ICICI Lombard General Insurance Company Limited
Q3 & 9M FY2021 Earnings Conference Call
January 19, 2021

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January 19, 2021

Moderator: Good evening, ladies and gentlemen. A very warm welcome to ICICI Lombard General Insurance Company Limited Q3 FY2021 and 9M FY2021 Earnings Conference Call. From the senior management, we have with us today, Mr. Bhargav Dasgupta – MD & CEO of the Company; Mr. Gopal Balachandran – CFO & CRO; 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. And 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, and good evening to each one of you. Thank you for joining the earnings conference call of ICICI Lombard for Q3 FY2021, and 9M FY2021. Hope all of you and your colleagues are staying safe and healthy.

So what I will do is, I will give a brief overview of the industry trends and developments that we have witnessed in the past few months. Post this, our CFO, Gopal Balachandran, will share the financial performance of the company for the quarter and nine months ended December 31, 2020.

The growth trajectory seen in the economy since the second quarter of 2021 has picked up in this quarter. The high frequency indicators like automobile sales, railway freight traffic, growth in non-oil and non-gold imports seen during third quarter shows hopeful sign of a sharper recovery than what we anticipated in the beginning of the year. In fact, some of the worst hit sectors such as hospitality and travel have also

seen some pickup in the third quarter. And the introduction of the vaccine is expected to catalyze economic activities further, which can provide tailwinds for India's economic growth.

Now in this context, the general insurance industry has been a safe harbor even through the times of uncertainty with gross direct premium income (GDPI) back in the black. Segments such as the motor insurance saw encouraging performance during this quarter, driven by growing need for personal mobility and spill over demand from the festive season. The pent-up demand for health insurance seen in the first half has shown some signs of tapering. As far as commercial lines are concerned, the fire segment continued to show robust growth, aided by the rate hike that came into force in January 1, 2020. While marine and engineering lines witnessed some pickup with the resumption of economic activity in this quarter. With the current macro and micro indicators coming to play, we remain confident that the GI industry is set to outperform in terms of growth.

Now speaking of the performance, as per the disclosure on the website of IRDAI, the general insurance industry registered a growth of 2.5% for 9M FY2021 over the previous nine-months, with the industry GDPI moving up to ₹ 1,456.79 billion in 9M FY2021 from ₹ 1,420.85 billion in 9M FY2020.

The combined ratio for the industry was 105.2% in the H1 FY2021 as compared to 115.7% in the H1 FY2020, based on available information from public disclosures. Excluding one company which has not disclosed its numbers for Q2 FY2021 as yet. Further, the overall combined ratio for the private multi-line general insurers was 103.0% in H1 FY2021 as compared to 107.2% in H1 FY2020.

Since our half yearly results call, we have witnessed new regulatory announcements that are focused on policy holders' benefit, including the exposure draft with standard terms and conditions issued by the authority in order to make available standard travel insurance, personal

accident and named indemnity based vector-borne products with common coverage and policy wordings across the industry.

The authority also issued guidelines on certain standard products that shall be mandatorily offered by general insurers carrying out fire and allied perils insurance business with effect from 1st April, 2021. The standard products include Bharat Griha Raksha meant for home building and home content; Bharat Sookshma Udyam Suraksha meant for enterprise with total value at risk up to ₹ 5 crore; and Bharat Laghu Udyam Suraksha meant for enterprises with total value at risk from ₹ 5 crore to ₹ 25 crore.

The Authority had also issued an exposure draft on withdrawal of existing long-term credit-linked group insurance products under the health insurance business with effect from January 1, 2021. The industry through the GI Council has represented to the industry.

Let me now turn to the claims behavior observed in the recent quarters. With economic activity normalising, motor OD claim frequency has reached pre covid level. In case of health, overall claim frequency has almost reached pre-COVID levels. For the industry, COVID claims reported as on December 31, 2020, was roughly about 7.68 lakhs, of which 39,000 claims were reported with ICICI Lombard. However, the new COVID cases reported in the month of December 2020 has seen a slight moderation.

The recent pandemic provided us an opportunity to foster and accelerate innovation, deliver improved customer service, up-skilling and re-skilling of our employees and distributors. Over 97.5% policies issued by us in the nine-month ended December, 2020 are in paperless form. Under the SME segment, close to 91% of the business sourced were through these digital solutions. During the quarter, we also launched a website dedicated for our small and medium businesses. The new platform will serve as a one-stop solution for SME owners to buy or renew insurance products, endorse their insurance policies, and register claims. This is first in the industry.

In our previous call, we also shared about our new technology enablements, including the AI and ML enabled solutions that help in policy issuance, claims fraud control and servicing. Our automated AI solution auto-approved close to 66% of motor break-in and self-inspections in December, 2020, up from 40.6% in March, 2020. On the health insurance front, under group health policy, 63.1% of the fresh cashless requests were authorized by an AI and ML enabled engine for December, 2020 as compared to 31% in March, 2020.

Our mobile app, ILTakeCare, has crossed 3.44 lakh downloads, enabling more and more customers to avail our insurance and wellness solutions. We continue to add digital capabilities in servicing, including the process of endorsements. Since its launch last year, 73% of all group health premium bearing endorsements are now done digitally, reducing processing time from weeks to minutes. And roughly about 45% of our motor policy endorsements from agency channel are processed real-time using our digital solutions.

We have also introduced a revised HR policy wherein employees can work from anywhere, even post the pandemic, while ensuring work environment we create is comfortable and secure.

Through this unprecedented year, our laser focus has been on enhancing customer experience, new product offerings, creating workplace transformation, thereby adding value to our stakeholders. We are continually focusing on evolving our strategies to further consolidate our position in general insurance segment, while retaining our mission of creating long-term value-add for our stakeholders through prudent risk selection and sustained profitability.

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

Gopal Balachandran: Thanks, Bhargav. And good evening to each one of you. I will now give you a brief overview of the financial performance of the company for Q3 FY2021 and 9M FY2021 this year. We have put up the results

presentation on our website, you can access it as we walk you through the performance numbers.

The gross direct premium income of the company stood at ₹ 105.25 billion in -9M FY2021, as compared to ₹ 101.32 billion in 9M FY2020, a growth of 3.9% compared to industry growth of 2.5% for a similar period. On a quarterly basis, the GDPI grew in Q3 FY2021 by 9.2% over Q3 FY2020, compared to the industry growth of 4.9%. Our focus on preferred segments primarily drove our GDPI growth. Consequent to the increase in minimum prescribed rates for certain occupancies under the fire segment, this portfolio registered a robust GDPI growth of 44.8% in 9M FY2021, thereby catalyzing the GDPI growth of our property and casualty segment. Going forward, the growth in this segment is expected to normalize. As indicated in our results presentation, the overall property and casualty segment grew by 22.0% for 9M FY2021 over 9M FY2020.

On the retail side of the business, motor segment was back in the black, registering a growth of 2.1% in 9M FY2021. Individual health indemnity business grew by 25.7% for 9M FY2021. To harness the potential of these segments, we have been expanding our distribution network to increase penetration in Tier-3 and Tier-4 cities. Our agents, including the Point of Sale distribution, or POS, increased to 55,615 as on December 31, 2020, up from 52,785 as on September 30, 2020. The advance premium numbers was ₹ 31.97 billion as at December 31, 2020, from ₹ 31.60 billion as at September 30, 2020.

Insofar as the progress in relation to the scheme of arrangement with Bharti AXA is concerned, we have filed the application with NCLT who has directed us to convene a meeting of shareholders to consider and approve the scheme of arrangement on February 23, 2021. The expenses incurred of about ₹ 0.36 billion have been absorbed in the P&L during 9M FY2021.

Our combined ratio stood at 99.1% in 9M FY2021 compared to 100.5% in 9M FY2020, despite the cyclone and flood losses. Excluding the

impact of cyclone and flood losses, the combined ratio stood at 97.7% in 9M FY2021, as against 99.5% in 9M FY2020. Combined ratio for the Q3 FY2021 stood at 97.9% compared to 98.7% in Q3 FY2020. Excluding the impact of cyclone and floods, the combined ratio stood at 96.6% in Q3 FY2021 as against 98.7% in Q3 FY2020.

Our investment assets rose to ₹ 298.92 billion at December 31, 2020, as compared to ₹ 291.62 billion at September 30, 2020. Our investment leverage, net of borrowings was 4.05x at December 31, 2020, as compared to 4.13x at September 30, 2020. Investment income increased to ₹ 16.59 billion in 9M FY2021, as compared to ₹ 14.41 billion in 9M FY2020. On a quarterly basis, investment income increased to ₹ 5.68 billion in Q3 FY2021, as compared to ₹ 4.27 billion in Q3 FY2020. Within this, our capital gains was at ₹ 2.92 billion in 9M FY2021, as compared to ₹ 2.24 billion in 9M FY2020. Capital gains for Q3 FY2021 was at ₹ 1.08 billion as compared to ₹ 0.17 billion in Q3 FY2020.

Our profit before tax grew by 13.4% to ₹ 15.04 billion in 9M FY2021, as compared to the ₹ 13.26 billion in 9M FY2020. Whereas profit before tax grew by 7.3% to ₹ 4.18 billion in Q3 FY2021 as compared to ₹ 3.90 billion in Q3 FY2020 and this includes upfront expensing of acquisition cost relative to the growth of 9.2% in GDPI for Q3 FY2021, whereas the full benefit of the earned premium will be realized over the policy period.

Consequently, profit after tax grew by 23.6% to ₹ 11 .27 billion in 9M FY2021, as compared to ₹ 9.12 billion in 9M FY2020, primarily due to lower effective tax rate of 25%. Profit after tax grew by 6.6% to ₹ 3.14 billion in Q3 FY2021 as compared to ₹ 2.94 billion in Q3 FY2020.

Return on average equity was 22.4% in 9M FY2021, as compared to 21.8% in 9M FY2020. The return on average equity for Q3 FY2021 was 17.6% as compared to 20.3% in Q3 FY2020 and this includes the upfront expensing of acquisition cost, which I referred to earlier, relative to the growth of 9.2% GDPI for Q3 FY2021. Whereas the full benefit of earned premium will be realized over the policy period.

Solvency ratio was 2.76x at December 31, 2020, as against 2.74x at September 30, 2020. Continued to be higher than the minimum regulatory requirement of 1.5x.

As I conclude, I would like to reiterate that we ended Q3 and 9M FY2021 with healthy financials. Our competitive strength which contribute to sustainability and positions us well for future growth, includes consistency in market leadership, diversified product mix with multi-channel distribution network, excellence in customer service and technology, robust risk selection, and strong investment returns on diversified portfolio. Through our business performance, we have always endeavored to create long-term sustainable value for all of our stakeholders.

I would like to thank you all for attending this earnings conference call. And would be happy to take 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 Hitesh Gulati from Haitong. Please go ahead.

Hitesh Gulati: Sir, my question is related to the benefit policies that you spoke about. So can you just update on what is the latest update regarding what IRDAI is saying regarding the policies that attach along with loan product? And also if you could help us with how much of benefit versus indemnity we have done in Q3 FY2021 and what has been the claim ratio of the two categories?

Bhargav Dasgupta: So let me answer the first part of the question, Hitesh and then I will ask Gopal to explain the overall numbers on the benefit side Q3 FY2021 vis-à-vis Q3 FY2020. So in terms of the circular, it was an exposure draft which said that from January 1, 2021 onwards these policies will be stopped. As an industry we represented, this would have, we believe, a negative impact, so we represented and as of now, we have not heard anything either way but the fact is that the draft policy has not been converted into a final regulation effective January 1, 2021. So as of now it's not been withdrawn and that is the status. When we finally

get a confirmation, we can give you the final picture from the regulator's perspective.

One of the things that has happened for us in ICICI Lombard is that a large part of our health benefit policies comes from bancassurance channel in any case, and within that from ICICI Bank. And separate from this circular, ICICI Bank had anyway decided sometime in early this quarter that they would reduce the focus of distribution of health insurance business, particularly in the attachment side, because they are focusing on building out the core banking business, given that the first half it was slow and the opportunities are high, they wanted the team to focus on core banking business. The bank has indicated that it would obviously reassess this approach in due course. But because of that call of the bank, anyways whether this circular is effective or not, as of now our benefit business has come down significantly. And if you look at our aggregate health numbers, that's one of the reasons why we have been impacted adversely. But specific details about numbers, I will ask to Gopal to give you.

Gopal Balachandran: Hitesh, I will give you the numbers for the retail segment, because that's what would be of importance. If you look at the breakup of the retail business that we do, the indemnity business that we did in 9M FY2020 was about ₹ 531 crore, and in 9M FY2021 that number is about ₹ 644 crore, a growth of about 21.3%. Insofar as the benefit is concerned, the same numbers for 9M FY2020 was ₹ 638 crore, that number for the 9M FY2021 is at about ₹ 287 crore. And to your other point with respect to what are the loss ratios that we get to see insofar as indemnity is concerned, the indemnity loss ratio was roughly at about 70% in 9M FY2020 and for 9M FY2021 the indemnity loss ratios was operating at about 83%.

Hitesh Gulati: Okay. And sir, for the benefit product, what would be the loss ratios?

Gopal Balachandran: Benefit product, Hitesh, as we have already explained, inherently generally it has been a profitable segment. The loss ratio kind of ranges

anywhere between, 35% to 50%, depending on the experience that we see between periods.

Hitesh Gulati: Sir, actually the reason I am asking is because over the last three years the combined ratio in health has been very strong, at around 90%. So now that we are not doing benefit policies and also even if you look at the nine-month numbers our health insurance combined ratio is expected to go high. Will that be the trend going forward?

Gopal Balachandran: As far as the trend is concerned, I think what we have explained even in our prior calls, that indemnity in the aggregate, when you look at the corporate part of the business, inherently they come with a very high loss ratio, but their cost of acquisition for that portfolio is relative in a single-digit number. And as far as the retail portfolio is concerned, the loss ratio tends to kind of be relatively lower while the cost of acquisition tends to be higher. But both the portfolio's put together, I think the attempt for us has been to try and run the overall combined ratio at the threshold level of about 100% that we have spoken about.

As far as the way forward is concerned, I think the attempt will be to exactly continue to do that and in this particular period, there has been an impact insofar as the growth in the benefit segment is concerned. But however, the way forward is concerned, I think we would logically expect some of this benefit growth to play through, and the overall health loss ratios is concerned, as I said, the combined ratio is something that we would expect to maintain at the threshold of 100%. That's one.

The second aspect is what I spoke about also with respect to, COVID claims. What we have seen, of course, clearly that all of us can see is the incremental number of intimation seems to be on the decline, which is quite evident and even we have kind of seen that particular experience. Obviously, one will have to wait and see how the development takes place so far as Q4 is concerned. If the current trend continues, then obviously to that extent the experience on the loss ratios should get better so far as COVID claims are concerned.

But at the same time, on the non-COVID cases, if you recollect in terms of what we have been speaking over the last few quarters, logically when we would expect a reduction in COVID cases,the non-COVID cases will start to come back and in Q3 specific, we have already started to see the claim intimations coming back, in fact, slightly higher than even pre-COVID times. So hence a mix of both, I think the attempt will be on an overall health portfolio, we would want run the book at a combined ratio of around 100%.

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

Ajox Frederick: Sir, my question is with respect to motor underwriting quantum. So, that was pretty worse versus Q3 FY2020. However, the loss ratios are much better, so does this imply that we are upfronting acquisition cost and therefore the underwriting profit is showing such a big negative number? Or has there been any change to the commission structure? That's my first question. Second is with respect to the change in IBNR as a proportion of total claims. That has been a pretty low number this quarter, again, because of the conservative assumption. So those are my two questions.

Bhargav Dasgupta: So, again, I will ask Gopal to answer the second one, let me answer the first one. So, if you remember one of the things that we had said at the beginning of the year or after the first quarter, we had seen some benefit in terms of frequency reductions on the motor side but we had said that it would not be prudent to take the full benefit in the first quarter because there would be increase in frequency as people come back and personal mobility picks up, and we would prefer to even it out for the year so that's a call that we took. And I think in hindsight that it was a conservative call and a right call. So when you look at the loss ratio, you have to keep that in mind in terms of what's happening. So look at it on an annual basis rather than just a quarterly basis.

The second point is, what you are saying is absolutely right. So the basic accounting policy that we have in general insurance, so we don't

have that, as in the sourcing cost is not deferred over the period of the policy, it is upfronted. So whenever in a quarter we have high growth relative to the prior quarters, because the income or the earning of the policies that were written in the prior quarter comes in now, but the premium that we write is again spread over the next twelve months. But the sourcing cost, as in the percentage, if the growth is very high then the upfront cost comes and impacts in that quarter. A bit like what happens in strain for life business with a shorter duration, so that happens. So if you see, this quarter our motor growth was roughly about what 14%-14.3%. But if you go back to our motor growth in Q1 FY2021 was about -22% and for the half year also it was -6.5%. So we are seeing tremendous growth in this quarter relative to what we saw in the previous quarter. So that has had the impact that you identified. Gopal, on the IBNR?

Gopal Balachandran: Yes. On the second point, Ajox, I just want to kind of get a clarity. Are you referring to in the context of motor or are you referring in the context of overall?

Ajox Frederick: Overall, sir. Overall.

Gopal Balachandran: So overall, you are looking at IBNR as a percentage of?

Ajox Frederick: Total claims.

Gopal Balachandran: Yes, so I think obviously what happens IBNRs are based on estimations of losses that we expect on the various segments of businesses. And to the extent some of the portfolio claims are actualized, then obviously a large part of this claims will get reduced from IBNR and logically kind of get converted as a part of either claims paid or to that extent it will be a part of claims outstanding, assuming if any of them are yet to be settled. So that's one.

The second factor is, in this particular quarter I think what has also happened is, in line with what we had mentioned even in the earlier quarters, some of the outstanding crop receivable, the receipt of which had happened in quarter one and quarter two, there has been outflow

of claims which has happened in quarter three hence to that extent also there is an element of both claims outstanding as well as, to the extent of the IBNR that we would have carried on the portfolio, that would have significantly seen a decrease.

And the third factor is, as far as the approach to reserving is concerned, there has been no change in the reserving approach, vis-à-vis Q3 as compared to any of the prior period. The approach has pretty much remained the same. And in fact, when you look at the loss ratios specifically in the context of motor, for example, you would have seen, for example, on own damage for Q3 FY2021 the loss ratios were actually at almost about 63% vis-à-vis, let's say, almost a 59% that you had seen in Q2 FY2021. Or for the matter of fact even third-party Q3 FY2021 loss ratios are about 65% as compared to, let's say, the TP loss ratio of about 62% in Q2 FY2021. So hence, from an approach or methodology, there has been no change. It is just that some of those IBNR reserves that would have been created in the earlier period, they would have got actualized in terms of claims getting reported and paid.

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

Udit Kariwala: My question was in relation to the investment leverage. Now this is, I guess, in this quarter it has come down to 4.05x. So some color around this, what do you expect going forward and some rationale behind this dip?

Bhargav Dasgupta: Yes. So two major factors, one is, as Gopal explained, there was some of the older policies in crop that we had written. I mean, as you know, money comes in much later. So premium had come in the earlier part of the year and the payout of claims happened in this quarter, so there was a large amount that went out. Secondly, even in terms of the leverage for last year, as in for the year gone by and even for half year, we have not paid any interim dividend, because of the regulatory mandate that we have got, that no insurance company or no bank is allowed to pay a dividend. So effectively, normally we would have paid

out some dividends that would have reduced the denominator. But also, we had the impact of the crop claims being paid out in one shot. But for this the number would have been in the 4.11x or 4.13x, depending upon what number you look at in that ballpark.

Udit Kariwala: So sir, if I have understood you correct, you are saying that because the dividends were not paid your denominator, as in the earnings was inflated. And your numerator took a hit because of the outflow on account of the crop business?

Bhargav Dasgupta: Yes.

Gopal Balachandran: If you look at that, Udit, in the context of relative comparison with the nine-months of previous period, I think Bhargav's responses is in that context. Yes.

Udit Kariwala: And what crop outflows are these, when were these written? I mean, sorry, I missed that part.

Bhargav Dasgupta: So these are crop portfolio that we have written during the year 2018, 2019, some of which were outstanding with respect to collectability of premiums and during this year, which is 2021, as I explained, in quarter one and quarter two we were able to realize a large part of those outstanding premiums for the crop business that we had underwritten in 2018-2019. And in Q2 and Q3. Q3 largely is where we have had a share of outflow with respect to settlement of those claims.

Udit Kariwala: Okay. And just one last bit related to this. Related to crop, is there any large outflows still remaining or most of it is now….

Gopal Balachandran: Our outstanding premiums is virtually as good as zero, but for a very small amount of roughly about ₹ 77 crore is all that remains on the balance sheet. But otherwise, all other crop premiums that were outstanding as at the earlier balance sheet, they have all been received.

Moderator: Thank you. The next question is from the line of Prayesh Jain from YES Securities. Please go ahead.

Prayesh Jain: First is a very basic question on the NEP to NWP net premium ratio. That seems to have declined substantially in this quarter. So what's the reason for that?

Bhargav Dasgupta: Gopal, you want to explain the accounting?

Gopal Balachandran: So NEP to NWP, is purely a function of what kind of business that you write. And hence to that extent, I think whatever businesses that you have underwritten, I think they all get earned on 1/365 day basis. I think it is purely a function of the volume of premiums that you have underwritten. But more importantly, when you look at quarter three specific, I am not necessarily referring to, let's say, the NEP to NWP ratio. In fact, when you look at the NWP growth numbers, particularly for quarter three, you would see that the growth is almost about 20%.

So that was the point that I was kind of referring to so what effectively happens is whenever you write the businesses, let's say, especially when the businesses are growing, then what effectively happens is the cost comes and hits you upfront whereas this NWP growth of 20% is something that will start to get earned over the policy period. And in the past periods, relatively, if you see the NWP growth for let's say Q1 and Q2, most specifically quarter one as compared to Q2, the growth in NWP has been relatively lower because of understandably so the volumes of business were also not so great. And hence, incremental earned premium contribution would be lower but as businesses have started to pick up in terms of growth, logically you will start to see the NEP to NWP ratios going up.

Prayesh Jain: Okay. Sir, going ahead, ideally this should start moving higher, is that the right assumption?

Gopal Balachandran: That is correct. I think given the fact that now a lot of activities have started to open up, in the context of whether it is the commercial activities, commercial lines of businesses, and motor in specific. Again, as Bhargav explained, we have been able to have a significant outperformance insofar as growth is concerned and even on the health part of the business, while it has been mix bag in terms of growth as we

speak. But logically, at least so far as the way forward is concerned, definitely in terms of opportunity one sees a lot of positivity in it. And hence, assuming things start to get much better than what we seen over the last nine-months, definitely the NEP to NWP ratio will look positive.

Prayesh Jain: Okay. My second question was on the claims paid or the severity of the health portfolio, especially on the retail side. While frequency as you mentioned that the number of claims is back to pre-COVID level, but with regards the severity, how is that panning out? And even for the same thing on the motor OD side, do you think that the Q4 FY2021 could be really bad or really relatively worse as compared to Q3 FY2021?

Bhargav Dasgupta: So in terms of the health claims, what Gopal explained is the numbers have come back but it's also on a larger base of policy. So if you look at our non-COVID frequency, it's still slightly lower than what it was pre-pandemic, but it's kind of caught up mostly and within that when we look at different types of claims, we see the small medical management, this is medical management like you have a stomachache you go to the hospital for two days and come back or just it's a fever, you get hospitalized for a couple of days its not surgery or not an accidental hospitalization etc. So those cases we have seen a lower frequency still, which is similar trend what we have seen in the past in terms of people not going to hospital unless they really have to. So we have seem that frequency still remain low. What that does is while the frequency comes down, the surgery cases are more expensive. So to that extent, the ACS goes up as a blend, as a mix. But if I look at each of those categories, as in the ACS or average claim size increase for medical management cases or elective surgery cases or emergency case, there the ACS has not gone up significantly, normal inflation, nothing particularly high. COVID claims, Gopal again has given the numbers, that's coming down.

Prayesh Jain: And on the motor side?

Bhargav Dasgupta: Motor side, it's on par, there is no unusual spike in ACS.

Sanjeev Mantri: Hi, this is Sanjeev here. Vis-à-vis Q2, sequentially, as Bhargav had mentioned, we have seen improvement. And the season, actually the quarter-on-quarter growth both on private car and two-wheeler on SIAM number has been very reasonable. We do believe that Q4 on an overall from both perspective should remain positive.

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

Sanketh Godha: My question is, again, on the benefit based health products, which is one of the major reason why we have very strong profitability in health portfolio. So just wanted to understand, if ICICI Bank is going to become zero almost on incremental basis, if they continue to focus on core banking products, assuming that in attachment of this is allowed by regulator, then should we assume that given ICICI Bank might be contributing bulk, we see 80-90% of the benefit base what we would be doing. Then again next year we could be seeing a significant overhaul in this business? Or do you think this could be substituted by HDFC Bank or Axis Bank, when Bharti AXA will come in probably in FY 2022? So that is my first question on benefit based health.

Second question which I had was with respect to motor TP. Since actually people driving vehicles have significantly gone up probably in Q3 FY2021 compared to Q2 FY2021, still the loss ratios what we are reporting in motor TP at 65.5% or 65.7% in Q3, are these numbers sustainable given historically we always had a higher number? And this lower number is largely because lower claim intimation, which actually it's looking at and therefore we are providing lower? Or is it generally because of a reserve release from the cost vis-à-vis achieved leading to this improvement?

These are the two major questions. One small one which I have is with respect to retail indemnity, the new retail indemnity seems to have slowed down sharply in Q3 FY2021 at around 17% growth versus 77% in Q1 FY2021 and 48% growth in Q2 FY2021. So just wanted to understand the broader trends there too.

Bhargav Dasgupta: Yes. So three questions, Sanketh, so let me try to answer; and Gopal, you can step in and add to what you think.

Gopal Balachandran: Sure, Bhargav.

Bhargav Dasgupta: So in terms of the first question on the credit-linked business, so obviously ICICI Bank contributes a large part of the credit-linked business for us, particularly benefit piece. If I look at the credit-linked business in aggregate, that last year was roughly about 7% of our business. As we speak, for the Q3 FY2021, given the fact that bank took a call to focus on core products, that's come down to a shade lower than 3% of our business. So it's been a pretty sharp reduction.

Now, what can happen in the next year? So at this point in time, the bank has clearly said that we want to continue to focus on their core business, because in essence they are coming out of the slowdown in the mortgage business in the past, and they are wanting to ramp up that business. And what they have told us is that they will obviously reassess this approach once things stabilize. So, we are reasonably hopeful that this is something that will get to see in the next year coming back.

But if you look at just the amount of business the bank does for us on the benefit side relative to the total business that we write, the bank contributes a bulk of the benefit business. We also get a lot of benefit business from the other non-ICICI bancassurance partner, NBFCs, HFCs and other banks and that segment, for this quarter, has actually seen a growth over last year, roughly 13%- 14% and is beginning to pick up. So we are reasonably hopeful that segment will now start picking up. But of course, can't replace the bank given the sheer size of the two pieces.

Now as I said, so next year is, one is we are reasonably hopeful that the bank will reassess its approach. But the more important thing is, next year if we add partners, and by the way, we were adding partners, last year we added a couple of banca partners, this year we have added one more partner which, we believe, reasonable potential. And once the integration happens, whatever happens in terms of banca partners that

we'll get, obviously, all of that will compensate for any losses, if at all it happens.

Second question was on motor. You see, in motor, again, I will repeat what I said. One of the calls that we took in the beginning of the year was that we will not take the full benefit in the first quarter of the frequency losses, we will do reduction in frequency and we will average it out over the year. And if you see some of the other players in the market had a very sharp reduction in, let's say, OD loss ratios in the first quarter and the first half. For us, it was reasonably kind of evened out because we just wanted to be more conservative and we believe, as I said, that's a right approach. So it's in a sense a kind of evened out loss ratio that we are seeing.

In terms of sourcing, what we see incrementally in the business that we are writing, and as you know, we have a predicted loss ratio when we write a business. We are in a sense back to the pre-COVID situation. If you remember, we were saying pre-lockdown that the motor OD business has reached a level where the combined for the industry is probably 110% , because the sourcing cost of the loss ratios were pretty elevated because of hyper competition. If you remember in Q3 FY2020 and Q4 FY2020, we were saying we need to see some price increase and we were beginning to see those conversations that were happening. That obviously stopped when the pandemic lockdown happened.

As we speak today, we are in the same boat, in the sense that because now the frequencies are back to pre-COVID levels, people are using their cars as much as in the past. So we clearly need to see some price corrections in the business. And from our perspective, we have already started doing this quarter, is actually start pushing the system on some price increases. And we are hopeful that the market will also move with us, because at this level on an incremental basis the business is under severe pressure. So I hope that answers your second question?

Sanketh Godha: Sorry Bhargav, I was largely referring to motor TP, the loss ratios being…

Bhargav Dasgupta: I am talking about motor OD, I was referring to motor OD.

Sanketh Godha: Sorry, but my question was more towards motors third party where the loss ratio now has become like 65%- 66%so, there it seems to be very low number compared to our historical past. So whether that number is itself sustainable or not, because just wanted to understand, is it because of the reserve release or is it because of the no-claim intimation? Because we usually used to operate in the range of 80% and maybe before in FY 2018 kind of a period, around 90% loss ratio. So this 65%, 66% is kind of a number is a more sustainable number? Or we are seeing a reserve release benefit or low claim intimation benefit and that's why we have seen these kind of good set of numbers in motor TP loss ratio?

Bhargav Dasgupta: So on motor TP, you should look at an annual number, as we have always said. There could be periods where for a quarter, as you know, every quarter we actually looked at the data and take a call on the adequacy of reserves. So there could be some fluctuation on a quarterly basis, you should look at the annualized number. But to answer your question, we believe there has been definitely a positive in terms of frequency drops, we have seen that across our portfolio.

We have also seen some releases in this quarter because of the conservative practices of reserving that we have had. But what we are also doing incrementally is, whenever we look at reserving for the new book that we write for the future, we create again a conservative buffer margin for adverse deviation as we call it. So that practice has not changed, we continue to be conservative in terms of reserving for the incremental book. But we have seen a bit of benefit on both sides and that's what we are seeing. But I think you should wait for the whole year number before we take a full call. That's on the TP side. And you had a third question on, I think on new retail indemnity, right? Gopal, do you want to answer that?

Gopal Balachandran: So Sanketh, on the indemnity part, if you look at, in general, if you were look at particularly large part of indemnity gets sold in the context of the industry classification of retail health. There if you can clearly see industry growth in line with what we had also indicated that obviously in the initial periods of the COVID situation, there was clearly a heightened awareness and the need for one to have some form of a health insurance or the other. And that's also reflective insofar as the overall growth for the market also.

So if you look at Q1 FY2021 growth of retail health for the industry was about 24%. This number, if you see for Q2 FY2021, the industry growth on retail health was almost about 43%. And if you see for Q3 FY2021, the industry growth on retail health is down to about 23%. So clearly, in some sense, some of the pent-up demand that we had seen for Q2, to some extent obviously we have seen, let's say, moderation of the growth rates in line with what we had also indicated, saying that the level of incremental growth that we are seeing, particular in Q2, we will have to wait and see in terms of its sustainability. And to some extent, one has already seen that playing off when you look at the overall industry growth Q3 as such.

Now in this backdrop, if you look at ICICI Lombard's indemnity growth again in the context of retail, for against the industry of 24% our Q1 FY2021 growth was about 25%. If you look at Q2 FY2021, the industry growth was about 42%, what I had indicated, 42-43%, our growth rate was about 35%. And for Q3 FY2021, for us the indemnity growth rate has been at about 17%. So in line with the industry trend, even we are kind of experiencing, let's say, a relative slowdown of the pent-up demand that we had seen in quarter two specific. And to that extent, obviously, the 17% growth will have an impact insofar as both what we see as new indemnity growth and also the extent of renewals that one gets to see. So largely the growth rates have been in line with what we are saying also insofar as the market is concerned.

Bhargav Dasgupta: Just to add to what Gopal said, even if you look at the month-on-month number in Q3 FY2021, for October, 2020 we were higher than the

market growth, in November, 2020 we relaunched the health product, a complete revamp, and we have talked about it in last quarter year also. And that initially took some time to stabilize in the market because of new product, training agents, etc. But December, 2020 numbers has picked up compared to November, 2020 and we are almost in line with the market for December, 2020. But in aggregate, over the three months, we are slightly below the industry. So we are reasonably hopeful that we should be continuing to doing well in the retail indemnity space.

Moderator: Thank you. The next question is from the line of Deepika Mundra from JP Morgan. Please go ahead.

Deepika Mundra: Yes, good evening, sir. And thanks for the opportunity. A few questions from my side. Last quarter you had mentioned you took a price increase in health. I think you in your commentary indicated that even motor OD, the price is more or less stabilizing. And you typically guided to a 99% or to 100% combined ratio. Would you think that you could finally see a meaningful underwriting profile shift with the change in pricing cycle? The second question is on the P&C business. Have you renewed any of the reinsurance treaties in January, 2021? And is there any rate increase which will further impact P&C cycle?

Bhargav Dasgupta: Gopal, you want to take the second question?

Gopal Balachandran: Yes. you are absolutely right. I think in the P&C business, two things. One, you have to be mindful of the fact that the growth rates what you are seeing, particularly in the P&C segment, of which a large contributor happens to be the fire part of the business, the industry has done exceedingly well, primarily driven by the rate change that we had seen on two occasions in the last twelve months or so. So hence to that extent, when you now look at renewals that to some extent happens in January 1st, and predominately bulk of the renewals that will happen from April 1st onwards, you will have to kind of factor in for some kind of a normalization of growth rate insofar as the fire segment is concerned. So that's one insofar as revenues are concerned.

To your point on the reinsurance, Q4 is the period where bulk of the discussion starts to happen insofar as renewals are concerned. And hopefully, towards the later part of the quarter is where most of our reinsurances will get stitched in. Because, for us April 1st happens to be a predominantly a very big day for us. And hence, as I said in the later part of quarter four is where most of the renewals will happen in the context of reinsurance.

Having said that, I think what we are seeing as initial experiences insofar as discussion with reinsurers is concerned, again, it's purely a function of what kind of portfolio experience are you exhibiting with the reinsurance partners. To that extent, I think given that we have been able to stay disciplined with our overall operating outcome of combined within that 100% threshold, we believe, again, in terms of renewing the terms with reinsurance are concerned, we should not see any significant shift. But of course, there will obviously be to some extent of a price hardening that one would expect, but we are not expecting anything significant given the portfolio experience that ICICI Lombard has been able to exhibit relative to the quality of the book that we have underwritten.

Bhargav Dasgupta: And just to add to what Gopal Said, if you see your January 1st renewals in the global market and what's been happening in the Asian market, what was expected maybe five, six months back in terms of significant hardening of reinsurance rates, that has not played through in Asia and even within that, the treaties that have been performing well haven't seen tremendous rate increases. So we remain reasonably optimistic about the discussion of the reinsurance, even if there is some increase it may not be material.

Coming back to your first question, Deepika. So I think this is something that we have been saying, right? That if structurally the interest rate environment of the country comes down and stays down, honestly, we have always been saying that we don't believe that may happen. But if it happens industry will be forced to become a lot more disciplined on combined ratio front. I was referring more to a shorter term

phenomenon that if you remember last year also we were saying that motor OD prices have to increase and then we had the pandemic and lockdown and hence there was really no need for that. But I think, again, today there is probably the same pressure that the industry would be facing and at least we are taking some lead in trying to push the pricing where we believe it is a reasonable ask. And we'll see how it plays to in this quarter. We are reasonably hopeful that we'll be able to make some headwinds.

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

Rishi Jhunjunwala: Sir, a couple of questions, one on motor. I think in your initial remarks you were talking about some business acquisition related expenses. I am sorry I missed a major part of that. What exactly happened on the OPEX ratio for us given that it is almost 35% Q-o-Q increase in those OPEX as well as on the commission side? Just wanted to again understand.

Bhargav Dasgupta: Gopal, I think you were talking about the acquisitions of the transaction that we announced, right? But anyway, if you can explain that?

Gopal Balachandran: Yes. So I think, in general, Rishi, what effectively has happened is, I think you are referring to the increase in the overall cost. So what we were indicating was whenever growth starts to come back, as what we have seen in Q3 FY2021, we have been able to see an overall gross premium growth of almost about 9.2% and within that, if you would have seen, motor growth has been quite reasonable, at almost about 14% growth. So whenever growth starts to come back, there is always an impact of the upfronting of acquisition cost that plays through the P&L immediately, whereas the benefit in the form of earned premium is something that will play through over the policy period. And that's evident when you look at, for example, the net written premium growth rates for quarter three, that number is at about 20%. So the benefit of that NWP is something that will play through as the earnings happen. However, the cost is something that comes and hits you upfront.

However, this largely gets taken care of, so when you look at it from an absolute number, obviously, to that extent the underwriting number will look a little adverse on an absolute basis. But when you look at it in the context of the expense ratio, I think, for example when you look at Q2, I am talking about both, since you mentioned about both OPEX plus commissions put together, for Q2 FY2021 the OPEX plus commission ratio was roughly about 33.9% and if you look at for Q3 FY2021, that number is down to about 32.4%. And within that, if you look at the OPEX ratios, the OPEX ratios for Q2 FY2021 was 27.3% and Q3 FY2021 that number is about 25.4%. And this, even if you see vis-à-vis Q3 of last year, that number was at 24.7%. I am just talking about the OPEX ratios number that was 24.7% vis-à-vis 25.4% for Q3 of this year. So hence, to that extent, I think from a combined perspective, the impact of upfronting of expenses gets taken care of. However, from an absolute underwriting outcome, because of the upfronting of cost you get to see the underwriting results to be little adverse.

Bhargav Dasgupta: And just to add to one more point to what Gopal said, when you look at Q-o-Q, Q3 is a very big period for motor compared to Q2, right? And if you see the growth rate for Q3 FY2021 over Q3 FY2020, and growth rate of Q2 FY2021 over Q2 FY2020, we have actually had an even higher growth in Q3 FY2021. So on both accounts there would be an increase. And the other point that Gopal I think made on the opening call was the fact that the acquisition which we announced, Bharti AXA, that cost has been absorbed in the nine-month.

Gopal Balachandran: Yes, that number is about ₹ 36 crore in the P&L of the nine-months.

Rishi Jhunjunwala: Okay. And sir, is it fair to assume that if the growth rate sort of stabilizes at the current level when OPEX as a percentage will continue to drop over the next three quarter, as incremental premiums continue to get recognized, but of course costs have already been incurred or come through the P&L?

Gopal Balachandran: That exactly is what will play through Rishi.

Bhargav Dasgupta: Rishi, see, if it slows down, yes, relative to any quarter, whenever we slow down we will have an impact you will see that, yes.

Rishi Jhunjunwala: Okay. And secondly, can you give us some quantum, taking FY 2020 as a base year, in terms of how much of the benefit business did we do in the FY 2020 from ICICI Bank? And accordingly, the impact on combined ratio maybe on an overall entity perspective?

Bhargav Dasgupta: Gopal, you want to answer that?

Gopal Balachandran: Yes. So effectively, I think, Rishi, what we had indicated was, as Bhargav mentioned, obviously, bank is a key distribution partner for us insofar as sourcing of businesses is concerned. And roughly, if you look at the overall contribution that the bank did insofar as premiums are concerned for FY 2020, roughly bank contributed. So again, I am talking about the overall contribution of all credit-linked businesses, whether it is indemnity and benefit put together that number roughly constitutes about 7% of the total gross direct premium income of the company, that's for FY 2020.

And in line with what we have been indicating, if you look at for the current nine-months, obviously it's driven by two factors, even to the extent the levels of disbursements have also been lower and bank specifically also has been a key factor to it. And this number of 7.1% that have kind of indicated, that's for the FY 2020. If you look at for the nine-month period, the contribution of, again, the total credit-linked policies through all channels put together, that number is about 2.9% of the gross direct premium income that we have written for the nine-months.

Bhargav Dasgupta: So this number, Rishi, is for all the bancassurance business, ICICI bank and others, 7.1% has gone to 2.9%. And within the bank and non-bank, bank…

Gopal Balachandran: Almost should be 75%.

Bhargav Dasgupta: 75% would be bank.

Rishi Jhunjunwala: Okay. And one last question on the regulatory side. So, a couple of things. One is that, has the rule around claim intimation for six months, has that been notified? And when do we start expecting that to play out over the next year or 12-months hence on our leverage and other aspects of the P&L? And secondly, there is some recommendations about introducing the new premium, which is related to traffic violations. Do you think that is something we should have potentially passed and hold an upside risk? I mean, how is that playing? What do you think about this?

Bhargav Dasgupta: On the claims, I don't see there to be a big impact for us, because anyways six months we would pay most claims within that time frame so we don't see too much of impact financially for us. On the second one, this is just a report that has come from the committee. Obviously, there is lot of interest across all policymakers in bringing down accidents on the road and improving road safety. And one of the obvious factors is the way people drive. So, this is something for me the time has come. Whether it will happen in this coming year or not, that's difficult to predict. It may not happen so soon, but it will happen in due course. There will have to be a lot of data exchange that we will have to do as an industry and with the police systems to be able to do that seamlessly. But it will happen in due course. May not happen in the matter of six months, of course, but will happen in due course is our sense.

Rishi Jhunjunwala: Great. Thank you so much.

Bhargav Dasgupta: And I think we didn't answer your question on the combined impact on the credit-linked, just to complete that. I think what we have been also saying is that roughly about 7% - 7.5% of our profit comes from this business. So that has had an impact in this quarter. And it has an impact of about 1.3% to 1.7% on our combined, the credit-linked health business that we write.

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

Nidhesh Jain: Sir, firstly, if I look at the motor segment, we have gained significant market share in nine-months and in this quarter, so what has driven that? Whether we have gained market share in the new segment or with any particular two-wheeler, four wheeler, and CV, which segment we have gained market share? And secondly, sir, we are talking about that incrementally, the loss ratio in this segment has reached pre-COVID levels and probably the combined ratio for industry motor segment is around 110%. So in this environment, is it prudent to gain market share and grow this segment at a fast level?

Bhargav Dasgupta: Yes, so let me answer the second one, and then I will ask Sanjeev to answer the first question. That's a very excellent question in terms of when to grow market share. And as you know, we have traditionally been counter-cyclical. And our focus on gaining market share in the first six-months and maybe first seven, eight-months was very, very high. As we speak, maybe from the month of December,2020 we have turned a bit more cautious on the motor segment, again, becoming a lot more selective based on what we believe in terms of future loss ratio rather than the loss ratio that we have seen in the last maybe seven, eight months. So we are making those adjustments, absolutely correct. But Sanjeev, you want to take the first question on where we have grown in the seven, eight months that we have done?

Sanjeev Mantri: Certainly. I think on a Q3 number if you look at it, we would have grown in private car, two-wheeler as well as commercial vehicle. Clearly our growth has been excessively at almost 30-34% on the commercial vehicle side. But that being said, I think in a way what Bhargav also mentioned that we will continue to see where the opportunity lies and we will keep growing in those particular segments. But if you see in terms of the contribution of new to overall book, it used to be almost 33% thereabout, it has gone down to almost 29%. We have also gone back to our efficiency in terms of using Autoninja which we had acquired last year in October, so we have got a retention, the quality of retention that we are able to do, all of that has gone about in terms of driving our growth in the previous nine-months. Our approach primarily will remain tactical as to where we see an opportunity. If we see something

bothering on levels which don't make sense at the portfolio level for us, we would feel free to withdraw from it. And we have done that to some extent in some of the two-wheeler markets also in the last nine-months, because we felt that it was not making economic sense for us as a community to get in. That's probably the overall approach that we will drive. And we felt that in commercial vehicle there was a good opportunity available, we have gone and grown that.

Bhargav Dasgupta: Just to give you the breakup of Q3 and nine-months for new/old, Q3, the last quarter was over 33:66, for nine-months it was about 30:70 that Sanjeev talked about.

Moderator: Thank you. Before we take the next question, a reminder to participants to please limit your questions to two per participant. The next question is from the line of the Prateek Poddar from Nippon India Asset Management. Please go ahead.

Prateek Poddar: Sir, just wanted to check, when you talk about growth in the relation to upfront cost, that was there in the base also, right? So still we are seeing that the increase in costs are outstripping the increase in NWP growth. And also in relation to this, the employee cost seems to be flat Y-o-Y, so what's going over there? Is it this work from home policy, the digital initiatives? That's question number one. Question number two was, I am a bit puzzled as to when you say that ICICI Bank is focusing on core. I thought core was also about selling ancillary products as to generate ROE, because it is ROE accretive. And does that mean that ICICI Bank has also stopped selling SME products such as fire, health on the SME side? And lastly, sir, your thoughts on the third party hike which didn't happen in FY 2021. I mean, are you reasonably confident or is there some indication that they might happen in a FY 2022?

Bhargav Dasgupta: Yes. So the first question I will ask Gopal to answer in terms of the accounting and the impact, and the employee costs etc., operating cost. On the second one, the bank is selling all the other products, so all branch linked indemnity policies that we sell to retail customers, the SME business, they are continuing to that. I think the focus that we

talked about for the bank probably was more on the mortgage side, and that's where both these attachment policies, the credit-linked policies were sold. So that's a segment that they have said that they want to focus on scaling that business up. And it's probably they see it as an opportunity at this point in time, and maybe coming from low numbers in the first half. So, the SME and the other businesses are continuing with the bank. With relation to your third question, sorry, I just missed that question. If you can please repeat the question?

Prateek Poddar: TP hike.

Bhargav Dasgupta: TP hike. Look, my sense is that, look, as an industry we believe we deserve a TP hike because last year we didn't get it. So we are optimistic that we'll get a hike in the coming year. Normally we have always seen TP hikes every single year, so there is no reason why we should not get it this year, particularly given the fact that that last year we didn't get one. There will always remain a concern about the economic growth and whether there is any concern on price increase effecting growth, which in reality there isn't, in this case. But on balance, we remain very optimistic that we will get an increase on 1st April. Gopal, you want to take the second one?

Gopal Balachandran: So on the first point, Prateek, I think in line with what we have been saying, obviously the market has also been equally quite competitive, insofar as intensity is concerned. And therefore, to that extent that will also be a factor insofar as acquisition costs are concerned, and which is what I kind of indicated. Whenever kind of growth obviously comes back, to that extent you will have to see it in the context of what cost you are required to incur for sourcing the business, and correspondingly what is the loss ratio that you are exhibiting on the overall portfolio. And thereby, take a call with respect to the combined ratios that you want to operate at. And for that reason if you look at it from an expense ratio standpoint if you look at it on a sequential basis, both operating expenses plus acquisition cost put together, the numbers for Q2 FY2021 was roughly about 33.9%. and for Q3 FY2021, that number is at about 32.4%. So now obviously, the cost that you've incurred will get

expensed out immediately, the benefit is something that will play through over the next term of the policy period.

On the employee cost, I think the cost have more or less remained the same because I think clearly the focus for us is to derive significant efficiency based on the operating model. And the point that you made is absolutely right, obviously, the operating model is a key factor. And we are kind of largely making additions to people, particularly in area where we want to continue to make investments therein. Otherwise, in the rest of the functions, obviously, we want to kind of realize both productivity improvement as well as efficiencies in the overall cost. And that's the reason why you get to see that number on a sequential basis remaining more or less flat.

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

Madhukar Ladha: Sir, our health claim ratios are down this quarter and how should we think about this? Were there reserve releases on the health segment as well this quarter? And on the investment portfolio, can you tell us what is the duration and yield of the fixed income book?

Bhargav Dasgupta: So let me take the second question, Gopal you could answer the first question. So in terms of the duration, the duration of the book has increased to about 4.05. What we did during this quarter, which is a slight increase from the duration that we had as on 30th September. The call that we took in early part of this quarter was that the short maturity papers were running at very low credit spread, and were probably overpriced. So we reduced some of the exposures there and increased exposure in the medium-term notes, largely government securities and state development notes, I mean, we only invest in a few states which we like in terms of the quality. And that has turned out to be a good trade, because coincidentally RBI have announced an OMO for SDL’s later. So that's the move that we made. We still believe that interest rates will remain range-bound, at least for a couple of quarters at least. And we want to be very watchful about positioning our book

appropriately at a time when our views change. So at this point in time we just wanted to shift the book to slightly longer duration because we felt that the short duration bonds were overpriced at that point of time. Gopal?

Madhukar Ladha: And then would that also mean that most of the capital gain is from equities this quarter?

Bhargav Dasgupta: No, we have had a mix of capital gains. As I said, the short duration bonds, some of the corporate bonds in the short duration, we exited. We had some capital gains there, because as we said, we felt it was overpriced and we shifted to SDL's and some G-Secs. Overall yield, it's ahead of what we have kind of been talking about that what we need. I don't want to give the exact number, but if you look at the realized return on the portfolio, it's running at about, if I remember, it's about 7.9%, if I remember. Gopal, you can correct that.

Gopal Balachandran: That's correct, Bhargav. The realized rate of the portfolio is roughly about 7.9% on an annualized basis, yes.

Gopal Balachandran: To your point, Madhukar, with respect to the health loss ratios. I think if you look at it on a year-on-year basis, obviously, actually you will see an increase from almost about 69.6% to about 77.3%. But yes, you are right, when you look at it on a sequential basis you get to see the number kind of going down in Q2 from about 81.9% to about 74.6%. This obviously includes, let's say, health, personal accident and travel, all put together. Within this, a large part of that is with respect to health, that health numbers when you look at it for Q2, the loss ratio for the overall health book was about 91%. That number if you see for Q3, is at about 88.1%.

So in general, I think what we have seen in terms of the approach that we have taken insofar as reserving for IBNR is concerned, keeping in mind the fact that there could be a possibility of claims that could kind of come in the subsequent period, to that extent I think as we have indicated even in earlier calls, not to necessarily factor in for the whole of the benefit in the initial period would rather kind of be a little

conservative and see the actual losses kind of playing through over the subsequent quarters. And hence, when you start to see numbers between quarters, you would get to see some kind of a reduction in the overall loss ratio number. But honestly, as we keep saying, quarters may not necessarily be representative of what the true experience is, because there are multiple factors that go into the loss ratio numbers. And ideal thing will be to look at more on a year-on-year basis and ideally on an annual basis. I think that's what we would kind of largely suggest. And there even on the health numbers you would actually see, when I gave out the numbers for 69.6% to 77.3%, that again included all the three components of health, personal accident and travel. Within that, the health loss ratios actually increased from about 83% to 88%.

Moderator: Thank you. We will be able to take one last question. We take the last question from the line of Shreya Shivani from CLSA India Private Limited. Please go ahead.

Shreya Shivani: Sir, just wanted to check my understanding on the commission absolute number. So given that the retention ratio is high this quarter at around 78%, whenever the retention ratio is high, the net commission number tends to go up because the commission that you are earning from giving it to reinsurers sort of goes down. Is my understanding correct on this? Is that also one of the factors pushing up the commission numbers for this quarter?

Gopal Balachandran: So retention, Shreya, is a function of multiple segments, particularly when you look at most of the retail lines, I mean, in line with what we have spoken, whether you look at motor, for example, on the aggregate portfolio, this year we have actually seen, particular on motor own damage, until FY 2020 we had a small reinsurance support beyond the 5% obligatory on the own damage portfolio till FY 2020. From FY 2021, even that particular reinsurance support which we had indicated even at the beginning of the year's call, is something that we have done away with. And hence to that extent, you will get to see an increase in the overall retention numbers. So that's one.

And similarly. I think the more you write retail businesses, as what we have indicated, even the retail indemnity book for us has done reasonably well. And that's again a business where we kind of retain predominantly 95% of the risk, leave aside the 5% obligatory. The one segment where over the last so many years we have always had a reinsurance support is with respect to the retail benefit, and that in line with what we have spoken earlier during this call, that's a segment where we have seen some bit of challenges insofar as growth is concerned. So hence, a factor of all of this is what is leading to an increase insofar as retention numbers are concerned.

And corresponding to that is where your net commission numbers could undergo a change. But that's again purely a function of what businesses do you write. For example, for motor in Q3 FY2021 we have grown by almost 14%. So that obviously we'll have, and there is not so much of reinsurance support as I explained. It will be purely an increase in acquisition cost.

And similarly on health indemnity business that we source, again will be a very high retention portfolio. But insofar as the cost of sourcing is concerned, that effectively comes as a part of your net commission number. So you have to look at it in the context of which lines of businesses have grown, what is the retention corresponding to each of those. As I said, for motor predominately 95% of the net, health indemnity, again, predominantly 95% on the net. But the cost of sourcing is something that comes as a part of your net commission number.

Bhargav Dasgupta: And then just to add to what Gopal explained, so the one retail business that we traditionally have been reinsuring is this credit-linked business which this quarter has seen a tremendous drop. So even the reinsurance commission we get has dropped.

Moderator: Thank you very much. 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: So, just thank you everyone. It's been a late evening call that we are doing. Thank you for joining us. Stay well, stay safe. Thank you.

Gopal Balachandran: Thank you so much.

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

Safe harbor:

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