



**Moderator:** Good day, ladies and gentlemen, and a very warm welcome to the ICICI Lombard General Insurance Company Limited's Q3 FY2019 earnings conference call. From the management we have with us today Mr. Bhargav Dasgupta – MD and CEO of the Company and Mr. Gopal Balachandran – CFO. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. I am now glad to hand over the conference to Mr. Bhargav Dasgupta – MD and CEO of ICICI Lombard General Insurance Company Limited. Thank you and over to you, sir.

**Bhargav Dasgupta:** Good evening everybody. I welcome you to the earnings conference call of ICICI Lombard General Insurance Company Limited for 9M FY2019 and Q3 FY2019. Before we get into the financial results of the Company, I would like to give you a brief overview of the recently ended quarter, post which our CFO, Mr. Gopal Balachandran will share the financial performance numbers of the Company.

The General Insurance Industry registered a growth of 13.1% in 9M FY2019 over 9M FY2018 with the industry GDPI moving up to ₹ 1,230.23 billion in 9M FY2019 from ₹ 1,087.78 billion in 9M FY2018. For the quarter ended December 31, 2018, the growth was 13.6% as compared to quarter ended December 31, 2017, an improvement over the growth of 12.8% that we saw in H1 FY2019.

We now have the financial details for most of the industry players for H1 FY2019. The combined ratio at an Industry level was 119.0% for H1 FY2019 as compared to 111.6% for H1 FY2018 based on available information. The overall combined ratio of the private multi-line general insurers was 102.4% for H1 FY2019 as compared to 103.4% for H1 FY2018.

I would like to share with you some of the other developments in the general insurance industry which includes:

Moderation of the GST rate on third-party motor insurance premium in case of goods carrying vehicles from 18 percent to 12 percent. The amended rate is effective from January 1, 2019. The reduction in tax rate is expected to lower the cost of insurance, thereby making it more affordable and hence is a positive change for the General Insurance Industry.

Also, the Regulator issued a circular on December 11, 2018, wherein the Compulsory Personal Accident (CPA) cover has been unbundled and de-tariffed.

Speaking about the Company's performance, the GDPI growth rate for the Company in 9M FY2019 was 16.7% which was higher than the industry growth rate of 13.1%. The GDPI growth rate of the Company in Q3 FY2019 was significantly higher at 25.9% as against the Industry growth of 13.7%. In line with the previous quarters, we continued to register an across the board increased growth in most preferred segments such as Fire, Engineering, Marine, Liability and Group Health. In addition, this quarter, we also registered robust growth in the Motor segment which aided overall GDPI growth in the current quarter.

On the Retail side of business, SME business, Agency channel and Retail health indemnity product continued to grow faster & remain our areas of focus. In order 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 Virtual offices network has increased to 805 in 9M FY2019 from 135 in 9M FY2018 and individual agents (including POS Agents) were 32,254 as on December 31, 2018 as against 28,718 as on September 30, 2018.

Our underwriting performance measured in terms of combined ratio continued to be healthy for Q3 FY2019 as also for 9M FY2019.

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

**Gopal Balachandran:** Thanks Bhargav and good evening, everyone. I am happy to take you through the financial highlights of the Company for the quarter ended December 31, 2018. We have put up the results presentation on our website. You can access it as we walk you through the performance numbers.

In terms of our financial performance, the Gross Direct Premium (GDPI) of our Company increased to ₹ 110.03 billion in 9M FY2019 compared to ₹ 94.31 billion in 9M FY2018, registering a growth of 16.7%. The GDPI growth for Q3 FY2019 was 25.9% over Q3 FY2018.

We continued to maintain a diversified portfolio in 9M FY2019 across Motor insurance, Health and Personal Accident insurance, Property & Casualty insurance and Crop insurance.

Within the Health & Personal Accident segment - retail, group (includes corporate and others) and mass contributed 51.6%, 47.3% & 1.1% respectively for 9M FY2019 and 62.4%, 35.1% & 2.5% respectively for 9M FY2018.

On the profitability front, our combined ratio improved to 98.7% in 9M FY2019 from 100.4% in 9M FY2018. The combined ratio improved to 95.9% in Q3 FY2019 from 96.0% in Q3 FY2018.

Our Investment assets rose to ₹ 204.45 billion at December 31, 2018 as compared to ₹192.72 billion at September 30, 2018. Our Investment leverage (net of borrowings) was 3.92x at December 31, 2018 as compared to 3.77x at September 30, 2018. Investment income for 9M FY2019 increased to ₹13.41 billion from ₹ 11.76 billion

for 9M FY2018. On a quarterly basis, investment income increased to ₹ 3.87 billion in Q3 FY2019 as compared to ₹ 3.50 billion in Q3 FY2018. Capital Gains was lower in 9M FY2019 at ₹ 3.70 billion compared to ₹ 4.04 billion for 9M FY2018. Capital gains was also lower in Q3 FY2019 at ₹ 0.49 billion compared to ₹ 0.82 billion in Q3 FY2018

Our Profit before tax (PBT) grew by 37.8% to ₹ 12.53 billion in 9M FY2019 compared to ₹ 9.09 billion in 9M FY2018 while Profit after tax (PAT) grew by 26.4% to ₹ 8.22 billion in 9M FY2019 as against ₹ 6.50 billion in 9M FY2018.

On a quarterly basis, our PBT for Q3 FY2019 grew by 11.9% to ₹ 3.61 billion compared to ₹ 3.22 billion in Q3 FY2018, while PAT for Q3 FY2019 grew by 3.2% to ₹ 2.39 billion compared to ₹ 2.32 billion in Q3 FY2018. PBT for Q3 FY2019 includes upfront expensing of acquisition cost relative to the growth of 25.9% in GDPI whereas the full benefit of earned premium will be realized over the policy period.

As briefed in the previous quarters, PAT for Q3 FY2019 & 9M FY2019 includes effect of higher effective tax rate resulting from change in income tax regulations taxing long-term capital gains.

Return on Average Equity i.e. ROAE, was 22.7% for 9M FY2019 compared to 21.5% for 9M FY2018. The ROAE for Q3 FY2019 was 19.0% compared to 21.9% in Q3 FY2018 on account of upfront expensing of acquisition cost relative to the growth of 25.9% in GDPI whereas the full benefit of earned premium will be realized over the policy period.

Solvency ratio was 2.12x at December 31, 2018 as against 2.10x at September 30, 2018, continued to be higher than the minimum regulatory requirement of 1.50x.

As we conclude our address, I would like to summarize that we ended 9M FY2019 and Q3 FY2019 with diversified product portfolio and healthy financials. The Company continues to focus on prudent underwriting while improving its competitive position amongst general insurance companies.

I would like to thank you for attending our earnings conference call & we would be happy to take questions that you may have.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

**Hitesh Gulati:** I have a couple of questions - firstly, what has been the experience in the crop segment for the Kharif season because we believe the claims would have all come by January? Secondly, on the health book, we are seeing some deterioration or increasing claims ratio for nine months of this year versus last year. So, can you just throw some light on that? Also, the investment book if we look at for December 2018 compared to March 2018 it shows an annual increase of around 24-25%. We believe this must be due to the longer motor third-party policies, additional float coming in and additional PA. Is it possible to quantify what will be the impact of these in the increase in investment?

**Bhargav Dasgupta:** Thanks, Hitesh. To answer the first question on the crop segment, the Kharif performance, at least for us, seems quite positive. Having said that, we will see the total performance for the year. We still have Rabi season to come and we will see the total performance of the Rabi book by middle of next year. Our treaty is also for the whole year. As you know the treaty has stop loss at about 110% and there is a price for the stop loss treaty. The decision that we have communicated at the beginning of the year is that we will hold losses at 100% for the whole year because while the first season maybe

positive, we do not know how the second season will be. Again, another advantage that we see is that the second season is relatively a smaller book for us. However, you never know the extent of losses one can have with the book like crop. As of now, we are continuing to hold the same loss ratio of 100% plus the reinsurance cost of roughly about 16-17%. Hence, there is no change in terms of provisioning at this moment as the early signs of the Kharif book seems to be relatively better for us.

As regards your second question on the health segment, there is no deterioration in the portfolio, it is just a change of mix. One of the things that we have been saying right from the beginning of this year is that there is a change in the market dynamics in the Corporate Health. We are seeing an improvement in pricing. Hence, we have actually grown the Corporate Health book reasonably fast this year. The Corporate Health comes at a higher loss ratio although the expenses may be much lower. Accordingly, when you look at the overall loss ratio, the mix is such that the loss ratio of the corporate health is higher than the loss ratio of the retail book, thus, you see optically an increase in the overall loss ratio. The combined ratio for the Corporate Health book is reasonably in line with our objective at this point of time. It is not below 100 but it is not very far from the mark in terms of combined ratio.

As regards the third question about the investment book, your assessment is correct. It is largely because of the recently introduced long-term third-party regulation, that income is coming in. It is not recognised in the GWP because that is the accounting policy. We will account for it every year but the cash comes in upfront and sits with us. Hence, the investment amount corpus increases. If you see our investment leverage, as Gopal explained, it has increased from 3.77x as of September 30, 2018 to the current number of 3.92x as on December 31, 2018.

To your last question, the PA number is included in the Third Party premium. The number which is collected in the long-term motor segment and carried as advance premium is roughly about ₹ 8 billion.

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

**Nidhesh Jain:** Firstly, on long-term TP, we are just accounting one-third and one-fifth of premium in this financial year and remaining we are deferring over next four years, is that correct?

**Gopal Balachandran:** That is correct. In accordance with the regulation, the cash as Bhargav said, is received upfront for the whole period. In terms of the way we recognize income, we will be able to only recognize the income for the current year and the balance premium sits in the balance sheet as a part of advance premium which will get recognized in the subsequent periods.

**Nidhesh Jain:** The quantum of this advance premium is around ₹ 8 billion?

**Gopal Balachandran:** That is right.

**Nidhesh Jain:** Secondly, on the compulsory personal accident, is that a part of motor TP or a part of the personal accident in our segment?

**Bhargav Dasgupta:** It is a part of Motor TP.

**Nidhesh Jain:** There is a huge growth in Motor TP segment in this particular quarter. So is that largely because of personal accident change in pricing, right?

**Bhargav Dasgupta:** To a large extent, yes. On the commercial vehicles side, because of certain segments based on our reassessment post the last price increase, we have started looking at some of the commercial



vehicles segment which we were earlier not writing. That has also helped, but the main reason is the one that you have mentioned.

**Nidhesh Jain:** Lastly, will it be possible to share the breakup of this ₹ 800 crores in terms of two wheelers and private cars?

**Bhargav Dasgupta:** As of now, we would not, given that these are segments that are very-very competitive.

**Nidhesh Jain:** On the MISF, we understand that now again market conduct has deteriorated and your OPEX ratio has also deteriorated. So is it because of market conduct or because of high growth that we have seen in this quarter?

**Bhargav Dasgupta:** As Gopal explained, you actually source these policies and expense the amount upfront. So when you have a large growth, as we did in this quarter, you will see some of these play out. The Indian accounting regulation does not allow the deferment of the cost unlike regulations in other countries that allow the deferment of cost in line with the earnings profile. In other countries, for a one year policy, the sourcing expenses also is allocated over the 12-months. However, in India you have to expense it upfront.

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

**Avinash Singh:** Few questions - the first one is on the crop segment. Your premium has sort of increased in line with what the industry has seen. But geographic concentration has become even more because you have reduced the number of the states. Can you just elaborate on your strategy of increasing concentration in a certain state? Second is regarding the changes to your long-term taxation as you just mentioned. Is it something different that has happened for you, the general insurer or is it like the generic change that has happened for that like now in equities also long-term tax is coming and if that is the

case, of course, there was sort of grandfathering allowed and after the grandfathering of course there has not been much of a gain in general? Thirdly, on the group side as per industry of course you have accelerated because pricing has become a bit sustainable now. But industry as a whole sort of seen kind of 26 - 27% premium growth in the first nine months. So broadly of course I am saying that it will vary for players but what is it typically, is it been a sort of pricing increase and risk or volume increase?

**Bhargav Dasgupta:** As regards the second question of taxation, I will ask Gopal to respond. If you remember the half yearly conference call, we explained this point but I will ask Gopal to explain this once more.

On the question of group health, if you see the private sector growth rate of the corporate segment, it is roughly about 75% while the overall industry growth is obviously much more muted because there is a shift of business from the government companies to the private sector. Our company's growth has been above the industry average but lower than the private sector number. It is because even though we are growing the Corporate Health book, the focus for us is the granular business in that portfolio. We are still not seeing the large ticket sized corporate health portfolio being priced at a level that we are comfortable with. Hence, we are a bit more cautious about that segment. When I say large ticket size, I mean large BFSI, IT companies where the premium ticket size is ₹ 5-10 crores plus. We are actually not growing in that segment, our growth is relatively higher in the smaller ticket SME and mid-size corporate segment. That is where we are growing on the Corporate Health side.

Coming back to your first question on crop concentration, your understanding is correct. If you look at the number of states, there is a concentration. However, if you recollect one of the things that we have been saying since the beginning of the year, is that we want to reduce our overall mix of crop business as a portfolio. The Madhya

Pradesh contract was a committed contract for a period of three years which continued. However, we wanted to diversify appropriately thereafter, without increasing too much exposure in the overall category. Now, the way we look at diversification is not just at a state level, but we also look at multiple factors including the climatic patterns across crops, across season etc. There is a deep underwriting selection that we make within each of the states, within each of the clusters and then the kind of selection of crop that we would prefer in a particular area. So, we have adequately diversified without increasing the overall contribution of crop in our overall portfolio. Now, as regards the question on taxation, I will ask Gopal to talk about it.

**Gopal Balachandran:** Avinash, in line with the earlier quarters as well, we had mentioned that as far as the long-term equity gains are concerned, there used to be complete exemption from tax until last year which is until the last fiscal. In the current year, there was a change in the Finance Act wherein the long-term equity gain started getting taxed. While for most players in different sectors, the tax rate would be roughly about 10% but given that we are a general insurance company, we are governed under the separate schedule of the Income Tax Act wherein we are taxed on those capital gains at the maximum rate of 35%. So that is the change in the taxation of capital gain which has resulted in an increase in our overall effective tax rate.

**Bhargav Dasgupta:** So we are now having to pay not 10% on long term capital gains on equity, we are paying full tax.

**Avinash Singh:** Are you paying the 35% tax on the incremental gains from the date of the announcement or is it like whatever are total gains?

**Gopal Balachandran:** Any gain that will get realized on or after April 1, 2018 will be subject to the maximum rate of 35%.

**Avinash Singh:** On the entire gain irrespective of when did you invest in that?

**Gopal Balachandran:** On the entire gain.

**Bhargav Dasgupta:** There will be a lot of debate and dispute on this but that is how we are providing for it.

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

**Sanket Godha:** After the de-tariffing in the CPA rates, just wanted to understand how much the product has seen a correction in the prices from ₹ 750 and within TP just wanted to understand in third quarter how much CPA and the motor TP would have contributed to our TP business? Finally, on penetration, whether one plus five and one plus three are the prevalent products still or is it five plus five and three plus three also we are seeing a little bit of penetration of those kinds of products?

**Bhargav Dasgupta:** On the third point, when we talked at the end of the first half also, we had said, we are not seeing too much of three plus three in the private cars and there is no change. It is a single digit penetration of three plus three in the private car segment. In the two wheeler segment however, we have seen reasonable penetration, initially it was even higher, and right now it has come down, possibly because there is an underlying pressure of sales. The OEMs do not want to increase the overall on-road cost of the vehicle, so it has come down. But even then it is in the range of high 20s for five years OD on the two wheeler. So that is where we are on the long-term policy.

In terms of the CPA post de-tariffing, the pricing has kind of reduced to around ₹300 to ₹350. As we said in the earnings call last time, we believe that the amount of ₹ 750 is a bit high and the pricing has corrected to that extent which is reasonable now in our view.

**Gopal Balachandran:** In CPA if we were to look at the amount of premium that we have sourced, it will be roughly about ₹ 200 crores or so on the third-party.

**Sanket Godha:** Just one small clarification on the CPA rate after correction of ₹ 300 to ₹350, I believe that business used to operate at a loss ratio of around 40-50%. So with the correction of ₹ 300 to ₹350, whether the loss ratio could substantially increase in line with our company average, that is around 70-75%?

**Bhargav Dasgupta:** We do not think so. We think even after the price correction it will still be a profitable product.

**Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal. Please go ahead.

**Pulkit Singhal:** When I look at your market share in motor OD and motor TP particularly in the last two months, October and November, I see an increase in market share from 12% to 16% in motor OD and from 7 to 12% in motor TP, we do not have the data for December. So I do not know how that is. So can you talk about the sustainability of this market share because it used to be pretty flat for the last 1.5 – 2 years, it has just been a major uptick, I am presuming it is to do with two wheelers, but if you can just talk about how we could look at this for the next one year?

**Gopal Balachandran:** A couple of factors have to be kept in mind - firstly, there is a bit of base effect. Let me explain the base effect to you. If you look at the new vehicle sales, it is around the festive season like Dussehra season and also the Diwali season. Now last year that festive season fell in September and October, this year it has been in October and November. So there is a bit of a base effect which we have benefited from. As a company, we have a relatively higher share of the new business. So we benefit more than the others.

The second aspect is if you see the narrative that we have had in terms of building distribution, I think that is beginning to play out. We have been adding virtual offices and more agency. For this quarter, the agency growth in case of all products, but largely motor, had

more than 50%. If you see the number of agents which we have shared on the call, we are seeing traction in terms of the distribution that we are building out. If you see the virtual offices, we have rolled out a large number of offices into locations where we did not have a real presence and we are now seeing a good traction in terms of business coming out of it. Some of it is one-time and may not be completely sustainable but because of the base effect that I explained earlier, clearly a lot of business is coming out because of distribution rollout that we have been investing in for the last few quarters.

**Pulkit Singhal:** What would be the share of two wheelers and CVs particularly in third quarter motor premium?

**Gopal Balachandran:** For the third quarter, our mix of premium in terms of private cars, two wheelers and commercial vehicles of the overall motor would be about 50%, about 25-30% and about 18-22% respectively.

**Pulkit Singhal:** In terms of the PBT growth of 12%, any way of figuring out what it would have been if there was no upfronting of cost because some of us were expecting higher growth?

**Gopal Balachandran:** The other way to look at it would be to look at the acquisition cost as a percentage of the premiums that we would have sourced. If we look at Q1 and Q2, the acquisition cost as a percentage of premiums would be about 7%. Now, if you look at Q3, you would see that the acquisition cost as a percentage of the premium that we have sourced would be about 8.2%. Now, that is the kind of incremental acquisition cost that we have incurred relative to the growth in the business of 25.9% that we saw in this quarter.

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

**Rishi Jhunjunwala:** Just quick clarifications on the accounting for motor TP long-term. As you mentioned that premiums are going to be recognized over a period of time but is it that all the commissions and all the Opex are already recognized or is it a portion of that?

**Bhargav Dasgupta:** No, that is also recognized at the time of recognizing the premium.

**Rishi Jhunjunwala:** So it is only the acquisition cost that you mentioned which is getting recognized now?

**Bhargav Dasgupta:** If you remember the regulation, it has graded down acquisition cost, the first year is the highest, the second two years is lower and the third to fifth year, when it comes to two wheelers, is even lower. So those amounts will have to be accounted in the respective years accordingly.

**Rishi Jhunjunwala:** Since personal accident thing had a full impact in this quarter with ₹750 rate, and you mentioned that it is highly profitable, just wondering have you done provisioning which is substantially higher because otherwise we should have seen big improvement in the loss ratios from motor TP as well?

**Bhargav Dasgupta:** When you look at the PA component, you start selling it from the first month of the quarter and you book a very small part of that in terms of the earnings because it is only for effective 45-days when you book what you have written for the quarter. So, all of that does not really translate into the economics of the quarter. It flows in over the 12-months period.

**Rishi Jhunjunwala:** I guess the full impact of that will probably be visible in loss ratios going forward?

**Bhargav Dasgupta:** If you see the TP loss ratio, to some extent the impact can already be seen and thereafter the remaining will definitely come in the future.

**Rishi Jhunjunwala:** Any thoughts on where we will be getting into the auction process for crop for next year in this quarter and we have MP contract which is expiring, so any thoughts given in terms of how do we want to approach not state wise but I am just talking about overall what strategy are you thinking about for next year?

**Bhargav Dasgupta:** It will be in line with what we have been talking about and guiding in the previous quarters. The approach for us would be to remain conservative on some of these businesses because of the basic nature of the business. We have discussed the broad strategy extensively in the past however the exact strategy will be fine-tune during this quarter. We will have our own internal strategy meeting but sufficient to say that unless the market discipline improves, we foresee the share of crop to come down for us.

**Moderator:** Thank you. The next question is from the line of Nishant Shah from Macquarie. Please go ahead.

**Nishant Shah:** On the commission line item, we used to have roughly about ₹1 billion of negative commission basically like reinsurance commission that we used to earn. So that is now over in the last year or so and completely reversed and now we are at positive or an expense figure of about ₹0.9 billion. So one part is explained by the upfront accounting of long duration policies. But what component of this is like due to the reinsurance rates hardening and like you are no longer earning any commissions or negative write-backs of commissions from this?

**Gopal Balachandran:** Just a small clarification - in the first place, it is not that the whole of the commissions on the long-term policy is expensed in the P&L for the quarter or the nine months. Just to reiterate what gets recognized as commission in this year will be relative to the premium which will be attributable to the current year. So in the case of the three year policy, one year premium is what gets recognized in this financial



period, two year premiums is what would get recognized as advance premium.

**Bhargav Dasgupta:** So just to explain this better, even if we did not have the long-term component which has ended up as an increased cash inflow to us to the extent of roughly about ₹ 8 billion as we explained. So suppose this had not come, the only change that would have happened is the ₹ 8 billion would not have come to us as cash. But the impact in terms of low combined ratio but less profit growth would still be there because even when you write one year policy, you book the expenses upfront for that policy while you earn that income over 12-months. In life insurance it happens over let us say 10-year, 15-year, 20-year policy, for us it happens for one year. So in a quarter where you have very high growth relative to the previous quarters, you will always see a pattern like this where the combined ratio may look good which means you have created underwriting value but you will capture that value over the next few months and few quarters for the 12-months. So, it is nothing to do with the long-term. It is normal accounting rules of general insurance. To explain, on that there are two things; firstly, the MISP regulation since last November has changed the classification of the expenses. So the commission cost has gone up, that is one factor. Secondly, since the beginning of this year and again we have discussed in the earlier calls, the reinsurance cost and the cost has gone up in certain segments, commissions have come down particularly in the crop insurance segment right at the beginning of the year and that is something that it is part of a number every quarter.

**Nishant Shah:** MISP you said there is a change in the classification of expenses. Earlier where was this recognized – in other expenses?

**Bhargav Dasgupta:** Yes.

**Moderator:** Thank you. The next question is from the line of Vinod Rajmani from HSBC. Please go ahead.

**Vinod Rajmani:** Firstly, now that the dust has settled on the MISP guidelines, has the roster of insurance for a type of particular OEM, has that changed, have you seen any change there in terms of them adding or reducing the roster? The second question is, on the multi-year motor policy, are you seeing any reduction in OD rates. Thirdly, what is your view on Ayushman Bharat?

**Bhargav Dasgupta:** In terms of the roster, while we are talking about it now, it is an evolving piece. Even earlier, every 2-3 years, some OEMs will add one company, and it is not unusual. Because of MISP, we have not seen a radical change in the rosters. One of the changes that happened is we have got added to a few OEMs that we were not partners with. So that has been positive for us. One of the OEMs have been added to the roster.

As regards your question on long-term policy impact on OD rates, again, right at the beginning of this year, the OD growth rates have come down due to the MISP regulation rather than the long-term policy. We believe that will sustain. So the OD rates this year have been softer than what it used to be in the previous year.

As regards your question on Ayushman Bharat, I think our position remains the same. We believe it is a very good scheme for the target group that it is trying to address and we genuinely believe that in the long-term this will actually change the dynamics of healthcare if it continues to be executed properly. The model that we are following is a mix of insurance and trust across different states. When it comes to the trust model, obviously we do not have a role. When it comes to the insurance model, as of now, we have still not found the pricing to be in line with the price that we believe is appropriate. So, as of

now we have not been able to win any contract and there has not been any change from last quarter.

**Moderator:** Thank you. The next question is from the line of Harish Kapoor from India Infoline. Please go ahead.

**Harish Kapoor:** Sir, just wanted to know, could you explain the expense upfront aspect again. I think you mentioned that for the long-term products obviously the motor vehicle part, insurance policy part, you have kind of upfronted those costs, but on a blended basis, as the insurance commissions kind of dropped in the first year and third year, so on a blended basis, you mentioned that the profitability line item there would have been ₹50- ₹60 crores gain. Is that right if I understood it?

**Bhargav Dasgupta:** That is right but it has nothing to do with the long-term. So, let us look at a long-term five year two wheeler policy. If let us say the ticket size is just a rough number of ₹3,000 and every year we split it equally into five proportions, that is not how it is but just to explain, let us say ₹ 600 every year, we are booking GWP of ₹ 600 at this point in time and we are also booking the expenses linked to that ₹ 600 at this point in time. Now the commission on that ₹ 600 for the first year is higher, the commission on the second, third, fourth and fifth year is relatively lower but the lower commission will book in the second, third, fourth, fifth year. So there is no booking of the subsequent long-term policy premium in this quarter. It is completely aligned, the booking of the top line and booking of the expense of the commission. But the advantage, as I am trying to explain is the commission in the subsequent years will be lower because that is how the product regulation is. If it was a steady state business, every quarter, let's say, we are growing at 15%, the upfront expensing of cost does not have a problem. Now, I am talking about upfront expensing of cost for a one year policy. In one year policy, as per the current regulation, the entire expense you have to spend at the time

of booking of the policy. But the earnings are earned over the 12-months. When the growth is constant every quarter, there is not much impact, but in a quarter where you grow significantly higher, you will have to expense the sourcing cost of that higher business in that quarter.

**Harish Kapoor:** Second thing, just in terms of crop insurance, I think we are taking a more conservative view on that, obviously the Rabi season still has to go, but when are we going to be confident in terms of the claims that we would have and start reversing any of the provisions that we would have made – is it at the end of Q4 or will be still little next year Q1 to kind of get the accurate assessment and then take a call on this?

**Bhargav Dasgupta:** The Kharif numbers will get actualized soon in Q4 but the Rabi number, as I explained, will get actualized probably in Q2 of next year. At this moment, it would be inappropriate for us to take the benefit of Kharif in Q4. It is because, if later, Rabi proves to be very bad, then we will have to again increase the provision in Q2 of the next year. We want to avoid that. At this point in time, we cannot predict since the entire data is not available. Perhaps when we receive the data in Q1 or Q2, we will make the necessary provisions then.

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

**Harshit Toshniwal:** A couple of questions: When I look at the third-party, so clearly then ₹ 21.2 billion becoming ₹ 30 billion, this is the GDP number, maybe for Q3 itself it may be somewhere around ₹10 billion. If I just want to understand that how much would be the advance premium relating to this business of Q3 which I have received. If you can explain the trajectory of investment leverage in a more normalized period or which investment leverage is going to increase from current level but

from 3.92, where can it go once everything normalizes maybe one or two years down the line, can we see it at around 4.2-4.3 kind of level?

**Gopal Balachandran:** So the first part I think if you look at third party this actually has been the quarter where we have seen the premiums on the long-term policy coming through which is where we gave that number of ₹ 8 billion. So ₹8 billion is the amount that is standing in the balance sheet with respect to the advance premium that we have collected on account of the long-term policy that we have sold in this quarter.

**Bhargav Dasgupta:** That is not in the GWP number of this quarter.

**Harshit Toshniwal:** So this ₹8 billion is for a quarter's business. Now if I assume that for annual business, which will be going forward, so it would be somewhere around ₹32 billion kind of a number?

**Bhargav Dasgupta:** You cannot multiply by four because as you see this year this quarter we have had almost 26% growth and Motor has actually grown faster than 25%. So it has been one of the very high growth quarters. I do not know if you have missed the conversation when we were explaining that growth, there is some base effect. So, you should not multiply by four and live with that number, but clearly what we see in terms of your larger question, where do we see the trajectory of the leverage, it has already increased from about 3.77x to 3.92x in one quarter. We sense that over three years because this growth will play out and then will stabilize. We think it can go to between 4.5x to 5x.

**Harshit Toshniwal:** What I was doing is that instead of 8, if I assume even another ₹16 billion would have been the additional if it is for full year, but it is two to three years business, so it could be higher.

**Bhargav Dasgupta:** Three years, not two years.

**Harshit Toshniwal:** Just another follow up question on this; do you think that going forward IRDA may introduce something in the solvency norms which would prevent us to make carry such high assets because ultimately this amount of advance premium is something on which we are not required to keep any capital in the current standard?

**Bhargav Dasgupta:** We would be okay if IRDA came in with the capital norm for this because we believe we have an advantage on that in terms of extra solvency. The reason why this accounting norm has been created is to ensure that there is no insurance company which suddenly has a large pressure on capital just because of a regulation change on account of the Supreme Court directive. So, as of now, we do not anticipate any change in the capital norms.

**Moderator:** Thank you. The next question is from the line of Pratik Poddar from Reliance Mutual Fund. Please go ahead.

**Pratik Poddar:** Just one small clarification; the upfront cost, under which line item are these sitting – is this under sales promotion expense or all the three -as in other expenses business support services?

**Gopal Balachandran:** It will largely be a part of the acquisition cost that you get to see in the line item. However, equally there will also be some element of sourcing expenses as well. But a large part of the expenses will sit as a part of the acquisition cost line item that you get to see in the financials.

**Pratik Poddar:** Second is could you just break your GWP channel wise, basically how much would be banca, agents?

**Gopal Balachandran:** If we were to look at, I think largely we source our businesses across four key channels, that is the way we have largely been talking about. If you look at from direct standpoint, direct would roughly be contributing about 38% of the overall premiums that we source, through brokers, we source about close to 40%, this includes motor

business through OEMs also gets included as a part of brokers. Through individual agents we source about 10% and the business that we source through corporate agency banks which is through the banc assurance channel is about 7.5% and businesses that are sourced through a corporate agent other than the bank, is at about 5%.

**Pratik Poddar:** Could you just explain in detail the market share gains which we are seeing in the motor segment, you just talked about ramping up distribution? Secondly, also on the health side, there is a slight deterioration in the market share. We have not been growing in line with the industry if I am not wrong. So maybe if you could just explain that also? In addition to that, indemnity has grown at 50%. So why was that?

**Bhargav Dasgupta:** On the health, we explained that to an earlier question also, but let me repeat. If you see the health segment, there are three components – one is the mass health where we have almost vacated that space, it has been a de-growth for us, relative for us, and obviously related to the industry, it is much significantly lower. In terms of the corporate health, while the industry has grown at around 25-26%, we have grown significantly higher but our growth is still lower than the private sector multi-line companies; our growth has been roughly about 67% while the private sector companies are growing at about 74-75%. So, our corporate segment growth is still lower than the private sector because we are a bit cautious about very large ticket corporate health business. When it comes to retail, the indemnity piece which is the biggest piece for the industry but for us that was a relatively smaller piece and that is the segment that we want to grow faster. Accordingly, this is where we are investing in terms of distribution. That business has grown really well, in fact, the new business has grown by a bit more than 50%.

Where we have not grown fast this quarter is the benefit product because of the systemic issue that all of you would be aware of. That growth comes largely from the NBFC partners because these are usually benefit policies that get sold along with through the NBFCs. And when they slow down their lending growth, that has an impact on us. So that segment has not grown that well for us. In spite of that, overall for us the retail indemnity piece has done well.

**Pratik Poddar:** Just on the market share gain, the motor OD side you talked about, if you could just brief that or explain that a bit more granularly?

**Bhargav Dasgupta:** We have given the numbers in terms of our growth. So growth has largely come from two factors – The base effect that I articulated earlier; but largely from the distribution that we have kind of been investing in for the last few quarters. So it has come across the board. In fact, if you see our agency growth for this quarter, is more than 50%. That is obviously because of the investments that we have been making in the agency force over the last few quarters, and that is now beginning to result in the growth that we are seeing.

**Pratik Poddar:** So, part of this growth has come from the individual agents rather than brokers, that is the way to think about it?

**Bhargav Dasgupta:** We have natural advantage. We have slightly larger beneficial impact because we have a larger share of the new business. Second is, of course, with the new OEMs that we have tied up, we are also going into the deeper territories and adding to our presence in the smaller markets through the virtual offices. The virtual offices get both agency business and also the OEM business. So, it is across both. The focus on distribution is helping us in terms of growth.

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



**Nidhesh Jain:** Sir, on the loss ratio accounting for long-term policy, how we are doing – is it reasonable to expect that in the second year, third year, fourth year onwards, the loss ratio on the same policy will deteriorate or we are already factoring in our loss ratio numbers?

**Bhargav Dasgupta:** We have factored that into our model and again we have discussed this in the past as well. Of course, it is difficult to predict exactly what will happen to a portfolio four years into the future. I am here talking about let us say the business that we write, on the own damage side, we price it according to our model in terms of what we believe will happen after three to four years from now. But there are multiple factors -- One, there is a claim inflation which could work against the loss ratio number that we have today. Equally, there is a benefit in terms of frequency losses that we see for the older book. So that could benefit in terms of lowering the loss ratio. There is an advantage of insuring the whole pool. Again, the basic principle of insurance, if you insure 100% of the population, the frequency of claims comes down. One of the things that we have been saying is that 50% of vehicles that insured, but 100% of the accidents for third-party come to the insurance company. So that is the point that I am making in terms of frequency reduction. So we have looked at all of these aspects. We have the additional advantage of the fact that the cash is sitting with us. So we have some benefit on the investment side. So we think two to three years from now, the loss ratio may increase a bit because of these claim inflation, etc., but it should be compensated by the investment assets that we are sitting on.

**Moderator:** Thank you. The next question is from the line of Vinod Rajmani from HSBC. Please go ahead.

**Vinod Rajmani:** I had one follow up question. So, IRDA stipulated that you have to do some amount of third-party pool based on your market share in the previous year and so on. So with this new multi-year policies,

how is that going to play out – is it just going to be based on GWP or will they also consider that you are selling more multi-year policies?

**Bhargav Dasgupta:** No, it is based on GWP because that is what we account for and we are on track for meeting the objective.

**Moderator:** Thank you. That was the last question. I now hand the conference over to Mr. Bhargav Dasgupta for closing comments.

**Bhargav Dasgupta:** Thank you everyone for attending the conference. We are very excited about this quarter's performance, both in terms of the growth and particularly for the retail businesses where we have been focusing on building the distribution. I think that has begun to play out. That is something that we are very happy about. We remain focused on improving the combined ratio. In terms of the numbers that we achieved in this quarter, we are quite satisfied with it. Overall, I think the direction for the company remains strong and positive. We are very excited about the business and we will again get together three months from now and look forward to meeting in between. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for joining us and you may now disconnect your lines.