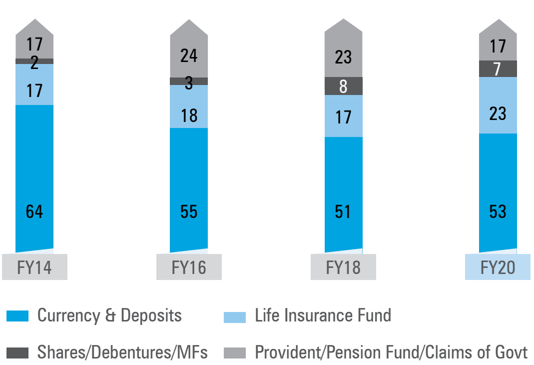



Source: Economic Survey 2018-19

Due to demonetisation in late FY 2017, currency holdings of households rose sharply in FY 2018 on account of re-monetisation, reflecting in the extraordinary growth in currency holdings and subdued growth in bank deposits. FY 2019 witnessed the return of normalcy in their levels.

The share of life insurance in financial savings has decreased to 17.4% in FY 2018 from 23.2% in FY 2020. The shift from physical savings to financial savings, improvement in product proposition along with increasing fundamental drivers of Indian economy will continue to boost growth for the life insurance sector.

**Share of life insurance in financial savings (%)**




Source: RBI

**Strategy:** The Company continues to raise awareness about life insurance and encourage customers to park their savings in life insurance as it offers benefits of savings coupled with protection. The Company offers 34 different products to meet specific end-goals (ranging from long-term investment to pure protection under individual as well group platform) to make insurance an attractive investment proposition for customers, depending on their risk profile. It has a strong distribution network of 186,495 trained insurance professionals and 937 offices, which provide direct touchpoints for customers. The Company interacts with customers through multiple channels to make them aware of the long-term safety, stability and growth of funds through insurance.

### vi. Pension and annuities

Currently, India has one of the lowest private pension assets to GDP ratio at 5% due to its young demographic profile and low per capita income. Only 9% of its population is above 60 years of age. However, its share is expected to increase to 13% by 2030 and 19% by 2050. The National Pension Scheme (NPS) introduced by the government presents a huge opportunity to empanelled life insurance companies, where 40% of the corpus is required to be annuitised. With introduction of tax breaks in 2016, individual NPS subscribers have increased. These factors will provide the necessary boost to the annuity segment for life insurers.

**Strategy:** Acknowledging the importance of pensions and annuities in future, the Company has an individual immediate annuity product, group immediate annuity product, a unit-linked pension product and a participating pension product. Under NPS scheme, at the time of vesting, 40% of the corpus must be mandatorily annuitised. This provides a huge opportunity for the Company in the annuity segment. Assets Under Management (AUM) of pension and annuity products account for 10.2% of the total AUM. The Company is also one of the insurance companies authorised as Annuity Service Providers under NPS scheme by Pension Fund Regulatory and Development Authority (PFRDA).

### B. Risks and concerns

Risks are an integral part of any business and managing them is important for sustainability of the business. The life insurance industry faces several risks in the form of distribution challenges, change in customer preferences, market fluctuations and others. The inability to meet the evolving customer requirements is also a tremendous risk as it has the potential to hamper growth. Key macroeconomic factors affecting the industry are change in tax structure, global slowdown in financial markets, higher return on other saving products and slowdown in domestic GDP growth rate. Besides, insurance companies need to continuously innovate and digitalise their operations, concurrently managing the risks associated with over dependence on digitalisation to maintain their competitive edge.

The Company has instituted an enterprise risk management framework which details the governance and management of all aspects of risks that it faces. The Company's risks and its approach towards managing them has been highlighted in the Enterprise Risk Management section of the Annual Report.

### C. Outlook

- On a global front, as the world economy goes through economic turbulence, the growth of the insurance industry in the coming decade will depend on the successful integration of innovation in technology into legacy environments
- India is going to be one of the fastest growing economies in the world and life insurance industry will be at the forefront of this growth on the back of favourable macros. The India Brand Equity Foundation (IBEF) has estimated India's life insurance industry to grow by 12-15% annually for the next 3 to 5 years
- Increase in per capita income, favourable demographic profile and higher personal disposable income are some of the key factors that will lead the growth of the insurance sector in the coming years. The increasing awareness of life insurance among people will be a catalyst for growth in future, with a focus on protection segment
- One of the biggest challenges will be the change in rates by reinsurance companies. This might result into protection policies becoming dearer for customers. But having said that, premium rates for protection policies were already among the lowest in India
- Though regulatory changes may have created some interim setbacks in the past but going forward the insurance industry is well positioned for growth on the back of a stable regulatory environment
- Increasing adoption of technology like robotics, block chain and cloud computing will drive efficiencies, improve cost ratios and provide best-in-class services to our customers

Investment in analytics will likely be a key factor in upgrading operations of insurance companies, which will lead to a better customer experience.

## V. REGULATORY UPDATES AND DEVELOPMENTS

Insurance Regulatory and Development Authority of India (IRDAI) is the regulatory authority for the country's insurance sector. The regulator has released a number of circular and guidelines and other exposure drafts providing indication of the upcoming regulatory changes in the pipeline. The key highlights on recent regulatory changes impacting the Indian life insurance sector are as follows:

**a) Product regulations**

During FY 2020, the IRDAI has notified new product regulations i.e. IRDAI (Unit-Linked Insurance Products) Regulations, 2019 and IRDAI (Non-Linked Insurance Products) Regulations, 2019.

- Increase in the revival period of linked and non-linked policies up to 3 years and 5 years respectively from the date of first unpaid premium (earlier up to 2 years only).
- Commutation of pension allowed up to 60% of the fund value earlier it was up to 1/3rd of the fund value
- For all non-linked individual products, the minimum Sum Assured on death shall not be less than 7 times the annualized premium for regular premium products and 1.25 times the single premium for single premium products.
- Partial withdrawal allowed under Pension policies after lock-in period against reasons as stipulated in the regulations.

**b) Sandbox reform**

The IRDAI has proposed to create a Regulatory Sandbox with an objective to promote innovation in insurance sector ,in a way that provides Insurtech in particular and the Fintech sector, flexibility in dealing with regulatory requirements. As a part of this initiative, IRDAI has introduced a 'regulatory sandbox environment' wherein companies can come up with innovative business models, products and processes for a specific period of time. This could facilitate innovation in insurance which can provide solution to a range of issues like increasing operational efficiency, meeting customer expectations and better identification and management of risk.

**c) Change in individual tax rate structure**

Finance Act, 2020 introduced a new tax rate structure for individuals wherein flat rates will be applicable and no deduction/exemption can be claimed under it. The individual assesses are given an option to choose between the old and the new tax regime. While tax exemptions do incentivise people to buy insurance, it is not the sole purpose. Given the huge protection gap in India and rising protection contribution in the product mix, the long-term investment case for insurers remains intact. Our analysis suggests higher tax incidence for most income brackets in the new regime.

**d) The Aadhaar & Other laws (Amendment) Ordinance, 2019**

Ministry of Law and Justice has notified The Aadhaar & Other Laws (Amendment) Act, 2019. The Act has introduced 'alternative virtual identity' i.e. Virtual ID (VID) officially in the definition of Aadhaar Number and concept of "offline

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verification" and "offline verification entity" has been introduced. Aadhaar number may be used only on voluntary basis, with the informed consent of the Aadhaar number holder. Collecting, using or storing the Aadhaar or Biometric information is strictly prohibited. Penalty on contravention to the Act could extend up to ₹ 1 crore.

Amendment to Prevention of Money-laundering Act, 2002 permits 'offline verification' as valid mode to validate identity. Also, it provides opportunity to initiate Aadhaar authentication to sectors beyond banking.

**e) Actuary Regulations**

IRDAI has issued IRDAI (Appointed Actuary) (Amendment) Regulations, 2019 for the life insurance sector.

**f) Ind AS update**

The IRDAI (Authority) has issued a circular dated June 28, 2017, deferring the implementation of Ind AS in insurance sector in India for a period of two years to be effective from FY 2021. The said circular, however, requires the submission of proforma Ind AS financial statements on quarterly basis.

The IRDAI (Authority) subsequently vide its circular dated January 21, 2020 has withdrawn its erstwhile circular dated June 28, 2017 on implementation of Ind AS from FY 2021 and dispensed with the requirement of quarterly submission of Proforma Ind AS financial statements on account of proposed amendments in International Financial Reporting Standards (IFRS) 17 by International Accounting Standard Board (IASB). Thus, effective date of IND AS implementation shall be decided by the IRDAI post finalisation of IFRS 17 by IASB.

On March 17, 2020 the IASB discussed the last amendment to IFRS 17 to defer the effective date of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023.

**g) Stewardship Code**

IRDAI has issued a revised set of stewardship guidelines for insurance companies to closely monitor the companies they invest in. The new guidelines are aimed at monitoring and engaging with investee companies on matters such as strategy, capital structure and corporate governance. The new Code has made voting compulsory for insurance companies holding 3% or more of the paid-up capital in an investee company.

**h) Benefit Illustration and market conduct**

IRDAI has revised the format of Benefit Illustration (BI) for different product categories sent to customer at the point of sale. The BIs shall be approved by the AA and CEO and placed before the Board for information. In case of online sales, BI must get generated before customer fills the application form.

IRDAI has also made it mandatory for insurance companies to have a Board approved policy on need-based selling. Product recommendation to the customer should be based on suitability information provided by the prospect. Further, explicit consent should be obtained from the person visiting insurer's website before collecting mobile no/ email ID of the person.

## VI. SEGMENT-WISE BUSINESS PERFORMANCE

The life insurance sector can be classified based on products into non-linked and unit-linked products. Non-linked products are traditional products with a protection and savings element built in or only pure-protection products. Non-linked products are further classified into participating products and non-participating products. Participating products have variable returns, as it is linked to the performance of the insurance company. Linked products' returns, on the other hand, are tied to the performance of debt and equity markets.

New business performance of the Company can be analysed based on the following segments:

(₹ in billion)

| Sr. No. | Segments | FY 2020 | FY 2019 | Product Mix (FY 2020) (%) | Y-o-Y Growth (%) | CAGR (FY 2017 – FY 2020) (%) |
|---|---|---|---|---|---|---|
| 1. | Participating segment | **11.55** | 17.60 | **7.0** | (34.4) | 2.0 |
| 2. | Non-participating segment | | | | | |
| | - Individual savings | **15.09** | 2.23 | **9.1** | 577.1 | 107.1 |
| | - Group savings | **37.71** | 28.51 | **22.7** | 32.3 | 4.8 |
| | -Individual protection | **5.29** | 3.71 | **3.2** | 42.5 | 74.2 |
| | - Group protection | **15.53** | 12.72 | **9.4** | 22.1 | 58.5 |
| 3. | Linked segment | **80.75** | 73.15 | **48.7** | 10.4 | 16.5 |
| | **Total NBP** | **165.92** | **137.92** | **100.0** | **20.3** | **17.8** |

A brief description of the segments is given below:

**1. Participating segment**

Participating life insurance offerings include products where the insured participate in the profits of the underlying investment pool during the term of the policy. These are savings cum protection products that provide a guaranteed sum assured and long-term returns through participation in surplus, if any, generated from these policies. The policyholder is entitled to at least a 90% share of the surplus emerging in the participating fund and the remaining belongs to the shareholders. The Company offers participating insurance products that are designed to provide benefits over the entire life of the policyholders (whole life insurance), as well as products that provide benefits over defined periods (endowment life insurance).

New business premium from participating segment constitutes 7.0% of the total new business premium of FY 2020.

**2. Non-participating segment**

The non-participating segment comprises individual savings, group savings and protection segments. These products cover the insured for a specific period and the insured do not participate in the profits of the underlying investment pool. Surplus arising in case of non-participating business is transferred to shareholders' account on recommendation of the appointed Actuary.

**i) Individual savings**

The individual savings segment comprises an endowment product, a variable insurance plan and an immediate annuity product.

**a) Endowment product**

An endowment product pays the sum assured to the beneficiary in case of any unfortunate event before the maturity date or pays the amount to the insured on completion of the specified term.

**b) Variable insurance plan**

In a variable insurance plan, the benefits are partially or wholly dependent on the performance of an approved external index/benchmark which is linked to the product.

**c) Immediate annuity product**

An immediate annuity product guarantees a defined income, commonly known as pension, for the lifetime of the policyholder, thereby covering their longevity risk. These payouts begin immediately on purchasing the product.

New business premium of individual savings segment constitutes 9.1% of the total new business premium for FY 2020 and has increased from ₹ 2.23 billion in FY 2019 to ₹ 15.09 billion in FY 2020, registering growth of 577.1%.

**ii) Group savings**

Group savings segment consists of group fund management products and an immediate annuity product.

**a) Fund-based group insurance products**

These cater to the needs of employers looking at financial solutions to fund their employees' benefit schemes including gratuity, superannuation and leave encashment.

**b) Group immediate annuity product**

This is primarily for corporate clients (employer-employee groups) and other informal groups, who wish to purchase an annuity to provide for their annuity liability.

New business premium from group savings segment has increased by 32.3% in FY 2020 as compared to FY 2019.

**iii) Protection**

The protection segment includes both individual as well as group products.

**a) Individual protection products**

These products offer benefits that are guaranteed in absolute terms on the occurrence of a particular event at the beginning of the policy. They expire without value if the designated event does not occur. The risk covered in most cases covers death of the insured but may also include permanent disability or diagnosis of critical illness. This segment also includes health products, which insure against expenses arising due to medical emergencies such as hospitalisation or critical illness.

**b) Group protection segment**

This includes credit life products, which provide insurance to banks and financial institutions in relation to repayment of outstanding loan amount in the event of death or disability of the insured members of the group. Group protection segment also includes products that provide life insurance coverage to a group of individuals, where, upon the death of a member, the sum assured is paid to the member's nominee.

New business premium from protection segment has registered a strong growth of 26.7%. Due to continuous focus, individual new business premium for the protection segment has increased by 42.5%.

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**3. Linked segment**

Linked products provide the benefit of investment as well as protection. They provide returns directly linked to the performance of the underlying funds and have a transparent charge structure which is explicitly stated at the outset. The investment risk on these products is borne by the policyholder. This segment also includes a fund-based group gratuity, superannuation and leave encashment product for employers. Surplus arising in case of unit-linked business is transferred to shareholders' account on recommendation of the appointed Actuary.

New business premium from linked segment has increased at a CAGR of 16.5% from FY 2017 to FY 2020 and comprises 48.7% of the total new business premium of FY 2020. The growing popularity of linked products is due to favourable market movement over a few years.

## VII. ANALYSIS OF FINANCIAL STATEMENTS

### A. Revenue Account

The summary of Revenue Account of the Company for FY 2020, along with comparative and detailed analysis is given here:

(₹ in billion)

| Particulars | FY 2020 | FY 2019 | % Growth |
|---|---|---|---|
| Income | | | |
| Gross written premium | 406.35 | 329.89 | 23.2 |
| Reinsurance ceded | (3.11) | (0.99) | 213.6 |
| **Net earned premium** | **403.24** | **328.90** | **22.6** |
| Income from investments[1] | 28.73 | 111.12 | (74.1) |
| Contribution from the Shareholders' Account | 4.76 | 0.99 | 381.5 |
| Other miscellaneous income | 0.46 | 0.64 | (28.3) |
| **Total income** | **437.19** | **441.65** | **(1.0)** |
| Expenses | | | |
| Commissions[2] | 16.25 | 13.77 | 18.0 |
| Operating expenses relating to insurance business[3] | 24.14 | 20.94 | 15.3 |
| Provision for taxation | 3.77 | 2.69 | 40.2 |
| Goods and Services Tax | 5.53 | 4.53 | 22.0 |
| Benefits paid (net) and interim and terminal bonus paid | 162.51 | 152.94 | 6.3 |
| Change in valuation of liability in respect of life policies | 206.05 | 235.92 | (12.7) |
| **Total expenses** | **418.24** | **430.79** | **(2.9)** |
| **Surplus/(deficit)** | **18.95** | **10.86** | **74.4** |
| Transfer to Shareholders' Account | 14.63 | 9.98 | 46.5 |
| Balance being funds for future appropriations[4] | 4.32 | 0.88 | 390.2 |

1. Net of Provision for diminution in the value of investment and provision for standard assets
2. Commission expense includes Rewards paid.
3. Includes provision for doubtful debt (including write off)
4. Represents movement in Funds for future appropriation during the year

#### i. Premium Income

The summary of premium income is as follows:

(₹ in billion)

| Particulars | FY 2020 | | | | FY 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Par | Non-Par | Linked | Total | Par | Non-Par | Linked | Total |
| **New business premium** | 11.55 | 73.62 | 80.75 | 165.92 | 17.60 | 47.16 | 73.15 | 137.92 |
| Individual | 11.55 | 20.38 | 80.52 | 112.45 | 17.60 | 5.94 | 72.82 | 96.36 |
| Group | - | 53.24 | 0.23 | 53.47 | - | 41.22 | 0.34 | 41.56 |
| **Renewal premium** | 62.85 | 22.98 | 154.59 | 240.42 | 54.39 | 21.47 | 116.11 | 191.97 |
| **Gross written premium** | 74.40 | 96.60 | 235.34 | 406.35 | 72.00 | 68.63 | 189.26 | 329.89 |
| Less: Reinsurance ceded | (0.01) | (2.89) | (0.21) | (3.11) | (0.01) | (0.91) | (0.08) | (0.99) |
| **Net premium** | 74.39 | 93.71 | 235.13 | 403.24 | 71.99 | 67.72 | 189.18 | 328.90 |

a. Gross written premium increased by 23.2% from ₹ 329.89 billion in FY 2019 to ₹ 406.35 billion in FY 2020 mainly due to strong growth in individual renewal premium by 27% and rise in individual single premium by 116%.

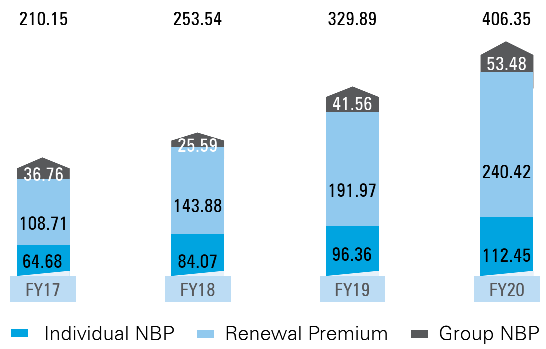
b. Individual new business premium has grew by 16.7% from ₹ 96.36 billion in FY 2019 to ₹ 112.45 billion in FY 2020 due to increase in new business premium from Linked Life, Non-Par Life and Annuity segment.

c. The group new business premium expanded by 28.7% from ₹ 41.56 billion in FY 2019 to ₹ 53.48 billion in FY 2020 mainly on account of rise in new business premium from Fund Management business and Annuity business.

d. The renewal business has hiked by 25.2% from ₹ 191.97 billion in FY 2019 to ₹ 240.42 billion in FY 2020 majorly due to growth in individual renewal business from linked life, par life and health segment.

The following chart depicts the growth in the Company's total premium over the years:

**Gross Written Premium** (₹ in billion)




#### ii. Investment income

The summary of investment income is as follows:

(₹ in billion)

| Particulars | FY 2020 | | | | FY 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Par | Non-Par | Linked | Total | Par | Non-Par | Linked | Total |
| Interest and dividend[1] | 19.95 | 32.22 | 37.01 | 89.18 | 16.30 | 29.31 | 30.87 | 76.48 |
| Profit/ (Loss) on sale of investments | 5.61 | 4.00 | 11.39 | 21.00 | 4.44 | 2.16 | 8.45 | 15.05 |
| Change in fair value | - | - | (80.21) | (80.21) | - | - | 20.55 | 20.55 |
| Provision for diminution and standard assets | (0.65) | (0.06) | (0.53) | (1.24) | (0.86) | (0.10) | - | (0.96) |
| **Total** | **24.91** | **36.16** | **(32.34)** | **28.73** | **19.88** | **31.37** | **59.87** | **111.12** |

1.Interest and Dividend includes net of Accretion of discount/(Amortization of premium)

Total income from investment was ₹ 28.73 billion in FY 2020 comprised ₹ (32.34) billion under unit-linked portfolio and ₹ 61.07 billion under traditional portfolio. Total investment income has decreased by ₹ 82.39 billion from ₹ 111.12 billion in FY 2019 to ₹ 28.73 billion in FY 2020, primarily on account of reduction in change in fair value on account of fall in valuation of equity portfolio. The yield on investments decreased from 9.51% in FY 2019 to 2.45% in FY 2020.

**Traditional portfolio (Par and Non-Par)**

Total investment income under traditional portfolio increased by ₹ 9.82 billion from ₹ 51.25 billion in FY 2019 to ₹ 61.07 billion in FY 2020 primarily due to following:

a. Interest income (net of amortisation and accretion) under traditional portfolio rose by ₹ 6.35 billion from ₹ 44.96 billion in FY 2019 to ₹ 51.31 billion in FY 2020 due to surge in investment of debt securities by 13.0% under traditional portfolio.

b. Net profit on sale of investment under traditional portfolio expanded by ₹ 3.01 billion from ₹ 6.60 billion in FY 2019 to ₹ 9.61 billion in FY 2020 due to profit booking.

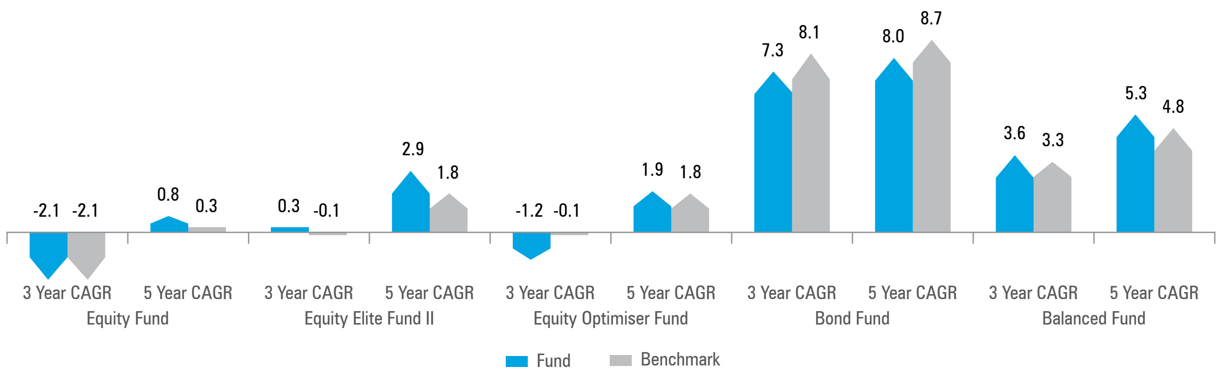
**Unit-linked portfolio**

Total investment income under unit-linked portfolio has decreased by ₹ 92.21 billion from ₹ 59.87 billion in FY 2019 to ₹ (32.34) billion in FY 2020 mainly due to fair value change. Fair value change has decreased by ₹ 100.76 billion from a gain of ₹ 20.55 billion in FY 2019 to a loss of ₹ 80.21 billion in FY 2020 primarily due to mark to market losses in the unit-linked segment in FY 2020 vis-à-vis the previous year. During FY 2020, Sensex has decreased by 23.8% as against an increase of 17.3% in the previous year. The change in fair value is offset with the corresponding decrease in unit-linked liability (fund reserves) as it is passed to linked policyholders.

# MANAGEMENT DISCUSSION & ANALYSIS (CONTD.)

The performance of the fund vis-a-vis the benchmark as on March 31, 2020 is given below:

**Fund Performance** (%)




The Company outperformed benchmarks in majority of the funds over both, medium- and long-term horizon, even after the steep fall in the equity markets in March 2020. As on March 31, 2020, ~83% of the equity investments are in large cap Nifty 50 index stocks and ~90% (including Central Government Securities, State Government Securities and Other Approved Securities) of the rated debt investments are in AAA or equivalent rating for long term and A1+ or equivalent rating for short-term instruments.

### iii. Other miscellaneous income

Other miscellaneous income includes fees and charges, income on unclaimed fund, etc. Other miscellaneous income for FY 2020 has reduced from ₹ 0.64 billion in FY 2019 to ₹ 0.46 billion for FY 2020.

### iv. Commission

The summary of commission expenses is as follows:

(₹ in billion)

| Particulars | Individual | | Group | | Total | |
|---|---|---|---|---|---|---|
| | FY 2020 | FY 2019 | FY 2020 | FY 2019 | FY 2020 | FY 2019 |
| **Premium** | | | | | | |
| First-year premiums | **96.08** | 88.79 | **2.21** | 1.78 | **98.29** | 90.57 |
| Renewal premiums | **229.98** | 181.50 | **10.45** | 10.48 | **240.42** | 191.97 |
| Single premiums | **16.37** | 7.57 | **51.27** | 39.78 | **67.64** | 47.35 |
| **Total** | **342.43** | **277.86** | **63.92** | **52.04** | **406.35** | **329.89** |
| **Commission on** | | | | | | |
| First-year premiums | **8.22** | 7.51 | **0.01** | 0.02 | **8.24** | 7.53 |
| Renewal premiums | **6.17** | 4.87 | **0.27** | 0.34 | **6.44** | 5.21 |
| Single premiums | **0.30** | 0.14 | **0.68** | 0.58 | **0.98** | 0.72 |
| **Total** | **14.69** | **12.52** | **0.96** | **0.94** | **15.66** | **13.46** |
| **Commission % of premium** | | | | | | |
| First-year premiums | **8.6%** | 8.5% | **0.5%** | 0.9% | **8.4%** | 8.3% |
| Renewal premiums | **2.7%** | 2.7% | **2.6%** | 3.2% | **2.7%** | 2.7% |
| Single premiums | **1.8%** | 1.8% | **1.3%** | 1.5% | **1.4%** | 1.5% |
| **Total** | **4.1%** | **4.5%** | **2.2%** | **1.8%** | **3.9%** | **4.1%** |

Commission expense is majorly pertaining to individual business. The commission expense grew by 16.3% from ₹ 13.46 billion in FY 2019 to ₹ 15.66 billion in FY 2020 broadly in line with the change in product mix, increase in the individual new business premium by 16.7% and rise in individual renewal premium by 27%.

### v. Operating expenses related to insurance business

The summary of operating expenses is as follows:

(₹ in billion)

| Particulars | FY 2020 | FY 2019 |
|---|---|---|
| Employees remuneration and welfare expenses | **13.61** | 12.37 |
| Advertisement, publicity and marketing | **0.94** | 0.81 |
| Depreciation | **0.89** | 0.91 |
| Legal and professional expenses | **1.64** | 1.30 |
| Others | **7.05** | 5.54 |
| **Operating expenses** | **24.13** | **20.93** |

Operating expenses relating to insurance business increased by 15.3% from ₹ 20.93 billion in FY 2019 to ₹ 24.13 billion in FY 2020 mainly due to growth in employees' remuneration. Employees remuneration rose by 10.0% from ₹ 12.37 billion in FY 2019 to ₹ 13.61 billion in FY 2020 due to increments and expansion in number of employees to support an increase in the size of business operations. Expenses under the head 'Others' grew mainly on account of strengthening IT infrastructure, and thereby expenditure.

### vi. Goods and Services Tax on charges

Goods and services tax on charges swelled by 22.0% from ₹ 4.53 billion in FY 2019 to ₹ 5.53 billion in FY 2020 due to increase in linked income charges namely fund management charges, mortality charges, etc.

### vii. Benefits paid (net) and interim and terminal bonus paid

The summary of benefits paid is as follows:

(₹ in billion)

| Particulars | FY 2020 | FY 2019 |
|---|---|---|
| Death claims | **17.32** | 15.60 |
| Maturity claims | **43.81** | 44.36 |
| Annuities/pension payments | **2.20** | 1.82 |
| Survival benefits | **8.25** | 7.59 |
| Surrenders | **37.09** | 40.58 |
| Discontinuance/lapsed termination | **15.24** | 11.76 |
| Withdrawals | **39.44** | 31.67 |
| Others | **0.31** | 0.44 |
| **Total benefits** | **163.66** | **153.82** |
| Less: Reinsurance on claims | **(1.91)** | (1.49) |
| **Net benefits paid** | **161.75** | **152.33** |
| **Interim & terminal bonus** | **0.76** | **0.61** |

Claims and benefits payout increased by 6.2% from ₹ 152.33 billion in FY 2019 to ₹ 161.75 billion in FY 2020 primarily on account of rise in Death claims by ₹ 1.72 billion in FY 2020 as compared to FY 2019 and hike in withdrawals by ₹ 7.77 billion in FY 2020.

### viii. Change in actuarial liability

The summary of change in actuarial liability is as follows:

(₹ in billion)

| Particulars | FY 2020 | FY 2019 |
|---|---|---|
| Policy liabilities (non-unit/mathematical reserves) (gross) | **112.74** | 93.00 |
| Amount ceded in reinsurance | **(0.38)** | 0.58 |
| Fund reserve | **76.88** | 130.89 |
| Funds for discontinued policies | **16.81** | 11.45 |
| **Change in actuarial liability** | **206.05** | **235.92** |

Change in actuarial liability decreased from ₹ 235.92 billion in FY 2019 to ₹ 206.05 billion in FY 2020.

a. Fund reserve, which represents liability carried on account of units held by unit-linked policyholders, decreased from ₹ 130.89 billion in FY 2019 to ₹ 76.88 billion in FY 2020.

b. Traditional policyholders' liability (including non-unit liability) increased from ₹ 93 billion in FY 2019 to ₹ 112.74 billion in FY 2020.

# MANAGEMENT DISCUSSION & ANALYSIS (CONTD.)

ix. **Surplus (Revenue account), transfer to Shareholders' account (Profit and loss account) and Fund for Future Appropriation (FFA)**

a. **Surplus (Revenue account)**

As a result of the above changes in income and expenses, surplus has increased from ₹ 10.86 billion in FY 2019 to ₹ 18.95 billion in FY 2020.

Segment-wise breakup of Surplus is as under:

(₹ in billion)

| Particulars | FY 2020 | FY 2019 |
|---|---|---|
| Participating segment | 5.84 | 2.23 |
| Non-participating segment | 2.56 | 4.70 |
| Unit-linked segment | 5.78 | 2.95 |
| **Surplus (net of Contribution from Shareholders)** | 14.18 | 9.88 |
| Add: Contribution from Shareholders | 4.76 | 0.99 |
| **Surplus** | 18.95 | 10.86 |

b. **Transfer to shareholders' account (profit and loss account)**

The surplus generated in the Revenue account after setting aside fund for future appropriation is transferred to the Profit and Loss Account (Shareholders' Account) based on the recommendation of the appointed Actuary. Transfer to Shareholders' account has increased by 46.5% from ₹ 9.98 billion in FY 2019 to ₹ 14.63 billion in FY 2020. The remaining surplus of ₹ 4.32 billion was retained as fund for future appropriation.

**Participating segment:** Profits from participating business depend on the total bonuses declared to policyholders on an annual basis. Currently an amount of one-ninth of the bonus declared to policyholders is transferred to shareholders. Bonus declared has increased from ₹ 12.10 billion in FY 2019 to ₹ 13.72 billion in FY 2020 resulting in an increase in profit which is transferred to Shareholders. The amount transferred to shareholders increased to ₹1.52 billion in FY 2020 from ₹1.34 billion in FY 2019.

**Non-participating segment:** In case of non-participating business, profit arises primarily from premium and investment income net of expenses, claims and policyholder liabilities. Profit in non-participating segment decreased from ₹ 4.70 billion in FY 2019 to ₹ 2.56 billion in FY 2020.

**ULIP segment:** In case of unit-linked business, profit arises only from the charges (net of expenses) levied on policyholders. Under unit-linked business, total business from linked business increased by 24.3% which has led to an increase in profit from ₹ 2.95 billion in FY 2019 to ₹ 5.78 billion in FY 2020.

c. **Funds for Future Appropriations (FFA)**

FFA represent surplus funds which have not been allocated either to policyholders or to shareholders as at the valuation date. During the year, a sum of ₹ 4.32 billion has been transferred to fund for future appropriation.

## B. Profit and loss account (shareholders' account)

(₹ in billion)

| Particulars | FY 2020 | FY 2019 | % Growth |
|---|---|---|---|
| Amounts transferred from Policyholders' Account | 14.63 | 9.98 | 46.5 |
| Income from investments and other income[1] | 4.75 | 5.03 | (5.5) |
| Expenses other than those directly related to the insurance business | 0.48 | 0.30 | 61.0 |
| Contribution to Policyholders' Account | 4.76 | 0.99 | 381.5 |
| **Profit before Tax** | **14.14** | **13.73** | **3.0** |
| Provision for Taxation | (0.09) | 0.46 | (118.7) |
| **Profit after Tax** | **14.22** | **13.27** | **7.2** |
| Profit at the beginning of the year | 64.60 | 53.74 | 20.2 |
| Total profit available for appropriation | 78.82 | 67.01 | 17.6 |
| Interim dividend (Including dividend distribution tax) | - | 2.41 | - |
| **Profit carried to the Balance Sheet** | **78.82** | **64.60** | **22.0** |

1.Net of provision for diminution

i. **Income from investments and other income**

Investment income and other income under shareholder portfolio decreased by ₹ 0.28 billion from ₹ 5.03 billion in FY 2019 to ₹ 4.75 billion in FY 2020 mainly due to booking of loss on sale of investment. Other income represents rental income from let-out property, interest on tax refund and foreign exchange gain.

ii. **Expenses other than those directly related to the insurance business**

Expenses other than those directly related to the insurance business increased by 61.0% from ₹ 0.30 billion to ₹ 0.48 billion mainly on account of increase in other expenses by 153.5% from ₹ 0.09 billion in FY 2019 to ₹ 0.25 billion in FY 2020.

iii. **Contribution to Policyholders' Account**

Contribution to policyholders' account represents amount transferred to policyholders' account for funding the deficits in business segments. During the current year, non-par Individual Life, One Year Renewable Group Term assurance (OYRGTA), Annuity and Variable Insurance (VIP) segments incurred loss of ₹ 4.76 billion.

iv. **Profit after tax**

Profit after tax increased by 7.2% from ₹ 13.27 billion in FY 2019 to ₹ 14.22 billion in FY 2020. Also, profit before tax rose from ₹ 13.73 billion in FY 2019 to ₹ 14.14 billion in FY 2020. Tax expense for shareholders decreased from ₹ 0.46 billion in FY 2019 to ₹ (0.09) billion in FY 2020.

v. **Interim dividend (Including dividend distribution tax)**

The Board of Directors of the Company have not declared any dividend during the year after taking cognisance of the IRDAI circular no. IRDA/F&A/CIR/MISC/099/04/2020 dated April 24, 2020 on 'Prudent management of financial resources of insurers in the context of COVID-19 pandemic'. Consequently, profit carried to balance sheet is ₹ 78.82 billion in FY 2020.

## C. Financial Position/Balance Sheet

(₹ in billion)

| Particulars | As on March 31, 2020 | As on March 31, 2019 |
|---|---|---|
| Sources of funds | | |
| Equity capital and reserves (including change in fair value) | 87.43 | 75.76 |
| Policyholders' Funds/Policy Liabilities | 1,531.01 | 1,351.40 |
| Funds for future appropriations | 7.14 | 2.82 |
| **Total** | **1,625.58** | **1,429.98** |
| Application of funds | | |
| Investments | | |
| - Shareholders' | 68.28 | 57.23 |
| - Policyholders' | 734.20 | 644.72 |
| Assets held to cover linked liabilities | 785.65 | 691.29 |
| Loans | 3.64 | 1.73 |
| Fixed assets | 5.81 | 5.95 |
| Current assets and advances (A) | 58.21 | 66.41 |
| Current liabilities and provisions (B) | 30.22 | 37.36 |
| Net current assets (A) – (B) | 27.99 | 29.05 |
| **Total** | **1,625.58** | **1,429.98** |

### Sources of funds

i. **Equity capital and reserves/shareholders' fund**

The breakup of capital and reserves is as follows:

(₹ in billion)

| Particulars | As on March 31, 2020 | As on March 31, 2019 |
|---|---|---|
| Share capital | 10.00 | 10.00 |
| Reserves and surplus | 78.84 | 64.60 |
| Credit/(Debit) fair value change account | (1.41) | 1.16 |
| **Equity capital and reserves/shareholders' fund** | **87.43** | **75.76** |

a. Equity share capital

Equity share capital of the Company comprises 1,000,026,295 equity shares of face value of ₹ 10 each (1,000,000,000 equity shares as on March 31, 2019). Out of the total equity share capital, 576,000,000 (57.6%) equity shares are held by the State Bank of India (621,000,000 (62.1%) as on March 31, 2019). 52,007,092 (5.2%) equity shares are held by the BNP Paribas Cardif (77,007,092 (7.70%) as on March 2019). During the year ended March 31, 2020, there was no capital infusion by the promoters.

# MANAGEMENT DISCUSSION & ANALYSIS (CONTD.)

The equity shares of the Company were listed on National Stock Exchange Limited (NSE) and Bombay Stock Exchange Limited (BSE) on October 03, 2017.

b. Reserves and surplus

Increase in reserves and surplus is on account of profit earned during the year and increase in securities premium as a result of issue of stock options.

c. Fair value change account

Fair value change account represents unrealised gains (net of unrealised losses) on equity and mutual fund holdings in shareholders' investments as on the respective balance sheet dates. The decrease in fair value change is predominantly because of the sharp fall in the equity market in March 2020.

ii. **Policyholders' Funds**

The summary of policyholders' funds is as follows:

(₹ in billion)

| Particulars | As on March 31, 2020 | As on March 31, 2019 |
|---|---|---|
| **Policyholders' traditional liabilities** | **745.36** | **660.10** |
| Credit/ (debit) fair value change account | **(15.87)** | 10.56 |
| Policy liabilities | **761.23** | 649.54 |
| **Policyholders' linked liabilities** | **785.65** | **691.29** |
| Linked liabilities | **763.01** | 605.92 |
| Credit/ (debit) fair value change account | **(28.61)** | 51.61 |
| Funds for discontinued policies | **51.25** | 33.76 |
| **Total Policyholders' Funds** | **1,531.01** | **1,351.40** |

a. Policyholders' traditional liabilities

Fair value change account represents unrealised gains (net of unrealised losses) on equity and mutual fund holdings in non-linked policyholders' investments as on the respective balance sheet dates. The decrease in fair value change is predominantly because of negative performance by Indian equity markets.

The movement in policy liabilities is a consequence of various factors such as receipt of premium (both new business and renewal), surrenders and other claims, various actuarial assumptions and other factors varying on a product to product basis.

The reserves on traditional policies are estimated by using prospective gross premium valuation method. Mathematical reserves are calculated based on future assumptions having regard to current and future experience e.g. interest rates, inflation, mortality, morbidity and expense.

b. Policyholders' linked liabilities

The policyholders' linked liabilities represents the unit liability in respect of linked business and has been considered as the value of the units standing to the credit of the policy holders, using the Net Asset Value (NAV) as on the valuation date.

iii. **Funds for future appropriation**

Funds for future appropriation amounting to ₹ 7.14 billion is appearing in the participating segment. It represents funds, the allocation of which, either to participating policyholders' or to shareholders', has not been determined as on the balance sheet date.

## Application of Funds

i. **Investments**

The summary of investments as on balance sheet dates is as follows:

(₹ in billion)

| Particulars | As on March 31, 2020 | As on March 31, 2019 |
|---|---|---|
| Investments | | |
| - Shareholders' | **68.28** | 57.23 |
| - Policyholders' (Non Linked) | **734.20** | 644.72 |
| Assets held to cover Linked Liabilities | **785.65** | 691.29 |
| **Total** | **1,588.13** | **1,393.25** |

Total investments grew by ₹ 194.88 billion (14.0%) from ₹ 1,393.25 billion as on March 31, 2019 to ₹ 1,588.13 billion as on March 31, 2020. Equity investment portfolio constitutes 21% and debt portfolio constitutes 79% of the total AUM as on March 31, 2020. For detailed category-wise breakup of investments, refer Schedule 8, 8A and 8B of the financial statements.

Shareholder's portfolio grew by 19.3%, non-linked policyholder's investment grew by 13.9% and unit-linked assets grew by 13.7% as compared to previous year ended March 31, 2019.

Increase in policyholders' portfolio is attributable to increase in premium and investment income offset by net outgo due to operating expenses and claims. The Company's investment philosophy has always been to maximise returns at an optimal level of risk on a continuous long-term basis. This calls for investing in high-quality securities, which are suitably matched to the duration of its liabilities. The Company invests strictly within the framework of rules and regulations prescribed by IRDAI. Further, the Company has implemented sound and robust investment risk management systems and processes.

ii. **Loans**

Loans comprises loan against policy and corporate loans. Loans increased from ₹ 1.73 billion to ₹ 3.64 billion during the year. Loans disclosed in balance sheet are net of provision for standard assets made in accordance with IRDAI investment regulations and master circular on preparation of financial statements and filing of returns of life insurance business. The Company has no Non-Performing Asset (NPAs) as on March 31, 2020.

iii. **Fixed assets**

Fixed assets (net of depreciation) have decreased marginally from ₹ 5.95 billion to ₹ 5.81 billion. There were no major capital expenditure incurred during the year.

iv. **Net current assets**

Net current assets decreased by 3.7% from ₹ 29.05 billion to ₹ 27.99 billion. Current assets declined by 12.3% from ₹ 66.41 billion to ₹ 58.21 billion and current liabilities have also reduced by 19.1% from ₹ 37.36 billion to ₹ 30.22 billion.

a. Current assets and advances

The summary of current assets and advances is as follows:

(₹ in billion)

| Particulars | As on March 31, 2020 | As on March 31, 2019 |
|---|---|---|
| **Cash and bank balances** | **14.23** | 24.21 |
| **Advances** | | |
| Prepayments | **0.41** | 0.23 |
| Advance to suppliers and employees | **0.12** | 0.21 |
| **Other Assets** | | |
| Income accrued on investments | **31.00** | 28.18 |
| Outstanding premiums | **4.51** | 3.01 |
| Due from reinsurers | **0.04** | 0.26 |
| Security deposit | **1.17** | 1.17 |
| GST and Service tax advance and unutilised credit | **0.99** | 1.08 |
| Assets held for unclaimed amounts (including income accrued) | **3.27** | 4.26 |
| Other receivables (including agent balance) | **2.47** | 3.80 |
| **Total current assets** | **58.21** | **66.41** |

Some of the key items impacting current assets and advances were:

i. The cash and bank balances represent premium collected during last few days of the financial year, including fixed deposits held with banks, cheques on hand and cheques deposited but not cleared

ii. Income accrued on investments represents interest income accrued, however not due as on March 31, 2020. It is mainly on government securities, debentures and fixed deposits. The increase is attributable to the increase in the debt investments of the Company

iii. Outstanding premium represents the premium due but not received on traditional products as on March 31 and which are within the grace period

iv. Due from reinsurers represents amounts to be received from reinsurers regarding claims admitted by the Company. This amount is net of premium ceded to reinsurers

# MANAGEMENT DISCUSSION & ANALYSIS (CONTD.)

v. Security deposits represent deposits placed for premises taken on lease for setting up branches, as well as for leased accommodations for employees, electricity deposits, telephone, legal deposits and other utility deposits. It also includes margin money kept with Clearing Corporation of India Ltd. (CCIL) for trading in government securities

vi. GST and Service tax advance and unutilised credit represents Central Value Added Tax (CENVAT) credit, which will be utilised in the future for set off against payment of GST liabilities

vii. Pursuant to IRDAI circular on 'Handling of unclaimed amounts pertaining to policyholders', the Company has created a single segregated fund to manage all the unclaimed monies with effect from April 1, 2016. Amount standing in the segregated fund for unclaimed amounts is ₹ 3.27 billion as at March 31, 2020

viii. Other receivables represents the sales proceeds pending to be received (but not overdue) on sale of investment securities, dividend receivable and amount receivable from unit-linked funds etc.

b. Current liabilities and provisions

The summary of current liabilities is as follows:

(₹ in billion)

| Particulars | As on March 31, 2020 | As on March 31, 2019 |
|---|---|---|
| **Current liabilities** | | |
| Agent balances | **0.58** | 0.62 |
| Balance due to other reinsurers | **0.20** | 0.13 |
| Premium received in advance | **0.05** | 0.22 |
| Unallocated premium and other deposits | **3.18** | 3.29 |
| Sundry creditors | **7.10** | 6.15 |
| Due to subsidiaries/ holding companies | **0.56** | 0.51 |
| Claims outstanding and annuities due | **2.50** | 1.13 |
| Unclaimed amounts of policyholders | **3.27** | 4.26 |
| Others | **10.40** | 17.47 |
| **Provisions** | | |
| Provision for tax | **1.19** | 0.63 |
| Provision for employee benefits | **1.19** | 0.96 |
| Provision for interim dividend | **-** | 2.00 |
| **Total current liabilities and provisions** | **30.22** | **37.36** |

Some of the key items impacting current liabilities and provisions are explained below:

i. Agents' balances represents amount payable to insurance advisors towards commission as on the balance sheet date. Amount outstanding is mainly attributable to business sourced during the last month of the financial year

ii. Premium received in advance represents premium paid in advance by policyholders, which will be recognised as premium income on the due date of the policy

iii. Premium and other deposits are primarily attributable to monies received from policyholders but pending to be allocated on issuance of insurance policy. It mainly includes amount received during the last few days where policy could not be issued due to underwriting requirements or pending documents.

iv. Sundry creditors represent amounts payable to various service providers towards goods and services availed by the Company, along with the provision for the services availed or goods received but invoices are not received

v. Policyholders' claims outstanding represents amounts payable to the policyholders for all claims viz. death, survival, surrenders, annuity, etc. that are intimated to the Company and are outstanding as on date due to pending investigation as a part of the normal claim process or are pending due to documents pending from policyholders

vi. Other liabilities include amount to be paid for securities purchased including brokerage, statutory liabilities payable and amount payable to unit-linked funds etc.

vii. Provision for tax is shown net of advance tax paid by the Company

viii. Provision for employee benefits represents the Company's liability towards gratuity, leave encashment and long-term service award, computed as per the requirements of Accounting Standard 15 (Revised) on Employee Benefits

**D. Cash Flow Statement**

The summary of Cash Flow Statement is given below:

(₹ in billion)

| Particulars | Year ended March 31, 2020 | Year ended March 31, 2019 |
|---|---|---|
| Net cash generated from/ (for) operating activities | **192.99** | 134.73 |
| Net cash generated from/ (for) investing activities | **(169.87)** | (135.53) |
| Net cash generated from/ (for) financing activities | **(1.98)** | (2.41) |

**Cash flows from operating activities**

Net cash flows generated from operating activities increased from ₹ 134.73 billion in FY 2019 to ₹ 192.99 billion in FY 2020. This growth was primarily due to a rise in premium collection, which is partially offset by increase in policy benefits paid and commission and vendor payouts.

**Cash flows from investing activities**

Net cash flows used in investing activities increased from ₹ 135.53 billion in FY 2019 to ₹ 169.87 billion in FY 2020. This rise was primarily due to an expansion in investment in bonds, government securities, etc.

**Cash flows from financing activities**

Net cash flows used in financing activities decreased from ₹ 2.41 billion in FY 2019 to ₹ 1.98 billion in FY 2020.

## VIII. KEY PERFORMANCE INDICATORS

Following are the key parameters on which performance of the Company is measured:

**i. Market share, product mix and distribution mix**

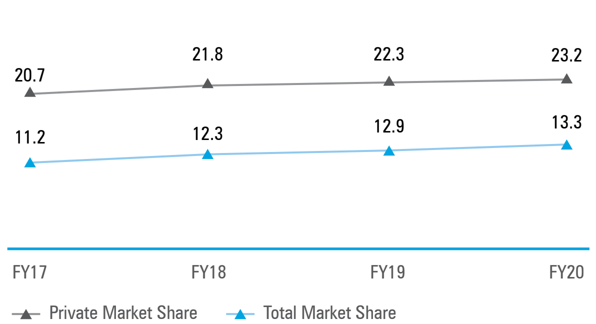
**Market Share**

The Company's individual rated premium increased from ₹ 89.55 billion in FY 2019 to ₹ 97.72 billion in FY 2020.

The Company's market share in individual rated premium expanded over the years on account of growth in individual regular new business premium. Individual new business premium rose by 16.7% from ₹ 96.36 billion in FY 2019 to ₹ 112.45 billion in FY 2020.

The Company's individual rated premium private market share increased from 22.3% in FY 2019 to 23.2% in FY 2020 and total market share has grew from 12.9% in FY 2019 to 13.3% in FY 2020.

**IRP Market Share** (%)

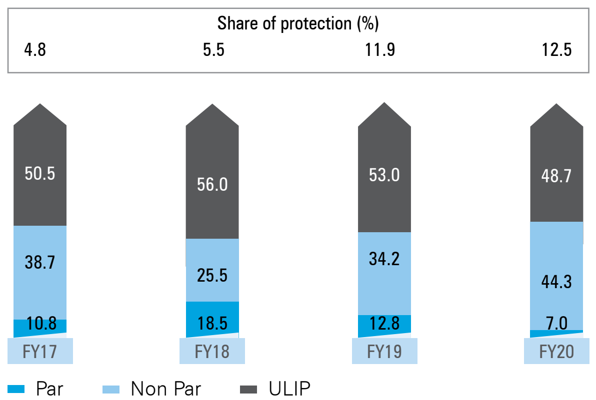



**Product mix**

The Company has maintained a balanced product mix over the years. With the increasing awareness for pure protection products, share of protection in new business premium has enlarged over the years.

During FY 2020, the Company enhanced focus on protection business across individual and group segments. Hence, there is a rise in the share of new business protection business from 11.9% in FY 2019 to 12.5% in FY 2020 and increase in share of non-par business from 34.2% in FY 2019 to 44.3% in FY 2020.

**NBP Product mix** (%)

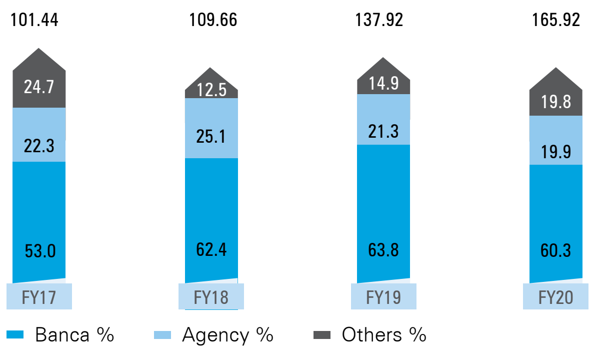



**Distribution mix**

The Company continues to ensure diversification and strengthening of its distribution channels. All key distribution channels of the Company have demonstrated growth over the years. The share of Banca channel has increased over the years. For FY 2020, the share of Banca channel was 60.3%. Apart from agency and bancassurance channel, others comprise the Company's corporate agents, brokers, micro agents and Common Service Centre (CSC), Insurance Marketing Firm (IMF) and direct business.

# MANAGEMENT DISCUSSION & ANALYSIS (CONTD.)

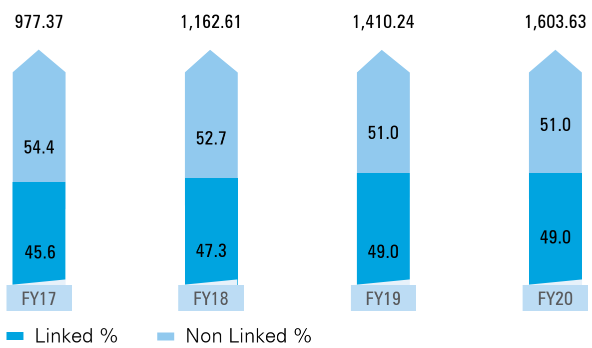
**NBP channel mix** (₹ in billion)




ii. **Assets under management (AUM)**

The AUM has significantly grown over the years due to increasing premium inflows. The Company registered a growth of 13.7% from ₹ 1,410.24 billion in FY 2019 to ₹ 1,603.63 billion in FY 2020. It has a consistent debt-equity mix of 79:21 and over 90% of the debt investments are in AAA rated and sovereign instruments as on March 31, 2020.

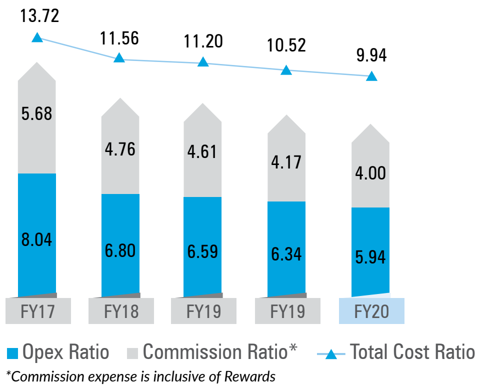
**Assets under Management** (₹ in billion)




iii. **Cost efficiency**

The Company is continuously focusing on cost containment activities to reduce operating expenses. The Company's 'Operating Expense to Gross Written Premium (GWP) Ratio' is one of the lowest among private life insurance players on a consistent basis. The total cost ratio has also declined over the years.

**Cost ratios** (%)

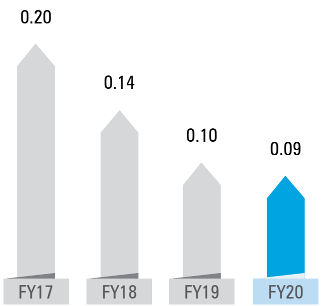



Total cost ratio is calculated as operating expenses, commission, provision for doubtful debts and bad debts written off divided by gross written premium.

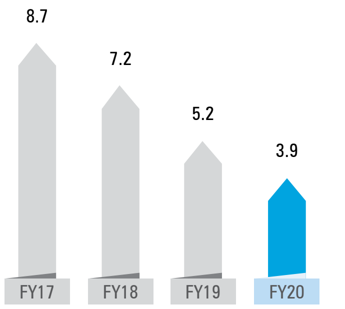
iv. **Customer satisfaction**

The Company promotes ethical sales and aims to improve overall customer experience. Continuous customer engagement and awareness campaigns have reduced misselling complaints and surrender ratio.

**Unfair Business Practices** (%)




**Surrender Ratio*** (%)

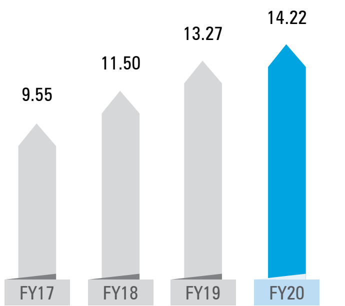



* Surrender ratio-individual linked products (Surrender/average AUM).

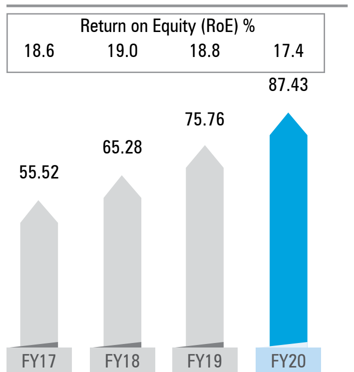
v. **Profitability and net worth**

Profits witnessed an increase of 7.2% from ₹ 13.27 billion in FY 2019 to ₹ 14.22 billion in FY 2020. Net worth of the Company has also consistently increased from ₹ 55.52 billion in FY 2017 to ₹ 87.43 billion in FY 2020.

**Profit after Tax** (₹ in billion)



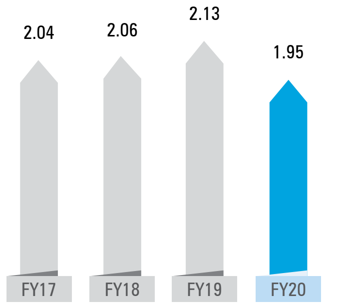

**Networth** (₹ in billion)




vi. **Solvency**

Solvency is a regulatory measure of capital adequacy. It is expressed as a ratio of available capital and required capital. It is critical in determining any organisation's ability to meet future contingencies and fund growth plans. As on March 31, 2020, the Company has a solvency of 1.95 against the mandatory requirement of 1.50. There has been no capital infusion in the Company after FY 2008.

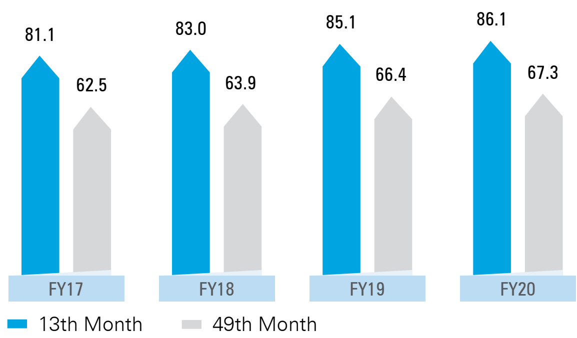
**Solvency Ratio**




vii. **Persistency**

Persistency is a key parameter for insurance companies. It measures the proportion of policy holders who have continued with their policies. It indicates the ability of the Company to retain customers. Maintaining a high level of persistency is critical as it provides scope of regular revenues through renewal premiums. The 13th month persistency ratio (based on premium) has increased from 81.1% in FY 2017 to 86.1% in FY 2020. Persistency based on regular premium has also increased across all cohorts. The 13th month persistency based on regular premium increased from 81.3% in FY 2018 to 83.7% in FY 2020. And the 13th month persistency for agency channel improved from 87.2% in FY 2019 to 87.6% in FY 2020 and for Bancassurance channel has decreased marginally from 83.8% in FY 2019 to 83.5% in FY 2020.

**Persistency** (%)




Note: The persistency ratios are calculated as per IRDA/ACT/CIR/MISC/035/01/2014 circular dated 23rd January 2014. Single Premium and Fully Paid-Up policies are considered in above calculation. Group Business where persistency is measurable is included. Persistency Ratios are calculated using policies issued in March to February period of the relevant years.

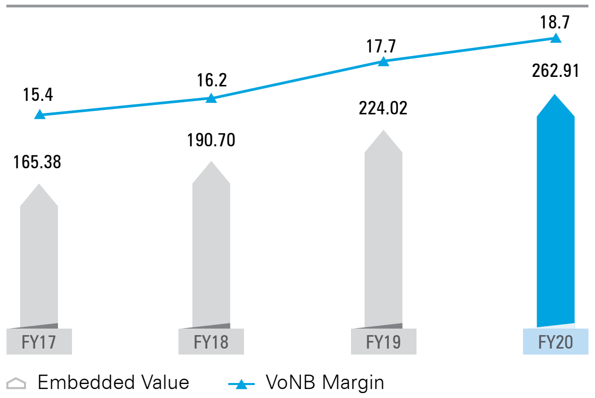
# MANAGEMENT DISCUSSION & ANALYSIS (CONTD.)

**viii. Embedded value and Value of New Business (VoNB) margin analysis**

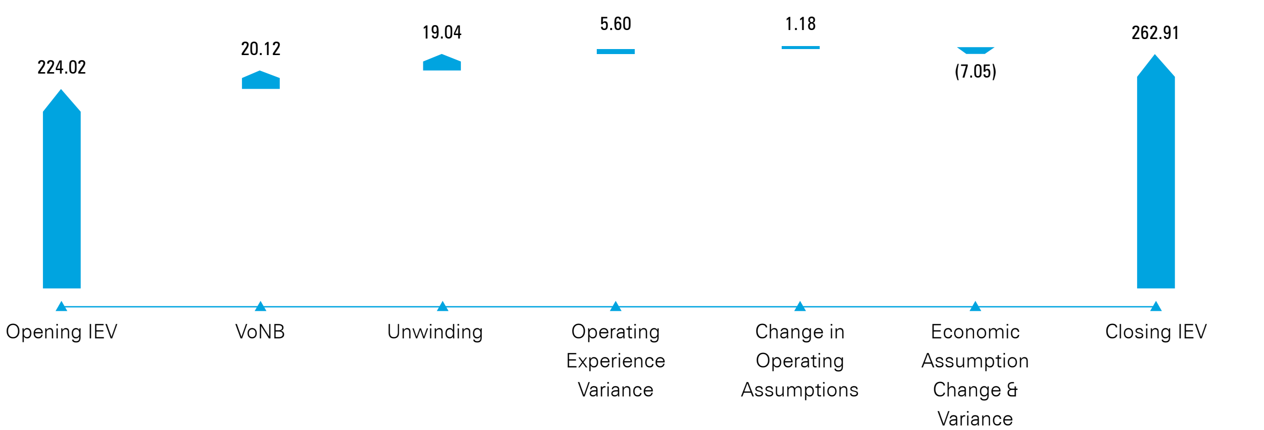
- Embedded value of the Company increased from ₹ 224.02 billion on March 31, 2019, to ₹ 262.91 billion as on March 31, 2020 showing a growth of 17.4%
- VoNB rose from ₹ 17.19 billion in FY 2019 to ₹ 20.12 billion in FY 2020, registering a growth of 17.0%
- VoNB margin also grew from 17.7% in FY 2019 to 18.7% in FY 2020

Embedded value increased on account of value of new business added. Improvement in persistency also contributed to the increase in VoNB margin.

**Embedded Value (₹ in billion) and VoNB Margin (%)**




**Analysis of movement in IEV** (₹ in billion)




**Sensitivity analysis**

| Scenario | Change in EV% | Change in VoNB% |
|---|---|---|
| Reference rate +100 bps | (3.4) | 1.7 |
| Reference rate -100 bps | 3.6 | (1.8) |
| Decrease in equity value 10% | (1.4) | - |
| Proportionate change in lapse rate +10% | (1.3) | (5.8) |
| Proportionate change in lapse rate -10% | 1.3 | 5.7 |
| Mortality/morbidity +10% | (2.3) | (8.9) |
| Mortality/morbidity -10% | 2.3 | 8.9 |
| Maintenance expense +10% | (0.6) | (2.2) |
| Maintenance expense -10% | 0.6 | 2.2 |
| Mass Lapse for ULIPs in the year after the surrender penalty period of 25%* | (2.2) | (7.7) |
| Mass Lapse for ULIPs in the year after the surrender penalty period of 50%* | (5.3) | (18.5) |
| Tax Rate Change to 25% on normal tax rate basis | (8.4) | (15.6) |

*Mass lapse sensitivity (of 25% or 50%) for ULIP business is applied at the end of surrender penalty period as defined by APS 10, which is taken to be the beginning of 5th policy year for current generation of our ULIP products.

## IX. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has aligned its internal financial control system with the requirements of the Companies Act 2013, on lines of globally accepted risk-based framework as issued by Committee of Sponsoring Organisations (COSO). The internal control framework is intended to increase transparency and accountability in an organisation's process of designing and implementing a system of internal control. The framework requires it to identify and analyse risks and manage appropriate responses. The Company has successfully laid down the framework and ensured its effectiveness. Its internal financial control framework is based on 'three lines of defence model'. It has laid down standard operation procedures and policies to guide the business operations and has a well-defined delegation of power with authority limits for approving revenue and capital expenditure. Statutory, Concurrent and Internal Auditors undertake testing of the control environment of the Company. It also has a Chief Audit Officer with a dedicated in-house internal audit team which is commensurate with the size, nature and complexity of operations of the Company. The internal audit plan covers Information System Audit, different process audit as well as transaction based audits at the Head office, Regional Offices and across various branches of the Company. The approach of the audit is to verify compliance with the regulatory, operational and system related controls.

## X. MATERIAL DEVELOPMENTS IN HUMAN RESOURCES

We believe that our employees are our most valuable assets. They play a pivotal role in achieving all our business objectives as well as partner us in fulfilling our social responsibilities. Our endeavour is to attract the best and the brightest individuals, provide them with rich developmental opportunities, support them to maintain a healthy work-life balance and recognise their achievements through various rewards & recognition schemes.

We have a robust selection process which identifies the best fit for the company. The induction and hand-holding process consists of tailor made induction programs developed and improvised constantly to equip the new recruits with knowledge and skills to excel in their role and deliver the highest order of customer satisfaction.

Our rewards philosophy comprises of a mix of salary, benefits, and various short and long term incentives. It is designed to encourage our employees for superior performance, producing better results and thus creating customer delight. The benefits offered to the employees are designed to provide them a sense of security and fulfil their personal and professional aspirations. For example, we offer medical insurance top up options for our employees as well as their family members. A facility of annual Health Check-up was introduced during the year for employees through a healthcare aggregator on a Pan India level. Not only are the female employees provided fully-paid maternity leave, but the male employees are also provided fully-paid paternity leave. Employees are well supported during their life-cycle events by facilities like sabbatical leave, child adoption leave and study leave which provide them a flexibility to balance career and personal life events effectively. The employees are encouraged to acquire higher industry specific functional and technical qualifications and are rewarded suitably.

The Employee stock option scheme of the company aims to incentivize high performers by aligning their interests with those of the shareholders; creating a win-win situation for both employees and shareholders. It assists the Company in long term value creation as the focus will be to ensure sustainability of business results over a period of time. During FY 2019-20, the company granted 959,350 options to its employees, which will vest over a period of 3 years. The vesting of options is dependent on achievement of certain performance criteria.

Our performance management system, LEAP (Leading through Excellence And Performance), is based on balanced scorecard approach. This tool provides a framework for setting clear expectations, providing positive feedback and delivering an effective performance assessment, where the rewards are directly linked with overall company dashboard performance. Apart from balanced scorecard, the LEAP process is complemented by Individual Development Plan (IDP). Under IDP, customized personal development sessions are conducted. The program focuses on strategic thinking, capability building, and execution excellence.

We put concerted efforts in talent management practices to ensure that the Company consistently develops inspiring, strong and credible leadership. To achieve this, we focus on giving cross-functional exposure to our people, thus effectively multi-skilling them. These people practices create a workforce that is more flexible and efficient in responding to customer needs and market demands. Such exposures ensure that an individual taking on a new role, also has the skills to handle it.

To promote collaboration and a sense of belongingness, we drive employee engagement through various team events like off-site meet, team dinner, annual day event "Sangam" where employees and their families come together and join in the celebrations.

The company, one of the most trusted private Life insurance brands, is now more than 19 years old. Our family has grown from 14,961 employees as on March 31, 2019 to 16,759 employees as on March 31, 2020 i.e. a growth of 12%. The average age of employees is around 36 years. The average tenure is around 4 years and 7 months which demonstrates a sense of belongingness resulting from the mutual trust between employees and the organization.