



**“ICICI Lombard Limited Q4FY18 Analyst Call”
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MANAGEMENT:

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

Moderator:

Good evening, ladies and gentlemen, a very warm welcome to ICICI Lombard General Insurance Company Q4FY18 analyst call. From the management we have with us today Mr. Bhargav Dasgupta, MD and CEO and Mr. Gopal Balachandran, CFO. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. I would now like to hand over the conference to Mr. Bhargav Dasgupta, MD and CEO, ICICI Lombard General Insurance Company.

Bhargav Dasgupta:

Good evening everybody. I welcome you to the earnings conference call of ICICI Lombard General Insurance Company Ltd. for Q4 and 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 and year ended on March 31, 2018, 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 17.5% in FY2018 over FY2017. For the latest quarter ended March, the growth was 14.2% as compared to Q4 FY2017.

The positive performance trend was also witnessed in the combined ratio, which improved to 112.9% for 9M FY2018 from 116.3% for 9M FY2017 at an industry level.

Our performance measured in terms of combined ratio was robust for FY2018 as combined ratio improved to 100.2% for FY2018 compared to 103.9% for FY2017.

As an industry, I believe we are moving in the right direction in terms of improving underwriting discipline while the growth momentum remains strong.

There were few major developments at an industry level in the last quarter which I would like to update you on.

- In the Union Budget for FY2019, the finance minister announced a National Health Protection Scheme (NHPS) to provide insurance cover to the economically backward section of the society. The specifics of the scheme are not yet clear. Having said that, we are confident of its positive impact in terms of improving healthcare services for all and pushing overall health insurance awareness and penetration levels higher. The scheme is expected to cover over 10 crore poor and vulnerable families.

-The insurance regulator has recently published annual price revision for Motor Third Party premium rate for FY2019. The average rate hike for the industry for FY2019 is approximately 6.1% as against average hike of 15.3% for FY2018. This could impact growth and loss ratios for Motor Third Party segment. Having said this, the price revision in certain segments of commercial vehicle space could also open new opportunities for growth. New vehicle sales momentum is expected to remain robust which should drive volume growth.

-We however have seen reinsurance rates hardening in terms of lower reinsurance commission and increased excess of loss cost in Crop insurance segment.

The current growth momentum is likely to continue in the near future. We expect the industry to keep growing at 15% to 20% levels in FY2019.

We at ICICI Lombard continue to be excited by the macro level developments and the emerging opportunities.

We are happy to present our numbers and would like to mention that despite of the adverse claims experience in Crop segment, our performance was strong on various parameters.

I will now request Gopal to take you through the financial numbers 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 and year ended March 31, 2018. 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 ₹ 123.57 billion in FY2018 compared to ₹ 107.25 billion in FY2017, registering a growth of 15.2%. The growth was contributed across product lines. We registered a growth of 9.8% in Q4 FY2018 over Q4 FY2017, excluding crop insurance segment; our growth for Q4 FY2018 was 15.1%.

The number of policies serviced increased by 32.5% to 23.5 million in FY2018 from 17.73 million in FY2017. In Q4 FY2018, the number of policies serviced increased by

20.7% to 5.91 million against 4.90 million policies issued in Q4 FY2017.

We continued to maintain a diversified portfolio in FY2018. Motor insurance contributed to 43% of the Gross Direct Premium Income (GDPI) followed by Health and Personal accident at 19%, Crop insurance at 19% and Property insurance at 19%.

On the profitability front, we registered an improvement in Combined Ratio to 100.2% for FY2018 from 103.9% for FY 2017. For the recently ended quarter, combined ratio was 99.5% for Q4 FY2018 as compared to 97.1% for Q4 FY2017. Our loss ratio improved to 76.9% for FY2018 from 80.4% for FY2017. On a quarterly basis, loss ratio was 78.5% for Q4 FY2018 as compared to 75.4% for Q4 FY2017. This was due to the adverse loss experience in crop segment of business during kharif season. The loss ratio excluding enhanced provision of crop segment would be 70.5% for Q4 FY2018.

Our Investment assets rose to ₹ 181.93 billion at March 31, 2018 as compared to ₹ 149.50 billion at March 31, 2017. Our Investment leverage (net of borrowings) was 3.90x at March 31, 2018 as compared to 3.88x at March 31, 2017. Investment income for FY2018 increased to ₹ 14.82 billion from ₹ 12.83 billion for FY2017. Investment income for Q4 FY 2018 increased to ₹ 3.06 billion from ₹ 2.56 billion for Q4 FY 2017. Capital Gains for FY2018 increased to ₹ 4.47 billion from ₹ 3.91 billion for FY2017. Capital Gains in Q4 FY2018 was at ₹ 0.43 billion compared to ₹ 0.22 billion for Q4 FY2017.

Our Profit before tax (PBT) increased by 31.4% to ₹ 11.96 billion in FY2018 compared to ₹ 9.10 billion in FY2017. With regard to PBT, the same grew by 15.5% for Q4 FY2018 to ₹ 2.87 billion from ₹ 2.49 billion for Q4 FY2017. Our Profit after tax (PAT) for FY2018 was ₹ 8.62 billion compared to ₹ 7.02 billion for FY2017, registering a growth of 22.8%. Profit after tax (PAT) in Q4 FY2018 grew by 17.9% to ₹ 2.12 billion for FY2018 compared to ₹ 1.79 billion for Q4 FY2017. PAT for FY2017 includes effect of excess tax provision written back of earlier years of ₹ 0.40 billion. The PAT growth for FY2018 would be 30.2% adjusting for the above tax written back.

Return on Average Equity i.e. ROE, was 20.8% for FY2018 compared to 20.3% for FY2017. The ROE for Q4 FY2018 was 19.1% compared to 19.7% for Q4 FY2017.

The Solvency ratio was 2.05x at March 31, 2018 as against 2.10x at March 31, 2017 and higher than the minimum regulatory requirement of 1.50x. The solvency was impacted by adverse claim experience in Crop insurance segment. To conclude, I would like to summarize that we ended FY 2018 with a 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.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session.

The first question comes from Mr. Anand Bhavnani from Samiksha Capital.

Anand Bhavnani: Sir, Can you throw some light on why underwriting performance in health group and miscellaneous group categories has worsened quarter on quarter and year on year?

Bhargav Dasgupta: If you look at our overall loss ratio for the group segment, the loss ratio for group business has improved from 104% to 88%. What you are probably referring to is the overall absolute numbers that we've published in terms of group health as corporate and the government business together. So if you see the number in aggregate it is deteriorated over last year, not because of loss ratio implication, loss ratio has improved, but basically there has been some change in the expense allocation that we've done; number one. Number two in terms of the type of businesses that we are sourcing on the group health side is a lot more of the SME risk.

What we are seeing in the market is that, group health in aggregate has largely seen pricing improvement and in the mass health segment we have almost vacated so that loss ratio has clearly improved and the combined ratio has also improved for us for that simple reason. On the group health on the corporate side, there are three segments, which are basically the SME segment; very small corporate, the mid market segment and the large risk segment. We are seeing price improvement in small and mid market segment categories but in the large segment, we still are not seeing pricing correction to the level we are comfortable. So there we are not winning anything. What we are winning in terms of the corporate side is largely the SME business. So in SME business, there is a distribution

cost and there has been some change in expense allocation. So optically it looks elevated this year but in terms of as I said, loss ratio, we've seen significant improvement on the overall corporate group health portfolio moving from 104% to 88%.

Anand Bhavnani:

Sir for our marine business the underwriting performance has drastically improved; is it some accounting change or are there any pricing changes? If you can help us understand that?

Bhargav Dasgupta:

As we've explained in the past, the financial year loss ratio has a component of the business that we write now. It could have either releases or strengthening of the back books in terms of the reserves that we make in the past and the releases that we have for the year or the strengthening we might have for the year. Now what we've seen across is, if you see the Q4 numbers on the loss ratio; you'll see very volatile numbers. You'll see some numbers which are even negative.

So marine for example, the Q4 loss ratio numbers it is 17.7%. Now obviously that's not the current underwriting year loss ratio number. But we are seeing that low number, simply because from the prior period book, we've got reserve releases in the marine segment. Similarly, we've had reserved releases in some of the short tail businesses, which is why financial year loss ratio number of Q4 looks low for certain segment.

The loss ratio should be looked at for the whole year because within the quarter there could be some volatility because of releases of reserves from the past which is why you're seeing the wide loss ratio as low as it is. It is not as low. So the second point I would make is that in aggregate; we look at the aggregate loss ratio movement which includes the reserve releases for the back book or reserve strengthening for the back book.

In aggregate while our FY18 loss ratio is 76.9% for the company as a whole, we have seen reserve strengthening for crop, we have seen reserve strengthening for TP. But in aggregate what we've got for the company as a whole is, we've roughly strengthened the back book by about ₹ 71 crores which is almost about 1% of loss ratio for the company. So the 76.9 % number that you see is including extra ₹ 71 crores of back book reserve strengthening that we have done this year. So when you look at the specific line, one suggestion would be to look at the yearly

numbers as I explained and even within yearly numbers you will have some reserve releases in a particular year for a particular line of business but we will give you the aggregate reserve release for the company as a whole as we've promised.

Anand Bhavnani: On the scenario of re- insurance rates hardening if you can comment on what's the percentage change that you are seeing because it is a new underwriting for us from April beginning.

Bhargav Dasgupta: Honestly, we don't want to give the exact numbers because this is very sensitive information between the reinsurer and us and it's in a competitive market that can become a bit of a challenge for us. But what we can tell you is that in terms of the commission on the crop book, the higher commission has dropped as also the cost of the excess of loss has increased.

Now, while that has happened on a net basis that may have an implication for the combined ratio for the crop book which is why we continue to remain cautious on the crop book but overall for the company as a whole while this will have an impact on the crop we believe we will be able to digest this as a company in aggregate for the whole year.

Moderator: The next question comes from Mr. Nishant Shah from Macquarie.

Nishant Shah: Could you help me with the data point about the year to date loss ratio in crop?

Bhargav Dasgupta: So what we've been specifying is that in the overall portfolio we have roughly about 73.5% of the portfolio re-insured on a proportional basis, so 26.5% is retained on our books. Of the piece we retain on our books, there is a stop loss protection that we buy at 110 % for which we pay a price. Now in terms of how the loss ratio is translated to the current number that we've talked about, I'll ask Gopal to explain the accounting and hence the numbers.

Gopal Balachandran: So if you look at the presentation, so far as the crop loss ratio is concerned, you see a loss ratio of 135% for the whole of the year. Essentially three components to it. This year has been a year of adverse crop loss experience. Hence to that extent we've had the loss ratios to the maximum which is 110% that we have. So the 135% that you get to see is a combination of three elements to it.

One is the entire amount of the loss ratio of 110% of the premiums that we've sourced. It has also got the element of the excess of loss cost which also gets included as a part when you arrive at the loss ratios; the cost of seeking the re-insurance protection is also taken as a part of premium on the re-insurance and hence to that extent the other factor which is the part of the loss ratio number of 135%. The third component is with respect to the business that we wrote particularly in the Rabi last year which was for FY2017 Rabi season.

We had seen an adverse development so far as the exposure we had at the state of Tamil Nadu is concerned. There again in the current year as mentioned in our earlier calls we did see an experience of adverse movement relative to the estimate that we originally carried.

Bhargav Dasgupta: So this number was already accounted for in the first half numbers. So there is no increment in this quarter but Gopal is explaining the whole 135% breakdown.

Nishant Sha: Understood. Sir this difference between 135% and 110% which is about 25%; is this entirely the cost of the excess loss provision or it also includes the percentage of loss which we have exceeded from that 250% upper cap as well?

Bhargav Dasgupta: Just to give you the breakdown of the numbers, the stop loss that we said we have at 110%, so that is the poor loss at 110%, we captured at that level. The excess of loss cost is roughly about 17% and the previous year reserve strengthening for the Tamil Nadu book, we had already done this in the first half but for the whole year is coming at about 8%. So that's the 135% breakup.

Moderator: The next question comes from Nishant Chandra from Temasek.

Nishant Chandra: My question is with respect to the combined ratio difference between ICICI Lombard and the rest of the sector which I think Bhargav had outlined earlier in the call. I think the difference was somewhere in the zone of 13% to 14%. Now, how much of this difference is arising because of the difference between the mix of products that you are underwriting and how much is let's say the underwriting quality or the cost optimization you are running. If you can broadly provide a breakdown on that, that will be great?

Bhargav Dasgupta:

So, unfortunately it will be difficult for us to quantify that breakup but I can tell you that there are three to four key factors. One of course is risk selection which is basically underwriting. You underwrite segments of business that you believe is adequately priced, so if you look at our market mix, we have zero exposure to mass health now simply because that has been a highly loss making portfolio. So that is one of the market mix issues. If you look at our product mix while our natural market share is a bit more than 8%, our own damage, market share for motor is about 11%, our third party market share is about 7%.

We have been cautious about TP. Particularly for the commercial vehicle segment because in the past inadequate price increase, we have been cautious. So the main factor is what we are writing and what we are selecting, vis-a-vis what maybe the others are selecting. So on that there is a lot of granular analytics that go in, in terms of using your data and analytics to figure out what are the segments that you want to keep on optimizing; that I think is one of the key USPs and our strength.

I don't think honestly that pricing is a big factor because, pricing is largely aggressive in most markets. So at the same level of price if you select the right segments of risk that is a positive for you. Number two there is a lot of work, I think we have talked about that in the past; there is a lot of work that we do with corporate clients with risk mitigation and risk management. We have a proposition which we call value added services but basically what we do is work with clients on the corporate side, analyzing claims.

So if you slice and dice a claim data you see pattern and then if you go in and understand what is the cause of high claims in a particular segment let's say marine transit or one particular factory you understand why that is happening and then you give solutions to mitigate some of those risks. These solutions include using IOT devices, include telematics to track logistics chain, includes simple fire protection system enhancement in factories and lots of these initial even basic stuffs in terms of packaging and stuff that are called for marine transit. Today we are working with more than 800 corporates, large and SME included where we have provided some kind of solution of this nature.

I think that has helped us both in terms of higher renewal rates of these clients and also improvement in loss ratio. So that I would say is second point, and this is particularly true for corporate business. Third of course is, the automation digitization effort that we have been putting over the years. That's something that consistently gives us some benefit. As we grow in scale that will hopefully keep on giving us benefit. Last point and I think this is an important point, people don't pay enough attention to is the work that we do on fraud control.

Lots of analytics on this propensity models, triaging, triggers etc that we have which we use to look at what we believe are fraudulent claims and how do we mitigate those. We've actually taken the lead in the market in terms of taking industry action on some of these frauds particularly for third party, including filing PIL in the UP, in Supreme Court and those are initially help the industry but I think it helps us more because the message goes through the system that when it comes to fraud maybe we are not the best guys. That is the message that we want to be sent out.

Nishant Chandra:

The second point that I wanted to just understand was with respect to the TP repricing that you briefly touched upon in your introductory remarks again. So if I understood correctly, the commercial TP has actually increased by 15%. Do you expect this just to flow through to you directly from the TP business perspectives?

Bhargav Dasgupta:

You are absolutely right. If you see on an average for the industry as a whole, the lack of TP hike or smaller TP hike is an issue. Last year on an average for the industry portfolio we saw 15% price increase. This year for the average industry portfolio we have seen a 6% price increase. However, for our portfolio and probably this reflects the quality of portfolio we have been writing. For our portfolio the price increase is only 1.8%.

So if you look at for us there is a potential 2% impact on loss ratio straight away, do nothing basis because we will reserve on a claim inflation basis because it is the right thing to do because we see claim inflation so potentially on an aggregate book we have a potential 2% loss ratio deterioration simply on this account of TP or lack of TP price increase. Having said that, obviously we'll not sit idle, we will work on what we can do within the segments as I touched upon and will again look at how we can optimize

and rebalance the portfolio to make it viable and somehow find a way of absorbing this effect.

Nishant Chandra:

For the last two, three years, the pricing revision for TP has been generally above what we've seen historically. It has been in the double digits consistently and that has significantly stepped up the profitability or actually significantly reduced the loss ratios of TP business to the extent that because of the long tail of payout, the ROEs of the TP business is starting to look attractive across the sector. So to that extent, I think even with this sort of moderated price increase would it be fair to say the ROEs of that business looks fairly decent?

Bhargav Dasgupta:

So, Nishant, that's a great question, and that's a lot of judgment and view that we take. In a simplistic manner the answer is yes. The ROEs for most of the TPs business, even if the combined ratio is 110% or 115%, the ROEs will be a healthy number because you sit on the float for a long period of time. But honestly speaking it comes with a risk because over the years courts changing judgment and the losses actually unfavorably been higher than what we had anticipated.

So I think at least what our approach has been even though the ROE number maybe attractive, we still focus a lot more on combined ratio. Number two, the loss ratio numbers for different companies on TP has to be looked at in conjunction with the reserving practice. As I said, we have been transparently sharing that we believe the claim inflation based on our data is double digit number.

So if we factor in a double digit number then I don't know how much of that ROE may go away if it continues to be a double digit number. Some other company maybe assuming that inflation may come down because the overall inflation number is lower. That's a call that could turn out to be right, but it could be in our opinion a risky call. So we'd been a bit more conservative on that and we still have enough room to grow in our opinion. The last point is, at the end of the day the regulator looked at the whole portfolio and they've used actuaries to give a price increase.

Our only commentary is that last year, they had proposed a higher price increase for certain segments and this year for the same segments they have not given a price increase so I still wouldn't jump in and assume that we should

aggressively write third party at the cost of combined ratio just because the ROE optically may look high.

Moderator: The next question comes from Mr. Avinash from SBI Cap Securities.

Avinash: What sort of comfort level exists today in a two-wheeler, passenger cars and CV segment when it comes to third party TP issuance is concerned? The second question is more on crop, if I look at your Q4 sort of combine if I try to break, okay you said some part of it is to other previous Kharif that will be Q3, but the numbers for the Q4 looks excessively high and also particularly in the context you have said in the previous year you have already provided in the beginning 9 months, so can you just breakdown that in Q4 how much of it has gone towards that Q4 expected loss and how much for the earlier 9 months reserves or at least better aspects of reserves and how much is for your excess of loss a bit of color on that? These are my two questions, thank you.

Bhargav Dasgupta: So let me answer the second question first. So if you look at just the quarter's loss ratio impact simply because of the crop losses that we accounted for in this quarter which is for the Kharif period, that number has had an impact of almost 8% in terms of our overall combined and loss. So our loss ratio number would have been better by about 8%. If you remember we had shared and we had held the loss ratio at 100% for the crop business in the past.

So this year we didn't want to take any profit, 100% including these excess of loss cost because we didn't want to account for any profit nor did we want to account for any losses. If we had continued to hold at 100% by the end of the year, then our Q4 loss ratio would have been better by 8%. So that's the answer to your second question. In terms of your first question, in terms of the penetration or compliance level for the third party, based on the industry data that we have, our estimate is that it is roughly about 50% compliant. That is 50% of the vehicles on the road have a third party insurance remaining 50% are driving without a third party insurance.

The problem is particularly elevated for two wheelers. The two wheelers number that CRISIL had identified at the time of our IPO was that after three years only 10% of the two wheelers have third party insurance. The similar number for private cars was about 60% who has insurance after 3 years. So those are the drop offs that happen in some of

the segments after three years. In the beginning, in the first year most of the vehicles have a third party insurance. So it is not a problem in the first year.

Avinash: And do you hope that the impending motor vehicle act has sort of a potential to change this or at least gradually change this?

Bhargav Dasgupta: I think gradually this will change. We have been saying this that it is a very big positive, the cost of non-compliance will go up significantly plus the government has taken a lot of positive initiatives in terms of digitizing the records and providing the information in the hands of the law enforcement officers. So we do believe that this is a big positive, but improvement in our opinion will not be a sudden spike, it will be a gradual improvement.

Moderator: The next question comes from Mr. Nidhesh Jain from Investec.

Nidhesh Jain: Sir my question is on crop insurance. For this quarter if you look at the loss ratio, it is around 211%, is it on account of Q2 or Q3 losses where we have provided 100%. But the actual loss which has emerged is much higher than that or it is just on account of Q4?

Bhargav Dasgupta: No it is not about Q4. It is for the reason that I explained. Basically, the Kharif crop is what has proved to be the high losses. The earned premium for crop in this quarter is relatively low because we did not write too much of Rabi. So the losses of the Kharif is on the numerators, the EP of the Rabi is on the denominators. So the loss ratio looks optically very elevated.

So what you should look at is the overall years' numbers because that is what is material. That as Gopal explained has three components. 110% which is our stop loss numbers based on our insurance program. 17% XOL cost and 8% losses which are prior period losses that has fallen into this year which we had already accounted for in the prior period. That's part of the 211% number that has already been accounted for in the prior period, but for the whole year, that is part of the number.

Nidhesh Jain: Second question is about the investment income. Investment income for this quarter seems to be quite lower since last two quarters. Any commentary on that?

- Bhargav Dasgupta:** The investment income in terms of the low income, which is the interest and dividend that's in line with whatever we have had in the past. The difference is in terms of the capital gains that we had in this quarter is relatively low and that's largely because as we've always said, we look at taking capital gains when we believe the timing is appropriate rather than taking it to inflate the profits for the quarter.
- Nidhesh Jain.** It's mostly on equity portfolio?
- Bhargav Dasgupta:** Capital gains which we would have had in this quarter are largely because of the equity book.
- Moderator:** The next question comes from Mr. Rishi Junjunwala from IIFL.
- Rishi Junjunwala:** Firstly, can you give some sense in terms of loss ratio for FY 18 in Motor TP going up significantly versus FY17? How much of that can we attribute possibly to playing which could have been long tail? I mean three to four years or beyond that versus the ones which are more recent.
- Bhargav Dasgupta:** So for TP when you see the full disclosure on the presentation which is already there on the site, you will see the reserve triangle developments that we've given for the running book as also the reserve triangle disclosure for the dismantled pool. Now if you see the reserves for the dismantled pool, you would see that we've significantly strengthened some of the provisions for that.
- Now, this is in line with what we've been saying, in aggregate we will not have any material impact from prior period. In aggregate as a company by about ₹ 71 crores that includes the crop loss I talked about, i.e. 8.1%. But in terms of within lines, we have largely strengthened the TP pool even further to what we have had in the past. So that's how we got the financial number for TP.
- Rishi Junjunwala:** Understood. Following up on the same path, so basically you are reserving triangle one on IMTPIP clearly for the past, the deficiency numbers have gone up. Also even for the main reserve triangle there we are seeing AY 9, AY10, AY11, AY12 having deficiency numbers going up versus what it was last year and we have redundancy for the past few years. So just wanted to understand is it that beyond 3-4 years we start seeing the numbers going higher either because quite a few of the claims around that are possibly related to fraudulent as well and there could be litigations

which could actually take the claim number higher. So that would mean that over the next few years we will see the redundancy in the current or recent years turning into deficiency over a period of time. Just wanted to get some sense in terms of how good or how adequate the reserving had been?

Bhargav Dasgupta:

I think that's a very good question. That's a fair concern. Let me respond by saying that what we've constantly been saying and that's something we are reasonably confident of to continue to maintain is that in aggregate we are pretty conservatively reserved particularly compared to the industry. Now just to explain the specifics of what you asked, what you see releases in the near term books are typically the shorter tail businesses.

So, if you see the loss ratio volatility, you will see a very low loss ratio for fire for example this quarter. Low loss ratio for marine, low loss ratio for engineering. Now, these are short tail businesses where we may be a bit conservative at a point in time, but after maybe two to three years, we get confidence that there is excess that we can release. What you've seen us strengthen in the older book still remains the TP business.

But basically, what we've been doing is, wherever we feel some doubt about third party book, we use the releases of short tail book to strengthen the long tail book. In aggregate as we said we don't worry about the overall reserving that we have as a company. So, on that I think we should be comfortable.

Rishi Junjunwala:

Secondly on the crop side, just trying to understand how much of provisioning we would have already done; in the sense that probably the claims related to the recent crop might or might not have come into the numbers that you've already put in. So just trying to understand for FY18 or before that, how much do you think is already behind us like in terms of the numbers we had already reported on the loss ratio versus what could possibly surprise negatively in Q1, Q2 as well?

Bhargav Dasgupta:

As we've explained we have taken the peak loss that we can have. So if you look at the re-insurance program that we have, we have an excess of loss trigger which starts at 110%. We have taken the maximum loss that can happen at 110% for us. There are two components of the crop business, one is Kharif, the other is Rabi. Rabi data has not come out. So Rabi's losses are unknown.

But we had already taken the maximum possible loss that we can have of the year because the re-insurance program is for the year. We've taken at 110% because the Kharif losses are high. So even if Rabi proves to be very good, if it is very good then maybe we can get some releases. But from our mathematical model it looks unlikely so we said, let's take the full loss that we can or we should this year. So to answer your question, in a one word, we've taken the maximum loss that we can have this year into the accounts for Q4.

Rishi Junjunwala: In terms of prudence perspective, you've earlier been provisioning for 100%, and you mentioned about 17% as the excess of loss cost that you incurred. So effectively if 110% is the cap, you are looking at a loss ratio of 127% in any year as your maximum loss ratio over a period of time? Is that a fair way of looking at it?

Bhargav Dasgupta: That is correct. Do remember that we take these stop loss cost into the loss ratio but on the piece that we re-insure, there is some commission that we get.

Rishi Junjunwala: So combined ratio will look better than the loss ratio.

Bhargav Dasgupta: That depends on the commission rate and the cost of excess of loss. Based on last year's structure the combined ratio would be better. This year as the rate is hardening, it may be breakeven as we see it because there are some expenses.

So the way we look at the business is, the commission on the re-insurance piece, defrays the cost of the stop loss as also the expense. The stop loss cost we have already accounted in that 135%, the commission is included in the loss ratio.

Rishi Junjunwala: You see the crop portfolio going the mass health way for you over a period of time, if things don't improve?

Bhargav Dasgupta: That is true for any business for us. So if we find that the market remains aggressive in terms of pricing, we will remain cautious about the segment. What we have been saying about crop this year remains true next year. In our opinion, we had said that we want to curtail the growth of crop, because we were seeing, slightly aggressive market conduct.

Going forward, we are not expecting the crop to grow in line with our overall growth. So, I expect that next year the proportion of our business will come down further.

Moderator: The next question comes from Mr. Abhijit S. from Kotak Securities.

Abhijit S.: Sir, first question is on the overall operating expenses, including commissions. We see a consistent decline over last three to four quarters. So, just wanted to get a sense what is driving this and how sustainable it is?

Gopal Balachandran: If you recollect in the last quarter, we did say that due to the introduction of the MISP guidelines, wherein they have kind of capped the distribution costs that can be paid so far as sourcing of policies with respect to the dealers are concerned.

You would see some kind of a benefit accruing to the players as far as the improvement in expenses are concerned. That is exactly what you see even from our standpoint. When you look at expenses across periods, I think, you would see an improvement in the expense ratios.

Abhijit S.: So this number that is close to 21% should get repeated under normal circumstances?

Gopal Balachandran: Other point which we have also mentioned as a part of our calls before is, I think, from an expansion standpoint, we would want to stay invested in building distribution capabilities and hence to that extent there would be obviously some kind of an investment that will happen on expanding distribution. Equally for us digital is a significant area of thrust.

So, again, from a technology perspective, I think, we would continue to stay invested. So, those are elements that would have an impact in terms of the expense ratios. In line with what we have been guiding in our earlier calls, we may not see a big change so far in our expense ratios are concerned. Our entire thrust has been significantly at how we can better our entire risk selection across segments, which will largely drive the efficiency in our overall operations.

Bhargav Dasgupta: So, just to add to what Gopal said, the way we look at our business is, on a combined basis. Because we could spend a bit more money on the expense side, to pick up

businesses, which are low loss ratios. The objective for us in terms of the combined ratio is what will continue to drive, rather than the specifics of expense or loss.

Abhijit S.: Can you give us the breakup of overall claims, between claims outstanding and IBNR, as of March?

Bhargav Dasgupta: That breakup is something that we have never been disclosing, but effectively the entire reserved triangle disclosure that we make covers the complete, the ultimate movement of claims. It includes the claim reserves as also the IBNR number. So that's the total provision that we need to make as a company.

Gopal Balachandran: For example, if you were to look at the reserving triangle for the first line, which is the total reserving triangle that we have made, for accident year 18 we expect an ultimate amount of claims to be at about ₹ 52.41 billion. Of which, for the same accident year, we have about ₹ 32.58 billion as claims, which are remaining outstanding, which includes the component of claims which are outstanding, as well as the element of IBNR that is built in.

Abhijit S. Of the total crop business that you have done this year, about ₹24 billion, what will get repeated next year, because you entered into multi-year contracts?

Bhargav Dasgupta: There is that one contract that we have with MP, which was for a three-year period and that will continue next year. That number should be roughly between ₹1800 to ₹1900 crores.

Moderator: Next question comes from Sudhir Kedia from Mirae Asset.

Sudhir Kedia: I have two questions. One, could you reflect upon the potential size of the third-party motor business, in terms of the value, and what is the penetration level at the industry, on an aggregate basis?

Bhargav Dasgupta: So, the overall TP business is roughly about 20% of the total industry. The penetration number, as I shared earlier, is roughly about 50%.

Sudhir Kedia: No. I am asking that what would be the absolute value of the market for the TP business. Where the industry is on an aggregate basis? What you are sharing is on the number of vehicles, right?

- Bhargav Dasgupta:** You are right. 50% is on the number of vehicles.
- Sudhir Kedia:** I am asking in terms of value when we include the PV, CV, and two-wheelers in aggregate basis.
- Gopal Balachandran:** The data is not available completely for the full year. We have data so far as for the 11-month period is concerned, and within that, if you look at third party, that constitutes about 22% of the overall industry premiums, which is about ₹ 291 billion.
- Sudhir Kedia:** I will repeat my question. My question is first, what is the potential size of the market in terms of value for only third party. Second, what would be the penetration level at the industry level, for the third party only, not for the entire insurance?
- Bhargav Dasgupta:** This is honestly a guesstimate. I understand what you are asking, because I don't think anyone has looked at that numbers, specifically. But, if you look at the 50:50 ratio, it is not as if the total size of the market is double the numbers that Gopal talks about. It is not double of ₹ 291 billion because the segments that are under insured are usually the small commercial vehicles as also the two-wheelers. So, our sense would be, you could potentially add maybe a 30%- 35% increase to this number, not more than that. But it is a ballpark number.
- Sudhir Kedia:** So, basically, penetration level for the industry is closer to about 70%?
- Bhargav Dasgupta:** In terms of value you can say may be about 55% to 70%. But honestly it is a guesstimate.
- Sudhir Kedia:** Given the scenario, since there is no increase in premium this year, what is our estimate of growth for us in this segment, for FY19?
- Bhargav Dasgupta:** So, as I was explaining, the pricing implication for our portfolio is that, the net increase for us is a bit more than 1%. So, that itself will have some growth implication for the TP books, even assuming that we will write a similar absolute growth in terms of the numbers.
- However, what we are anticipating is that, as we explained, because of the commercial vehicle segment slight increases, we expect that there will be some segments of commercial vehicles that we will target, and we will see growth there. On balance, on an aggregate basis for the

company as a whole, as I said, we continue to believe that we will grow at between 15 to 20%. Our sense is, motor will be in the same ballpark, in aggregate.

Sudhir Kedia: So, in a scenario where you will not grow in crop and your growth in third-party will get impacted, then which are the segments, which will help you to grow above average company rates?

Bhargav Dasgupta: So, the segments that we have always talked about focusing, one is, you know, that is growing faster now, after a few years, is the overall corporate segment. Simply because we are seeing the last few years of aggression, I think, it is coming down a bit because of reasons that we have discussed in the past. So, we are seeing faster growth in fire, we are expecting faster growth in, most of the corporate lines of business, or the property lines. We expect health to continue to grow fast for us. We also expect, and again, this is part of our strategy that we have been talking about, the SME segment to continue to grow fast for us.

That, already in the last two, three years, has been growing reasonably at a very good rate. So, in aggregate as a company, we still believe, in spite of some of the things that we talked about on TP, we still believe that we will be able to deliver industry benchmark growth even though our expected crop growth, which will be much muted.

Sudhir Kedia: You said that aggregate motor should grow to company average numbers, which effectively means, own-damage, you would be targeting at a much higher rate, right?

Bhargav Dasgupta: Potentially, but also, please understand, if you grow the commercial vehicle business a bit, which we have been very cautious in the past, commercial vehicle comes with a very high proportion of third-party compared to own damage. So, if you write the same proportion of commercial vehicle, the TP growth is more. I wouldn't say that OD will grow faster than the TP, I can only say that our objective is to continue to grow the motor business in the same pace.

Sudhir Kedia: Under the new scenario of low commission rates to the distributors in own damage, will it translate to higher profitability in aggregate for full year?

Bhargav Dasgupta: Yes, I think bit of that will happen. That is what our view has been. We have said this in the last call as well, that

whatever savings that comes through because of the expense rate reduction, we believe that some of that will get passed down to customers, in terms of lower pricing.

Now, how much of that benefit gets passed out, we will have to wait to see. As of now, a part of that benefit, in our opinion, has got passed out and it depends on different OEMs, different companies have taken different strategies, but however, the benefit has already got passed out. Where does it end? We will know at the end of the year.

Sudhir Kedia: That effectively means that you are facing pricing pressure in OD as well, which will impact your top line growth. So, the growth has to come from higher volume, which effectively means that you have to get higher market share. Am I right in my understanding?

Bhargav Dasgupta: You are right in your understanding.

Sudhir Kedia: Could you also put some rationale on the thought process on the Star Health deal, for which you are the highest bidder?

Bhargav Dasgupta: I don't think we can comment on any market speculation that is there in the media. All I can say is that we have always been open to looking at inorganic growth, if the opportunity makes sense for us in terms of synergy, in terms of complementary ideas of business, or where the business is a thrust area for us. So, we will keep looking at different transactions with that filter. So, if and when, we have something to comment on that transaction, we will be separately doing a call on that.

Moderator: We have the next question from Ms. Preeti R. S. from UTI Mutual Fund.

Preeti R. S.: Sir, my question is on the health portfolio. So, the increment in the loss ratio contributed from the retail or the corporate books or have we seen pricing improvement in the corporate book at an industry level?

Bhargav Dasgupta: A bit of everything. So, one, on the improvement in loss ratio, In mass health we used to have some exposure in the prior years, 2016-17, we have almost vacated that space. We have not won any new deal on the mass health side. One old policy is getting renewed; otherwise we have no new exposure on the mass Health side. The mass health composition of the overall health book for us has come

down to below 2% right now. So, that is one reason why health loss ratios have improved. The second is, the retail mix has gone up, and retail is a lower loss ratio business compared to the rest of the business. Even on the corporate health piece, we have seen loss ratios improved, because of the segmental strategies that I talked about within corporate health, focused a lot more on SME and mid-size corporates, rather than large corporates, where the expense may be a big high, but the loss ratio is better.

Preeti R. S.: At an industry level and a corporate book, are we seeing any rationalization in pricing?

Bhargav Dasgupta: Yes, we started seeing it last year and I think, we have explained in the earlier calls also, we have seen group health pricing improve in the market. What we now see is that, in the large group health segment, if I divide the corporate health into three segments, SME, mid-market, and large, the large, in our opinion, is, which is basically the large number of employees, BFSI, IT, etc., that segment still is, in our opinion, underpriced.

The SME has become largely okay, and the mid-market is okay. So, we are getting a lot more business on the mid-market side, we are still not getting anything in the large risk side. In aggregate, for the industry, the loss ratio for group health has also improved. So, even on large risks, if we are not winning, we may not be winning at our price, but for the incumbent, the pricing is better than what it used to be, let's say, one year back.

Moderator: The last question for the day comes from Mr. Prakhar from CLSA.

Prakhar: Congratulations over the good year and good quarter. Should we think that, if the pricing remains sensible in the market, the combined or the loss ratios in the motor OD segment should decline because the FY18 will have half-year impact of the new normal?

Bhargav Dasgupta: So, to some extent, yes, because we will get the full year's benefit, but as we have been saying, we don't believe that the entire benefit will continue to play out for the industry. Some of the benefit will get passed down to the consumer, number one. Number two, what we do worry about on the motor side, is on the MISP guidelines, is that some of the

larger players remain disciplined, in terms of market conduct.

Some of the smaller players are finding ways around the regulation, which is a worry. I don't think it is a functionable strategy and obviously they are not something that we can endorse or follow, but that is a bit of a worry. But, I am sure that the regulator will take suitable corrective action if they see someone violating a regulation. But, those are the worries, which is why it is very difficult to give you a comfort that we will see the exact translation of this benefit in the year in line with what we have seen.

Bhargav Dasgupta:

I think, overall it is a positive, and we think some of that benefit will flow through this year.

Prakhar:

On the last slide of the presentation, you have mentioned that incurred losses and the allocated expenses and the unpaid balances. If I take FY12 as an example, you have strengthened it from ₹ 4.4 billion to ₹ 5.1 billion. So that's a delta of ₹ 70 crores. And if I look at the same as unpaid losses, it has moved up from ₹1.2 billion to ₹1.63 billion, so that's about ₹40 crores in terms of unpaid claims. So, practically what I see is that, out of the entire extra reserving that you have done, about half has actually been paid out as well. So, should we read that, is it actually strengthening or is it that the losses are more than what you thought it would be?

Bhargav Dasgupta:

No, strengthening effectively means, based on updated data, we have increased the provisions that we were carrying. I think, one of the things that we have been saying is that, we have remained comfortable with our total reserving position as a company. We have always said that there could be adjustments between the short tail book and the long tail book, because long tail comes with its own set of uncertainties.

So when you look at the same numbers, as you quote, so ₹ 4.41 billion, we had an unpaid number of ₹1.22 billion. Now, effectively what that number could have gone down to, if we hadn't strengthened the reserve, is maybe about ₹ 50 crores. We are now strengthening the reserves by roughly about ₹70 crores. The unpaid number has gone from ₹1.2 billion to ₹1.63 billion. So, that's about ₹ 41 crores increase. So, if you hadn't done the ₹41 crores increase, the number of ₹1.22 billion would have gone down to maybe ₹90 crores, roughly about ₹ 30 crores deterioration. Now, one could argue that, that ₹90 crores

may in the long term be adequate, because we are talking about AY12 here but we just believe that it is better to be sure and be careful about this book.

Prakhar: In terms of the short tail businesses like fire, marine, engineering, the reduction in the loss ratios is substantial. I wanted to understand the reasons why some of the writebacks of old reservings, can be so substantial?

Bhargav Dasgupta: So, there are two things that happen, one is, we have case reserves, where every single case, particularly these fire policies, etc., we have case reserves and we know the claim that has been intimated and we anticipate a certain damage that we will pay out once the complete assessment is done. Now, again as a principle of conservatism, we are conservative about that case reserving.

When the final claim gets paid out, ideally you don't want to be in a situation that you have reserved that x and you are having to pay extra delta x. So, as I said, what we find is that, at the time of closure, we see some releases from the case reserves, and that's something that happens fairly consistently for us, on these kinds of businesses. Plus, there are maybe some reserves that you hold for potential litigation, etc., which over the years kind of disappear, because there is no scope left, so you then release some of those reserves as time goes by. So, the volatility or the very low loss number that you see I in fire, is because this quarter we released some of the reserves, that we had, which we considered to be excess in that line.

Moderator: Thank you sir. I now would like to hand over the conference to Mr. Bhargav Dasgupta for closing comments. Over to you sir.

Bhargav Dasgupta: As we conclude our address, I would like to summarize that we ended FY2018 with a 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.

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.