ICICI Lombard General Insurance Company Limited

Q1 FY2021 Earnings Conference Call

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Moderator: Good evening, ladies and gentlemen and a very warm welcome to ICICI Lombard General Insurance Limited's Q1 FY2021 Earnings Conference Call. From the senior management, we have with us today. Mr. Bhargav Dasgupta -- M.D. & CEO of the company; Mr. Gopal Balachandran – CFO; Mr. Sanjeev Mantri -- Executive Director, Retail and Mr. Alok Agarwal – Executive Director, Wholesale. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhargav Dasgupta -- M.D. & CEO, ICICI Lombard General Insurance Limited. Thank you. And over to you sir.

Bhargav Dasgupta: Thank you and good evening, everyone and thank you for joining the Earnings Conference Call of ICICI Lombard for Q1 FY2021. I would like to give you a brief overview of the recent developments in the general insurance industry and our responses to them, post which our CFO, Mr. Gopal Balachandran will share the financial performance of the Company.

As we speak today, we are seeing rising cases of COVID-19 in the country. While that is happening and there is a level of uncertainty surrounding the pandemic that remains, various measures taken by policymakers to restart commerce and trade are showing results. As such, we believe that the complete halt of activities that we witnessed in April may be behind us and the new normal may well be about learning to live with the virus following safety protocols but ensuring a gradual return to normalcy.

At ICICI Lombard, we believe that it is important to take extra measures to support our customers in these challenging times. Forcing the difficulties arising due to the pandemic, we decided to provide some relevant covers to our customers. Accordingly, we have launched a number of COVID-19 specific health insurance products. We have also revamped our existing health insurance products by adding customer-centric features. For new customers purchasing health insurance policy, we reduced the waiting period to lodge a COVID-19 related claim from 30-days to 15-days. Considering the economic uncertainty, financial security has gained utmost significance for our customers. So, we decided to retain the cumulative bonus accumulated by customers over time even if they lodged COVID-19 related hospitalization claim. Most importantly, we added 'Home Healthcare' benefit for our customers preferring to avail treatment in the safety and comfort of their homes rather than getting hospitalized. To highlight these upgraded health insurance solutions, we have launched a new health insurance focused campaign #RestartRight. I hope all of you have seen the campaign.

During our earnings call for FY2020, we had shared with you a host of digital initiatives that we took to service our customers and enable our channel partners to conduct business. We continue to give thrust to adoption of these digital platforms in the quarter under review.

Our new Mobile Service App, "IL Take Care" that was extended to the retail customer segment crossed 1,30,000 downloads, enabling more and more customers to avail insurance and wellness solutions at their fingertips. The tele-consult feature available through this app enable customers to seek medical advice from the safe environment of their home.

In case of property segments, we harness virtual platforms and technology platforms including drones for conducting claims service remotely. For small value marine claims, we introduced a "Do It Yourself" (DIY) empowering our customers to conduct self-assessment of the damage and receive real-time claim approval from our customer service team.

For the diverse set of stakeholders including customers, investors etc., I would like to appraise you that we have begun integrating ESG principles across our businesses. Towards this, we have implemented policies and initiatives aimed at scaling up our efforts towards sustainable value creation.

Let me now talk about industry trends, in the last few weeks, we have been witnessing signs of green shoots across sectors. As more and more industries are adapting to digitization and restarting their operations, business activity should continue to grow. The non-life insurance industry which witnessed a blip in the Q1 of FY2021 should register a growth in the coming quarters we believe.

For the recently concluded quarter, the general insurance industry registered a de-growth of 4.2% in Q1 FY2021 over Q1 FY2020 with the industry GDPI moving down to Rs.393.29 billion in Q1 FY2021 from Rs.410.72 billion in Q1 FY2020. This is as per GI Council report.

Excluding the crop segment, the general insurance industry de-grew at 3.2% to Rs.378.54 billion in Q1 FY2021 as compared to Rs.391.08 billion in Q1 FY2020. Within this, the segment such as motor insurance has been severely impacted during the lockdown but they are now gaining some ground. The month of June for the segment has witnessed signs of recovery though we are still far from the long-term average.

On the other hand, health insurance has benefited from the heightened concern around the health hazard and measures taken by the government. As new health insurance policies registered an upsurge, we believe that the pandemic may well be a trigger for the segment to witness significant increase in penetration in the near future.

As far as the commercial lines are concerned, the fire segment continue to show robust growth due to the rate hike w.e.f. January 1, 2020. We have talked about this in the past. Marine and Engineering lines witness de-growth due to the slowdown in economic activity. However, as economy is steadily improving and given the digital adoption by the segment, we expect to see a rebound.

Since our FY2020 results call, we witnessed new regulatory announcements that are focused on policyholder benefits. These include first the launch of standardized health insurance policy called "Arogya Sanjeevani" w.e.f. April 1, 2020 wherein the authority has allowed insurance to determine the price on compliance with specific norms. Initially under the policy the sum insured allowed was between Rs.1 lakh to Rs.5 lakhs. Further, the authority vide circular dated July 7 allowed the insurers to issue policies with sum insured less than Rs.1 lakh and greater than Rs.5 lakhs and this has to be in multiples of Rs.50,000.

The second has been the withdrawal of the option of long-term package effective August 1, 2020. This means that new vehicle customers will not be able to avail own damage covers on long-term basis going forward. This is expected to have marginal impact on business and profitability.

The third one is allowing general and health insurance to offer both indemnity and benefit based short term health insurance policies for COVID-19. It also prescribed a standard benefit based health policy and a retail standard health policy under the nomenclature COVID Rakshak Policy for benefit and Corona Kavach Policy for indemnity respectively. While Corona Kavach Policy was mandated to be offered on or before July 10, 2020, insurers are encouraged to offer the Corona Rakshak policy by July 10, 2020.

As I conclude my address, I would like to summarize that we are well positioned to navigate through this dynamically changing risk environment given the strength of our franchise, diversified product and distribution portfolio and most importantly the trust of our customers. We continue to remain focused on creating long-term value for our shareholders through prudent risk selection and sustained profitability.

I will now request Gopal to take you through the financial numbers of the recently concluded quarter.

Gopal Balachandran: Thanks, Bhargav, and good evening everyone. Hope everyone is staying safe and healthy. I will now give you a brief overview of the financial performance of the company for the quarter ended June 30, 2020. We have put up the results presentation on our website. You can access it as we walk you through the performance numbers. Gross direct premium income of the company stood at Rs.33.02 billion in Q1 FY2021 as compared to Rs.34.87 billion in Q1 FY2020, a de-growth of 5.3%. Excluding crop segment, our GDPI decreased to Rs.32.74 billion in Q1 FY2021 as compared to Rs.34.88 billion in Q1 FY2020, registering a de-growth of 6.2%. Our GDPI growth was primarily driven by our focus on preferred segments. Consequent to the increase in minimum prescribed rates for certain occupancies under fire segment, this segment registered a robust GDPI growth of 41.6% in Q1 FY2021, thereby aiding the GDPI growth of our Property & Casualty segment. As indicated in our Results Presentation, the overall Property & Casualty segment grew by 20.5% in Q1 FY2021 over Q1 FY2020.

On the Retail side of the business, SME & Agency channel and Health indemnity continue to grow faster and remain our areas of focus. To harness the potential of these segments, we have been expanding our distribution network so as to increase penetration in tier-3 and tier-4 cities. Our individual agent which includes the point-of-sale distribution were 49,802 as at June 30, 2020 as against 47,548 as on March 31, 2020. The long-term motor penetration for Private Cars stood at 19.8% for Q1 FY2021 from 17.0% in Q1 FY2020. And for Two Wheelers, it stood at 11.3% for Q1 FY2021 from 17.5% in Q1 FY2020. The advance premium was Rs. 30.31 billion as at June 30, 2020 from Rs. 30.25 billion as at March 31, 2020. Combined ratio stood at 99.7% in Q1 FY2021 as compared to 100.4% in Q1 FY2020. Combined ratio was 98.4% in Q1 FY2021 excluding the impact of cyclones Amphan and Nisarga which has an impact of Rs.0.31 billion as compared to 99.7% in Q1 FY2020 excluding the impact of cyclone Fani which had an impact of Rs 0.16 billion.

Our investment assets rose to Rs. 281.18 billion at June 30, 2020 as compared to Rs.263.27 billion at March 31, 2020. Our investment leverage (net of borrowings) was 4.23x at June 30, 2020 as compared to 4.21x at March 31, 2020. Investment income decreased to Rs. 4.99 billion in Q1 FY2021 compared to Rs. 5.27 billion in Q1 FY2020 mainly on account of lower capital gains. Our capital gains was lower by 56.1% at Rs.0.60 billion in Q1 FY2021 compared to Rs.1.38 billion in Q1 FY2020. Our profit before tax grew by 11.7% to Rs. 5.31 billion in Q1 FY2021 compared to Rs. 4.75 billion in Q1 FY2020 on account of lower capital gains. Consequently, profit after tax grew by 28.5% to Rs. 3.98 billion in Q1 FY2021 as against Rs. 3.10 billion in Q1 FY2020, primarily due to the lower effective tax rate of 25.03%. Return on Average Equity was 25.1% for Q1 FY2021 as compared to 23.0% for Q1 FY2020. Solvency ratio was 2.5x at June 30, 2020 as against 2.17x at March 31, 2020, which continued to be higher than the minimum regulatory requirement of 1.5x.

As I conclude my address, I would like to reiterate that we ended Q1 FY2021 with a diversified product portfolio and healthy financials. We continue to focus on prudent underwriting, technological prowess and introducing relevant and timely risk management solutions for our customers. We will stay focused on driving long term growth in a sustainable manner.

I would like to thank you all for attending this earnings conference call and we would be happy to take any specific questions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: Hi. Good Evening everyone, Bhargav, I am seeing after a long time that you have had an underwriting profit. Now if I have a closer look, there have been good claims as well as expense management. How much of this is sustainable? Has it got to do with the fact that the lockdowns have been there and therefore the claims have been lower or work from home has resulted in lower expenses? Just something more qualitative that you can share on the overall claim as well as expense management? The second question is the retail indemnity of course has done very well. Again any anecdotal evidence or qualitative feedback from the corporates? Are they really going for a more of these group policy or people are taking more retail indemnity-based products, that is something which we would like to know. And finally the motor OD and third-party loss ratios have actually gone down quite substantially whereas fire, marine and engineering have picked up. Is it just a seasonal thing or maybe something got it do with some event which has occurred in this particular quarter?

Bhargav Dasgupta: So let me address the third one first, it is a short response so let me get it done with. This quarter we had the cyclone losses that Gopal talked about and one or two marine losses, non-cyclone related. And as you know these businesses are episodic. It could be that in a certain quarter you will see a loss will go up. But on an average for the year is what we look at these numbers. So as I said, there will be quarterly volatility, does not really concern us in that sense. We would look at what is the picture over the whole year and cyclone Amphan particularly had some impact. In terms of the underwriting number and the sustainability thereof, look, there has been obviously some benefit on the claims side this quarter in terms of frequencies coming down. And if you look at different segments, this is in line with what we talked about in May when we doing the last year's earnings call, we had said that we would expect and we were seeing some reduction in frequency in the motor side. We had also talked about the frequency reduction in the health side when it came to the planned surgery cases. Now as you understand at this point in time unless you really need to go to a hospital, no one would want to go to a hospital. So these are benefits that has come through. And we also said that we will see some of these going up as things stabilize and it normalizes. So for example, in health, while there have been a benefit in the quarter, our approach to reserving and actuarial practices are a bit conservative. We do worry about COVID claims going up as we speak. So we would not want to take the full benefit of the reduced frequency in the first quarter and then end up having to have a very high frequency in the last quarter. So we would want to watch this for a whole year period and then take a call on what is the appropriate loss for the year. So there is some benefit but it is not entirely kind of factored in the first quarter numbers. In terms of cost, look, obviously, like every company we are looking at all in a sense unnecessary costs that we can cut down upon. These are some obvious areas which everyone would be doing. But certain areas where we believe it makes sense to invest, we are actually investing. So one, as a company, we have actually given increment to our people. We had given performance bonus in the first quarter. Today in the board meeting we have decided on the increments for people. And we are seeing opportunity in this at this point in time for the long-term because we believe we can see this as an opportunity to invest for the future. So, there would be a possibility that we may even increase our headcount going ahead. So the savings on the fixed cost is not on the employees' side and employees cost are biggest cost element. So savings would be in terms of other areas of cost that we can contain. And do remember that for us the sourcing cost is a large part of the cost. So, if we have lower retail numbers in a period, the sourcing cost is also low for that quarter. And lastly on technology, we have decided to increase our technology budget and invest more. And the experience that we have had in this period in the long term we believe we will take some positives out of this in terms of the way we work, the way we operate, how much we work from home, how much flexibility we provide, how much of further investment in digitization we are at a certain level related to the market but still we believe this is the time to keep investing and stay ahead of the curve. And that is an area where we are further seeing how we can invest. To your second question in terms of indemnity, yes, you are right, I mean as I said in the opening remarks also I made the point that there is higher demand for indemnity both from the corporate and even more from the retail side. If you see our overall health book, there is a corporate segment, there is a B2B2C segment which is business that we source through our bancassurance partners. It is fundamentally retail but it gets classified under group because it is B2B2C. And third is a pure B2C which is retail indemnity that we sell largely through agents, etc. Retail indemnity business has done really well. But the B2B2C obviously because banks are not disbursing as much as they were in the past, that has de-grown. So on balance, we are quite happy with the health opportunity and the growth that we are seeing at this point in time. And we believe it is potentially a step change in terms of demand for health insurance in the long term. And one of the things that we are seeing is not just new customers, we are also seeing existing customers ask for sum insured increase.

Suresh Ganapathy: And there is a good demand for the standardised health products, right?

Bhargav Dasgupta: It is just recently launched. We think it will have a decent demand in certain segments of the market. I think it is a good product that the regulator has launched. It would probably increase penetration in segments which otherwise were not buying health insurance.

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

Shreya Shivani: Sir, I was going through the slide which talks about the impact of catastrophic event. And we know that for general insurers there is a catastrophic trigger that activates after certain level you will actually have that catastrophic bonds which will get triggered. So, can you throw some light on since we had certain cyclones and floods this quarter and also with COVID-19 going on, if you can really talk about how are we managing the losses in the catastrophe that is going around and how close or far are we from which will trigger the catastrophic bond?

Bhargav Dasgupta: These are not catastrophic bond, these are cat reinsurance that we buy, every insurance company buys. And it triggers not in a sense that you have to accumulate losses for the year and then it triggers. It is an even best trigger. So when a cyclone happens, if the aggregate losses cross that threshold that we buy the cover from, then the reinsurers pay then, we have to spend a little bit of money which is pre-agreed to reinstate that cover. So basically what it does is very large cat losses, our balance sheet is protected and we pay a fee to buy that protection. It is almost like you are buying motor insurance for your motorcar. It is like our book that we are protecting through a reinsurance cover. It is not a cat bond.

And in terms of specifics of what has happened, so even this year when the Amphan happens, aggregate claims maybe X, In fact that has slightly gone above our trigger threshold. So it will trigger and we will get some return from the reinsurer and all of that is actually factored into the quarterly numbers that you see. Gopal, do you want to add anything?

Gopal Balachandran: I think the only thing that I will just add is in line with what we have communicated, the trigger point for a catastrophic loss in terms of what is the hit we take on the P&L that number is at about Rs. 25 crores. So that is the maximum hit that we take in the event of any catastrophic event that arises. And over and above that as Bhargav explained obviously depending on the extent of recovery that we make on the reinsurance program, we will obviously have to pay the reinstatement cost. Insofar as Cyclone Amphan is concerned, the extent of losses that came and hit on the net is in excess of the Rs. 25 crores threshold. So to that extent, our claims is impacted by Rs.25 crores and the excess will be paid by the reinsurers. And insofar as Cyclone Nisarga is concerned, that has not had a large impact insofar as our claim numbers are concerned. In the aggregate, as we mentioned as a part of the opening remarks, both of these events put together on the claims we have had an impact of about Rs. 31 crores.

Moderator: Thank you. The next question is from the line of Ajox Frederick from B&K Securities. Please go ahead.

Ajox Frederick: My question is regarding health. What strategies are we adopting to utilize this big opportunity that is out there? And two is the comparative slowdown, is it because of banks slowing down and what portion of our business is coming through banks particularly the retail indemnity. So that is on health segment sir.

Bhargav Dasgupta: I will ask Sanjeev to expand on this. The answer to the second part is yes, as I said, because we have a larger part of our health distribution and these are not necessarily indemnity, this includes retail benefit products. And since we traditionally have a larger footprint from the bancassurance partnership side on the retail health, the impact on health for us has been pretty severe in that end. Just to give you a sense, last year we had roughly about 68% of our retail business. This retail includes pure retail as also the B2B2C that I talked about. 68% of the business that we got from these kind of partnerships and 32% was pure direct one-to-one on sales. That number for the industry will be very different. It will be probably very high for one-on-one sales and very low from bancasurrance. So that definitely has had some impact for us this quarter. But within that, the agency piece which is individual sales, that has done really well for us and while it will not cover up the gap on the bancassurance side, but it has relatively outperformed is our view of what has happened on the market. In terms of the strategy, there are multiple levers of strategy. One, of course, is the whole focus on product and distribution. And you have seen a whole host of products that we have launched recently. One of the things that we have been doing for the last two years is significantly expanding on our agency distribution. As I said bancassurance is already strong and there has been some regulatory changes in about three, four years back which has also triggered this initiative from our side. There are certain constraints that have gone away for us and that is something that we are driving. The other thing that we are also doing is the entire approach that we are taking on health segment, is to say that we are not just focusing on pure sickness insurance where you go to a hospital and we reimburse the claim, we are thinking through with a very customer-centric point of view in terms of what all do you really worry about as an individual and can we find solutions to each one of them. So one of them being why just hospitalization? Why cannot we cover outpatient care? And for group customers and B2B2C customers we have launched OPD covers last year. That was doing quite well. The bancassurance as I said has gone a bit slow this quarter. So that is one, for example. And there, we have worked with network of partners, digital health players, tele health companies, wellness service companies. And all of these is being provided on a digital platform. It is an app which we call, “IL Take Care,” I talked about that in my opening remarks. In the long-term also we wanted to drive this digital health. But in this period, that was obviously something that we kind of scaled up, included home healthcare because at this point in time, no one wants to go to a hospital. But that does not mean our customers should suffer. So, we have actually tied up with service providers to provide home care for our customers for COVID or non-COVID cases both. So these are very-very first in the market kind of initiatives that we have already launched. And we believe the long-term that we have to look at a complete healthcare service for a customer rather than just IPD which as of now most of the market just focuses on. Sanjeev, you want to add anything?

Sanjeev Mantri: No, I think pretty much well covered. One of the key things that we have also seen in the customers on the retail side, in particular, in the indemnity part have started looking at having health policy both from an investment standpoint rather than an expense mentality. So, one of the few things which is changing and helping us on ground also to drive on indemnity front. Benefit, I think as Bhargav also mentioned will build up as and when disbursements come in because benefit traditionally is more of an asset protection base cover which will happen as we see our banking partners and our NBFCs progressively start disbursing more. Each one of them is I think till at least last month getting their credit strategy in place and we would probably see a relatively better Q2 than what has happened in Q1 on that.

Ajox Frederick: Just a point on the loss ratios of health, so compared to Q4 we saw it slightly deteriorating like 72%, 75%. So how should that impact sir?

Gopal Balachandran: So Ajox, what happens is loss ratio is purely a function of what mix of business that you write. And as we have kind of explained, in terms of corporate generally tends to have a relatively higher loss ratios as compared to let us say the extent of loss ratios that you will get to see on the retail indemnity portion, so that is one. The second element is with respect to when you look at health, health also includes the retail benefit component. And in this quarter, the benefit portfolio contribution is relatively far lower. And generally benefit is a profitable book. On the aggregate, when you look at the overall loss ratios, for health, Q4 was roughly at about 84.8%, Q1 of this year is at 85.7%. In that sense, it is not a material movement in terms of the overall numbers. It is purely a function of what mix of business that you write. Q1 generally tends to be far more heavy in terms of corporate because bulk of the corporates tend to renew their policies and Q4 generally tends to be more relatively skewed in terms of retail where the general loss experience of the retail indemnity book is lower. It is purely a function of the mix of business that you write.

Bhargav Dasgupta: And just to add one more point while you should not look at just the loss ratio because the expenses are different across these two categories. The B2B, the pure corporate business, where we cover employees, the distribution cost is relatively less. Pure retail, the distribution cost is higher. So, when we look at the business, we look at in aggregate the combined ratio.

Ajox Frederick: Arogya Sanjeevani, do you think that portion will grow substantially? Do you think that makes more money for you or your pure play products are making more money structurally speaking going forward?

Bhargav Dasgupta: What we have done is we have kind of segmented the market, we believe that there is a segment of market which today was not buying the traditional covers or typical mediclaim policies that we sell-through our retail agency force because may be it is expensive, may be each one of us have our own terms and conditions, so may be it was getting too complex for the retail customers. So, the whole thought process behind this from the regulator was to have a very standardized product. So there is no dissonance or gradually at least. The hope is that there would not be any dissonance in terms of understanding of what you bought. So if you got a standard Arogya Sanjeevani product from insurer-A versus insurer-B, there is no difference. And we strongly support this thought process because we believe in the long-term in a very underpenetrated market like India, it is important to build credibility on the product. And in a product like insurance, if you have too much variation while it is fine for maybe slightly more sophisticated customers, for new customers, it is good to have a basic product that they understand easily. So we believe it will open up a market for that segment of customers. Also geographically, and in terms of income profile, because these are slightly restricted covers, it is not as full blown as some of the other covers that we have, so it is slightly cheaper. So, we expect a certain segment of customers wanting to buy this. Now profitability will depend on whether we have done the segmentation right and whether we are actually bringing new customers to the book rather than cannibalizing our existing customers. That is something that we have to watch very-very closely. But we believe in the long-term, this is a very positive development. It will depend on the execution in terms of whether we actually get the benefit.

Moderator: Thank you. The next question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead.

Madhukar Ladha: Sir, can you give us some color on how renewals in motor have behaved during the lockdown? Are we seeing similar levels in TP and in OD separately and are we seeing lapses happen, some color over there will be helpful?

Bhargav Dasgupta: Yes, I think we talked about the fact that in April, the renewals were slightly down given the leeway that was given by the regulator to renew if customers wanted with a lag. That was not surprising and also given what was happening on the ground. What we had anticipated was that people will come back and renew a bit later. So the renewal rates for T plus 1… when I say T is what people who renew within the same month versus people who renew in the next month or renew in the next month after that, those percentages have gone up. So, in a sense, we have kind of been recovering the reduction in renewal rates that we saw in the April and this is increasing every month. Sanjeev, you want to give any more color to that?

Sanjeev Mantri: No, no, absolutely right. So vis-à-vis what happened in April, the gap for delta was almost 12-15%. If we talk about June exit, it is pretty much close to what we had pre-COVID level in terms of renewals. Still marginally less, but nothing much to worry about and we do believe that we will have a decent renewal because a lot more mobility has also started across the country and consequent to that people who actually deferred it in the month of April and May should come back and seek renewal. So, we are pretty much sorted on that. And there was a dispensation from the regulator till May 15th and thereabouts. And after that these customers are certainly renewing. So we do not see any challenge on private car and TP any which way for the new stock that was sold last year, has a long-term duration. So any which way the customer has been having along the policy on that.

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

Prateek Poddar: You have written a crop this year, I mean, it is very small, I understand 1%. But maybe just the thought process, are you seeing the rates have hardened and that is why you have written crop?

Bhargav Dasgupta: It is just an old policy because the data comes in with a lag from the government at times. We have not written anything new.

Prateek Poddar: Secondly, on health insurance, you talked about that COVID could be an inflection point for selling of health products. But if I look at the mix, it is skewed towards B2B rather than B2B2C. So, may be some thought process as to why it is that in Q1 because I would have assumed Q1 the share would have been the highest and hence the pull demand should have been the highest. But a bit surprised and I saw that the individual numbers are flat on YoY basis when it comes to the mix.

Sanjeev Mantri: So with respect to Q1 being highest, I think sequentially, the demand is picking up when the lockdown came in which was at a very sharp level. At that point of time, I think even the consumers were kind of discovering themselves. So, from that perspective, now the demand is picking up. Even if you look at it internationally, China, most of the growth in indemnity health-based products has happened post the COVID crisis getting over. So, we do believe that we are also having a similar pattern when it comes to demand for this product coming up.

Bhargav Dasgupta: Just to add to what Sanjeev was saying, April was slow because as he explained, everyone was probably thinking of other issues. June, retail health numbers have been very-very robust for us and we believe for the industry as well.

Prateek Poddar: So the exit would have been higher than what it would be for the quarter average, right, is that a fair understanding, sir?

Bhargav Dasgupta: Yes.

Sanjeev Mantri: Absolutely. Just to give a small indication, even Q4 which typically has the highest level of agency partners being active, what we have seen has happened in the month of June in particular, is numbers are higher than Jan, Feb, March month agency activation numbers. So we are seeing a very-very robust growth. And these measures as Bhargav explained in terms of what we have done has also helped in market where we are approaching ICICI Lombard products.

Gopal Balachandran: Just to add on to that, Prateek, I think if you look at the June exit, while you would have seen the Q1 new indemnity growth rate at 26%, if you look at the exit for the month of June, the new indemnity growth has actually been about 77%.

Prateek Poddar: Just within this employer-employee, because there was one regulation in between wherein every company had to take this COVID policy or had to cover its employees for the COVID-related disease. So, is it because of that you are seeing a spike? And within this, what is the mix between large corporate, mid or SMEs if you can give that, that would be really helpful?

Bhargav Dasgupta: That was MHA, but it is not getting followed through. That may have had some initial spike, but now that is not the factor. In terms of mix, Gopal, you want to answer?

Gopal Balachandran: Largely, Prateek, what we have always said is we have tried to keep the portfolio as granular as what we can. Our approach pretty much remains the same on the B2B part of the business. So in that sense, in terms of the overall mix, the portfolio of large corporates will tend to be much lower than the SME portfolio that we write. So for example, if you would have seen the SME segment continues to kind of grow robust on an aggregate basis, not specific to health if you would have looked at, that has grown at about 30%. But the portfolio mix is more skewed towards relatively small and mid-corporate accounts as compared to large corporate accounts that we would have written.

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

Sanketh Godha: Just again hopping on the health point. So if I look at absolute numbers, individual health care business classified in your presentation, that has seen a decline, but we say that the new indemnity has grown by 26%. Sir, I just wanted to understand, how do I add up the numbers, because the group others where I believe B2B2C sits that contribution has also come off. So really trying to tie the numbers, why the retail health numbers, those are new indemnity has grown up, but the absolute number is definitely still growing for us. So that is first question. And second question is largely with respect to the motor TP loss ratio which is at around 70 percentage right now. Do you think this loss ratio is sustainable because 70 percentage looks to be too good? And despite our two wheeler contribution in coming off a bit in first quarter compared to what it was for the full year of last year and last quarter of the same year. So even if the mix is moving in favor of other products, severity or intensity are higher, the loss ratio in motor TP has improved. So just wanted to understand that point.

Bhargav Dasgupta: So I will ask Gopal to answer the first question on the health. On the motor TP side, as we have discussed many times, what we should look at is the number for the whole year rather than just a quarter number. We may have had some benefits in terms of a quarter some releases here or the fact that frequency was lower in this quarter. So, you should watch the number for the whole year. Having said that, overall the trend in the TP side is pretty positive. We are seeing frequency drop sustaining. In terms of mix that you said, the mix is not deteriorated, similar, in fact, our CV book mix has come to about 14-15%. Two wheeler is about 27% still. Actually, private car has increased in the mix. But as we have said since last quarter, we are actually gradually increasing our CV exposure a bit again cautiously because we are seeing some opportunities given underlying changes in behavior. So, on TP, we are feeling reasonably comfortable. There may be some volatility in loss ratios in a particular quarter vis-à-vis another quarter, but on balance I think we are reasonably happy with the TP book that we write. The industry situation, we cannot comment. The issue is the same that I said, right, B2B2C, which is through the bancassurance has come down which we have not been able to compensate that with the retail indemnity growth that we sell-through agents in spite of the numbers that Gopal talked about. But Gopal, do you want to give more color to that.

Gopal Balachandran: Sanketh, if you look at the total retail book in terms of health, for Q1 last year, that number was roughly about Rs 3.4 billion. This includes both benefit as well as indemnity put together. This quarter that number is down to about Rs 2.2 billion. Now obviously, a large part of this decline is contributed by the number that Bhargav spoke about in terms of benefit portfolio clearly having a significant decline. So far as the Indemnity segment is concerned, within retail, that number has actually increased from Rs. 1.47 billion to Rs.1.82 billion. So that is actually an increase of 23%. This is the aggregate retail health indemnity. Within that is what we mentioned about the new retail indemnity growth was 25% for Q1 and for the exit month of June, new retail health indemnity was 77%.

Sanketh Godha: But Gopal, just to clarify, when I do the numbers when you have given in the presentation, 19.5% as individual, and 20.1% in the current year, the number comes to the individual health at Rs.1.7 billion and Rs.1.6 billion for last year and the current year respectively. So I see a decline around of 9% . So still I am not able to figure it out that Rs.1.5 billion and Rs.1.8 billion what you are trying to say that does not get reflected in the numbers which you have disclosed in the presentation.

Gopal Balachandran: When you look at the presentation, what happens is, obviously there is some element of indemnity that goes and sits as a part of retail which is the number that you would look at. And equally, there will be some element of indemnity business that will sit as a part of group others which is where I kind of gave the breakup for you. In terms of aggregate indemnity book, that number has increased from as I said Rs.1.5 billion to about Rs.1.82 billion.

Moderator: Thank you. The next question is from the line of Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra: I had two points; one is with respect to the claims fee especially on motor, what has been our reserving policy from prior period especially on TP between March 31 and June 30, has there been a revision in terms of assessment of actuarial base that we have there? The second one is on the fair value account piece. If I remember correctly, for the quarter ending March, I think we have taken some sort of impairment with respect to equity book. What has been the stance given recovery in market in quarter ending June –has it reversed because I could not see that clearly from the financials, I could see a change in fair value account, but I could not see whether it was done to a reversal of impairment or is it through the fair value changes?

Bhargav Dasgupta: So this reversal of impairment, no, we have not done any. Yes, we had done impairment because of the sharp correction in the month of March. Things have recovered, but we have not done a reversal of impairment. We normally do not do that. We believe that is slightly aggressive in approach. So we do not do that. Whenever we sell the particular stock, theoretically, yes, we could, but we generally do not do that. In terms of the reserving policy, there is no change in the policy. It is the same thing which basically every quarter, in fact, as I have been sharing every month, our actuarial underwriting finance, sales, all of us sit together and look at the book which are the books which we believe makes sense to focus on, etc. But on the reserving side, the actuary looks at numbers on a quarterly basis. And basis his assessment, if we believe that there is somewhere we need to strengthen something, somewhere the data is compelling that we have to release, we do the release. So, it could be there in a certain quarter. It is not as if everything happens at the end of the year. It could be that in certain quarter, certain line.

Nishant Chandra: Because if there has been a release in motor TP, given that it is a quarterly number that we are seeing now and it could potentially be spread over the full year, then 70% is not clearly extendable thing. So the steady-state is somewhere far higher of 70%, but there has been a release which is pulling that down to 70% is how I interpret it.

Bhargav Dasgupta: As I explained earlier, the releases need not be spread over the whole year, equally, in terms of the frequency drops that we have seen, we have also not been over-aggressive in booking all of those for the reasons that I articulated because we want to watch the claims pattern over the year and then take a call for the year.

Nishant Chandra: If I look at the table in the appendix of the presentation, my understanding is that the releases all pertain to FY2019 and before and not for FY2020. So I just wanted to understand if my understanding is correct.

Gopal Balachandran: So what happens, Nishant in so far as loss experiences are concerned, it is purely a function of the loss development that we get to see across portfolios. As we have explained earlier, in respect of short tail lines, the releases tends to be much faster and in respect of some of the long tail lines, obviously, we wait for certain periods of development before which we can take a call on the reserving numbers. So what you get to see is purely a function of most of the short tail lines that we would have written and then of course if basis development, even in the long tail lines if we get to see a need for reserving to be relatively lower, then to that extent one would calibrate the reserves accordingly.

Bhargav Dasgupta: But FY2020 is too near for that to happen.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: Just following up on the previous question and maybe specifically on motor OD, because of the country has been lockdown for almost two months and partial lockdowns for the rest of the June as well, just wanted to understand, clearly, the number of claims that would have come on motor OD would be substantially lower. But what we see in terms of claim ratios, the improvement is not that stark. So, are we like provisioning for claims not reported or any of that sort in terms of smoothing of how the claim ratios play out for the rest of the year because I am assuming it is unlike TP, it is a 12-month thing and if claims have not come in three months, then at least for that quarter, the number should have been much better?

Bhargav Dasgupta: Rishi, it is the same philosophy. As I said in one of the questions, one could take the full benefit in a quarter, but we do not believe that is prudent because we also talked about it in May and I just repeat the point that we believe that people will use vehicles a bit more when they have to rather than using public transport. So you do not want to have a situation where you take the full benefit in a quarter and then towards the latter half of the year your frequency goes up sharply and you see a huge swing. So I think it is appropriate to watch the number for the year rather than take full benefit in a quarter.

Rishi Jhunjhunwala: You have provided for more in this quarter.

Bhargav Dasgupta: We do actuarial estimate which is a ULR estimate and then ULR estimate is using data over a long period of time. One blip may not immediately impact the ULR number. Of course, the fact that frequency has come down in the near-term will have some impact, but we would want to watch the data over a period. And as I said, for short tail business, let us say like OD we will want to do it in a year. For long tail it will be even longer.

Rishi Jhunjhunwala: Secondly, on health, can you just give some numbers of data points in terms of where we are on COVID-related claims versus where the industry is if at all you have those numbers and how do you expect it to rise and where it could potentially be as a proportion of your normal claims that you typically have? Just trying to understand incrementally how much of the health claims could be coming from the COVID side?

Bhargav Dasgupta: Gopal, you have the numbers of the COVID and I can talk about the expectations for the future after that.

Gopal Balachandran: So if you look at Rishi, we have seen more of claims coming in, in respect of COVID treatment. For the quarter, obviously, that number is in excess of 1,000 claims. So as we speak, it is closer to maybe about 1,200, 1,300 claims is what we would have seen on the overall COVID related claims. And the amount involved is roughly about Rs. 20 crores or so. So that is the impact for us with respect to COVID cases.

Bhargav Dasgupta: For the future, Rishi, is we are staying cautious. I do not think anyone would have predicted a 1 million number by this time. While right from beginning, we have been saying, if you remember that the risk is high in this if things do not kind of taper out sooner. So even in the May call, we talked about the fact that the frequency for non-COVID cases have come down, but we would have to watch the COVID claims. So again, it is very difficult to predict this and say that this will go up to a certain level. The numbers are increasing. It is not something that is a very large concern at this point in time or panic at this point in time, but it is something that we are watching with a lot of caution. But, on balance, given the benefits on the other side, the non-COVID claims have come, we are hopeful that aggregate for the year would not be out of line in terms of the loss ratio. But we could be wrong and COVID could go out of control. That is the caveat that I will give in terms of predicting anything on the loss ratio on the health side.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec Asset Management. Please go ahead.

Nidhesh Jain: Sir, can you comment on the frequency in the motor OD and motor TP in the month of June and how this is compared from pre-COVID levels? And are we seeing the estimate frequency is similar to those are lower than that?

Bhargav Dasgupta: April, the frequency was very, very low for obvious reasons. And every month we have seen significant increase in the frequencies. June month, at this point in time would still be maybe 15-20% frequency lower than pre-COVID on the motor OD side. But it is a very rapid increase from what we saw in April which is also kind of in line with expectation because for the reasons that I talked about earlier. Even now I think some of the bigger cities, the vehicle usage is still muted. So, in line with our anticipation and expectation we believe the frequency will go back to normal in due course which is the reason why we are saying this should be looked at with annual length rather than a quarterly length.

Nidhesh Jain: What is the reason for business promotion expense remaining flat, because I believe this quarter sales on the motor side has been quite muted and that declined, so being similar on a quarter-on-quarter basis?

Gopal Balachandran: It is purely a function of what kind of opportunities do we see in terms of growth. And as we had kind of explained, in this quarter relatively the kind of volumes of opportunities that one would have seen has been far lower than what we would have seen in the past. And as we look forward, obviously, the growth momentum looks positive. And to that extent, one would calibrate the extent of sales promotion expenses that one would incur. In the current quarter, purely driven by the extent of opportunities that we see on the revenues. And to that extent, it is why you get to see the sales and promotion expenses pretty much remaining constant.

Nidhesh Jain: Is it a variable line item or is it a fixed line item going forward?

Gopal Balachandran: As I said, it will be purely a function of the opportunity that one sees. In case, if we believe that there are opportunities to kind of ride incremental growth, then obviously we will calibrate and see the extent of sales and promotion expenses that one will have to incur. It will not necessarily be a cost of a fixed structure unlike what you see in terms of employee cost or let us say infrastructure expenses. Those all are expenses which will be in that sense completely fixed. But so far as advertisement, sales promotion, marketing, those are expenses that we calibrate basis the opportunity that one sees. So, for example, you would have also seen in the month of July, we kind of launched a campaign in order to kind of restart the health opportunity that one sees. So, those are avenues through which we look at playing this through. And to answer your point, it will not necessarily be a cost which will be of a fixed nature.

Moderator: Thank you. The next question is from the line of Udit Kariwala from Ambit Capital. Please go ahead.

Udit Kariwala: My question was that in terms of the cat reinsurance which you explained and the cap of around Rs.25 crores, is that for catastrophic event or let us say if you have two events in a year, it will be Rs.25 crores plus Rs.25 crores can you give some sense around that?

Bhargav Dasgupta: The answer is yes. Basically, it is a treaty that you sign at the beginning of the year and there is a certain clause which basically says that loss within the seven days is what is covered as one cat event. But as Gopal explained, we pre-agree to a cost to reinstate the cover and the finite number of reinstatements that are also agreed. So, you reinstate the cover and the reinstatement cost depends on how big was the claim. So, you took Rs.25 crores, reinsurer took Rs.10 crores, then the reinstatement cost will be low. But, if the reinsurers had to pay Rs.500 crores, then the reinstatement cost will be high. So once it is reinstated, it is again as if it is a fresh treaty. And let us say six months later there is another cat and again it crosses Rs.25 crores, again, we will take a hit of Rs.25 crores and again, the reinsurers will pay the balance.

Udit Kariwala: So in case of COVID, how …

Bhargav Dasgupta: COVID is a pandemic. It is not a cat event.

Udit Kariwala: That is why you said that it could go out of control because that would not be covered?

Bhargav Dasgupta: Yes, pandemics globally are not covered because it is not coverable by insurance without support.

Udit Kariwala: So on that, you would have an unlimited loss kind of a scenario.

Bhargav Dasgupta: If COVID really goes out of control and as a country we are not able to kind of bring it under control, yes that is a risk. We are hoping and at least our models are not showing something like this at this point in time which is why we are saying we are watching it with caution. It is not something that we are kind of over-worrying it about because on the non-COVID side, there are equally some savings. But on balance, that is a risk that we carry at this point of time.

Udit Kariwala: And one last thing which is related is that you said around 1,200 to 1,300 claims in first quarter and the payout was around Rs.20 crores which roughly means that the each claim on an average was upwards of Rs.1.6 lakhs. If I go back to the calculation which was shared earlier like in 4Q, was that Rs.50,000, Rs.60,000 kind of is what the management was estimating given the treatment cost may not be high which is not panning out right, can you give some sense around that?

Bhargav Dasgupta: If you have seen the press and the overall narrative on what is happening on the cost of COVID treatment and the reaction of even the policymakers on what is happening, it is obvious that the COVID treatment costs have been surprisingly high compared to what probably everyone felt is reasonable. And I think this is one issue that is becoming quite an issue between the payer and the provider industry because we are finding in a sense outlier claims which we believe is unreasonable. And what it does is even if let us say we end up paying, for the customer, it really affects them, it is not that the customer is not affected, we may be paying the claim, but what happens is if you have a Rs.5 lakhs sum insured and a claim that logically could have cost Rs.1 lakh and it becomes Rs.3 lakhs, you are left with now Rs.2 lakhs cover for the rest of the year because you have consumed Rs.3 lakhs of your sum insured. So, this is an issue that is becoming quite it is not only with the policymakers and you have seen actions by state, Supreme

Court, etc., but equally between insurance industry and the hospital industry, there is a lot of negotiation and debate going on, on what is reasonable and fair. As we see, there has been a lot of debate and negotiation and arguments that are going on right now. I think the costs are completely out of control in certain places and there needs to be some reasonable business to the cost.

Moderator: Thank you. We will be able to take one last question that is from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Just one or two things. What has really happened on the solvency side? I think your solvency ratio has increased this quarter.

Gopal Balachandran: Nischint, what we have kind of also explained last quarter is when you look at the solvency insofar as two, three aspects, one is with respect to the fair value change account movement that you had seen. Insofar as solvency regulations are concerned on the equity side, the regulation disregards any gains if at all is there on the mark-to-market position on the reporting date. However, if there is a loss that has to be considered for the purposes of solvency. And if you would have seen on 31st of March, we had a mark-to-market loss of roughly about Rs.430 crores. That was considered as a part of the solvency computation on 31st March. As at June 30, if you would have seen our mark-to-market on the equity portfolio as compared to Rs.430 crores of loss has ended the portfolio with Rs.38 crores of loss. So, that clearly is a function of the movement that one sees insofar as improvement in solvency is concerned. The second is also purely a function of what you get to see in terms of incremental revenue growth. In this quarter, pretty much similar to what the industry is experiencing. One has seen a relatively lower top line growth or de-growth to the extent of let us say 4-5% or so. And that by itself also kind of contributes to the improvement in solvency. And the third factor is let us say the performance in terms of our operating outcomes on the profits that we make, has also contributed to the overall solvency numbers. So a factor of all the three is what has led to the increase in solvency moving up from 2.17x to 2.50x.

Nischint Chawathe: And did you share the number for advanced premium for the quarter?

Gopal Balachandran: Last year it was Rs.30.25 billion at 31st March. That number at 30th June is Rs.30.31 billion.

Nischint Chawathe: And just one last question was on the outlook of competition in motor OD segment. I think this time around, we have seen some improvement in the loss ratios out there. So should we say that the worst of the competitive phase on the motor OD side is behind us?

Bhargav Dasgupta: Difficult to say yes. And as I have been saying, maybe for the last two calls, I think last maybe about 18 months to 24 months, industry has been hurt a lot on the OD side because of aggressive competition. And our take was that whether people can sustain that. But right now because of everything that we are saying the frequency has dropped, so one cannot rule out continued aggression on OD side. As I said, as premium frequencies come back, the short benefit of maybe one or two months may not sustain in which case it will be very difficult for people to be further aggressive on the OD side. OD loss ratios are probably unsustainable for most companies at this point in time.

Nischint Chawathe: On the COVID side, I think what you highlighted was that your per policy claim is around Rs.2 lakhs, I think you pointed to a number like close to that. So I was wondering,

Bhargav Dasgupta: No, no, a lower number than that.

Nischint Chawathe: Where do you think this number really settles down I guess with the negotiations, etc., that happens with the hospitals.

Bhargav Dasgupta: Look, again, as we speak, there is a lot of discussion and negotiation going on. I would not want to hazard a guess on this call and give you a guidance that I could be wrong with. Obviously, we are trying to attempt to bring it under control. Our sense is that at this point in time, it is not a reasonable cost. But it depends on many factors- right location, the severity, the co-morbidity which links it to the length of stay for the patient whether the case is mild, severe and critical. So, there are many factors. And the mix is what determines finally your cost because hospital also have to get a fair cost if it is a critical case in ICU, ventilator, etc., versus someone mild just being kind of under observation. So, it depends on all of the mix. But we will have to see what it comes down to. I really cannot give you any comfort on where it will go down to.

Moderator: We will take that as the last question. I would now like to hand the conference back to Mr. Bhargav Dasgupta for closing comments.

Bhargav Dasgupta: Thanks for joining us at this time. And again I wish all of you a good health and take care of yourself.

Gopal Balachandran: Thank you.

Moderator: Thank you very much. On behalf of ICICI Lombard General Insurance Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.

Safe harbor:

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