Janashakthi Insurance PLC
Earnings Presentation H1 FY2019
Edited Transcript

02nd September 2019 – 4:30PM

Corporate Participants

Mr. Prakash Schaffter – Executive Chairman

Mr. Ramesh Schaffter – Non-Executive Director

Mr. Jude Fernando – Director/Chief Executive Officer

Mr. Thanushka Jayasundera – Head of Finance and Planning

Forward Looking Statements

This document has been prepared by Janashakthi Insurance PLC ("JINS" or the "Company") solely for use at its bi-annual earnings presentation to potential and current investors.

The information contained in this document should be considered in the context of the circumstances prevailing at the time and has not been, and will not be, updated to reflect material developments which may occur after the date of the presentation. Neither the Company nor any of its respective affiliates, advisers or representatives shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this document.

Any statements included in this Transcript that are not statements of historical fact constitute "Forward Looking Statements". These can be identified by the use of forward looking terms such as "expect", "anticipate", "intend", "may", "plan to", "believe", "could" and similar terms or variations of such terms. However, these words are not the exclusive means of identifying Forward Looking Statements. As such, all or any statements pertaining to expected financial position, business strategy, plans and prospects of the Company are classified as Forward Looking Statements.

This presentation and the subsequent discussion may contain certain Forward Looking Statements with respect to the financial condition, results of operations, Gross Written Premium (GWP), investment income, capital position and business of the Company. These Forward Looking Statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Table of Contents

Opening Remarks

Mr. Ramesh Schaffter:

This year, we feel like we have been just born. The segregation of branches has taken place and we are on the threshold of another leap forward, 25 years after starting business as the only dedicated life insurance at that time. Just like the rest of the country the insurance industry had a setback in the, first half, mainly due to the events of Easter Sunday, and we had a growth that slipped from its usual double digits to 9.4%, still not bad, but 9.4% being a little lower than the first half of last year. But the good news is that Janashakthi Insurance has forged ahead. The first half they had seen a growth of 20% to top line GWP from 20% to 1.74 billion. Net income also grew by 30% and our other revenues grew by 45%. So, it has been a good half year for Janashakthi. We are still in the process of fully establishing our branch network, we are still in the process of building on our strategic plan which we adopted at the end of last year, you know the background, you know that life and general were split in to two arms and that general was disposed of and amalgamated with Allianz. So Janashakthi Insurance today is a stand-alone life business back where it started 25 years ago. This month is in fact particularly significant because we celebrate our 25th anniversary or mark it on the 15th of September and to tell you more about its performance and its future prospects I now invite Mr. Jude Fernando, Chief Executive Officer to take you through the first half's performance.

Investor Presentation

Economic and Industry Outlook: Slide 2-6

Mr. Jude Fernando:

Thank you, Ramesh. Good Afternoon everyone. I am going to take you through the performance of Janashakthis' first half of this year, but before I get into the performance of the organization I am going to very briefly touch upon the economic and the industry outlook so far this year. We all know that the business confidence index and the consumer confidence index is something which none of us are really happy about, I am sure all of us would like to see these graphs going up and certainly not coming down. So, this is something that the entire business community and the consumers are hoping to see. An upward trend.

The impact of the Easter Sunday, a very unfortunate incident is impacting every single industry of this country. I am sure you would have seen the performance of which is published so far and most of the industries are having a significant impact. Life insurance or to that matter the entire insurance industry also wasn't spared. Life insurance industry had somewhat okay performance but you know the general feeling was, in fact after the incident a lot of people called and asked, and something most of you had asked was, "will this have a positive impact because this uncertainty of life is perhaps now pretty obvious and its now to all of us, so will that have an impact to the positive?". And I must say actually it didn't. Perhaps due to the reason that maybe the people felt is a lot to do with many other factors, than the uncertainty of life so it didn't have an impact in fact it had a negative impact as you can see the entire life insurance industry continued to go down in terms of performance, 5.7% as at the end of Q1. But what you see in this second graph is the life insurance industry although it in 2018 it had somewhat relatively a stable growth. It dipped to 9% in the first quarter and in second quarter both remained somewhat around 9.4%, 9.5% for the life insurance industry.

This is how the players in the life insurance industry perform, what you see in yellow bar is the performance of Janashakthi Insurance PLC and what you see in the other bars are basically the other players which we have not named. As you can see the first quarter of performance though its 9.4% even the growth of the entire industry came up because of a few players actually recording quite impressive growth. We are second in terms of growth in terms of the GWP, we are at 20%. There is a player who has done much better that of 26% and then you have others who have not done quite so well as well. Though the industry is still having a 9.5% growth it actually came from a few players who influenced that growth for the industry.

Performance Update: Slide 8

Looking at our performance a lot more in detail GWP went up from Rs. 1.4 billion to Rs. 1.7 billion and as a result net income went up to Rs. 2.8 billion. We recorded a profit after tax of Rs. 236 million and our ROE is at 12.2% and of course our capital to asset ratio is at 35%.

Gross Written Premium and Net Income: Slide 9

Then you go into details of this now, as Ramesh mentioned, GWP actually had quite a decent growth, 20% which is very important because for us our life insurance, in the past we had, we were quite you know competitive and we were doing well in our general business that is where, we were doing well so our GWP was growing ahead of the industry. So this is something which we have been planning for and we are quite keen and happy to see that it is really growing at 20% and being one of the leading players who influenced the growth of the insurance industry and the life insurance industry as well. As a result, net income also grew as a result of GWP increase and of course due to the increase in investment income. Let me go back as to what happened, see, the reason for the 20% growth for which I am sure you would like to know is that two reasons in fact is that is the first investor presentation we did mention the fact that we are actually looking at the entire sales force. We created a B2B sales force which has actually resulted in bringing in quite a good growth into the organization. We also focus on certain incentive packages that resulted in focusing, getting the sales force to be more productive and as a result of being productive, they have been handsomely compensated in terms of rewards, so that plus many other initiatives that we have launched during the year that resulted in us being able to achieve a significant GWP growth.

Customer Retention and New Business: Slide 10

Now persistency of course had a bit of an issue in the first half of this year, but as at the numbers that were shown end of last month which was yesterday, actually numbers has come back again to 61% something certainly we would like to see improving. Because if we are to grow and sustain the growth the quality of business that we bring in is also important. Good thing is about the improvement in the new business, so for us since our base is not so great, we need to ensure that our growth basically comes from the new business and that's something that you can see in the graph. New business growth is quite significant for us and which resulted in having quite a good 20% growth. We continue to focus on the sales. It is not basically the sales centric approach to the organization the whole purpose of everyone in the organization is one way or the other to directly facilitate sales, they have a whole lot of KPI's being filled even to the other department to ensure that their effort is actually compliment and facilitate the sales force so there are many other initiatives that we have brought in to the organization to improve our focus on sales and hopefully this momentum will continue to the future.

Profitability: Slide 11

In terms of ROE it is 2.7% negative but I must say which we have indicated here, the last year had an impact because, as Ramesh mentioned, last year we went through a change disposing the Janashakthi General business that resulted in quite a significant one-off expense being incurred. The profitability, profit after tax, again the main reason is that one-off expense, if you take that off, the profit was something like Rs. 300 million plus, so in that sense the performance this year is somewhat good but there have been reasons. Ramesh's remarks mentioned that, though we are 25 years old company, it is actually we have just born. In fact, that was the case because when we started the life insurance business after disposing the general arm, we had to start all over again. We had to start our own branch network, we had to move into our new head office. So basically, it is like starting the entire business all over again although we have a 25-year history behind us. I am sure all of us is when you set up, there is always a set up cost, when you start something new there is a huge cost element and also the advantage the scale. So that is one of the reasons even from the accountancy perspective, the administrative expenses have significantly gone up, recently. So our challenge is as much as possible to bring that cost down, also to ensure that it have a higher base to absorb that increase in cost.

Investment portfolio and yield: Slide 12

Going into the investment portfolio 17th of, we had a Rs. 17.9 billion portfolio increased to Rs. 18.5 billion, can see the composition not made significant change during the period. But nevertheless, the yield was 8.46% at the last year that has improved 9.74%. So that there is quite a healthy improvement in investment yields, which is also contributing to the bottom line of the organization. Yes, the unit trust and corporate bonds has risen, and had influenced the increase in the yields but going forward we have certain other initiatives. This yield curve, although I know the rates are coming down, I think we will see further improvements at least be ahead of the industry, in terms of yields that is recorded in investments.

Product Mix: Slide 13

Product mix, you can see that there is some sort of a shift in the product mix from endowment products to universal products and group products. Now, there are reasons, one is you can see the investment product portfolio has changed, the reason is, actually there is perhaps a bit of a change in the way the consumers also look at it, they would like to look at an investment product. We are not as an insurance industry, we are actually not competing with insurance industry alone, we are in fact competing in financial services because consumers do not necessarily look at protection as the core reason for obtaining life insurance policy. If it is a protection then of course you know the entire basis how we look at it will significantly change. But people want to see the end of the period, end of the term of the policy that he actually gets a significant return to his hand. Of course, if something happens to the life the insurance policy would come into place, but they would put a lot more weight to the saving element, not necessarily a lot of weight being put on to the life protection elements.

So that shifting change is also something we see, which resulted in our investment portfolio rather universal life portfolio moving from 42% in the last year to 46% and somewhat reduction in the endowment product. Group policies, group contribution has moved from 15% to 19%. Now, as I mentioned earlier the formation of a B2B line has resulted in contributing to its growth, something that we continue to focus on, something that we will continue to develop into the future because B2B or corporate sector, has a lot more potential not necessarily being competing with others or what everyone else is doing, not necessarily coming into group insurance policy, but perhaps coming with something which is innovative, coming with something which perhaps the market has not looked at before and then seeing whether you can jointly go into that and hopefully within a month or two you may get some of those new products coming in to market and you will see that some products which perhaps was not in the market before coming through us, so that's the, that's kind of the focus that you want to have for B2B business and the corporate business to move on, so that resulted in the growth of group business from 15% going up to 19%.

So, 20% growth is basically the contribution also can be seen increasing and of course the more important one is the first-year premium going back to 45%. So that shows the amount of key business that the organization is bringing in, that of course will impact of those business that the new business coming in will be felt in the future. Because that comes on into a new basket and then will keeps on adding to the future premiums. As much as they do business contributed to this increasing first year premium, of course the growth on other portfolio specially the investment policies resulted in contributing to the first-year premium growth. And the group policies actually had a quite a significant contribution to the 45% growth.

Ratio Analysis: Slide 14

In terms of ratios, expenses can see its 53% in the first half of last year drop to 36% and net acquisition cost has also drop to 27%, so this is something as we mentioned, in the first quarter, we actually brought in lot of changes to the agency force in terms of their package incentivizing to ensure that we actually achieve a growth. Due to the controls we brought in, the acquisition cost from 30% to 27% in the first half of this year. Investment income as a percentage of GWP remained somewhat the same. Also, the investment income as a percentage of financial investment has not really seen any serious variation from the first half last year to the first half of this year. Capital adequacy ratio has moved down slightly, much higher than what is required by the regulators. The yield curve has a significant impact on the moment it fluctuates it has a huge impact on the liability portfolio and this has an impact on the regulatory ratios. So, it's more to do with the external factors. However, we are far ahead of the requirements and our capital to total asset ratio also has improved from 28% to 35%.

Key Focus Area of H1 FY2019: Slide 15-17

So, what we will really focus on is, one is we actually has to start setting up our own branch network. We had only one network for both life and general businesses in the past. So, when we had to basically move out and then we had to start setting up our own network, so, we have planned to time to set up 72, we have 62 and we have 10 more to go, which hopefully will be opened during the next two months. With that basically we have set up the branch network for all the key cities in all the economic areas of the country.

We do have some other plans to ensure that we get extended in different ways other than our branch network, like what we have now, but in a different context so that we reach out and we will be able to serve the customers a lot more closely, but of course not through huge investments.

We came up with a product called 'Live Life', and I am sure that you have head, read or seen this product which is again a totally different product focusing on life style and we are focusing on wellness. We partnered with Ayubo.Life, which is a wellness-based app, a digital company. We are shifting the focus of life insurance business, where the agent comes and you know talks to and convince someone to do, to get into a focus area, someone who really don't want to do that someone who wants to, who has more digital, tech savvy and who wants to get in and do something and more focused away from just purely trying to set some things, life insurance to life style product. So, what Ayubo.Life does is, it is a wellness-based product. Mainly, Ayubo.Life tackles digital competition and there are other benefits that they do, in terms of medical advice and so many other wellness related aspects. We package the wellness part through them and life insurance part from us and has created Life Life in a way to say "live the life, the way you want to live today". But in case there is a very unfortunate incident had happened, yes, we will step in a life insurance to look after you and financially at least assist your family and loved ones. But the whole purpose is to ensure, help you, assist you in your journey of life, the journey of wellness. So, something new. So obviously it takes time to generate interest, generate sales. But certainly, in the right direction and as the society also keeps moving on to the digital base, I'm sure this new products, or products of this nature will have a lot more promising future.

We spoke of the AVO which is the agent virtual office which we launched last year so which now pretty much running on its own. All our agents are equipped with not all but most of our agents are equipped with iPads, so with their basically completing, doing all their presentations through those and doing anything digitally. We need to ensure that our entire agent base is actually digitally equipped. But we see the benefit is in terms of servicing the customers. There are lot of benefits, because everything is done digitally so the speed, the level of information that they can get from it, all that is there. It's almost like having a personal secretary because all the information is straight there, the reminders are sent. So those facilities are there. But more importantly there is a major benefit because it stores a lot of data. So, through the mining of which we need to ensure that the data base is rich enough but I think through the mining of data we can also serve the customers far better in the future. So that a proper and a good data base is created so that we can make use of that and serve the customers better and also ensure that we are a lot more focused.

Lot of effort on all this decision making and through lot of information, lot of analytics and lot of insight, the richness coming through the AVO I think we will have a lot of more insightful decisions being taken in the future. We also started making relationships. We launched a product through Mobitel, which was just about 2 weeks ago. Quite good. Lot of inquiries are good. So, we also have Commercial Bank partnership going. Through the bank network we are reaching out to help customer base. We also have tied with virtually all digital bases. Mainly for two reasons. One is mainly for the customers to ensure that you know they daily don't interact with the agent which also had many other benefits. Other than that, also the fact that agents are also have it easy now because if your large base and if you have to go and collect from each and every customer it will take a lot of time. So, this is aggressively promoted so that the agent can actually can focus on the new business unless of course someone really wants to be connected. Also, we can continue to collect our premiums.

So that's about it. Now I will open the forum for questions and answers. Thanks.

Q&A Session

Q1: How much of your volumes go through the bank insurance channel?

Jude Fernando: Right now, our bank contribution is not very significant.

Ramesh Schaffter: Bancassurance is under the areas that Janashakthi has a lot of potential and we have established a division just to focus on bank assurance. But at present it is still kicking off. So, we have not had a lot of flow on that side but we are developing it. We've developed a specific team and we are striking up relationships. Some of those are being signed up now. And so also worldwide even in the region bankra is much bigger than Sri Lanka. And as rates come down for banks, they will look at this fee-based income. Right now, they really don't have the interest. But as they get squeezed on their interest incomes, they will start looking at other modes of generation of income and this is worldwide and places like Pakistan its very high. The bankra is very high. Even higher than India. And so, we expected a general shift towards bankra in the future but how long that will take in Sri Lanka we cannot say.

Q2: One more question regarding the declining interest rates and their impact on the insurance contract liabilities and also on the investment income how much do you expect that to come forward in the future statements because we don't see a big adjustment in the current quarter. Can you please answer that?

Thanushka Jayasundera: So obviously when the rates come down the liability portfolio goes up and it has direct impact on the capital adequacy ratios. And on the other hand, the asset values also go up when the interest rates come down. So, the mismatch what you see here is the mismatch in the maturity profiles of our assets and liability portfolios. So, we are undertaking a project right now to make sure that the mismatch is minimal and the impact on the capital adequacy ratios is more than adequate going forward.

Q3: So at least like for the year's concern is the reduction in interest rates already accounted for in the current assessment of the insurance contract liability at least in this quarter?

Thanushka Jayasundera: We can't estimate future interest rates movements through our numbers for the time being. Its discounted. The current reduction is already accounted for but any future interest rate reduction is not accounted for currently.

Q4: About current macro environment, how has the lapses been?

Prakash Schaffter: I think it's been now worse than it's been previously with accounts. The challenge that we insurers have is to continuously improve the lapse phases and we've taken quite a few measures for the last 12 months to improve it so I'm guessing that maybe part of the reason why there has been no deterioration in fact there has been a marginal improvement but nothing that I can shout about.

Q5: You spoke about the changing business mix. Could you give an idea about how the margins will be impacted by this shifting more towards the investment related products?

Jude Fernando: If you look at the margins, government products obviously have the highest followed by investments and then the groups. So that's how it gets stacked up in terms of margin ratios. So, our challenge is to ensure that we actually don't really have a skip towards one category and go on that but as I said before there is a trend, there is a shift towards internet for investment based. In fact, we also have looking at the need last year somewhere in October I think we came up with this end product that's really focusing on that. That growth will continue to happen but we need to ensure that the group portfolio will also has it does really influence the entire growth but the competition of all three is what is contributing to the growth of the organization.

Prakash Schaffter: If I may just add one pointer, the greatest benefit of the bifurcation of life in general and also the divestment of general is that we have as an entity been able to spend a far greater amount of time trying to get a greater insight in to the life business and the insight that we have gained into the business, the knowledge that we as an organization have gained is certainly going to help us in the next 2 to 3 years.

Q6: Prakash, what is your view or what's your vision on how the life cycle industry should consolidate, because we've seen some consolidation taking place on the general side?

Prakash Schaffter: If you had asked me 3 years ago, I would have said the life industry is the one which is going to consolidate. Quite the opposite has happened. Its general insurance that has consolidated. When you look at the regulatory challenges that companies face today and I don't necessarily mean the need for capital it's a complexity of understanding the regulatory changes I think life is a far more challenging than general. General is relatively straightforward, short term yield, easier to understand so the challenges from the financial aspects maybe greater. So, bearing all that in mind and more to the fact that there is a paucity of knowledge of people who can understand the business, I must say I am a little surprised that we have not had a greater move towards consolidation in the life insurance sector. Maybe it'll happen with evolving regulation, maybe it is about time.

Ramesh Schaffter: If you are referring to the speculation might have been in the market. It could be that you're looking at that last time. We put even discussions that used to be a was in progress prior to the sale of non-life, we put those on hold given that we are now focusing entirely on building it. There are a lot of changes taking place internally. Not just on the business itself but on the investment. We have a Rs. 2 billion property portfolio we are going through process of rationalizing that. As you know property yields are lesser than fixed income and we are trying to move some of those. So, while we might continue to hold some property and I think we have value on some main ones which is an increasing asset. We are looking on the disposal of some of the others. We didn't take by choice. We are also looking at some of the strategic investment holding which we are looking at rationalizing some of those.

Q7: On the life insurance business front how do you intend to differentiate from the rest of the competitors? Are you aiming at gaining shares from competitors or are you going like the industrial route?

Jude Fernando: So, if you look at the product offerings in the entire industry frankly, it said the difference is where each player will go first on a product category and you know grow that business. Now you asked the question on what ground do they really focus on that also perhaps in historical, you know the product did well, they continue to grow on that because, so each of us, all of us in the industry has a winner product and also we have same product in different names, different benefits but by and large it is the same. So, to answer the question, how do you differentiate, the differentiation actually comes from the distribution. It is not necessarily through the product. I am not necessarily saying the product offering cannot be differentiated but you cannot package it very differently. So, it is the distribution. So, there are many things you can do. One is of course internal what you can do. Second is in terms of being very reliable, trustworthy agent who does what is good for you, with proper understanding, proper analysis and then catering to that demand. And some of the journey that we take in terms of AVOs that will take us or compel our agent to go through that journey of ensuring that the right requirements are met. So, it is all I would say distribution based not necessarily the products.

Ramesh Schaffter: Also, if I can just add to what Luke said our research has shown that people buy life insurance, so essentially buy from a particular company for two reasons. Because of the sales person and the stability of the company. I think as far as that stability of the company we are extremely strong. The requirement for the capital adequacy is 120%. We are 400%. So that is not in question. The perception of the company is even stronger than that. Where we have work to be done is on the sales reps and we have to look through the right person, we need to train them the right way and get them to as Luke said come up to scratch and meet the customer expectation to actually make a difference.

Prakash Schaffter: The products offered by many companies are in many senses similar but there are different offerings which each company gives. So, while is the base maybe similar there are certain addons and tweaks which each company does and I think we should get certain products which are unique in the market. For example, our life unlimited provides life time hospitalization. On some of the products we give customers the flexibility to add personal accident, critical illness, medical insurance in any proportions that they would want. So, we do have whilst the base maybe similar, the product offerings on different products are different I would say some of our products are unique in that sense.

Q8: To what extent do you feel digital would help you in the market that is from the more standard product? For example, I think dialog has been on the very low-income base. They've been trying to sell life insurance. To what extent do you all feel at least on the more standardized products you could use digital for the marketing.

Jude Fernando: There are two ways of digital coming in. one is what I showed in my presentation which is something totally different, original platform and dedicated to a segment which has different needs so that's what well like to talk about. Second is actually just mentioned about what Dialog is doing in fact that is what we signed up with Mobitel also. There what happened, how it works is you have a very small investment. A day cover, per day investment sort of thing and them give a cover on that and also its somewhat bring flexibility into the system. For example, if I don't have money in my phone you may not be investing in n the policy today and maybe two weeks later you come in and then your cover changes. Your cover comes back. So, it gives some sort of flexibility to the customer joining. So, it attracts a consumer who may not come in to the insurance industry in the first place because of the need of the large investment. Because of the continuously every month on month having to, whatever the investment per month. Having a commitment to do that. Not in the financial strength to do that. So, it'll give you a smaller ticket cover and give you as much cover as you want. Of course, there is a standardized cover is not something tailor made to you. It's not something which is required by you. It is something stipulated by the insurance provider or the telephone provider. So, your fixed benefits, you have a fixed per day investment and a large amount of base can come in and go out of it. So, we are also doing the same thing and trying to capture into that market through Mobitel and we just launched it and it has so far been quite good.

Q9: Do you feel that in the sense is priming new customers to take on insurance, say customers who would have not considered insurance this kind of priming them to take that more stagnant product?

Jude Fernando: It simply does not. So, as I said that's because of the two investments that person, it is quite a good deal because of the base. You attract a base of the service provider. So, based on that someone who may have not thought of life insurance will get some sort of communication, will get some sort of marketing area. Sometimes these customers may not be even served by the agents.

Prakash Schaffter: I think digital is the way forward. I feel that it's going to be the main cusp of our business at this point in time and the market has not entered. But certainly, it seems the future as an organization what we need to do, we see that digital is going to continue to occupy an increasing space. So what we are doing is we are focusing some of our efforts on developing its products and to answer your question yes because our intention is to improve the penetration of insurance and if you look at it from a common sense perspective a guy buys insurance even if it is small value through the mobile phone, also over the net. He is the introduced to the concept of insurance and then it becomes far easier to induce them to purchase insurance which is the more regular standard type of insurance.

Q10: Sri Lankas life insurance penetration is low. It is fairly initial phase. And despite the industry going substantial last year and even beyond that, the life insurance GWP as a percentage GDP hasn't really moved at all. So, if you're to size how big your industry could be in the next 20 years how would you approach it. Would you look at it in a different way?

Prakash Schaffter: Well the fact that life insurance doesn't form the percentage of GDP that it should is obvious. I think that's common knowledge. For us we view it as an opportunity. So, what we are looking at is the next 3 to 5 years to see what we can do to increase the market share that we have and also to increase the overall buy in the process. So that's something which is, I mean to be honest it is not something which Janashakthi you know we can do. It requires the industry to play a far bigger role. It requires the regulator to also paly their role and also government. So, we need more forces than one which is we need to work together to ensure that there is an increased level of penetration.

Ramesh Schaffter: It is also the culture. You know the Sri Lankan culture is that they don't like to talk about death. So, they don't want to talk about protecting. I made this joke post Easter Sunday that people in the industry that actually had any upside in us because people then see the stark awareness of need for insurance. But it is because India is more financially aware and if you look at stock market participation in India its way above Sri Lanka. If you look at the existence of union tryst in India it is way more than Sri Lanka. Way older than Sri Lanka. In Sri Lanka it's only 25 years old in India it is almost 89 years old. And so, they are more aware of savings, they also have a savings mentality. Sri Lanka predominantly has been an island mentality. Party today and don't worry about tomorrow. That mindset has to change and people do become especially with nuclear families and things like that all of this will change.

Q11: Do they sell purely insurance-based products or savings-based products?

Ramesh Schaffter: See I think in Pakistan for example there a percentage of banking preference so the banks get involved in selling because the numbers of people who are bank customers are way greater than life insurance customers. So, they already have a customer profile and they can reach that. In Sri Lanka bancassurance is still relatively small even though foreign companies have also come and signed up its not where it should and products in the region are both term as well as endowment. Endowment gives the insurer a little better return but term is like your motor insurance. I'm sure if you have a car you have it anyway. If you don't meet with an accident and I'm sure you don't money is wasted but if you do it is a protection against it and so it is with term. We have term insurance products with various individuals since day one. Very often they want something back and so it's packaged and that's what Jude was saying about selling a product. It's always packaged where you get money back in 3 years, 4 years so that you see that some of the money you pay, if you live, they want something. And that can be packaged as when your child is 10 they will get this back, those are the front end marketing spins that you put on it and time it with the age profile of the child or the financial needs. With the new IFRS that comes in, my friend on m right will explain that. There will be a clear separation of the two components in the reporting. So that's why we hardly sell unit linked. Some of the other players have large volumes of unit linked and unit linked is really a fraction of insurance and an investment product.

Thanushka Jayasundera: In terms of backward economic environments and the society's perception towards life insurance, when you have overnight changes in the interest rates of 18%, 20% in Sri Lanka happening in the last 20 to 15 years and the 5 year interest rates, there is no real appetite for anyone to come and put your money in to a life insurance company as even though you know that you're going to die you might think why put the money there when I can place the money with in a deposit but now the environment is changing. We at the end of the day are a financial intermediary and we have the peep end of the balance sheet counter in comparison to the bank so when rates come down someone has to benefit and that industry is life insurance. In fact, in the next 15 to 20 years we might see the banks p and fs coming down and the life insurance growing much faster than the banks. Going forward you will see that life insurance will sell insurance primarily while any products sales as investments will be parked in the balance sheets. So, you might see that shift in insurance.

Q12: About 90% of your insurance investments are on fixed income securities. So, what will be the future? Do you have any alternative to park your money because interest rates are coming down continuously fall down with that 90%?

Ramesh Schaffter: So, when interest rates come down hopefully the stock market will start going up and so we can go 30% in the stock market.

Q13: Will you invest?

Ramesh Schaffter: We already have invested somewhat. When it becomes active as you know there is the excitement in the movement are such that it makes it well worth our while. In the past we have made 3-4 hundred million a year on capital gains. Mark to market as well as gains. So, we are poised for that. We are permitted to invest on it and we can go up to 30% of policy holders funds and we have very substantial shareholder funds as well. Property portfolio I spoke about early is in shareholders' funds. If we realize some of those properties that cash comes to us. So, it is available to us.

Q14: In India, insurance companies and directors of companies supporting the stock market. They are even protecting market but in Sri Lanka we are enjoying 15-20% interest rates.

Ramesh Schaffter: So, it works in cycles. When interest rates are high the market takes a bit of a thrashing and hopefully when interest rates come to a single digit then the market starts to go up. And then suddenly someone gets excited and things price the share so low. I Izadi this last time when some of you were here and you must be thinking I'm looking at a crystal ball. It's a no brainer. You look at the price to book of some of the life insurance and the compare it to Janashakthi. The last time we met I think the share price was 22. Today its 37. People think it's because the company is being sold but it's not. It's because the company is still less than one time and some are at three and some are at five. The sector is undervalued. You must understand how life insurance works and I'm not trying to insult any of your intelligence. There is a balance sheet net asset value and that net asset value generates return, generates profit. Then you have the life fund which on the balance sheet is a net zero. And that makes money every year. So, you have a zero-value asset on the balance sheet that generates money every year. That's a life fund so in Janashakthis' case its 4-5 hundred million. In a good year it was 8. Some of the other companies are over a billion. That is profit generation from a zero value asset on the balance sheet and that is what you need to realize so if we make a normal rate pf return on our net assets, whatever comes from the life fund is going to be a bonus and that comes and adds on top of the normal ROCE. That needs to be understood. The surplus generation is from a zero-value asset. Because you have the asset and the liability. And still every year from that zero-value asset you can squeeze a profit transfer out.

Q15: What about the branch expansion from the current 72?

Jude Fernando: First our objective is to ensure that we get the maximum amount. So, 70 will have to bring quite a large number before we start opening up more. What I mentioned is the fact that there is no real necessity to have a large physical infrastructure that helps the customers to walk in. Especially when it comes to life insurance business. So, we may look at certain other options in areas that we feel our attention is required. But not in terms of a large infrastructure. Before we move into that we need to ensure that we have quite a significant base.

End of Q&A, Closing Remarks

Ramesh Schaffter: Any other questions? Nothing at all?

You can also chat with us informally and clarify if there are any other questions. Thank you once again for being here and enjoy the rest of the evening.