# "ICICI Lombard Limited Q3 FY18 Analyst Call"

## January 16, 2018

MANAGEMENT: MR. BHARGAV DASGUPTA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER
MR. GOPAL BALACHANDRAN – CHIEF FINANCIAL OFFICER

**Moderator:** Good Day, Ladies and Gentlemen. And a very warm welcome to ICICI Lombard Limited Q3 FY18 Analyst Call. From the management of ICICI Lombard General Insurance Company we have with us today Mr. Bhargav Dasgupta – MD and CEO and Mr. Gopal Balachandran – CFO.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Bhargav Dasgupta – MD and CEO ICICI Lombard General Insurance Company. 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 Ltd. for Q3 FY2018. Before we get into the financial results of the Company, I would like to give you a brief perspective on the industry trends in the recently ended quarter on December 31, 2017, post which our CFO, Gopal Balachandran will share the performance numbers.

The General Insurance Industry continued to grow at a robust pace in FY2018. It registered a growth of 18.9% in 9M FY 2018 over 9M FY2017. For the latest quarter ended December, the growth was 17.7% as compared to Q3 FY2017.

The positive performance trend was also witnessed in the combined ratio, which improved to 111.60% in H1 FY2018 from 115.90% in H1 FY2017 at an industry level.

In terms of the other major developments in the industry, the regulator IRDAI issued the Motor Insurance Service Providers

(MISP) guidelines introducing uniformity in the operation, compliance and remuneration in the industry for motor business done through the dealer channel. An MISP can be appointed directly by the insurer or by any intermediary. The overall remuneration to MISP has been defined as a percentage of premium.

As an industry, I believe we are moving in the right direction in terms of improving underwriting discipline while the growth momentum remains strong. We at ICICI Lombard are excited by these developments and the emerging opportunities.

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

**Gopal Balachandran:** I am happy to take you through the highlights of ICICI Lombard General Insurance Company Ltd. for the quarter ended December 31, 2017. We have put up the results presentation on our website. You can access it as we walk you through the performance presentation.

In terms of our performance, the Gross Direct Premium (GDPI) of our Company increased to ₹ 94.31 billion in 9M FY2018 compared to ₹ 80.59 billion in 9M FY2017, registering a growth of 17.0%. The growth for Q3 FY 2018 was 17.8% over Q3 FY2017.

We saw an increase in policies issued to 17.60 million in 9M FY2018 from 12.83 million polices issued in 9M FY2017. For Q3 FY2018 the number of polices issued were 7.01 million against 4.92 million policies issued in Q3 FY2017.

We continued to maintain a diversified portfolio in the first nine months of FY2018. Motor insurance contributed to 42% of the GDPI followed by Health and Personal accident to 18%, Crop insurance and Property insurance to 20% each. We have been cautious in underwriting Crop insurance as a result of which the contribution of Crop insurance has reduced to 20% in 9M FY2018 from 25% in H1 FY2018.

On the profitability front, we registered a significant improvement in Combined Ratio to 100.4% in 9M FY2018 from 106.2% in 9M FY 2017. For the recently ended quarter, Combined ratio improved to 96.0% in Q3 FY2018 from 106.6% in Q3 FY2017. Our emphasis on prudent risk selection resulted in an improvement in loss ratio to 76.3% in 9M FY2018 from 82.1% in 9M FY2017. On a quarterly basis, loss ratio improved to 72.5% in Q3 FY2018 from 79.8% in Q3 FY2017.

Our Investment assets rose to ₹ 173.18 billion at December 31, 2017. Our Investment leverage (net of borrowings) was 3.89x at December 31, 2017. Investment income for 9M FY2018 increased to ₹ 11.76 billion from ₹10.27 billion in 9M FY2017. Investment income for Q3 FY 2018 increased to ₹ 3.50 billion from ₹ 3.44 billion for Q3 FY 2017. Capital Gains for 9M FY2018 increased to ₹ 4.03 billion from ₹ 3.69 billion in 9M FY2017. Capital Gains in Q3 FY2018 was lower at ₹ 0.83 billion compared to ₹ 1.14 billion in Q3 FY017.

Our Profit before tax (PBT) increased to ₹ 9.09 billion in 9M FY2018 compared to ₹ 6.61 billion in 9M FY2017. With respect to Q3 FY 2018, PBT grew at 42.8% to ₹ 3.22 billion compared to ₹ 2.25 billion in Q3 FY2017. Our Profit after tax (PAT) in 9M FY2018 was ₹ 6.50 billion compared to ₹ 5.22 billion in 9M FY2017, registering a growth of 24.5%. Profit after tax (PAT) for Q3 FY2018 grew at 5.2% to ₹ 2.32 billion compared to ₹ 2.20 billion in Q3 FY2017. PAT of Q3 FY2017 and 9M FY2017 includes effect of excess tax provision written back of earlier years of ₹0.40 billion. The PAT growth for Q3 FY2018 and 9M FY2018 would be 28.9% and 34.9% respectively adjusting for the above tax written back.

The above profits are after considering provision of ₹ 0.55 billion towards provision for doubt debts. The Company has during the recent quarter received orders from the National Grievance Redressal Commission (NGRC) in favor of the government with respect to disputed receivables pertaining to erstwhile government sponsored mass health scheme (RSBY Kerala - ₹ 0.09 billion and RSBY UP - ₹ 0.45 billion) underwritten by the Company. While we have further appealed against the order, we have made provisions in accounts of Q3 FY2018 and 9M 2018.

Return on Average Equity i.e. ROE, was 21.1% for 9M FY2018 compared to 20.3% for 9M FY2017. The ROE for Q3 FY2018 was 22.4% compared to 20.4% in Q3 FY2017.

The Solvency ratio was 2.21x at December 31, 2017 as against 2.01x at December 31, 2016 and higher than the minimum regulatory requirement of 1.50x.

**Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Anand Bhavnani from Sameeksha Capital. Please go ahead.

**Anand Bhavnani:** Sir, I wanted to understand our philosophy on reinsurance. We undergo a lot of ceding and given the fact that we have a high solvency ratio, how does the company think of retaining risk, within ICICI Lombard or is it by going for reinsurance? Can you help us understand the philosophy behind it?

**Bhargav Dasgupta:** The philosophy behind reinsurance is largely to protect the balance sheet from very large exposures. If you look at our business, there are two types of businesses that we write, one is very granular retail lines of business where the individual exposures in terms of the losses that we can take because of an individual risk may not be very large. For example, motor own damage portfolio or health portfolio the individual losses may not be very large. The other type of business that we write is typically for businesses where the exposure is very high, let's say corporate line of business and crop line of business, given the way crop loss ratios are calculated the exposures are very, very high. So, for the lines of business where we have granular exposure like the retail lines there is relatively lower level of reinsurance protection. For the other lines where the exposures are very high we tend to buy higher level of cover. The way we buy reinsurance is also at two levels, one is on a proportional basis which is for certain lines of business where the premium and the risk is shared in proportion with us and the reinsurer. On top of it we buy non-proportional covers which are like pure insurance protection for us, the way you would buy as a retail consumer from us, we buy non-proportional covers from reinsurers which protect the individual loss limit for us. At the last level we buy an overall catastrophic cover or we buy a cover at the portfolio level which steps in when there is a very large catastrophic event or let's say for crop if the loss ratio for the entire portfolio crosses a certain threshold, those reinsurance covers come in. The approach to reinsurance has been reasonably stable and consistent, we will continue to focus on that. Coming back to your specific point on solvency, just because we have a solvency of 2.21x would we want to retain risks that are lumpy and high exposures? The answer is no. However as our retail lines of business keeps on growing the effective retention numbers for us will also keep on increasing.

**Anand Bhavnani:** Thank you. Sir, second question was on the phenomenal improvement in loss ratio. Going forward is this kind of combined ratio sustainable or is it likely to improve or worsen a bit, how should we see it over the medium-term say in the next three to five years?

**Bhargav Dasgupta:** I think what we have been mentioning to all of you during our IPO and thereafter is that our endeavor has been and would continue to focus on bringing the combined ratio close to 100, we are actually quite happy that we have been able to do that in nine months. If you see our nine-month numbers it is about 100.4%. The endeavor obviously would be to continue and to hold and maintain this number. In our business there will always be some volatility, some shock in a certain quarter, so it is not appropriate to keep looking at a quarterly number and build trend lines. But if you look at our nine months number or twelve months number you will probably see a better trend for the company. If you see 9M FY 2018, our combined ratio has improved from 106 to 100. I do not think we can say that this is a trend line, an improvement of 6% in nine months is not something that can be sustained as it is not practical, but in terms of holding the numbers around this, will be our endeavor going ahead.

**Moderator:** Thank you. We will take the next question from the line of Harshit Toshniwal from Jeffries. Please go ahead.

**Harshit Toshniwal:** A couple of questions. First one is that when I look at the overall combined loss ratio it has definitely improved but on a segmental basis for the motor third party business and crop insurance business the loss ratios have deteriorated, can you throw some light, because for crops the season has been good in the last two years and for motor the third party price hikes taken have been reasonable over the last couple of years, so can you throw some light on why these two have increased?

**Bhargav Dasgupta:** Let me tackle the query on crop loss ratio first. In the last conference call we had clearly indicated that the losses for a crop portfolio is not visible till about six to nine months after the period. So the Kharif crops that we write for the quarter ended 30th September, we have no visibility of what the true losses will be because the crop cutting experiment happens after that and then the data comes after a while and there is lot of back and forth with the state government that happens. It is after six to nine months that we have complete visibility of what the losses prove to be. What we have been doing since the last quarter is that as we do not have visibility of what the actual loss ratio would be, we hold a loss reserve at 100%, assuming it will be +/- 100%. Why take a call at this point in time without any visibility of the actual numbers, so we are holding 100%. That is a tranche that we continue to hold because even now for the Kharif numbers we do not have complete visibility. Having said that, in terms of where we see the losses going I think this year's monsoon in aggregate has been good but has been generally patchy, hence I think there will be some pockets of high loss ratios and some pockets of good loss ratios. At this point in time it is very difficult for us to state with any confidence or conviction on what that number will be at the end of the period, hence we are holding 100%.

In terms of motor third party, over the previous year same period our number has increased from 96% to 106%, but if you see quarter on quarter, our Q2 FY2018 number was 111% and Q3 FY2018 number is at 106%. The reason why our number is higher compared to previous year is, I think we have again been saying this that on third party losses the trend line that we see over a long period of time shows that losses develop over a long period of time, I think it is appropriate to be more conservative in reserving, which is a practice that we have always followed. If in the long-term we find the loss ratio is proving to be better than what we are holding will come back as a benefit. But we have always been conservative on third party loss ratios. We believe even relative to the market we probably may be higher but we just believe that it is right to take a more conservative approach that is why our numbers are higher.

**Harshit Toshniwal:** Okay. Something related to this, you say that you are being more conservative, but if you look at the IBNR and outstanding claim balance, the gross amount which is there on the balance sheet, for motor third party has increased by 5% on YoY basis. The liability amount stands at ₹ 7,150 crores right now versus ₹ 6,800 crores as compared to a year ago. Why hasn't there been any relevant or corresponding increase in that outstanding IBNR figure for motor insurance?

**Gopal Balachandran:** If you look at it from a reserving perspective, when you look at claims incurred as a number it has three components to it, one is the claims that have been reported let's say during the period for which an assessment has happened, and therefore the claims have been settled and paid. The second component of the claims incurred is with respect to cases which have been intimated for which you have been able to put a case estimate or what we call as a case reserve. And at the end of the reporting period you have not affected a settlement and therefore it continues to stay at outstanding claims. The third component what you get to see is the element of claims incurred but not reported. When you look at the numbers I think you will have to look at it in the context of the aggregate of claims which are intimated for which a case reserve is created and remains outstanding and also the element of IBNR which is claims incurred but not reported, both of them put together is a number that you could look at in terms of relative comparison between periods. And the loss ratio numbers that Bhargav mentioned includes all the three.

**Moderator:** Thank you. We will take the next question from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

**Atul Mehra:** Sir, just a couple of questions. First is, these numbers for motor OD, they would have seen the full impact in the way of MISP or is there still some more improvement that we could see going forward?

**Bhargav Dasgupta:** On MISP, I will repeat what I said in the last conference call, I think it is too early to predict how it will play out. Let me explain what I mean by that at this point in time, having seen two months of MISP. The MISP guidelines became effective on 1st November, I think mostly there is some amount of improvement in terms of the cost of distribution for the industry. Having said that, it is too early to call. There are two areas of concern that we might have to look at in the sense to be able to give you a guidance that it will stabilize at this level. One is, the total savings which the industry will get out of this, some part of it will be passed back to the customers. What we are already finding is that some of the OEMs or the auto manufacturers, the distributors and the dealers are asking for reduction in price which will play out as we go along. I think part of the benefit that we see from the distribution cost reduction would get adjusted against price improvement for the end customer which in a sense is positive for them. The second thing where we would still remain a bit cautious is stability of this arrangement and the market conduct issues. Till may be a few more months we would not want to hazard a guess on how that plays out. For us for this quarter we see some benefit as it is now two months that we have got the MISP guidelines working, so there has been some savings in terms of expenses. But as I said, we believe some of that will get played out and passed back to customers through price reductions.

**Atul Mehra:** Right. Sir, my second question is in terms of MISP, have you seen market share improvement in lot of dealer outlets, say for the past quarter, or may be as we speak?

**Bhargav Dasgupta:** It is a mix bag. I think on aggregate we are kind of holding on our market share and that is one of the reasons I said we would not want to call this so soon, as we would want to see the market conduct of all the players stabilize and only then we can take a call. We believe there should be a natural advantage for us because of our distribution and our servicing capability, but equally we will have to wait to see how the market behaves.

**Moderator:** Thank you. We have the next question from the line of Nidesh Jain from Investec. Please go ahead.

**Nidesh Jain:** Sir, on crop insurance you mentioned that the loss ratio is high because you maintain higher loss reserves. For the last quarter also we maintained higher loss reserves, so will we get any benefit out of that in this quarter?

**Gopal Balachandran:** The thing that Bhargav mentioned earlier, for crop insurance the development takes about six to nine months in terms of the actual claims experience. Till the time we do not necessarily know what the final outcome of those losses would be for the respective periods in which we have been underwriting the risk, we continue to hold the loss ratio at 100%. To your question the answer is, yes, we have not taken any benefit of the prior period this quarter.

**Nidesh Jain:** And second is that there is a very big difference between investment yield with realized gains and without realized gains in this quarter compared to Q3 FY17. What is the reason for that?

**Bhargav Dasgupta:** If you see the total investment income of Q3 FY2017 that is if you look at the two components, one is the normal flow of income in terms of interest and normal dividends and other is the cap gains, for Q3 FY2017 the total investment income for us was ₹ 344 crores, this year for the same quarter it is about ₹ 350 crores. However, within that if you see the capital gains last year for the same quarter that number was ₹ 115 crores, this year for the current quarter the number is ₹ 83 crores. The overall yield had come down because the share of capital gains has reduced in this quarter. Obviously, from a book value perspective let's say the equity that we hold, we will continue to benefit. Just to give you a sense of the numbers for equity on the unrealized gains, as on 30th September, 2017, the total unrealized gain on equity was ₹718 crores on our books, as on 31st December the number is ₹ 926 crores. It is just that in this quarter given our view on the stocks that we hold and the market view that the investment team had, we did not feel it appropriate to sell any of the shares and extract the capital gains, hence the yield looks lower. But in terms of the flow income of interest and dividend, that number is anyway higher than last year same quarter.

**Moderator:** Thank you. We have the next question from the line of Anand Agarwal from Blackrock. Please go ahead.

**Anand Agarwal:** Continuing on that investment yield question itself, I guess the question is more that the yield on investments with unrealized gains that you have end of this period. I guess we are sitting on Rs. Nine billions of equity profit but does that also mean that there is a big amount of unrealized losses on the debt portion as well? And how should we think about that, I mean would you realize that or would you just hold it to maturity and therefore not realize these losses?

**Bhargav Dasgupta:** On the debt side?

**Anand Agarwal:** I am asking on what you have showed in the disclosure, yield on investments without unrealized gains and with unrealized gains. The yield on investments with unrealized gains is much lower in the end of this nine months versus last year. Ideally the unrealized gains on equity should have added to the yield but the yield is lower than without unrealized gains.

**Bhargav Dasgupta:** Absolutely. That is because, as you know on the debt side it is an HTM book, because as per regulation we do not mark-to-market. Having said that, we were sitting on the unrealized gains on the debt book as well on 30th September. Given where the yields have moved to, that number from a positive has become a small negative as we speak, and that is why the overall number including that component is lower. And in terms of our approach, do we want to hold them on the debt book and what is our strategy, we have always said that we take calls on our portfolio based on our view on the interest outlook that we have, if you want to recalibrate the portfolio and increase duration at a point in time we might take those losses and increase it, but that is something that we will do in a calibrated manner so as not to create shocks.

**Anand Agarwal:** Okay. So you will largely hold it to maturity and therefore not need to book these losses if anything?

**Bhargav Dasgupta:** I am not saying that, I am saying we have always taken a view that we should look at our investment portfolio with a long-term mindset. If we believe that the duration of our portfolio needs to be changed and increased as the interest rates go up, we might sell some of that and rebook with higher duration assets. But we will do it in a manner that does not unnecessarily give shock to the investment portfolio.

**Anand Agarwal:** Okay. Second, if I look at the net commission earned in this quarter is much lower than the run-rate that we were earning in the past. Can you explain what the reason is?

**Gopal Balachandran:** I think primarily if you look at net commission, obviously it is a function of the acquisition costs that you incur on sourcing of the policies. Correspondingly what you also enjoy on the reinsurance premiums that we give to the reinsurers, is the benefit of commission on reinsurance which acts as an income for us. I think the point that Bhargav made as a part of the introductory remarks, I think so far as the new regulation that has come with respect to the MISP framework, clearly there is a requirement of the regulation to reflect the entire distribution cost associated with sourcing of policies as a part of commission paid, which is a new development from the current quarter onwards, that is primarily the reason why you see the overall net commission numbers showing a reduction as compared to the earlier quarters.

**Moderator:** Thank you. We have the next question from the line of Dhawal Gada from Sundaram Asset Management. Please go ahead.

**Dhawal Gada:** Just three questions. First, could you give the overall reserve release or addition for prior periods during the current quarter and for the same period last year? The second question is, what is the ultimate loss ratio experienced on the 2017 Rabi crop? And the third question is, what is the duration on the overall bond portfolio? Thanks.

**Bhargav Dasgupta:** So, on the reserve releases we can tell you for nine months, we do not have the quarter number off hand right now, but for 9M FY2018 that number is, we have not got any releases from the prior periods, so any reserve from prior to 2017 we have not taken any releases for the nine months.

**Dhawal Gada:** Okay. And as a policy we do take that on a quarterly basis or we do that at the year end?

**Bhargav Dasgupta:** We do it on a quarterly basis, but the true picture will emerge at the end of the year. All we can say is that as of now for the prior period we have actually strengthened the reserves of prior to 2017 in our nine months number. We have not taken any benefit of our prior period releases.

**Gopal Balachandran:** And just to add what Bhargav said, Dhawal, even as part of the last call if you recollect, so far as the crop insurance is concerned last year we had indicated a loss ratio of 84% for the previous financial year. And if you would have seen, as a part of that call we had said that based on actual loss development that happened during the current half of the current period we were required to kind of further strengthen the loss ratio requirement to about 89% or so. So, to that extent I think as Bhargav said we have not had any specific release from the earlier accident years so far as the reserves of the 9M FY2018 are concerned.

**Dhawal Gada:** Right. So, there is a net zero effect basically, some lines have seen release, some lines have seen additions, so net there is a zero effect?

**Gopal Balachandran:** We have seen some further strengthening of reserves, as I said on the crop insurance. If you see on an aggregate basis we have had some further strengthening of reserves relating to the accident years of the prior period.

**Moderator:** Thank you. We have the next question from the line of…

**Gopal Balachandran:** Sorry, Dhawal, there was one other question that you had raised with respect to the duration that we have on the bond portfolio. As at the end of December 2017 we are running a duration of about 4.8 years.

**Moderator:** Thank you very much. We have next question from Kajal Gandhi from ICICI Direct. Please go ahead.

**Kajal Gandhi:** Sir, most of the questions are answered, just one clarification. If the combined ratio is 96% why are we having it as 100%?

**Gopal Balachandran:** As far as reporting of financial performances are concerned, as a General Insurance Company we report our results in terms of two financial statements in that sense. We have the revenue accounts which reflects the results of insurance operations and we also do have the profit and loss account which reflects any of the item of other income or other expenses which would not necessarily form a part of core insurance operations. In terms of the combined ratio which is prescribed by IRDA regulations, requires us to consider all items which form a part of the revenue account, which is why you see the combined ratio of 96%. And correspondingly if you consider the numbers reflected as a part of our revenue statement, you see a small underwriting positive as well. On the other side, what we have also indicated as a part of our press release as well, there is also an element which I also kind of mentioned as a part of the introductory remarks is that we have also considered provision for doubtful debt of ₹ 0.55 billion pertaining to the two government-sponsored health insurance policies that we had issued. This number does not find a reference so far as revenue statement is concerned, it finds reference in the profit and loss account.

**Kajal Gandhi:** Okay. So this is largely due to that provision, 0.55?

**Gopal Balachandran:** That is correct.

**Bhargav Dasgupta:** There is another element. At 96% combined we would have otherwise had an underwriting profit, but there is another aspect that you need to keep in mind for future. For calculating loss ratio, the denominator is net earned premium, i.e. NEP, while for the expense ratio calculation it is NWP i.e net written premium. The thinking behind that is that the sourcing cost actually should be logically allocated to the net written premium. But what happens as the business grows your combined ratio could be below 100, let's say marginally below 100, you still have your negative underwriting number because of this deferred acquisition cost issue in India. So, because of this reason you will expense the amount upfront and the earning will happen over 12 months. Hence you can effectively have a situation where combined ratio is slightly below 100 but you are losing money on an underwriting basis.

**Moderator:** Thank you. We will take the next question from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

**Hitesh Gulati:** Sir, What would be the claims ratio in the retail and group health segments?

**Gopal Balachandran:** If you look at the group health numbers which is the corporate health, the loss ratio has moved from 105% for 9M FY2017 to 87.9% in 9M FY2018. And if you look at it so far as the retail loss ratios are concerned, we primarily look at it in terms of the loss ratios related to our indemnity portfolio and the loss ratios related to our benefit portfolio that we write. On the indemnity portfolio we have seen a movement in the loss ratio from 65.4% in 9M FY2017 to 59.5% in 9M FY2018. On the benefit portfolio we have seen a movement of loss ratio from 76.5% in 9M FY2017 to 45.7% in 9M FY2018.

**Hitesh Gulati:** Would you have the numbers for the government health portion as well?

**Bhargav Dasgupta:** As far as the government health portion is concerned, we have seen a movement in the loss ratios from 135.3% in in 9M FY2017 to 131.1% in in 9M FY 2018.

**Moderator:** Thank you. We have the next question from Hiten Jain from Invesco Asset Management. Please go ahead.

**Hiten Jain:** Sir, on an earlier question of why net commission is lower, you said it is a guideline. Does it mean that the cost incurred to acquire the customer's which is ultimately given to the reinsurer that OPEX should be clubbed under commission and hence this commission ratio is lower?

**Gopal Balachandran:** What the regulation prescribes is that, you will be entitled to certain level of commission and the regulation also prescribes that you could also end up paying rewards which would be up to 30% of the commission limits that has been prescribed. In terms of the regulation, in the normal course, the rewards would have otherwise been indicated as a part of OPEX. Under the current regulation they also require us to reflect the rewards forming a part of the acquisition of business, also as a part of commissions paid, which is the primary reason why you see a change so far as the net commissions are concerned.

**Bhargav Dasgupta:** So, effectively it is a change of head, it is not an increase in sourcing cost. Actually the MISP regulation has reduced the sourcing cost for the industry.

**Hiten Jain:** So, if I add our net commission to net premium and operating expenses to net premium that has seen some reduction. It is 23.5% this quarter versus 27% a year ago and versus 24.5% in Q2 FY 2018. There is this some kind of operating expenses benefit. I understand that we were not expecting much operating leverage, can you please explain what lead to this kind of benefit in terms of operating expenses?

**Bhargav Dasgupta:** Going back to what we had said last quarter or during the IPO as well was that, from our business on usual basis we were not expecting any operating leverage because we said we wanted to invest in some of the new segments of the business. That has not changed. The benefit that we have got in this quarter is largely because of the MISP guidelines where, there is a significant reduction in the distribution cost by regulation.

**Moderator:** Thank you. We have the next question from Kunal Shah from Edelweiss Securities. Please go ahead.

**Kunal Shah:** A couple of questions from my side. What is your thought process behind being cautious on crop insurance business?

**Bhargav Dasgupta:** There are two aspects, one is basic prudence on underwriting. What we had said earlier, and I repeat, that last year when the crop market opened up the level of competitive intensity was low, quite a few players were not writing crop insurance and we felt the pricing was reasonably attractive. This year many players have come into the market and we have seen a bit more aggression on pricing.

Hence, when we went to the market we wanted to quote what we believe is a fair premium. Given that these are tender driven businesses you have to be L1 and most of the times we did not win any of the tenders. We were in a sense anticipating that from the beginning of the year and we had indicated that our crop insurance growth will be muted. It is a conscious strategy. The second aspect is, as a mix of our business we did not want the crop insurance portfolio to become a larger segment of our business, given the inherent and the volatile nature of that business. We wanted to contain that as an overall mix of our business which was also a stated objective that we had mentioned in the beginning and that's one of the direction in which we are headed. If you see our product mix, crop insurance was 25% for six months, it has now dropped to about 20% for nine months and going ahead for the 12 months we believe it will come down even more.

**Kunal Shah:** But when you look at the Government's outlook in terms of increasing coverage for the crop insurance, don't you think there will be only few players in the market who can cater to that sort of premium, given the balance sheet size that they are in or will smaller players also get aggressive in crop insurance?

**Bhargav Dasgupta:** You are absolutely right. Logically, we have a natural advantage in writing this business, but at the end of the day it has to come at a price which we believe is appropriate. Otherwise this business can never be sustained. If the pricing improves, we may win some bids. Having said that, the inherent volatility of this business is very high, so while there may be a great growth opportunity we will still want to play it in a very cautious manner.

**Moderator:** Thank you. We have the next question from Avinash Singh from SBICAP Securities. Please go ahead.

**Avinash Singh:** I have questions on motor OD and motor TP. You have been conservative with reserving even in the previous year, particularly on the motor TP, but there had been change in your loss ratio in motor OD and motor TP. Is this the outcome of you focusing more towards two wheelers or is it because you needed to provide additional reserves for prior years in TP line? Second question is on MISP. You rightly said that natural outcome of reduced acquisition cost should be that the customer is getting lower prices, but there have been sort of murmurs in the market that entities in the supply chain, particularly at the dealer level are already suffering from lower commission and hence will be resisting the price cuts because that will bring their commission further down. Are you also experiencing the same?

**Bhargav Dasgupta:** You are right in what you are hearing. There are two different stakeholders here. One is the OEM, which at times drives this whole initiative in pushing for a price reduction because it benefits their customers. The dealers would see some loss of revenue and that is the reason they are pushing back in certain pockets. This tug-of-war has been going on for some time, but we believe that part of this benefit, almost may be half of this benefit will gradually in due course move towards the customer in terms of reduced prices. So even though dealers are protesting the OEMs will kind of push down a little bit of price reduction going ahead. It may not happen across all sectors but this is an overall perspective.

**Avinash Singh:** Thank you. And on my first question on motor OD?

**Bhargav Dasgupta:** There has not been any major change in our business mix. For us the focus continues to remain on two wheelers and private cars. If you see our portfolio mix, while the industry mix has roughly 40%-45% private car and commercial vehicles and may be about 15% two wheelers. Our share is very different, we have more than 50% private car, about 15% to 17% CV and the rest, about 30% - 35% as two wheelers. So that mix is sustaining. We are seeing some competitive activity on the two wheeler segment but we are trying to hold on to our market share. Wherever we have let go of the business, it is largely because of risk selection. In certain pockets we will keep looking at our portfolio every month and wherever we find some adjustment, some disengagement or some entry, we will keep doing that. Generally, there has not been a big change and whatever changes have happened are not because of any TP ULR increases or anything that we may need.

**Moderator:** Thank you. We have the next question from Nishant Shah from Macquarie. Please go ahead.

**Nishant Shah:** I have two questions. First on the reserves release. You mentioned that there has been no reserves released during the nine months. Could you split that between some additional reserving that you may have done for motor third party and for the remaining portfolio? The second question is on crop insurance. You mentioned that you would like to restrict it at a certain level of your portfolio. Do you have a range in mind, may be around 15% or 20% of the portfolio?

**Bhargav Dasgupta:** On the first question as you know we are the only company that are disclosing the reserve triangle. We are not disclosing line by line reserve triangle as it is a competitive issue. Being a market sensitive information, we do not give line wise or segmental breakup of our reserves. But you will probably be able to get a sense looking at the nine-month numbers, which segments will have some releases and in which segments you will see some strengthening. We do not want to give a specific number to that at this point in time when the market is not even disclosing the aggregate numbers.

Answering your second question, we would want to bring it down below 20% which is the current number right now given the market pricing we see at this point of time. Our sense is that in the long-term even if market pricing improves we would want to keep it ideally within 15% to 20%.

**Nishant Shah:** One follow up question. On this competitive intensity in the crop insurance business, for the business that we have done have we taken any price cuts or have we tried to completely maintain our price and let go of whatever business we miss?

**Bhargav Dasgupta:** A very large part of our business comes from Madhya Pradesh where we had a clear contract signed last year, which continues. That is a large part of our business. Elsewhere whatever we won this year has been based on our actuarial pricing that we were comfortable with. Some places we won and most places we lost. So the pricing was adequate from our perspective wherever we have won.

**Moderator:** Thank you. We will take the next question from Parag Jariwala from White Oak Capital. Please go ahead.

**Parag Jariwala:** Looking at the overall trend, is it right to assume that the reinsurance market is going through from a soft market to a slightly hardening one. Since we have a large portion of our business getting reinsured, how does it impact us?

**Bhargav Dasgupta:** Globally, this year has been a high CAT loss year for reinsurance business, particularly because of storm losses in US. So, the market expectation is that there will be some amount of hardening. Having said that, the Asian market has performed well. Equally there is a view from some of the market players and reinsurance brokers that it is unlikely that reinsurance prices for Asia will go up significantly. From our perspective, it is very difficult to give you a sense at this point in time because it is may be around two to three weeks from now when we start getting into dialogue with the reinsurers for next year's treaty. We do not foresee any meaningful impact for us going ahead, even if rates come down a little bit.

**Parag Jariwala:** What is the premium to sum insured in crop?

**Bhargav Dasgupta:** It is roughly about 10x.

**Parag Jariwala:** You mentioned during the call that the pricing is getting aggressive in crop insurance. How much will that be?

**Bhargav Dasgupta:** It depends on individual states, what is the past track record, what is the cluster, which is the crop. etc. So, for one state rate, if it is 10x the rate is 10% which is what we are giving for our portfolio. But in certain states a rate of 3% will be quite adequate, given that those states have had consistently good crop performance, it is well irrigated let's say, generally the propensity of natural disasters are low. On the other hand for some states for various reasons a rate of 25% may be inadequate. Hence, I can't give you a number that 10% will become 8% or 12% for the industry. Honestly speaking it is very difficult to predict if the market will remain aggressively priced next year, it goes from tender to tender.

**Moderator:** Thank you. We have the next question from Nischint Chawathe from Kotak Securities. Please go ahead.

**Nischint Chawathe:** There is a provision made of ₹ 55 crores. If you could explain what this is about?

**Gopal Balachandran:** The provision for doubtful debt relates to the erstwhile policies that we had issued with respect to the government sponsored mass health insurance scheme. They basically relate to RSBY Kerala policy that we had written earlier and the other set of provision relates to the RSBY Policy in the state of Uttar Pradesh. With respect to both of these policies, in fact in terms of the amount involved the RSBY Kerala provision amount is about ` 9 crores and so far as the

RSBY Uttar Pradesh policy is concerned, the provision that we have taken in the current quarter is about ₹ 46 crores. So, essentially these were disputed receivables which we have been appealing against. So far as the current quarter is concerned we have got orders from the National Grievance Redressal Commission wherein they have ruled in favor of the government so far as the outstanding premiums are concerned. As a result of which we have provided for both the schemes aggregating to about ₹ 55 crores. We have already filed an application in so far as further appeal is concerned. These are related to different schemes and pertain to different periods. They pertain to different policies that have been written in earlier underwriting years.

**Bhargav Dasgupta:** Just to add to what Gopal said whatever receivables were against these two states for the RSBY policy we completely provided 100% of that. In UP we are not the only company, there are about seven companies. Other six companies apart from us who are also in the same position have. We have taken the litigation route. Since the order has come this quarter we decided to take the full provision.

**Nischint Chawathe:** Does this gets reflected in the loss ratio calculation?

**Gopal Balachandran:** This gets reflected as a part of the profit and loss account as a part of other expenses. There is a separate line item that you would get to see so far as provision for doubtful debts are concerned.

**Moderator:** Thank you. We will the next question from Neeraj Toshniwal from Emkay Global. Please go ahead.

**Neeraj Toshniwal:** Did we have any one-time catastrophic losses in this quarter that you could highlight?

**Bhargav Dasgupta:** There was no catastrophic type big losses in the quarter. In our business there will be some losses here and there but nothing that is out of the ordinary.

**Neeraj Toshniwal:** If not catastrophic, man-made losses?

**Bhargav Dasgupta:** No, there was one media article about fire in a factory that came in November saying there will be a big loss for ICICI Lombard. Actually, that loss was provided in the last quarter because the intimation came to us in the last quarter. But as I mentioned about our reinsurance strategy, we buy protection for these type of severe losses and the reinsurance policies kick in and pay for losses beyond a certain limit.

**Neeraj Toshniwal:** What is your upper limit in terms of losses in case of fire?

**Bhargav Dasgupta:** That is a number which we do not disclose as it is a very sensitive competitive information between us and the other players in the market. But suffice to say that individual risk losses that we suffer when one such big event happens is a single-digit crore figure.

**Neeraj Toshniwal:** Wanted to understand your exposure in the recent Kamala Mills fire incident that happened?

**Bhargav Dasgupta:** As of now we have no intimation, so we do not believe we have exposure there.

**Neeraj Toshniwal:** What is the expectation on the Motor Vehicle Act that is coming into play? What is your strategy going forward? Everybody is suffering from motor third party losses. What are your views on the same?

**Gopal Balachandran:** If eventually passed, we look at this as an extremely positive regulation. While it has been already approved by LokSabha, it is pending for approval in the Upper House. As far as current regulation from third party is concerned there is no time limit for intimation of the loss. So this obviously translates into some of the claims getting intimated to us after fairly long period of time wherein I think our ability to investigate those claims become extremely difficult, particularly if the intimations happen after four or five years from the time of happening of the incident. The new Bill proposes for a time limit of six months so far as intimation of losses is concerned. So we think potentially what would have otherwise been fraudulent reporting which we would not have been able to investigate completely. We see this as an extremely positive change in terms of the intimations of losses are concerned.

The other aspect of the regulation is in terms of reduction in the loss incidences. Under the existing regime we have almost four to five years of time cycle that you should take so far as intimation of losses is concerned. So on an average we used to see almost a weighted average duration of about seven to eight years, by the time a claim gets intimated and eventually gets settled. So by virtue of this we could see potentially the float on which we would have been earning investment income also to reduce. But from ICICI Lombard's perspective, the levels of inflation that we carry as a part of claims cost is higher than the return that we would have been enjoying so far as this particular float is concerned. So even if the aggregate amount of float gets reduced by virtue of the time limit of intimations going down, but on the flip side we would essentially be having benefit of us required to provide lower levels of reserves in the books. This would be clearly a positive so far as the company is concerned.

Also the step in terms of digitization, today there has been hefty fine that has been proposed for various activities, including not having an insurance policy. In fact, amount of fines that have been proposed in the Bill is almost equal to buying a two wheeler insurance cover. So hopefully we believe that this will significantly drive increased penetration and the same should propel the growth opportunity. All in all we see this as an extremely positive regulation once it is passed in the upper house as well.

**Moderator:** Thank you. Due to time constraints that was the last question. I now hand the conference over to the management for their closing comments.

**Bhargav Dasgupta:** As we conclude our address, I would like to summarize that we ended the 9 months period with diversified product portfolio and healthy financials. The company continues to focus on prudent underwriting while retaining its leadership position amongst private sector general insurance companies.

I would like to thank you for attending this conference call pertaining to our earnings for Q3 FY2018. We would now be happy to take specific questions that you may have.

**Moderator:** Thank you. Ladies and Gentlemen, on behalf of ICICI Lombard Limited that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.