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ICICI Lombard General Insurance Company Limited
Q3FY2020 & 9MFY2020 Earnings Conference Call
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Management: MR. BHARGAV DASGUPTA – MANAGING DIRECTOR & CEO

MR. GOPAL BALACHANDRAN – CHIEF FINANCIAL OFFICER

MR. SANJEEV MANTRI – EXECUTIVE DIRECTOR-RETAIL

MR. ALOK AGARWAL – EXECUTIVE DIRECTOR - WHOLESALE

Moderator: Good evening, ladies and gentlemen. A very warm welcome to the ICICI Lombard General Insurance Limited Q3 FY2020 Earnings Conference Call. From the Senior Management we have with us today Mr. Bhargav Dasgupta – MD & CEO, 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 listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, 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 – MD & CEO, ICICI Lombard General Insurance Limited. Thank you and over to you, sir.

Bhargav Dasgupta: Thank you. Good evening, everyone. I welcome you to the earnings conference call of ICICI Lombard General Insurance Company Limited for 9M FY2020 and Q3 of FY2020. I would like to give you a brief overview of the nine months and the quarter ended December 31, 2019, post which, our CFO, Mr. Gopal Balachandran will share the financial performance of the Company.

The Indian economy has been witnessing economic slowdown for the past few quarters. This has been characterized by lower GDP growth, sluggish movement in the auto sector and subdued earnings across sectors. Given this backdrop, the growth of the general insurance industry continues to remain healthy.

The General Insurance industry registered a growth of 15.5% in 9M FY2020 over 9M FY2019, with the industry GDPI moving up to ₹ 1421.20 billion in 9M FY2020, from ₹1230.61 billion in 9M FY2019 as per the GI Council report. Excluding the crop segment, this growth would be 13.2%. The overall growth and growth excluding crop segment was 13.1% and 10.9% for Q3 FY2020 as compared to Q3 of FY2019.

The combined ratio of the Industry 116.7 % in H1 FY2020 as compared to 116.2 % in H1 FY2019, based on available information from GI Council. Further, the overall combined ratio of the private multi-line general insurers was 107.2 % in H1 FY2020, as compared to 102.4 % in H1 FY2019.

Let me turn to the key developments during the recently concluded quarter:

Effective January 1, 2020, General Insurance Corporation of India (GIC Re) has increased the prescribed minimum rates for most occupancies under the fire segment. You may recall that in March 2019, GIC Re prescribed minimum rates to be charged for eight occupancies under the fire segment. Since GIC Re is a leading reinsurer in India, this development is expected to bring a positive impact in the fire segment over the long term for the GI industry and the company.

Speaking of the company's performance, the GDPI of the company in 9M FY2020 de-grew by 7.9%. Excluding the crop segment, the GDPI growth rate was 13.2%, which was in line with the industry growth. Our GDPI growth was primarily driven by a focus on the preferred segments such as Fire, Marine, Motor, Liability and Health. Consequent to the increase in minimum prescribed rates for certain occupancies under the fire segment, this segment registered a healthy GDPI growth of 39.1% in 9M FY2020, thereby aiding the GDPI growth of our property and casualty segment. As indicated in our results presentation, the overall property and casualty segment grew by 18.6% in 9M FY2020 over 9M FY2019.

On the Retail side of the business, SME & agency channel and health indemnity continued 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 agents (including POS) were 44,539 as on December 31, 2019, as against 32,254 as on December 31, 2018. In addition to the bancassurance tie-up with Standard Chartered Bank that we announced in the previous quarter, we have now entered into a bancassurance tie-up with Karur Vysya Bank in Q3 2020.

In conclusion, we continue to aim on growing our business by creating long-term value for all our stakeholders through focus on sustained profitability and prudent selection. As we look ahead, we remain excited about the long-term growth potential of the industry as well as our business prospects.

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

Gopal Balachandran: Thank you, Bhargav. And good evening, everyone. I will now give you a brief overview of the financial performance of the company for the nine months and the quarter ended December 31, 2019. 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 (GDPI) of the company stood at ₹ 101.32 billion in 9M FY2020 as compared to ₹110.03 billion in 9M FY2019, a de-growth of 7.9%. Excluding crop segment, our GDPI increased to ₹ 100.58 billion in 9M FY2020 as compared to ₹ 88.83 billion in 9M FY2019, registering a growth of 13.2%. This was in line with industry growth. On a quarterly basis, the overall GDPI largely remained flat. Excluding crop segment, the GDPI growth was 8.3% in Q3 FY2020 over Q3 FY2019, as compared to the industry growth of 10.9% for the same period.

Combined ratio stood at 100.5% in 9M FY2020 as compared to 98.7% in 9M FY2019, primarily on account of long-term motor policies and losses from catastrophic events in the previous quarters. Combined ratio stood at 98.7% in Q3 FY2020, as compared to 95.9% in Q3 FY2019.

Our investment assets rose to ₹ 248.45 billion at December 31, 2019, as compared to ₹ 239.99 billion at September 30, 2019. Our investment leverage, net of borrowings was 4.16x at December 31, 2019, as compared to 4.09x at September 30, 2019. Investment income increased to ₹ 14.41 billion in 9M FY2020, as compared to ₹ 13.41 billion in 9M FY2019. On a quarterly basis, investment income increased to ₹ 4.27 billion in Q3 FY2020 as compared to ₹ 3.87 billion in Q3 FY19. Our capital gains was lower at ₹ 2.24 billion in 9M FY2020 as compared to ₹ 3.70 billion in 9M FY2019. Capital gains in Q3 FY2020 was lower at ₹ 0.17 billion as compared to ₹ 0.49 billion in Q3 FY2019.

Our Profit Before Tax (PBT) grew by 5.9% to ₹ 13.26 billion in 9M FY2020, as compared to ₹ 12.53 billion in 9M FY2019 whereas PBT grew by 8.1% to ₹ 3.9 billion in Q3 FY2020 as compared to ₹ 3.61 billion in Q3 FY2019.

As stated in the previous quarter's earnings call, the Company has elected to exercise the option of lower income tax rate. The effective tax rate was 31.2% for 9M FY2020 and 24.6% for Q3 FY2020.

Consequently, Profit After Tax (PAT) grew by 11.0% to ₹ 9.12 billion in 9M FY2020, as compared to ₹ 8.22 billion in 9M FY2019 whereas PAT grew by 23.0% to be ₹ 2.94 billion in Q3 FY2020 as compared to ₹ 2.39 billion in Q3 FY2019.

Return on Average Equity (ROAE) was 21.8% in 9M FY2020 as compared to 22.7% in 9M FY2019. ROAE for Q3 FY2020 was 20.3% as compared to 19.0% in Q3 FY2019. Solvency ratio was 2.18x at December 31, 2019, as against 2.26x at September 30, 2019 and continued to be higher than the minimum regulatory requirement of 1.50x.

As we conclude our address, I would like to summarize that we ended 9M FY2020 and Q3 FY2020 with a diversified product portfolio and healthy financials. The company continues to focus on prudent underwriting, while improving its competitive position. We continue to build our distribution with a focus on sustainable growth. I would like to

thank you for attending this earnings conference call. And we will be happy to take 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 Harshit Toshniwal from Jeffries. Please go ahead.

Harshit Toshniwal: There is a large amount of debits and provision this quarter. Can you elaborate on the same? The second one is that, when I look at motor OD business, the loss ratios have improved significantly Q-o-Q. So, can you give some color on how the pricing environment has been over the last few quarters? Lastly, I want to know strategy on the health insurance front. Clearly the retail segments are slowing down, but we have been growing very fast in the SME health business. So how has the experience been trending in the SME health business? Thank you.

Bhargav Dasgupta: Gopal would cover the first question and later I will address the other two.

Gopal Balachandran: Harshit, as far as the provisions for doubtful debts are concerned, in this quarter, provisions have been created in accordance with the provisioning policy of the Company, in case of outstanding receivables, whether with respect to policyholders or reinsurers or co-insurance receivables. In accordance with this policy, if any of those receivables fall due beyond a defined period, provisions are duly created. Having said that, please note that we do not foresee any kind of a credit risk associated with collectability of the receivables. It is only in accordance with the policy that we have put in place, that these amounts are provided.

In this quarter, we had certain reinsurance receivables which exceeded the defined period as per our policy. Accordingly, you see the provisions for doubtful debts going up in this quarter relative to the previous quarter.

Harshit Toshniwal: Okay. So this is nothing linked to the stressed corporate assets and is largely due to re-insurance receivables?

Gopal Balachandran: That is correct. This is not on account of any particular stressed investment assets that we have on the investment portfolio. As you rightly understood, it is only on account of the reinsurance receivables which has exceeded a defined period. And in accordance with the Company policy, we are required to provide for those outstanding receivables.

Harshit Toshniwal: Can we see the policy or does it form a part of the notes to accounts? Can you share the policy itself?

Gopal Balachandran: It varies differently for receivables pertaining to different segments. So, in case if there are standard outstanding receivables from policyholders, there would be a defined period within which we would be required to provide for. In case receivables are due from the government, it would carry a different period beyond which we provide for it completely. The same also holds true for any kind of coinsurance receivables that is outstanding beyond a defined period. In this particular quarter, the primary reason for increase in provisions is on account of reinsurance receivables which have fallen due beyond the defined threshold stated by the Company's policy.

Bhargav Dasgupta: As regard to the other question on motor own damage, we always say that the quarterly loss ratios may not be truly reflective of the underlying business. Hence, you should look at loss ratios over a period of one year. This is because we keep looking at our actual numbers every quarter, and there could be some impact on account of increase or decrease in reserving for a particular quarter. Accordingly, you could see some volatility in the quarterly numbers. If you look at nine months motor own damage loss ratio as compared to the nine months of last year, it is more reflective of the underlying pricing pressure in the own damage segment. As mentioned in the previous few earnings calls, the motor own damage segment is witnessing very high competitive pressures and is consequently resulting into pricing pressures. This is largely post the implementation of the long-term TP policies when we started witnessing immense price aggression on the OD side.

Accordingly, if you see the nine months number for the Company, there has been a significant increase in loss ratios which is reflective of the pricing trends that we are witnessing on the ground.

Harshit Toshniwal: And any incremental update on that part, so versus Q2 have things stabilized or have the plan become more aggressive in the pricing, or it's similar to what it was at the beginning?

Bhargav Dasgupta: It continues to remain the same. There may be a little bit of movement, perhaps a slight improvement but largely it has been kind of flat. There is no major change in the underlying pricing on the OD side. If you look at the industry loss ratios also, you will see the same picture reflected on OD side. The H1 FY2020 industry loss ratio numbers are reflective of significant deterioration in the pricing of motor own damage loss ratio.

With regards to your last question on the health segment I will give you a brief gist and will ask Sanjeev to contribute whenever he wants to. I think the overall health portfolio is really picking up well for us. You have already heard us talk about our strategic focus on this segment. In the previous quarters, we have also explained that there is a re-classification in the health segment that has happened this year for the Company. B2B2C policies which are largely bancassurance business and are essentially retail business done through a group structure. Those were classified as retail in the earlier years. In this year, as per the direction from the Regulator, we have classified them as a group. So the group number looks optically high although that is not the case in reality.

If you look at the total health revenue for nine months, the overall growth has been about 24.1%. If you look at the quarterly number, the retail book including the group retail which is B2B2C has grown at about 38.1%. So we are pretty happy with the growth that we are seeing on the health side. Our strategy of expanding distribution network, focusing on new products, adding service features in our app for our retail customers continues to pay off.

The last thing that I want to touch upon is the outpatient care side. We talked about it a couple of quarters back. The early signs of this business are pretty heartening and encouraging.

Moderator: Thank you. The next question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati: I have a couple of questions. Firstly, can you quantify the balance sheet amount of advance premium from long-term policies?

Gopal Balachandran: That number, is about ₹ 27 billion as at December 31, 2019.

Hitesh Gulati: Okay. And sir, just secondly, reading on the investment yield - one part of the yield that we see is, that capital gains that we have booked is lower but we are also seeing impact from lower interest rates in the environment. So is that understanding correct?

Bhargav Dasgupta: Yes. On the incremental investment book, one should note the two key developments. Firstly, given our interest rate view, we are trying to keep the bond duration low. We believe that interest rate will be range bound, so we are holding from taking any long-term position on interest rate. Our average duration as at December 31, 2019 has dropped to about 3.73 years, which is one of the lowest duration that we have had for a long time. As on March 31, 2019, the duration was about 4.76 years. The second thing is that our interest rate environment for the new book is lower, given the recent interest rate regime. These are the two key reasons why the yield is lower. We are also keeping a bit more money in cash and liquid assets so that we can deploy when we believe the time is right.

Hitesh Gulati: And sir just one last comment from you on the multiple fines that the Regulator has been imposing on a number of insurance brokers on the MISP front. So is this something which will help the discipline come back, just on a broad industry level basis? Is that something that we can read into?

Bhargav Dasgupta: That's a great question. We will have to see how it plays out. As you know, most of the brokers have appealed and the matter has been placed before the Securities Appellate Tribunal. We will have to wait for the final judgment before we conclude on how the entire situation will play out.

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

Nidhesh Jain: Firstly on investment leverage, if you look at for the last two to three quarters, it is hovering around 4.20x. Do we think it will improve and at what level can it reach over medium term?

Gopal Balachandran: If you recollect, in our previous calls at the time when the long-term motor regulations was introduced, we said that the investment leverage would touch closer to 4.50x over three years' time period. However, in the previous quarter's earnings call, we had indicated that pursuant to the amended Motor Vehicles Act, the maximum time limit of claim intimation has been capped at six months. Given this situation, one may not see the investment leverage touching to 4.50x levels which was earlier expected when the long-term regulations came into place. While the exact impact of this six months' time limit is still awaited, our sense is that the investment leverage should more or less continue to remain at the current levels i.e. 4.10x or so. As at December 31,2019, the ratio has been about 4.16x and we expect a similar movement in the investment leverage for the future quarters. The investment leverage will largely be a function of the amount of inflows in the business vis-à-vis the equally faster outflows on account of claims consequent to the introduction of the amended Motor Vehicles Act.

Nidhesh Jain: Secondly, on the motor TP and motor OD, how should we look at the growth, given that you should also get the benefit of the last year premium getting accrued this year, especially in the motor TP segment? If you can comment on the like-to-like growth for this quarter Y-o-Y on these two segment that would be very useful.

Bhargav Dasgupta: Given our focus on prudent risk selection, we have seen significantly higher growth in private car and two wheeler book in this quarter and nine months. On the contrary, we have consciously de-grown in the commercial vehicle business. This is in line with what we have been talking about in the past few quarters. If one was to look at the mix within the commercial vehicle book, the TP component would be very large. So if the CV book doesn't grow as fast, the TP book consequently does not grow in line with the rest of the market. This is primarily the reason why we have significantly outperformed on the OD side in aggregate but underperformed on the TP side, simply because of the mix of business that we have written. Now, I will ask Sanjeev to touch upon what we are trying to do on the TP side.

Sanjeev Mantri: So, overall, in terms of the industry numbers, overall motor contributed roughly 40% plus of the overall industry GDPI, but now this has gone down to 36%. And on the own damage part within motor if you look at it, the contribution ranged almost 20% - 22%. But the own damage contribution over last four to five years has gone down to almost 14%, so you can clearly see the pressure that Bhargav is speaking about in terms of what's happening on the own damage side. TP, fortunately since it is regulated also has got a bit of hike on a regular basis, except for last couple years where the TP hike has again been moderate. We clearly see from an industry perspective that this scenario may not go through a major change. We will have to rely on the internal efficiency in terms of driving it.

In commercial vehicle, in particular, where we have been always very selective in terms of writing this segment, which make sense because some of these vehicles in this category can have high loss ratios. But now, over last couple of months, we have reworked on our strategy of operating on a usage basis. And that should see some decent traction in times to come.

Bhargav Dasgupta: So just looking at the quarter numbers, the private car growth was about 20.3% and two wheeler was about 15.4%. So I think on the retail side segments that we focused on, Sanjeev and his team have done a great

job. On the CV side, we had a de-growth of about 39%, which explains the overall mix. But as Sanjeev explained, with the amended Motor Vehicle Act we are a bit more optimistic about the certain segments of the CV, so we are relooking at it at the segment going ahead.

Sanjeev Mantri: And overall, our market share in motor has moved up from 9.8% to 9.9% on nine month basis.

Nidhesh Jain: Because, I was looking at this sales promotion number also which has grown quite a bit, and while our motor OD growth was not that high, but I think the sales promotion has led to payouts and everything. Can you give some color on the sales promotion, why it has grown?

Sanjeev Mantri: As also briefed in the previous quarters, we run our own corporate campaign which entails expenses in the nature of sales promotion. We incurred multiple expenses by doing this corporate campaign. Typically we end up doing one campaign in every 18 months to 24 months. We did the campaign in quarter two, by virtue of that itself we have seen the overall expenses going up.

Moderator: Thank you. The next question is from the line of Gurpreet Arora from Aviva Life Insurance. Please go ahead.

Gurpreet Arora: You spoke about the competition in motor OD being more or less stable as compared to last quarter. If you can highlight or bifurcate between two wheelers and cars, I mean, is there any striking difference there? The second question is, and I am sorry for this if you have answered this in the previous calls, what can prompt you to have a relook at the crop insurance segment. And lastly, coming back to the motor insurance - under regulatory sandbox we are looking to do motor OD floater policy. So if you can share some insights about the commercial matrix, or how are we looking at it? Thank you.

Bhargav Dasgupta: Okay. So I just gave the numbers in the last question. For the quarter, our private car growth is about 20%. For nine months that number is about 22%. Again, for the quarter, our two wheeler growth is about 15.4%. And for the nine months, it's about 12%. And as I said, our CV

book has de-grown both in the quarter and nine months. The segments that we have been focusing on have seen good traction. And this is across channels, it's not just in dealership, it's also in terms of the agency investments that we have made, the virtual office investment that we have made - all of this is contributing to this growth.

On your question with respect to crop business, our stance has been consistent in the way we look at any other business. We look at each business segment very frequently and there are times that certain segments of business do not make adequate return on our capital. So, at those times we may reduce the exposure in those segments. As far as crop business is concerned, the reinsurance market rates have significantly hardened. If things change, we will always look again at writing it. But as of now, there is nothing that indicates that those rates will change. So, I don't foresee an outlook change in the near future on our crop strategy. Additionally, we look at crop business as very volatile. You could be very lucky if you had underwritten a state where fortunately the crop was fine. On the contrary, you could also lose a lot of money if unfortunately you had underwritten a state where the harvest turned out bad. And if you don't have a portfolio diversification, it could create huge volatility to your business. That's apart from the fact that the cost of reinsurance has gone to a level where it does not make sense from a return on capital perspective at this point in time.

The last question that you had in terms of the regulatory sandbox, we are really happy about the fact that if you look at the entire industry, we have got the maximum number of products that has been approved by the regulator for us. We have got five products approved. There are two of them in telematic driven motor insurance policies, and one in terms of the floater policy that you mentioned. And similarly, we have products in the health segment which are pretty unique, that we are quite excited about. In terms of the motor floater, it's a new concept in the market. The whole idea of sandbox is to test a new concept and see if it works for customers. And if it does, then we believe and we expect the Regulator will give us approval to write that business for the long term. At this point in time, now that we just got the approval a couple of days

back from the Regulator, we are now working out our plan and go-to-market strategy, and we should be able to launch the products very soon.

Moderator: Thank you. The next question is from the line of Avinash Singh from SBICAP Securities. Please go ahead.

Avinash Singh: I have two questions. The first one is on your sort of medium-term trajectory of profitability. So, I mean, we are currently hovering around 100% combined ratio, if I look at nine months basis. So going forward, I mean, which parts would you see that combined ratio can see some improvement or do you think that we are stable? Because we have certain regulatory changes in place, also the impact of long-term motor TP policy, all these things playing and also your product mix changes. So I mean, if you were to look at claims, expense and the commission, which part you can see for the improvement or do you see sort of a pressure? So that's your question number one.

Second on crop, I mean, of course, Kharif is a major season, Rabi just fell apart. But if you look so far, I mean, in this Rabi season, you seen the prices have increased materially, I mean, at least if you just simplify the premium as a percentage of sum insured. It seems that here has been a massive increase, 9% had gone to more than 11% so far. So do you think that still it remains not profitable? These are my two questions. Thank you.

Bhargav Dasgupta: So, if I answer your first question, I think the segment that we see and I am talking about more the short to medium term perspective here, the segment that we believe will become more profitable from this quarter will be the fire segment. As we discussed, there was a price increase in certain occupancies effective March 2019 and now that has been extended to almost all occupancies for fire. And we believe that should help in terms of improvement in loss ratio for the fire segment. It is imperative to note that these are very competitive markets, we will have to wait and see on how that leads to pricing aggression in, let's say, marine transit or group health products. This is because we offer a bouquet of products to a corporate and there is a risk that some

companies may use the margins in fire policy to undercut marine and health policy premiums. We will have to watch on that. That obviously won't be a long-term sustainable strategy, but some players may do that in our view. But on balance we believe there will be a big benefit out of the fire price increase for the industry and for us. If you recollect in the beginning of the financial year when GIC Re increased the rate for eight occupancies, we had decided to retain 10% extra on our books on our internal retention. And we believe that strategy has played through well. If you see our loss ratio for fire quarter-on-quarter it's really improving. And as we speak, for this quarter, the fire loss ratio has dropped to about 50%. And now going ahead next year, we believe that will help us in terms of the overall numbers as well.

The second area where this year has been a difficult area for us is the motor own damage segment. We are hopeful that it will be a matter of time when things stabilize and start improving. So that could be upside going ahead. But it's very difficult to predict when and how much. Additionally, other area that has been a tough market for us was the benefit business owing to NBFC crisis. We are one of the largest players as far as the health benefit products that we sell through the NBFC. So if that recovers, again, although very difficult for us to predict when it will recover, that will certainly be a huge positive for the business. So, on balance, I think in most other segments things have probably reached a certain level where somewhere it should only go up. So next year, we would be a bit more optimistic about how the market starts behaving. But we will have to wait to see whether that optimism plays out.

Coming to your question on crop, as I said, at the end of the day, the economics of the model works with the reinsurance rate. And there are times when for a short period of time, the Rabi segment, given that it's a relatively small size compared to the Kharif, and most of the capacity had been used up in this year's Kharif underwriting, the prices did go up in Rabi. That does not mean that in the next quarter for Kharif the prices will stay elevated. I think the larger issue for us is that if you look at the reinsurance commission that we get from the reinsurers, it's actually

lower than the cost of procuring business. So you have a strain right in the beginning of writing that business, and then you have to buy protection. Our approach has always been conservative to write a protection, and we used to buy protection at 110%. The cost of buying a protection at 110% is much higher than if you buy the protection at 130% as some companies do. But if you buy the protection at 130%, in a good year we will make money, but in a bad year we may lose a lot more money. At this point in time, we don't see any change in our approach on the crop side.

Avinash Singh: Thanks. Just a quick follow-up on motor OD. Now in this backdrop of regulator imposing fine on some of the OEMs led broker, and also sort of forcing them to open their platform, and now you have been sort of one of the big incumbent in those platforms. Now, could it mean that in the very near term some of the new players who will get access to this platform, they can again go intensive in the pricing and start off a price war? Because for them of course they will lose money, but they are willing to lose money to gain market share, is that a possibility?

Bhargav Dasgupta: Avinash, that's absolutely possible. When someone enters in an OEM network, it is highly possible that someone will be very aggressive. As I said in one of the earlier question, most of the brokers have appealed the order issued by IRDAI. We will have to see how it plays through in Securities Appellate Tribunal and then we will know what happens on the ground. But if all companies come in to OEM network, definitely there's a scope for a bit of price aggression, because of the attempt to enter a new relationship.

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

Ajox Henry: Sir, can you give me the proportion of the long-term policies, one in terms of motor OD and motor TP?

Gopal Balachandran: Ajox, are you are referring to the penetration of the long-term policies?

Ajox Henry: Yes sir, what proportion.

Gopal Balachandran: Yes. So if you look at private car, the proportion of policies that we write, which is three years own damage and three year third party that number as of date stands at about 12%. The number at the end of the half year was about 10%. And on two wheelers, the proportion of policies which are five year old damage and five year third party, that number stands at about 22%. This number as at the end of half year was 24%.

Ajox Henry: Okay. So two wheelers it has come down?

Gopal Balachandran: Marginal reduction is what we are seeing.

Ajox Henry: Okay. And sir in last quarter we were discussing about a possible price increase in motor OD, after talking to specific OEMs. So, has any of that been fructified or is still in discussion? Is there any possibility of price increase at all?

Bhargav Dasgupta: As I said earlier, there has not been a major change in the OD rates. Of course, as I said, we will always keep on trying to push to see if we can and that attempt is still on. But largely, pricing on the OD side has remained stable as the last quarter.

Ajox Henry: Sir on health, actually the superficial growth numbers because of that reclassification alone in terms of that group health particularly?

Bhargav Dasgupta: So, the classification issue confuses the number, it will look like a very high growth for group. Earlier to another question we explained the number on a like-to-like basis where you add the group-others and retail, both are effectively retail business which we used to classify earlier as retail. Group-others is basically not employer-employee policies, these are policies that we write through bancassurance partners. So that number, as I said, has been growing really well. In this quarter, the growth is about 38%.

Ajox Henry: And in terms of group health growth, how much is that, the corporate group?

Bhargav Dasgupta: That number is roughly about 12%.

Ajox Henry: And we are not focusing on this business, right?

Bhargav Dasgupta: That clearly depends on the pricing and the underwriting standards. So as we have been saying last year the growth was very high because it was coming off a very poor base of pricing. And we had said that this year we don't expect that to sustain. And hence the growth has muted. We would obviously want to pick up business when it comes to a group health, as in employer-employee health, where it makes sense from an underwriting perspective. And we keep selecting each of the transaction.

Ajox Henry: And one more question. What was two wheelers, that Q2 we saw very good growth due to that Motor Vehicle Act implementation. Has that come down a bit or the implementation is still giving the push for the people to go and buy insurance?

Gopal Balachandran: In the initial month we did see significant uptake on incremental number of inquiries as a result of the amendments that happened in the Motor Vehicle Act, wherein there was a lot of news around the increase in fines. But some of the states, as we had kind of been talking about, are still to completely implement this increased amount of fines. So obviously, relative to what we had seen in the first month after the announcement of the increase in fines, the subsequent month we have not seen a similar kind of an uptake. But some of the states have said that they would look at implementing the increased fine over a period of time. And as and when that starts to happen, we should possibly get to see similar level of inquiries going up from customers who have not renewed their policies in the past.

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

Rishi Jhunjhunwala: Just wanted to understand a bit on the TP loss ratio trajectory. So, it has clearly improved significantly over the past year, year and a half. And you know, there is some impact possibly that could come through as a result of implementation of Motor Vehicle Act. So, the two aspects to it, one is, what has changed in the past one, one and a half years,

whether is it actually the experience has been lower, or our reserving has been lower, because we think that we have adequately provided for? And secondly, on the Motor Vehicle Act, is it applicable to claims that are registered or basically accidents that have happened after the implementation of the Act or when the new policies will get registered then only it will become applicable? So, I am just trying to gauge from when can we possibly see that six months, post six months benefit coming through?

Bhargav Dasgupta: That's a great question, Rishi. Let me answer the second part of the question first. Technically, it is applicable to all policies that get written after that date. So accidents coming out of policies that got written after September 2019, the New Act gets applied. But we are a bit hopeful that some of the provisions, say for example, pay and recover, which are basically provisions which were there in the earlier Motor Vehicle Act, where even if you were not and hadn't insured the vehicle, and if you for some reason or the other, you were told to pay and then asked to recover the money from the uninsured vehicle owners. Now, that provision has been dropped from the New Act, rightly so. So we hope and we are beginning to see some early signs of changes in the behavior of the Courts, but nothing that is material and meaningful in terms of quantifiable impact.

So now coming back to your specific question on what is happening in terms of motor TP side. The changes that have happened in Motor Vehicle Act, as I said, we are relooking at some of our portfolio calls, making educated guesses or judgment calls on how the TP book will play out in future using our past data and looking at the provisions of the New Act, and taking a bit more calls on certain segments that earlier we may not be writing but we are now beginning to write that. But that's more from the future business perspective. The TP loss ratio that we are seeing, the point that you made in the beginning, our TP loss ratio has dropped to 86.3% in current nine months from 90.9% in the same period of the last year. That is largely because of how the data played through, as you know our actuaries keep looking at the numbers and accordingly, adjust their estimates. And we have also recalibrated the

mix this year in terms of the private car and two wheeler, and reduced the mix in terms of the CV. So that also helped in terms of reducing this loss ratio. So it's not a call on the reserves of the past that we are taking based on what may happen because of the Motor Vehicle Act. We will take a call basis the development in the new business that we are sourcing, because otherwise we might lose that opportunity. But we are not using this judgment to aggressively cut down the reserves of the past book. We will look at how the reserves develop and accordingly let our actuaries take the call.

Rishi Jhunjhunwala: So, is it fair to assume that the benefits of Motor Vehicle Act on the reserving portion will probably play out after say 15 or 18 months from now?

Bhargav Dasgupta: Correct.

Rishi Jhunjhunwala: And also, if you can give some sense of how much of the claims were actually intimated after six months in the past?

Bhargav Dasgupta: A very large number of claims were intimated after six months. But the point is, we should not jump to conclusions that none of those claims would get intimated now. Because there was an unlimited timeline to intimate claims. People may have been a bit lax in terms of filing the claims. But a lot of these claims will now come within the six month time frame. Now, as probably we have discussed in last call also, it's very difficult for us to predict how many of those will come in the six months because of this change. We always believed that some of the claims that used to come after four, five, six years were bogus claims maybe. But the exact quantification of the number is very difficult, because if we had known we would have not paid those claims. So, we will have a reduction of frequency, but the exact number we will probably have to wait for 18 months to give you a sense.

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

Sanket Godha: Just two questions. Firstly, the fire segment has not grown despite the price hikes in the quarter basically, in fact for the quarter it has declined marginally. So just wanted to understand what led to the decline in the fire segment. And the second question is with respect to the previous question asked on motor third party, that loss ratios declining to around 82% in the quarter. Should we read it along with the investment leverage not growing, because the loss ratios have improved, float has been not created and the investment leverage has not grown? So is it the way to read why the investment leverage has not grown and this number will further come down if the Motor Vehicle Act benefit crystallizes as the industry is expecting it to be.

Gopal Balachandran: Sanket, I will answer the second question first. If you look at what Bhargav explained, the third party loss ratios is clearly a function of the mix of business that we are writing today. And that's possibly the reason why you get to see a relatively reduced loss ratio when you look at relative comparison to the nine months of the previous year, or even on a sequential basis for that matter. So far as the leverage is concerned, it is purely dependent on the kind of volumes of business that the Company writes. Along with that, it is also impacted by the outflows that you would have seen in this particular period. So for example, in this quarter, we also did have an outflow on account of the acquisition of the software that we had announced. The benefit of this acquisition will pay off over the next three to four years. Whereas the outflow in the form of the purchase price for the acquisition has played out in this particular quarter itself. So some of these elements have driven the investment leverage in this quarter. With regards to the amended Motor Vehicle Act, as mentioned earlier to someone else over the call, before the implementation of time of limitation on claims intimation by the Act, leverage would have continued to see an upward trend over the next three years, going closer to around 4.50x. But with the introduction of the time limit of intimation under the Motor Vehicles Act, we may not get to see the leverage going up to those levels of 4.50x over the next three

years. On the contrary, we may possibly see the leverage playing pretty much closer to the same levels as what we see currently. Perhaps, we may see a minor reduction to an extent. This reduction is likely to be more than offset by the reduction in the reserve requirement on the underwriting side. So it will be a function of both, which is why I think that return on average equity is a better indication of the performance of the company. We expect to sustain that number at around 20%, whether it is in the medium term or even over the longer term.

Bhargav Dasgupta: And regards your first question, that's a good observation. If you look at the eight months number for us, the growth in fire was 63.6%. If you look at the nine months growth for us in fire, it was 39.1%. Both these numbers are much higher than the industry, but it's a sharp drop in nine months over eight month. In the month of December, there was one very large corporate client, that restructured its insurance program and the effective exposure of the industry reduced. We have a very large share in this particular account, obviously, I would not name the account. The total premium drop for us was relatively higher compared to the industry. But all other corporates, SMEs for example, the SME fire portfolio is growing at close to 65%. So normal business is going as usual, it's just a one-off event i.e. exposure in one large corporate account has been reduced because the client reduced or changed the entire insurance structure. In that client, we have increased our shares in spite of the change, but the drop in total premium for the industry has been very high for the month.

Sanket Godha: Okay. And just one small continuation to the reinsurance receivable where we made a provision of ₹ 26 crores. Can we assume it is recoverable in nature? We just wanted to know which are these reinsurers, basically the rating of these insurers or below B or BB where the recoverability of the ₹ 26 crore would be tough?

Gopal Balachandran: As I explained earlier, the provisioning for doubtful debt that we have created in the books is in accordance with our Company policy, varying for various outstanding receivables across different categories of whether it is policyholders, co-insurers or reinsurance. As and when the

time period stated in the policy gets triggered, we need to make appropriate provisions for it in the books. So, far as the credit risk that is associated with the collectability of the receivables, we don't foresee any risk of the amount not being collected. So, in this particular quarter, the increase that you have seen in the provision for doubtful debts is with respect to the reinsurance receivables, which has triggered beyond a defined period of outstanding dues. Further, we primarily work with reinsurers who have a rating which is A- and above. So even in this particular instance of where the reinsurance receivables have been provided for, the credit rating of the reinsurer happens to be A- and above.

Bhargav Dasgupta: And this is an international A- rating, not a domestic rating. Just to add to what Gopal mentioned, if you recollect, last year we had a very large increase in profits in the first half because of a reversal of one of these provisions that we had made for a bunch of, or one particular transaction where the receivable was provided for, but the money came back with a lag, and it gave us a big upside last year first half.

Moderator: Thank you. The next question is from the line of Vibhooti Jain from Quest Investment Advisors. Please go ahead.

Vibhooti Jain: Just one question. Could you give the outlook for the health segment, given that huge opportunity is available in this space? And what is the strategy of the company to capture this opportunity? Secondly, what different are the standalone health insurers doing for them to be able to grow much faster than the multi-line health insurance companies? Could you please comment on that?

Bhargav Dasgupta: So on the health side, we are obviously very excited about the opportunity and we believe that this segment can continue to grow at around 25% CAGR at an industry level for the foreseeable future. Which is why, we have been making investments in distribution network, in terms of product and in terms of the services that we are adding to our customers. So the approach that we are taking is a lot more holistic in terms of addressing multiple health needs, and wellness needs of our customers. Some of these solutions are available with corporates right

now and we are gradually opening them up for retail segments as we go along. As I said earlier, as an industry we did not touch even about 65% to 70% of the overall healthcare space, which was outside of hospitalization. As an industry, it was only hospitalization that we used to cater to. So we have been doing a lot of experimentation in that area. And about a year back, we started offering these products through our group customers. And the signs of the pickup of that product is also very, very positive. And we will see how we can scale that up. So, in a nutshell, what we are trying to do is really address the complete healthcare needs of our customers. And of course, investing in distribution products, services, network, etc. And if you see the growth for us, in terms of new policies, earlier I gave the number of what's happened in aggregate for the quarter. But for the nine month the growth in new retail indemnity business growth for us was about 92.8%, way higher than what the standalone health companies are doing. Of course, we are coming off a small base, so it may not be exactly comparable.

As regards the standalone health companies, they have a few advantages, the primary one being regulatory arbitrage with respect to training. The agents of standalone health insurers require training for health products only whereas the agents of multiline general insurance companies require training for all the general insurance products including health insurance, making it easier for standalone health insurers to employ such agents as their composite agents who are already trained for such distribution. But we have our own separate advantages, which are the advantage of being multiline, the overall cost structures and all of that, which we use to compete.

Vibhooti Jain: Right. What has led to improvements in loss ratio in health for the nine months, from 76% to 69%?

Bhargav Dasgupta: So, that's largely because of the mix changing. As the new book grows, loss ratio comes down. Our group portfolio composition reduced, as explained earlier. Last year, we had a very high growth in corporate health portfolio. In corporate health portfolio the expenses are low, but

the loss ratios are high. In retail portfolio, the loss ratios are low but expenses are high. So, as you have reduced the proportion of corporate health book, relatively, we have not reduced the amounts, but as the proportion reduces the loss ratio also improves. Plus, on the retail book, we are growing faster than the new book; that also betters the loss ratio.

Moderator: Thank you. Next question is from the line of Nischint Chawathe from Kotak securities. Please go ahead.

Nischint Chawathe: My question actually pertains to the URR. And if I really look at it, over the nine month period there has been a fair amount of decline on the Y-o-Y basis. I mean, I was just wondering how should one think about it?

Gopal Balachandran: Nischint, URR is purely a function of the earnings of the policy over the policy period. So in this particular quarter, there is nothing which is unusual in terms of the movement in the numbers that you see, it is purely dependent on the revenue growth in the previous period. So, for example, if you would have seen in Q3 of last year, relatively our growth rates were about 25% or so. If you look at the Q3 of the current year, our growth rate is about 8.9% or 9%. So, in that sense that's purely a driver of to what extent incremental URR gets created. But as such, there is no specific change other than that.

Nischint Chawathe: So if you look at URR even for a nine month aggregate block rather than looking at one quarter, I am actually looking at the nine month number and that is sort of showing a sharp decline from ₹ 900 crore to ₹150 crore.

Gopal Balachandran: If you look at it from an outstanding perspective on the unexpired risk reserve relative to nine months of last year and nine months of current year, one of the factors that would have led also to a decline on a year-on-year basis is, last year we did have the crop business in quarter three, NEP for which would have been realized over a period of time. In this particular year, as we have explained earlier, we do not have any element of crop. And hence to that extent, there is a logical reduction in the extent of unexpired risk reserve that would have been outstanding at nine months of previous years and nine months of the current year.

Nischint Chawathe: But if I look at the P&L of your crop business, it does not have really any meaningful URR.

Gopal Balachandran: The crop business generally gets earned within a period of six months, and it does not necessarily have an earnings period which would span over 12 month. So when you look at the outstanding position as at the December 2018, they would have had an outstanding URR at that particular point of time, all of which would have got earned by March 31, 2019. And as I said, in the current period, given that we have not necessarily won any new tender in the crop business, neither is there any kind of a growth in revenues that we have already explained nor does it translate into any incremental creation of unexpired risk reserve in this particular quarter.

Moderator: Thank you. The next question is from the line of Nikhil Valecha from Sundaram Mutual Funds. Please go ahead.

Nikhil Valecha: My first question is, if I look at the sales promotion expense, that has increased by more than 50% on a sequential basis. So what explains that?

Gopal Balachandran: Again, sales promotion expense is purely dependent on the kind of business that the Company writes. If you look at our business on a year-on-year basis, we had an element of the crop business in the previous year which tends to have a relatively lower acquisition cost. In contrast, during the current period, a large part of the business mix is driven by the increased retail business which typically entails higher amount of distribution costs. Secondly, as also mentioned in the previous quarters, we have made investments in expanding of distribution network. The number of individual agents in the last two years was approximately 23,000 - 24,000. As on December 31, 2018, we were operating with close to about 32,000 agents and at the end of December 31, 2019 the number of individual agents has gone up to almost 44,500. The Company is incurring this cost for expanding distribution network in tier 3 and tier 4 cities. That's primarily one of the key reasons for the increase in sales promotion expenses.

Nikhil Valecha: So these agents are exclusive to us or are they also selling other insurance policy or some other products?

Gopal Balachandran: In terms of the Regulations, these agents are tied to the insurance company.

Nikhil Valecha: Okay. And my second question is, you mentioned that our retail health growth has also suffered because the contribution from NBFCs was very large. So could you please quantify, like how much of the business is coming from NBFCs for retail health?

Gopal Balachandran: So, I you look at our mix of retail health, roughly about 40% of the business comes from indemnity and the remaining 60% from benefit. The benefit business that we write through NBFCs and bancassurance partners has witnessed a relative slowdown in growth particularly due to the slowdown in NBFCs and HFCs in the past few quarters.

Nikhil Valecha: Okay. And if I can squeeze one more. Can you explain the software acquisition that we made? How will it help in our business going forward? And I understand it's a CRM software, but anything or any kind of opex measures or anything operating potentially that you would have worked on, probably?

Bhargav Dasgupta: The way we look at this is largely creating a moat around our relationship with distributors. One of the approaches that we have always had with distributors, apart from the customers, is that we try to evaluate as to how we can help the distributor do his or her business well, and that is usually through support on technology. In agency, we do a lot of work in terms of the agency app which involves some of the analytics. We had a similar thought process for the dealerships. The upside that we expect to see is a good lift in the customer retention ratio given the quality of that CRM solution. Also, in our experience if you retain your own customer for the next year, the loss ratios are generally healthier than underwriting a policy which was earlier with some other company. So, we are hoping that with this acquisition we will, of course, strengthen our relationship and also improve the overall retention rates in OEM network.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Bhargav Dasgupta for closing comments.

Bhargav Dasgupta: Okay. Thank you all for attending the call. We look forward to interacting with you in the next quarter.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Lombard General Insurance, that concludes the call. Thank you for joining us. You may now disconnect your lines.