ICICI Lombard General Insurance Limited

Q2 & H1 FY20 Earnings Conference Call
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Moderator: Good evening, ladies and gentlemen, a very warm welcome to ICICI Lombard General Insurance Limited Q2 FY2020 Earnings Conference Call. From the Senior Management, we have with us today Mr. Bhargav Dasgupta - MD & CEO of the company, Mr. Gopal Balachandran – CFO, Mr. Sanjeev Mantri – Executive Director, Retail and Mr. Alok Agarwal – Executive Director, Wholesale. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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.

Bhargav Dasgupta: Thank you and good evening everybody. I welcome you to the earnings conference call of ICICI Lombard General Insurance Company Limited for H1 FY2020 and Q2 FY2020. I would like to give you a brief overview of the half year and quarter ended September 30, 2019, post which our CFO, Mr. Gopal Balachandran will share the financial performance of the company.

The General Insurance industry registered a growth of 16.7% in H1 FY2020 over H1 FY2019 with the industry GDPI moving up to ₹ 955.33 billion in H1 FY2020 from ₹ 818.74 billion in H1 FY2019 as per the GI Council report. Excluding the crop segment, this growth would be 14.4%. The overall growth and growth excluding crop segment was 22.3% and 15.4% respectively for Q2 FY2020 as compared to Q2 FY2019. The combined ratio of the industry was 113.1% in Q1 FY2020 as compared to 108.9% in Q1 FY2019 based on available information from public disclosure. Further, the overall combined ratio of the private multi-line general insurance was 107.7% in Q1 FY2020 as compared to 101.8% in Q1 FY2019.

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

The Motor Vehicles (Amendment) Act 2019 came into effect from August 9, 2019. This Act is expected to bring a positive impact in increasing penetration in Motor Third Party segment. The imposition of heftier penalties is expected to bring discipline among the motor vehicle owners, thereby leading to lower accident incidents. For insurers, we envisage that the introduction of time limit for claim intimation may reduce claim incidents. Overall, the Act is positive both for the insurer and the insured.

On September 20, 2019, the Taxation Laws (Amendment) Ordinance was promulgated to give any existing domestic company an option to opt for lower income tax rates subject to the condition that it will not avail itself of any specific exemption or incentive. This tax cut makes India's tax rate comparable to many of its international peers and it is anticipated to make India a promising investment opportunity. For our company, we welcome this development since it results in higher disposable income which we propose to reinvest in the business.

The quarter witnessed significant disruptions on account of widespread floods in many states. These floods have been reported to claim several lives and cause severe damage to property. The economic losses and the insured losses on account of these floods are estimated to be ₹ 280 billion and ₹ 20 billion respectively. As for our company, the gross loss from these floods are estimated to be ₹ 0.74 billion whereas the net loss which (net of re-insurance) is expected to be ₹ 0.49 billion in this quarter.

Speaking about the company's performance, the GDPI of the company in H1 FY2020 de-grew by 11.8%. Excluding the crop segment, the GDPI growth was 16.2% compared to the industry growth of 14.4%. Our GDPI growth was primarily driven by our focus on preferred segments such as Fire, Marine, Motor, Liability and Health. Consequent to the increase in minimum prescribed rates for certain occupancies under fire segments, this segment registered a robust GDPI growth of 69.5% in H1 FY2020, thereby aiding the GDPI growth of property & casualty segment. As indicated in our results presentation, the overall property and casualty segment grew by 28.9% in H1 FY2020 over H1 FY2019.

On the Retail side of 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 41,113 as on September 30, 2019 as against 28,718 as on September 30, 2018. We have also entered into a bank assurance tie-up with Standard Chartered Bank in Q2 FY2020.

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

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

Gopal Balachandran: Thanks, Bhargav. I will now give you a brief overview on the financial performance of the company for the half year and the quarter ended September 30, 2019. 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 (GDPI) of the Company stood at ₹ 64.4 billion in H1 FY2020 as compared to ₹ 73.05 billion in H1 FY2019, a de-growth of 11.8%. Excluding the crop segment, our GDPI increased to ₹ 63.86 billion in H1 FY2020 as compared to ₹ 54.95 billion in H1 FY2019, registering a growth of 16.2% compared to the industry growth of 14.4%. On a quarterly basis, the GDPI de-grew in Q2 FY2020 by 16.4% over Q2 FY2019. Again, if you have to exclude the crop segment, GDPI growth in Q2 FY2020 was 14.5% over Q2 FY2019 as compared to the industry growth of 15.4% for the same period.

Combined ratio stood at 101.5% in H1 FY2020 as compared to 100.1% in H1 FY2019, primarily on account of long term motor policies and losses from catastrophic events which is estimated at ₹ 0.61 billion. Combined ratio was 100.1% in H1 FY2020, excluding the impact of catastrophes. Combined ratio was 102.6% in Q2 FY2020 as compared to 101.1% in Q2 FY2019. Combined ratio was 100.6% in Q2 FY2020 excluding the impact of catastrophes.

Our investment assets rose to ₹ 239.99 billion at September 30, 2019 as compared to ₹ 237.11 billion at June 30, 2019. Our investment leverage net of borrowings was 4.09x at September 30, 2019 as compared to 4.27x at June 30, 2019 which was calculated post dividend. Investment income increased to ₹ 10.14 billion in H1 FY2020 as compared to ₹ 9.54 billion in H1 FY2019. On a quarterly basis, investment income increased to ₹ 4.87 billion in Q2 FY2020 as compared to ₹ 4.47 billion in Q2 FY2019. Our capital gains was lower at ₹ 2.07 billion in H1 FY2020 as compared to ₹ 3.21 billion in H1 FY2019. Capital gains in Q2 FY2020 was lower at ₹ 0.69 billion as compared to ₹ 1.25 billion in Q2 FY2019.

Our profit before tax (PBT) grew by 4.9% to ₹ 9.36 billion in H1 FY2020 as compared to ₹ 8.92 billion in H1 FY2019 whereas PBT grew by 2.7% to ₹ 4.61 billion in Q2 FY2020 as compared to ₹ 4.49 billion in Q2 FY2019. We would like to remind you that PBT for H1 and Q2 of the previous year had the benefit of one-off reinsurance recovery of ₹ 0.58 billion. Excluding the one-off impact, PBT grew by 12.2% in H1 FY2020 and 17.9% in Q2 FY2020.

Consequently, profit after tax grew (PAT) by 6.1% to ₹ 6.18 billion in H1 FY2020 as compared to ₹ 5.82 billion in H1 FY2019 whereas PAT grew by 5.0% to ₹ 3.08 billion in Q2 FY2020 as compared to ₹ 2.93 billion in Q2 FY2019. As mentioned earlier, PAT for H1 and Q2 of the previous year had the benefit of one-off reinsurance recovery of ₹ 0.58 billion. Excluding the one-off impact, PAT grew by 13.4% in H1 FY2020 and 20.6% in Q2 FY2020.

The Taxation Laws (Amendment) Ordinance 2019 promulgated on September 20, 2019 amended the Income Tax Act, 1961 and the Finance (No. 2) Act 2019 by inserting Section 115BAA which provides domestic companies with an option to opt for lower tax rates provided they do not claim certain deductions. The company has elected to exercise the option and has accordingly recognized the Provision for Income Tax for the quarter and the half year ended September 30, 2019 and has also re-measured Deferred Tax Assets at the lower tax rate prescribed in the said section. This change which has been recognized in the Profit & Loss account for the current quarter and the half year has reduced the provision for taxation by ₹ 0.07 billion (net of one-time charge of ₹ 0.84 billion on account of reversal of deferred tax assets as on April 1, 2019). Consequently, the effective tax rate was 34.0% in H1 FY2020 and 33.2% in Q2 FY2020.

Return on Average Equity was 22.3% in H1 FY2020 as compared to 24.4% in H1 FY2019. The ROAE for Q2 FY2020 was 22.0% as compared to 23.9% in Q2 FY2019.

Solvency ratio was healthy at 2.26x at September 30, 2019 as against 2.20x at June 30, 2019, continued to be higher than the minimum regulatory requirement of 1.50x.

The Board of Directors of the company has declared interim dividend of ₹ 3.50 per share for H1 FY2020 as compared to ₹ 2.50 per share for H1 FY2019.

As we conclude our address, I would like to summarize that we ended the current half year and the quarter 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 our focus on sustainable growth.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Just three questions. Firstly, could you comment a little bit about the pricing environment in the major lines of business. The second is if you could give some thoughts around PBT earnings growth that one should sort of look for, I am just thinking through on if you look at various levers that we have - be it claims ratio, Opex and investment income. If you look at claims ratio, the gap between motor OD and TP is probably the lowest at this point of time. Health is probably sort of clocking the best claims ratio. Opex, we are doing the retail drive, so Opex ratio tends to sort of move higher since the benefit of the denominator of crop NWP goes away and investment yield is where it is. What would drive earnings growth apart from just top line growth from premiums, so just some thoughts around earnings growth trajectory that one should look towards. Thirdly, this is a data keeping question around reserve releases during the second quarter and the first half. Thanks.

Bhargav Dasgupta: I will answer the third question first. As you know, even though we look at the numbers on a quarterly basis, we disclose the overall releases for the whole year at the end of the financial year. Hence, we will disclose the total release for the year. Having said that there are reserving amounts that flow through during each quarter. In terms of the first question on the pricing environment, I will look at it on a segment by segment basis. On the commercial lines of business, we are reasonably satisfied with the pricing environment, particularly on the property side.

As you know because of the GIC intervention, the rates for 8 occupancies have increased significantly and this resulted in higher growth rate in the property segment, particularly fire segment. This year, we decided to retain 10% extra given the increase that we saw from March 1, 2019 and this was long overdue. These are the structural stresses in the system over the last 10 years that was building up. However, finally, there is price increase in the property segment. If I look at some of the other segments, prices are holding on the group health on the corporate side of business. Last year, we saw pretty sharp increase in the prices. This year, we are not seeing any significant increase on that base. So we are witnessing a bit muted growth this year on the employer-employee group health business. However, the rates are holding and not reducing anymore. Coming to motor third party, as you know, the segment is tariffed. However on the own damage side, as being mentioned over the last three quarters, we have seen a bit of stress on the pricing. As regards the industry data, since we do not have the half year data, but data for Q1, the industry loss ratios have increased by roughly about 7%-8% from last year and we believe that number will be worse for the industry for the first half of the year. If you see our loss ratio for OD segment, it has climbed for this quarter over similar quarter last year. If you see our numbers, the Q1 FY2020 loss ratio for motor OD was 68.2%. Last year, the same quarter this number was 62.9%. It is of course financial number, there will be some reserve adjustments that happened. But just to look at Q1 FY2020 to Q2 FY2020 numbers for OD, it has moved up from 68.2% to 71.8%. So the stress continues to maintain on OD side, but for most other lines the pricing is rather reasonable. In the retail health, the pricing is pretty good. However, the benefit segment continues to be an area of concern for almost last 4 quarters now. It is a large part of our retail health business as compared to indemnity segment. The benefit products are largely distributed through banks and NBFCs. While the bank segment continued to do fine for us, yet a large part of the business which we would get from NBFC erstwhile has now almost disappeared. Consequently, this has an impact on the profits of that segment of the business. As discussed in the past, the benefit segment is quite profitable. Having said that, we have not had an impact on the mix per se but overall we are quite okay with the health pricing. In a nutshell, as far as pricing is concerned, we are seeing a lot of headwinds on the motor OD side, otherwise largely we are fine with most other lines of business.

To answer your second question on the earnings growth trajectory, I would like to recall the key aspects on the investment in distribution network. Last year we invested heavily in distribution, we added more than 2000 sales personnel on a base of 8500 as a company. It was a very large investment which came through in the second half of the last year. However, full cost of that investment is being borne in this year and hence relative to the first half of the last year, the opex has increased. It is not just for normal retail business but largely due to the reason I just articulated. Secondly, our expense ratio optically looks higher because the crop NWP number goes out and hence the denominator becomes smaller. In terms of drivers of profitability going ahead, there are multiple factors: we made this investment, we hope to see it play through in terms of business growth. Secondly, our view is that the OD rates have reached a level where it is beginning to hurt everyone. This has led to some good conversation and re-negotiations with OEMs etc. My sense is that the stress is building up and we will probably see some release, at specific OEM levels, we hope that we will see some correction in pricing. Otherwise it will be normal business growth as the business volume picks up as also the investment leverage is increasing, all of that will be a factor in terms of earnings growth going ahead.

Gopal Balachandran: So Dhaval, the objective that we have set is that at the end of the day businesses would continue to generate ROE in the range of 20%.

Bhargav Dasgupta: One more factor that I will just touch upon is the Motor Vehicle Act. We genuinely believe that the Motor Vehicle Act will have a very positive impact in terms of the motor third-party business. Of course, we will have to wait to see implication in terms of the price increases etc., but I think even for the existing book we should see some benefit once the Rules are framed. We are hopeful that the Rules will be framed in a few months from now.

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

Nishant Chandra: The question is just to understand the claims ratio better by business lines, so if I look at the motor numbers, would it be fair to say that it now has about 10 odd months of the full year impact of the post MISP pricing flowing through and the respective claims pertaining to that rate. Is that the way to interpret the number?

Bhargav Dasgupta: Yes, you are correct Nishant. Largely about 10 months of impact is playing through.

Nishant Chandra: And hence directionally may be it is like one or two months more for it to reflect steady state because as you look at the baseline for future predictions, I am just trying to understand what will be the right baseline to think of?

Bhargav Dasgupta: Obviously, this is very dynamic at the moment but expected to stabilize by another month or so. Now, if you are able to get some price corrections that will be another factor going ahead but one more factor you have to remember is that the long-term book that we have written on the OD side and this is largely true for the two-wheeler segment, not so much for the private car. We priced the 5-year OD at a lower price than the 5 times of yhe one year price. It is lower since some benefits are to be passed in terms of the expenses, in terms of a bit of the investment benefit and bit of frequency assumption that we made. So the loss ratio for just that long-term OD book of two-wheelers will be higher than the loss ratio of annual policies. This impact will play through a little bit more, but in terms of combined ratio, we do not believe it will have a negative impact.

Nishant Chandra: Actually if you include the investment income that you get from the flow**,** it will be offset even more, I suppose that is basically the concept?

Bhargav Dasgupta: Yes, that is our expectation.

Nishant Chandra: The second question that I had was, just to understand the market dynamic with respect to PSUs. There has been some news flow around capitalization of PSUs, are you seeing any downside of the capitalization as a form of increased price competition in all of those things?

Bhargav Dasgupta: It is very difficult to predict because it will depend on how much capital is given. We do not see a big negative impact on the private sector players due to the merger of the three PSUs entities and the consequent capital infusion. Rather, we will now have to compete with only 2 PSUs instead of 4 PSUs earlier. We believe should be a positive but it will also depend on the extent of capital and I don't foresee that there will be a lot of spare capital being given in the current environment.

Nishant Chandra: And just one last point which is just from motor perspective, would the market book be materially different from your book, so if, let us say, do consolidation of the entire market, are you now closer to weighted average?

Bhargav Dasgupta: No, our mix is significantly different from the market. If you look at our H1 numbers, almost 55% would be contributed by private car, about 30% would be contributed by two-wheelers and remaining 15% would be contributed by commercial vehicle.

Nishant Chandra: Market has a higher weight in commercial?

Bhargav Dasgupta: Market will have slightly more contribution from commercial vehicles, and relatively lesser contribution from private car and the balance will be two-wheeler.

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

Hitesh Gulati: Sir, I just wanted to know the number on the balance sheet of advance premium from long-term motor policies?

Gopal Balachandran: Advance premium at September end is ₹ 2,268 crore

Hitesh Gulati: And sir, what would be the percentage of motor OD that are going for long-term policies? Do we have an updated number on that?

Bhargav Dasgupta: The number has increased for private car from what it used to be one year back. If you remember, last year that number was about 3% - 4% and that number now is 10%. For two-wheelers, the number has dropped, it is now roughly about 24% as agianst the full year number of 29%.

Hitesh Gulati: And sir, just one last question in terms of tax rate after this half year, can we assume a tax rate of 25 - 26% for the second half of the year? Is that the right assumption?

Gopal Balachandran: Yes, when you would see the results for Q3 and Q4, you will see the tax rate at about 25% for both those quarters.

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

Utsav Gogirwar: Sir, just couple of questions from my side, can you help why the investment book has increased only 1% on a sequential basis that is my first question?

Gopal Balachandran: If you look at the overall investment assets, it also includes the effect of the fair value change account. For instance, the investments in equities and mutual funds are required to be considered in the balance sheet including the mark-to-market. If you recollect at the end of quarter one, we had a mark-to-market gain of roughly about ₹ 230 crore. Corresponding to that if you see the numbers for the end of half year, the mark-to-market gains stands at about ₹ 101 crore. Hence, when you see the growth in the investment assets, it has to be looked at in the context of the change in the mark-to-market position on the equity book. The second point is, the advance tax that we are required to pay, in the first quarter is 15% of the whole year expected profits, in the second quarter we are required to pay 30% of the expected profits of the whole year. This particular Amendment Ordinance with respect to the lower tax rate was announced post the payment of the advance tax in September.

Bhargav Dasgupta: That is to say, we paid taxes on the earlier effective rate.

Utsav Gogirwar: And the second question is, we started selling long-term policies from last year and now it is like more than one year, we must have renewed the policy, just want to understand what percentage of motor OD policies that we have renewed for the long-term policies which we sold?

Bhargav Dasgupta: We are basically very happy with what is happening in the long term because the renewal rates have increased for us. We look at the renewal base on the whole generally i.e. we look at the overall renewal base and we look at the renewal rate. That number generally has been about 60% for us, but if you look at just the OEM to OEM after one year that number used to be about 48 - 49%. We have seen a 6% to 7% lift in terms of renewal rates on the long-term books, so we are happy with the increase in the renewal rates that we are getting for the long term, which is, if you remember we have been saying that this is a bit of unknown, but we were optimistic given that the base policy was with us on the TP side. We were reasonably hopeful that we would have a better renewal rate than the past and that is actually playing through at least in the first month, 6 to 7% increase in the like-to-like book.

Utsav Gogirwar: Sir, just last question from my side, if I look at the individual indemnity that is growing at a pretty fast rate and in H1 it has grown at around 67%, how do you see this book growing for next H2 and next H1, will it continue to grow at similar rate or it will slow down or can you give me some colour on that?

Bhargav Dasgupta: Our endeavor will be to continue to grow the indemnity book reasonably fast. However, 69 - 70% may or may not be sustainable, but the endeavor will be to continue to outgrow the market on that segment. There is obviously a bit of a base effect because our indemnity book is not very large. We are growing this through multiple models. We are growing the retail indemnity which is counted in the retail number and there is also group indemnity that we structured which we have been selling through our distribution partner which is part of our group - others category. All together we are seeing the 67% growth number.

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

Sanketh Godha: Just wanted to understand given the motor TP loss ratios have come down compared to what we have reported in last year and Q1, is it that we have factoring some benefit of Motor Vehicle Act in the quarter itself?

Bhargav Dasgupta: No Sanketh. We will wait for the data to come through as we have been saying. We have not taken any judgmental call on the reserve release.

Sanketh Godha: Then any explanation why this loss ratios have been lower compared to what we have done in FY2019, 400 basis point improvement in Q2 looks like a decent improvement in motor TP loss ratios?

Gopal Balachandran: I would like to recall what Bhargav mentioned about the change in the business mix. The business mix has undergone considerable change in the current half year relative to previous financial year. The commercial vehicle segment used to contribute about 21 to 22% of the overall motor mix at the end of FY2019. For the current half year, CV contributed about 15% to 17%. If you look at the third-party loss ratios for private car, two-wheeler and commercial vehicles; commercial vehicles inherently has a higher loss ratio experience. So given the shift in the portfolio mix that we continue to keep doing as a company, we have seen a slight moderation in the third-party loss ratios. The other factor which I would like to highlight is the Motor TP price hike. Generally, these announcements typically happen at the beginning of the year, however, this year the announcement for the price increase only came into effect from June 16, 2019. So, to that extent one would have also seen some kind of a price increase impact happening on the third-party book as well.

Sanketh Godha: If I look at motor OD, there is 71.8% loss ratio which reported in Q2, if I exclude the impact of CAT events, then are we at a similar level as what we reported in Q1 for the motor OD loss ratios because this deterioration is because of the floods across the countries, is it?

Bhargav Dasgupta: Floods have played a role, but there is definitely a deterioration. The 3% gap between Q1 and Q2 Motor OD loss ratio is not all because of flood. It is also because of the underlying pressure on the OD and I think the point that Nishant made that it is basically business that has got written from September-October of previous year. The OD rates have come down after the long-term policies came in and the book is now getting matured and accounted for the whole year. So it is just playing through in terms of the mix of NEP that we are earning from the older book. For instance, in the first month of this period, let us say, in the third quarter last year we had a book of business that we had written prior to that period and that loss ratio was lower. Now that effect is fading away and the full impact of the underpricing or aggressive pricing of the motor OD is playing.

Sanketh Godha: And the investment leverage actually from the full year did not increase predominantly because of Gopal's explanation that we paid higher advance tax and also the mark-to-market gain was there, so that is the only reason why our investment leverage did not improve in the half, right?

Bhargav Dasgupta: That was another discussion. Gopal explained the reason for miniscule change in total investment corpus. As far as investment leverage is concerned, last quarter, we paid the dividend for the full year before the end of the Q1 itself, so there was a denominator effect also in terms of the net worth.

Sanketh Godha: Actually, I was comparing from March 2019 to September 2019, so it remained flat at 4.09, I believe its advance premium number, it should have improved?

Bhargav Dasgupta: That is because of what Gopal explained, I thought you are comparing Q1 to Q2.

Sanketh Godha: Sure. Just wanted to understand our persistency in retail indemnity business because despite we are growing new business very aggressively, the retail indemnity growth looks little lower, is it to conclude that our drop-off rates are little higher or anything of that kind or how do we read it basically?

Bhargav Dasgupta: If we look at the mix, each mix has its own patterns, at least on each of the line. Our retail indemnity products are sold directly through the agents. Our renewal rate, on the portfolio basis, I am not talking about one year, two year, three year but in aggregate, the retention rates are around 83 - 84% and that number is holding on. The other aspect that we will have to study is, we have launched a lot of group indemnity policies. We will have to study their renewal rates on how it will play through because it is relatively new for and hence we cannot comment as of now. But the rest of the business, which is in line with what we were writing, our renewal rates are holding on. Gopal, you want to add anything.

Gopal Balachandran: I would like to refresh you on what we have been saying in our previous earnings call about indemnity book size. We have always had a relatively lower base. Hence, when you look at the indemnity growth in the aggregate, the renewal business is on a relatively lower base whereas the new part of the business is growing quite well. The base effect of the renewal book tends to have an impact in terms of the aggregate growth on the indemnity book. To answer your question in a nutshell on persistency, it is about 80%.

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

Avinash Singh: A few questions, first one on that impact from MV Act, can you help us with some sort of colour on the number of motor policies growth across your three categories; the private cars, two-wheelers and CVs, at least one would expect because September data suggest that there have been a strong growth in motor TP premium, so would like to know how that sort of number of vehicles or number of policies have changed for you? Second, when it comes to profitability, despite the crop going out almost entirely, even if I were to look H1 FY2019 to H1 FY2020, I mean if the crop going out, the claim ratio has not improved. One would expect it to improve because your crop segment has very high claims ratios. Now on the Opex side, if I were to look, not looking at the ratio, of course the ratio will go up because now the denominator is growing smaller, the absolute Opex growth is very strong, In the first half it has gone close to 30% kind of a rate, so what is going on there because now I guess significant portion of your new investments is also in the base as well and how do you see this Opex trajectory going forward and what explains this claims ratio not improving despite crop going out?

Bhargav Dasgupta: If you look at the aggregate loss ratio for us in this quarter, our number is 74.6% and the number for the same period last year was 80.4%. So Q2 FY2019 vs. Q2 FY2020, we have seen an improvement in terms of aggregate loss ratios. The benefit of the crop, there are multiple aspects, let me just try to explain. Even though we benefit in terms of crop going out, as explained earlier, we have seen increase in loss ratio on the Motor OD segment. To that extent, it has been compensatory of each other. Now, if you look at the amount of business that we retain of the two books, for crop segment we used to retain only about 25%, so the earning component of crop was much lower given that it contributed 17% of the overall GWP mix. Unlike that in motor, we retained almost everything, so the NEP component of motor is much higher, so on a blended basis, the motor loss ratio impact has a bigger negative drag than the improvement that we have because of the crop going out. Despite that, the overall our loss ratio for this quarter is better than same period in the last year. To answer your question on expenses, I think you hit the nail on the head. As regards the expense ratio number there is a base effect, but in terms of growth in absolute Opex it is in the mid 20% and not 30% but that growth is largely because of the base effect due to the fact that we ramped up our investment in terms of salesforce and distribution network during last year which was not playing through in the last year and that is coming through in the current year. We hope to get the full benefit of this investment that we are making in terms of the specific business areas that we have invested. You have seen that play out in the retail health indemnity to some extent and even SME business is growing close to 30% for us. Motor agency, particularly for private car and two-wheelers are also growing quite well. We also ran the corporate brand campaign in this half year which wasn't there last year and that has had some impact on the expenses growth.

Avinash Singh: And on that policy count if you can help, motor policy count?

Gopal Balachandran: Avinash, if you look at the number of policies that we sold for the month of August on motor overall was roughly about 9 lakh policies. If you look at the same count for the month of September that number is at about 17 lakh policies and within that the old policies that we have sold was 5 lakh policies in August. This number has gone up to 10 lakh policies for the month of September.

Bhargav Dasgupta: So we saw very large spike in September largely for two-wheeler old book and both third party only as also some comprehensive but third party old for two-wheeler was a big spike. Honestly speaking, the October number is not sustaining at that level of September simply because I think some of the states have rolled back the penalty etc., so you will see how this number plays through but even once it has been rolled back, we still see a number which is much higher than what we used to see till August. We are hopeful that after election in the couple of states, I think those states will again come back in terms of enforcement of the Motor Vehicle Act. So what we have seen at this moment this gets enforced, we will see a very healthy spike in the policy demand particularly for old two-wheelers.

Moderator: Thank you. The next question is from the line of Harshit Toshniwal from Jefferies. Please go ahead.

Harshit Toshniwal: This is more related to motor insurance, just want to understand that if it is a ₹ 100 motor TP premium for a car, then how are the premiums split between 3 years, clearly the first 3 years will have a higher proportion but for a 5-year two-wheeler and for a 3-year car, how the TP premium spread over the years?

Bhargav Dasgupta: It is divided equally, divided by 3 for private car, divided by 5 for two-wheeler.

Harshit Toshniwal: So our recognition in the P&L would be more towards the first year or we recognise premium equally over the years?

Gopal Balachandran: So Harshit, as Bhargav explained when you write the 3-year policy on the TP premium you simply recognise 1/3 for each year for the private car. If you are issuing a long term two-wheeler policy which is 5 year then you simply recognize 1/5 or 20% of the premium that you collect for the 5-year period.

Bhargav Dasgupta: Just to complete the point that Gopal made, the rest of the amount corresponding to balance 4 years or 2 years for private car and two wheeler respectively, will be recognized as advance premium and will sit in the balance sheet.

Gopal Balachandran: And so far as the own damage is concerned, again if you were to stick to let us say, a private car own damage taken for 3 years, that would get recognised over the 3-year period in proportion of the insured declared value of the vehicle.

Bhargav Dasgupta: The first year recognition is a bit more however it gradually reduces because the IDV of the vehicle reduces over the 3 years.

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

Ajox Henry: Sir, I wanted to know if you have the loss ratio for long-term motor number, just to know how far it is deviating from the annual policies?

Bhargav Dasgupta: We can give it separately offline. At this moment, we are looking at the overall motor book.

Ajox Henry: And structurally this number will be increasing, the long-term policies as a proportion of total motor?

Bhargav Dasgupta: Yes, as explained in the earlier calls, if you look at the TP policy, it will be divided by 5 in case of a two-wheeler TP policy. While the premium remains constant for all 5 years, but by the fifth year, there is a claim inflation. This will lead to higher loss ratio since the denominator number will remain the same but the numerator number could go up due to claim inflation. But there is a compensatory factor as well. We believe the claim frequency will drop because the whole pool is now insured. Our experience of older vehicles is that the frequency of claims come down. In that sense, the loss ratio trajectory is a bit of unknown. We will have to see how that plays out, but we believe fundamentally there will be some increase in the third-party loss ratio just because of the claim inflation. For own damage definitely as I explained earlier, the loss ratios will increase. However, the expense ratio will come down since we are not spending any money on issuing a policy, we are not going after customer to renew the policy and the distribution costs are lower for a long-term policy for the second and third year or the fourth and fifth year. Consequently, all of that benefit will be passed on. As regards the combined ratio, we believe while it will go up a little bit but it will not be significantly adverse. On top of it, we will have a benefit in terms of the investment float that we are sitting on, so on a ROE basis we believe it is positive but the loss ratio may be going up.

Ajox Henry: And the claim inflation will be lower than the expected returns coming out of the investment book?

Bhargav Dasgupta: No, our experience of third party claim inflation is higher than what we make on our investment book and that helps in reserving as a company. Each company does its own actual estimate of the claim inflation for third party and uses it to hold the reserves. That number is not something that anyone discloses but our number is double digit number which is higher than the investment returns that we make.

Ajox Henry: If the claim's actual experience is better than the expected inflation factored in, then pass-through should be released through the results, right?

Bhargav Dasgupta: Exactly.

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

Madhukar Ladha: Most of my questions are answered, but just a couple of things, one I see these expenses of management in shareholder's account, they have risen quite a bit, it is about 27% in other way and 36% quarter-on-quarter, so what is the reason for this sharp rise? And second, even investment yields declined were impacted in this quarter and given our equity book is not too large and fixed income rates have not moved that much, what would explain this reduced investment yield and finally couple of data points that I missed in the beginning, you may have covered them, so what was the cat loss provision year over year and you also mentioned that there was just other one-off recovery in the first half last year, can I have the amount of that?

Madhukar Ladha: And second, even investment yields declined were impacted in this quarter and given our equity book is not too large and fixed income rates have not moved that much, what would explain this reduced investment yield and finally couple of data points that I missed in the beginning, you may have covered them, so what was the cat loss provision year over year and you also mentioned that there was just other one-off recovery in the first half last year, can I have the amount of that?

Bhargav Dasgupta: Gopal, you can answer. Basically, we have 2 one-offs events in this half year compared to last year and the tax write-off that Gopal will explain.

Gopal Balachandran: So far as catastrophic losses impact is concerned, as we explained we have seen a series of floods in this quarter. That impact for the Q2 has been about ₹ 49 crore. If you recollect, we had the Kerala floods in Q2 of last year. That impact which we had taken in the P&L was about ₹ 25 crore. In addition to the catastrophic events, there has been a one-off reinsurance recovery benefit that we have seen in Q2 and H1 of last year amounting to ₹ 58 crore.

Madhukar Ladha: And were there any CAT loss provisions in Q1 of this year?

Gopal Balachandran: That was about ₹ 16 crore on account of cyclone Fani. Just wanted to understand Madhukar, the expense of management numbers that you are referring is with respect to H1 FY2020 over H1 FY2019 or Q2 FY2020 over Q2 FY2019?

Madhukar Ladha: I am referring to Q2 over Q1 i.e. Q-o-Q.

Gopal Balachandran: These are normal trends, there is nothing which is unusual Madhukar. There are certain expenses which is prescribed by regulation whether it is in respect of the CSR expenditure or the interest that we are required to pay on the subordinated debt. There is nothing which is unusual in terms of the expenses that we have seen in this quarter relative to the prior quarter. The only other piece which is there with respect to the investment income that we realize from the terrorism pool that number has been relatively lower, so otherwise there is nothing which is unusual in terms of any expense of management.

Bhargav Dasgupta: The investment terrorism pool is something that is the industry pool and GIC manages it and gives us the income with a quarter lag.

Madhukar Ladha: That comes in the shareholder's account?

Gopal Balachandran: Yes, it comes separately in the financial statements.

Madhukar Ladha: And income from terrorism pool comes as part of the shareholders as income from investments or..?

Gopal Balachandran: So that comes separately as a part of the operating income numbers where you also get to see the investment income from terrorism pool separately.

Bhargav Dasgupta: On the investment yield, I think that the existing book is carried at a decent yield. We, in the first quarter when rates went down, did reduce a bit of the duration and switch to slightly shorter duration paper and that led to some amount of profit that we made in the first quarter. Obviously it is still lower than the previous quarter of this year, but some re-adjustment of duration happened, and the fresh money that is coming in, what we are reinvesting is in the slightly lower rate compared to what you would have had last year. That is the only reason.

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

Rishi Jhunjhunwala: Couple of questions, one this September month actually saw 36% year-on-year growth for motor TP for you, just wanted to understand what would be the split between, one, the fact that Motor Vehicle Act was implemented recently and as a result there would have been higher compliance. Secondly, last year for September the long-term TPs were introduced, so there would have been a drop rate every year but this time is pretty much 100% renewal and three, the underlying base rate in terms of how the auto volumes are going, so can you give some sense in terms of how that is split because the compliance rates might go down but the 100% renewals will continue, so just wanted to understand that?

Gopal Balachandran: So Rishi, we gave out the policy count growth between August and September of the current year in response to an earlier question. Just to repeat those numbers for the month of August on an aggregate basis for motor was about 9 lakh policies. That number for the month of September was about 17 lakh policies. Within that the split of old policies for the month of August is 5 lakh policies and for the month of September was about 10 lakh policies. Evidently, we have seen a spike in the number of policies that we have seen for the month of September consequent to the changes in the Motor Vehicles Act.

Rishi Jhunjhunwala: And how much would be the second year renewals that would have come through for the long term?

Gopal Balachandran: As Bhargav explained earlier, the extent of increase in renewals that we have seen relative to the last year, was about 6% to 7%.

Bhargav Dasgupta: But that is for the OD component ratio because TP is anywhere there.

Rishi Jhunjhunwala: And the other thing is, just wanted to understand for the past 4 to 5 months our growth in TP has been slower than the private sector growth and private sector is almost 60% of the market, of course we know PSUs are anyways bleeding and TP is tariffed, so I just wanted to understand how does the competitive intensity drives in the market share shifts happen in that since and why we have slowdown versus other private price?

Bhargav Dasgupta: So if you look at the mix across the total motor component i.e. private car, two-wheeler and CV; we have had a very robust growth in private cars and two-wheeler book. But we consciously cut down the CV business. The reason was that from the beginning of this year we did not see a price increase in TP on CV which we thought was required consequently, cutting down a bit of the CV portfolio. If you look at our CV mix during the Q2 FY2020 vs. Q2 FY2019, our CV portfolio mix in Q2 FY2019 was about 22.5%. For Q2 FY2020, that mix has come down to 14.2%, so we actually had very sharp de-growth in CV but it has been a conscious call for us. If you look at just in terms of the aggregate policy growth or GDPI growth for the other segments, you will see that in private car, we have grown at about 21% in terms GDPI and 31% in terms of policy in Q2 FY2020. If you look at two-wheelers, we have grown 26% in terms of GDPI and almost 36% in terms of policy count in Q2 FY2020. So we are growing really well above the market in the two segments that we are focusing on. However, CV has a large TP component, even if there is a policy when you write TP and the CV is the bigger piece. That has been negative for us as a conscious choice.

Rishi Jhunjhunwala: And have you seen any impact of the regulation around splitting of policies going forward between OD and TP which was earlier supposed to be only comprehensive package, any kind of impact on either pricing or your business?

Bhargav Dasgupta: As we explained earlier, pricing is one of the things where we were uncertain about how many people who had earlier bought a 3-year private car policy or 5-year two-wheeler policy, would we lose out now because of standalone policy. The erstwhile narrative or hypothesis was that some new companies coming in with OD only policies would be able to get a higher share of the OD only business. That is not panning out at least in the first month. As Gopal explained, our renewal rate for one-year segment for the customers who have to have OD only renewal with us, that number has actually increased by about 6%-7%.

Moderator: Thank you. The next question is from the line of Jaimin Shah from RWC Partner. Please go ahead.

Jaimin Shah: Just on expenses, I wanted to understand a bit more because when I see your line items, it is largely on advertising and publicity and sales promotion, sir, two points here, one is how much is of the frontloading sales commission and push for the advance premium because that expense you need to frontload as well and if on second half, that growth kind of plateaus out because starting last year third quarter you had the advance premium, so that is question one and also just wanted to understand on expenses on the distribution versus technology side because last time you mentioned you were pushing on the distribution and technology, is it just briefly split on what are you doing on both sides, distribution I think you have spoken in but on the tech side and whether it goes through amortization or through expenses?

Bhargav Dasgupta: I will just answer one part of the question, then I will ask Gopal to give specifics as much as he can. One is in terms of the advertisement expense, as I said we ran a pretty large corporate brand campaign in the first half of this year which we did not have in the last year. Apart from that, there is some amount of expenses in the nature of promotion expenses which is more related to the business sourcing and the booking of that cost upfront. In terms of mix, I think the larger investment has been made in technology in terms of doing some innovative stuff on the digital side. We made this investment in terms of teams that we call the "virtual digital organization". We have developed products and we have filed in with the regulator. However, we have not spent the money that we want to spend on both the brands and technology that we envisaged at the beginning of the year, so I think our technology cost might go up a little bit in due course but we do not envisage it to be a very high number.

Gopal Balachandran: To add to what Bhargav mentioned, we do not amortize expenses. In terms of regulation whatever spend that we do, be it branding or expansion of manpower or expansion in distribution network, all these costs are required to be taken upfront. Hence, some part of the expense increase that you see either as a part of advertising or sales & promotion is because of our corporate campaign which has been expensed upfront. Secondly, in terms of the business mix, relatively now a higher proportion of mix of business comes from the retail part of the business, where again, costs are incurred for writing the business including any expansion. These expenses are also required to be expensed out upfront.

Jaimin Shah: And in the opening remarks, you mentioned that you plan to reinvest the lower income tax benefit, could you explain where you are investing and how much would go through, let us say customer investment in the business and shareholders probably?

Bhargav Dasgupta: Not everything will be reinvested. We are looking at how much of the disposable income we want to plough back. As of now, we are contemplating to slightly increase the headcount depending upon some of the upcoming bancassurance partnerships we are signing. We are also looking at some new channels within existing bancassurance relationships where we can add a bit more headcount. We are also calibrating on investing in the technology side. Certainly, some of it will be ploughed back but obviously we will get benefit as well in terms of the overall profitability.

Jaimin Shah: If I may just one, any plans to do Rabi?

Bhargav Dasgupta: As of now No.

Bhargav Dasgupta: The other thing I wanted to add is that IRDAI has introduced the Sandbox initiative. Accordingly, every company had to file products that they wanted to launch which are very different from the ones currently available in the market. We filed a host of products. We do not know for how many of them will receive approval, but that will also be another piece where a bit of technology investment will be involved.

Jaimin Shah: Is that FD part of that one, the FD product?

Gopal Balachandran: These are regulations that have come in very recently, Jaimin.

Bhargav Dasgupta: The regulator has come up with the sandbox initiative to allow experimentation for insurance, non-insurance and insurtech companies and have given a window of about a month to apply for specific product or business ideas. This window just closed early part of this week. We have filed a bunch of products, and we are supposed to receive approval within one month. At this moment, we do not know how many of our applications will get a green light. Depending on that number we have to invest a bit in technology. It is a good development wherein they are allowing innovation in the industry.

Moderator: Thank you. We take the last question which is from the line of Nischint C from Kotak Securities. Please go ahead.

Nischint C: Just one or two things, firstly can you share the loss ratio for the health segment alone and we have regrouped the numbers this quarter?

Gopal Balachandran: If you look at the corporate health which is the employer - employee health, loss ratios for the first half of the year is about 98%. On the retail side, again as we have explained there are two components of the business i.e. retail benefit and the retail indemnity. The indemnity part of the business is more or less operating at around 65% loss ratio levels and the benefit part of the business is operating between 70% to 75% loss ratio.

Nischint C: And then how do we compare this year on year, just trying to understand?

Gopal Balachandran: As regards the retail benefit, loss ratio has more or less remained constant, whether you look at the first half of the last year or first half of the current year. On the indemnity side, again as I said, the number has been in that range of 60%-65%, whether you look at the first half of the last year or first half of the current year. On the group side also, the employer - employee health has had a constant loss ratio of about 98% for the two period or so, even in the first half of the current year the number is about 98%.

Bhargav Dasgupta: Let me just also step in and add one more point that I keep making, Nischint. We encourage to look at the loss ratios at a yearly basis and not on a quarterly basis. This is because there could be some releases at a point in time which could skew the number for a quarter but overall for the year you will get a better sense of the book and I think that is what Gopal has indicated to you.

Nischint C: No, sir but what is then driving, I mean if I look at health, travel and PA, what is really driving the difference between H1 of FY2019 and FY2020 where it has gone down by around 600 basis points?

Gopal Balachandran: It is a function of the mix of business, Nischint. What kind of mix that you write will drive growth. For instance, the growth in new indemnity part of the business in the first half of the year was about 65%. Relative to that as Bhargav explained in response to one of the calls, on the employer-employee health that part of the business unlike the previous year where we saw some kind of price increase, this year the pricing has been more or less similar or muted and therefore we have taken a cautious approach to write the employer-employee part of the business. That is again a function of the loss experience. Lastly, these are typically short-tail lines where we would get to see the experience of the reserving estimates to play out as the portfolio starts to expire. It is actually the function of all the three components that the loss ratio changes.

Nischint C: Second one, is there any change in dividend policy?

Gopal Balachandran: Our dividend policy has always been in place. The decision to what levels of dividend are to be proposed is dependent on the approval of the Board and the Shareholders, wherever applicable. In line with the dividend policy, we tend to place the proposal for the dividend on a half yearly basis. Accordingly, this half year again we went back to the Board and it has proposed dividend of ₹ 3.5 per share that compares to ₹ 2.5 per share in H1 FY2019.

Nischint C: Can you say that the payout ratio goes up or how should we think about it or where we should just look at it at the end of the year?

Gopal Balachandran: We should look at the dividends also at the end of the year. But in terms of the payout, on an average historically over the last, 3+ years, it has been an increasing trend. In the past, we would have been paying a payout ratio in the range of 20% to 25%. Over the last couple of years, the payout ratio tend to be in the range of 25% to 30%.

Moderator: Thank you. Ladies and gentlemen, I now hand the conference over to Mr. Bhargav Dasgupta for closing comments.

Bhargav Dasgupta: Thank you very much. I know it is pretty late, it has been a long day. Thank you for joining us on this conference call. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Lombard General Insurance that concludes this conference. Thank you for joining us and you may now disconnect.