EDELWEISS – INVESTOR DAY 2018

Rujan Panjwani: We’ve spoken about the asset side of the balance sheet, we’ve spoken about the liability side of the balance sheet of households, the one thing we haven’t spoken about is the 3rd aspect which is protection and that’s where life insurance and other general insurance also comes in. So, I need the…

So when we started this business, we looked at you know **(inaudible 00:37)** protection and it’s the 3rd angle and all of that and then we started to peel this onion a little bit and said where are we going to go and why do we as the new life insurance company, the newest life insurance company on the street, how do we hope to succeed and where does our edge come in. So you think about this, you get about Rs. 4.5 trillion in collected premium every year and that’s just a life insurance business, but less than 5% of that actually goes into protection, 95% almost is actually in asset management, investment management business, and unlike the traditional asset management industry that Nitin and all spoke about, this is truly long-term asset, they start from 5 years and go up to 25-30 years, so this is truly long-term. So it was very much in sync with what our approach was to build long-term businesses, to have a long-term view and our core expertise in investment management, so this fell very nicely into that sweet spot for us and that’s why we actually ventured into this business. Today, almost 18-20% of household savings are in life insurance. This is second only to the banking industry, it’s actually larger than what flows into the capital markets today and this is evident from if you see the life insurance AUM today is about Rs. 34 trillion, this includes LIC and others, private sector, mutual fund is Rs. 25 trillion. So, this is the size of the asset management business and this is committed capital for very long periods of time, the value of that is immense.

So when we started way back, 2011-2012, there were a certain set of considerations that we had in mind while we were putting this together and we didn’t know too much about insurance, so we said we are going to go and get a partner for ourselves, and there was this, you know, there were couple of companies from overseas looking and scouting for partners, there weren’t that many credible names still left because a lot of people who had wanted to get into insurance had already done their joint venture partnerships. So we happened to be introduced to Tokio Marine and you know these guys come with a lot of experience, 140 years of insurance experience, they come with a worldwide network, their presence all across Asia, parts of Africa and North America, huge amount of expertise, and most importantly, they came with capital because in 2012, I don’t think we had the kind of capital commitment that was required to see these long gestation businesses through by just by ourselves. We on the other hand brought a lot of Indian expertise, Indian understanding, on-the-ground execution capabilities, we also brought intrinsic and inherent investment management capability, that was our strength and that was part of the reason why we got into this business, and along with that, distribution capabilities from across the group with all our relationships and some of the retail businesses already starting to kick in, this is what we brought. The structures worked very well, they have been extremely good partners, their high levels of corporate governance are very much in sync with our own ideals and principles on corporate governance and risk management, so it’s been a great partnership, it’s worked very well until now.

Just a very quick one on how the economics of this business worked for us, so if you look at most life insurance businesses in the long-term, they deliver IRRs of about 16-18%, this is a typical life insurance company over long periods of time. If we can get to the same, which hopefully we will you know over a period of time, our IRR should be about 3-4% higher than that because of the differential pricing in the equity structures, between Tokio Marine and us. So they have come in at a premium, they have paid $2 for every $1 of equity that we put in and that gives us the kicker. So that is the Edelweiss upside from this structure, apart from all the other stuff that Tokio Marine brings.

Very recently, we also launched our general insurance business, that was earlier in 2018; new, nascent but one of those businesses that is seeing the maximum amount of disruption through technology worldwide. A lot of insurtech is largely directed in the general insurance space, many examples from overseas, but it’s also a huge opportunity, this is just to give you a size, about a third of the life insurance premium collected is general insurance but that’s on a yearly basis and it keeps getting renewed; this is going to be a space that’s going to see a lot of action and a lot of I think innovation. We are committed to building a new age, very customer centric technology driven company. We made a great start, we have got some very innovative products out there, but it’s very early, very nascent. This is going to be another one of those nice interesting journeys, but these are our businesses which we see over the next 5-7 years, really starting to kick in and provide that little turbocharge as all the other businesses mature.