ICICI Lombard General Insurance Company Limited

Earnings Conference Call-Quarter ended September 30, 2017(Q2FY2018)

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MANAGEMENT: **MR. BHARGAV DASGUPTA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, ICICI LOMBARD**
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Moderator : Ladies and gentlemen, good day and welcome to the ICICI Lombard General Insurance Company Limited Q2 FY'18 Earnings Conference Call. We have with us on the call today, Mr. Bhargav Dasgupta – Managing Director and Chief Executive Officer and Mr. Gopal Balachandran – Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhargav Dasgupta – M.D. and CEO. Thank you and over to you, sir.

Bhargav Dasgupta: Good evening. I welcome you to the earnings conference call of ICICI Lombard General Insurance Company Limited for Q2 FY2018. We are happy to be addressing you on our first earnings call after having become the first non-life insurance company to be listed on the stock exchanges of India on September 27, 2017.

Before we update you on the specific performance of the Company in the quarter ended September 30, 2017, I would like to spend some time on re-emphasizing our business model and areas of focus.

We are the largest private-sector non-life insurer in India based on gross direct premium income in fiscal 2017, a position we have maintained since fiscal 2004. We have adopted a robust business model that focuses on driving long term premium income growth, well balanced with profitability over the long term. To achieve this, we have developed a multi-product, multi-distribution structure. Today, we offer our customers a comprehensive product portfolio, including motor, health, crop, fire, personal accident, marine, engineering and liability insurance. In terms of our distribution strength, we have adopted a multi-channel distribution model enabling us to reach 618 out of 716 districts of India. We source premium directly and through brokers, bank partners, corporate agents as well as individual agents.

As an organization, we have always focused on customer centricity. When it comes to customer service, one of the key aspects is claim settlement. On the aspect of settling claims speedily, we settled 99.98% health claims within 30 days in Q2 FY2018. We also place a lot of emphasis on handling claims seamlessly deploying dedicated resources as well as the latest technology to ensure a hassle-free experience for our customers in their hour of need. In an initiative aimed at improving our customer experience with regard to communication, we also in-housed our service call center few years back. This has helped us consistently improve the first call resolution of customer calls with the same being 85.4% in the most recent half yearly period of H1 FY2018.

Technology has been one of the key drivers of our operations. We have deployed the latest technology in our operations, be it using chatbots for resolving customer queries, seamless claim settlement as well as for completing transactions without any human intervention. In H1 FY2018, we surveyed 92.8% of motor OD claims through use of tablets. Further, we have taken new initiatives aimed at empowering our customers by introducing features such as self-video inspection on our mobile app. Today, we are also at the forefront in using analytics and Big Data for better customer segmentation, targeting and engagement and fraud control.
We have built a robust risk management framework built on the pillars of underwriting, reinsurance, reserving and investments. We use data and analytics for risk selection resulting into better loss experience. We are also very particular when it comes to disclosures. We have been disclosing reserving triangles since FY2016 in our Annual report.

We believe that our consistent focus on these areas has enabled us to lead the industry growth curve and maintain the leadership position across market segments amongst private sector general insurance companies.

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

Gopal Balachandran: Thank you Bhargav and good evening to all. I will now give you a snapshot of our business performance for the quarter ended September 30, 2017. We have put up the results presentation on our website. You could access it as we walk you through the performance presentation.

The Gross Direct Premium (GDPI) of our Company increased to ₹ 64.94 billion in H1 FY2018 compared to ₹ 55.65 billion in H1 FY2017, registering a growth of 16.7%.

As Bhargav emphasized in his address, we have a well-diversified portfolio comprising of Motor insurance at 38%, health and personal accident at 17%, crop insurance at 25% and property at 20% of GDPI. If we look at the health portfolio, retail, corporate and government sponsored health contributed to 63.1%, 36.9%% and 0% respectively of health GDPI in Q2 FY2018.

If you were to look at the core profitability of our business measured by combined ratio, our performance has been positive. Combined ratio improved to 102.8% in Q2 FY2018 from 108.6% in Q2 FY2017. Our emphasis on risk selection has resulted in an improvement in loss ratio to 78.5% in Q2 FY2018 from 83.8% in Q2 FY2017. Claims incurred include losses of Net claims of ₹ 0.18 billion on account of the recent floods in Q2 FY2018.

Our Profit after tax (PAT) for Q2 FY2018 grew at 19.3% to ₹ 2.04 billion compared to ₹ 1.71 billion in Q2 FY2017. In terms of Return on Average Equity i.e. ROE, the same was 20.2% in Q2 FY2018 compared to 20.0% in Q2 FY2017.

We have the largest total investment assets among the private-sector non-life insurers in India. Our Investment assets rose to ₹ 167.63 billion at September 30, 2017. Our Investment leverage (net of borrowings) was 3.93x at September 30, 2017.

The Solvency ratio was at 2.18x at September 30, 2017 as against 2.03x at September 30, 2016 and higher than the minimum regulatory requirement of 1.50x.

We declared an Interim dividend of ₹ 0.75 per share for Q2 FY2018. Going forward the Board will consider dividend proposals on a half-yearly basis.

To summarize, I would like to re-emphasize on the fact that we are focused on building a sustainable business franchise that aims at ensuring profitable growth in the long term with prudent risk selection, conservative reserving practices while keeping our customers at the center of our focus at all times.

I would like to thank you for attending this conference call pertaining to our earnings for Q2 FY2018. We would now be happy to take specific questions that you may have.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Anand Bhavnani from Samiksha Capital. Please go ahead.

Anand Bhavnani: My first question is on Motor Insurance. Our segment underwriting profits have widened in H1FY18 as compared to H1FY17. This is despite the fact that motor insurance premium rates were revised upwards. So can you throw some light on why this underwriting performance?

Bhargav Dasgupta: Anand, if you look at the loss ratio for the Motor segment, our loss ratio has actually improved from 81.4% to 78.7% during H1FY18. Now within that, if you look at the own damage component, there is significant improvement, while the third-party component actually deteriorated. But overall it improved from 81.4% to 78.7%.

Anand Bhavnani: Sir, actually I am looking at the segment underwriting profits wherein YoY it has shot up to Rs.380 crores from Rs.188 crores. Am I looking at the right data point because our business in Motor would not have more than doubled in H1FY18 over H1FY17?

Bhargav Dasgupta: That is because the combined ratio has deteriorated with the expense increasing.

Anand Bhavnani: If you can help us understand the underlying business for the same?

Bhargav Dasgupta: If you look at the company as a whole, while our combined ratios have improved, the expense ratio has gone up slightly and the loss ratio has shown some improvement. For H1FY18, we have about five hundred basis point improvement in loss ratio, from 83.3% to 78.3% while our combined ratio has moved from 106% to 102.7%.

We have talked about in the past as well that when we look at the overall combined, in terms of certain segments, the loss ratio is better. There may be some initial cost of building the channel and the one channel as an example which we are building as a company is the motor agency channel which we believe is an investment for the future. So there is some amount of increase in expenses because of some of the investments that we are making. Equally there is clearly a competitive intensity in the Motor segment specifically and there is some increase in distribution cost that we have seen. But overall on balance, we have been able to manage the combined ratio improvement in spite of that pressure.

Anand Bhavana: Second question is on reinsurance rates. So post the global catastrophe market getting impacted due to hurricanes in US, do you think that ballpark reinsurance rates can harden and thereby our cost could go up?

Bhargav Dasgupta: It is a bit premature to predict that. We will probably be able to give you a complete sense of that maybe in Q4 this year. But based on the size of the damages that we have seen globally and that overall region capacity in the market, we do not foresee rates hardening significantly. On top of it, while there is a regional catch, overall as a company if you see our combined ratio improved and that also should help us in terms of holding on to our reinsurance commission rates. But as I said, it is very difficult to predict what it will be when we actually sit down to negotiate with the reinsurers in Q4 this year. At this point in time we do not see too much of what you have in that account.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal. Please go ahead.

Atul Mehra: Sir, just one clarification on Crop business. Given the reinsurance treaties that we have in place, just wanted to understand whether it will require quite a bit of stress on the overall pool that you have written? We have 115% loss ratio in this business. So my sense is it would have been more than 200% underlying loss ratios which will impact us to this extent. So can you just briefly talk about the same?

Bhargav Dasgupta: Let me just explain the dynamics and then get into the specifics of what has happened. If you look at the reinsurance structure that we put in, almost 75% of reinsurance is through a proportional treaty and roughly about 25% that we retain is our net. There is a stop loss protection that we buy which triggers when the loss ratio crosses a certain threshold. Every year at the end of the accounting period, viz. March 31, we do not have complete visibility of the losses for the Rabi crop of that year though we have reasonable visibility of the Kharif crop. Similarly, as on September 30 this year, we do not have complete visibility of the losses for the current Kharif period. So what we have done for the business that we have written this year as we do not have visibility of the losses that we will get, we have taken a very conservative decision of providing loss ratios on the current year's business at 100%. So we are not taking any benefit. Potentially, we might get lower loss ratios as it plays out maybe in the next quarter or thereafter, than we will get to know the complete picture. So, right now as on September 30, we have taken 100% provision for losses on the current business that we have written this year. The number that you see of 114% is because for the Rabi crop in one state last year vis-à-vis what we had estimated as of March 31, it has turned out to be more adverse. If you remember our numbers, we had combined ratio of 72% for FY17. If we had known all the losses, that would have increased our combined ratio by about 5% last year and it would have been about 77% for crop insurance. The increase was due to losses from Tamil Nadu, the data for which we received subsequent of March 31. We have provided the same in this period and that is why for the current book it is looking like 114%. But in summary, the current book we are providing at about 100% as a measure of conservatism.

Atul Mehra: The loss that you are referring to from the previous year business, was that accounted in Q1 or even in Q2?

Gopal Balachandran: It was accounted largely in Q1, because if you look at the Q1 loss ratio for Crop Insurance, it was 140% which is where I think as Bhargav said a lot of these developments is on. The actual impact of claim is something that we get to know, particularly for the Rabi season, post the end of the financial period and at that point of time we actualize the estimates that we have been carrying.

Atul Mehra: In all likelihood, given your assessment of the underlying environment, what do you expect the loss ratios to settle at given that you have been more conservative now in terms of accounting?

Bhargav Dasgupta: I do not want to guess on that because honestly speaking till the crop cutting experimentation is done and till we get the data from the field, it would not be appropriate to give you a number at this point in time. What we have done is we have looked at all the exposures that we have as a company in crop, in all the districts that we have written business in and looked at the pattern of rainfall across the various districts. There are really two districts where we do not have very large exposure as we see a problem there. So hopefully it will work out well. But honestly speaking, it would be incorrect on my part to give you a sense of a number at this point.

Atul Mehra: Secondly Sir, on Motor Insurance Service Provider Act which is coming up in next 15-odd days. In your assessment, how is this going to change the scenario on the entire Motor business?

Bhargav Dasgupta: The way this has been thought through by the regulator is: One, bring in the dealers under the regulatory purview. Earlier there was no regulatory oversight over the dealership. So that is one big positive as I would see it getting under the regulatory oversight. The other aspect that they have focused on is to lay down caps on distribution costs. This is obviously in a state of flux right now and hence we will have to wait and see. If it gets implemented in total, it should bring down distribution cost for insurance companies. Whether it leads to reduction in premium rates or not, again it is a hypothesis and we do not know how it will play out. On balance, our sense is that it will be very positive for the industry.

Atul Mehra: But do you see the larger set of players benefiting disproportionately out of this because most of the small players, the only differentiating factor they add, have higher pricing or higher commission structure. But with that getting capped, do you think a level playing field will be more even and a larger player should benefit out of that as well?

Bhargav Dasgupta: My gut answer would be 'yes'. But there are so many unintended consequences that is very difficult to say that 'yes' with confidence. I think what it does is it creates a level playing field. That is the big positive which we see. I am sure the small companies will also try their level best to do whatever they can to hold on to their business. How that plays out? Only time will tell. Overall, we remain hopeful that this will work for the industry as a whole.

Atul Mehra: We have been talking about this quite a bit in terms of rationality, in terms of pricing in the market. So what are the further incremental signs you see? I think we were seeing some action on Group Health. So any other segments which are seeing better pricing now or anything on that front?

Bhargav Dasgupta: I think the trend remains positive. If you see the Q1 number at an industry level, there has been significant improvement in combined ratios. If you see, for example the MISP, the direction if it gets implemented exactly the way that is being intended, then it could potentially reduce the combined ratios in the industry. So on balance, there is no change in direction is all I can say and it stays positive in that sense.

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

Avinash Singh: A couple of questions from my side. The first one would be, as you just explained in the Crop Insurance you had these prior period expenses. So if I were to look at the entire portfolio, in that loss ratio, what is the contribution -- whether it is positive or negative from that prior quarter or prior year either strengthening or releases? Second, as you were just saying that you had certain expenses on various initiatives this quarter particularly in the dealer relationship. Now with this MISP coming and that stringent cap in terms of what you can see in the dealers is coming, do you expect this expense ratio to improve on that account? A related to that, you have explained in your release on employees' salary and wages, but overall because we are seeing a big contribution coming from crop insurance and crop insurance is the one where one would expect lesser commission and OPEX, still that expense ratio is not coming down as it should have been. So these are my three questions.

Gopal Balachandran: In terms of the segment wise loss ratio, we have actually given that in the presentation. On slide 19; across segments, if you see motor OD it has come down from 71.2% to 58% while Health from 103% to 80% and PA from 54% to 31% and the list goes on. The two exceptions in terms of loss ratio deterioration are Crop for the reasons that we have already discussed and the second is the third-party where we remain cautious and conservative in terms of our estimates of future losses and we have kind of further strengthened our reserve positions that we have for motor third-party.

Avinash Singh: Thank you; this is what I was looking for. The net number on overall your group level, what is the net number of prior period reserve strengthening or releases whatever after offsetting not just Crop or Motor, what is the overall absolute number in rupee terms that you have done in this quarter?

Gopal Balachandran: I don't have the exact number right now but we can surely come back to you with the exact number. However to provide you an overall, company as a whole view, the loss ratio has reduced from 83.3% to 78.3% for the six months of FY18. As you rightly identified, there could be significant improvement in some of them while some of it could be deterioration. Crop is the number that we talked about and third-party is the other one. So those are the two numbers where there would be some prior period adjustments that we have made. But on balance, the company as a whole we have seen improvements in loss ratio overall. Now coming to your second question on what this MISP guidelines will do to expense ratio, my answer will be exactly the same, in theory the expense ratio should come down but we would not want to jump the gun, we would want to see how it plays out in the market before we kind of give you any sense or guidance, which could be done in the next call, by the time we will probably have a better sense of how it is playing out in the marketplace. The third question that you had was in terms of our overall expense ratio. On that we have been maintaining when we met most of you on the roads, that the improvement in combined ratio you will see because of improvement in loss ratio and our expense ratio we do not foresee significant improvements on the level that we are in, we are already one of the lowest cost players in the market and we believe we need to continue to invest in some of these channels which we believe are long-term initiatives for us. Just to give you an example, one of the things that we have been talking about is the investments that we are making in SME distribution in fact, that is the number that we have not put in the slide, so let me share it with you; on the SME segment we have had a growth of 30% and this is for Q1 and Q2 both quarters and this is the segment that we want to invest in. Similarly, there are other channels that we are focusing on. So we think we will want to continue to make this investment for the future. Our endeavor will be to see how we manage this overall book by improving loss ratios to risk selection as also focusing on some of these segments. SME for example is a lower loss ratio segment. So we are happy to invest for building distribution in this segment. So that is the journey that we want to be on.

Avinash Singh: Just if you can from next time onwards provide the premium breakup in terms of the three segments – Retail, SME and Wholesale Corporate?

Bhargav Dasgupta: Sure, we will do that.

Moderator: Thank you. The next question is from the line of Dhaval Gada from Sundaram Asset Management. Please go ahead

Dhaval Gada: Hi thank you so much and congrats for decent set of performance. I have three questions; firstly, what was the ultimate loss ratio on Kharif in 2015 and Rabi in 2016, 2017, just trying to understand finally where this loss ratios end on those two seasons given that it would have broadly crystallized by now? Second is in terms of this 114% that we have reported for the first half, what is already paid and what is the buffer that is there, just trying to understand is this additional reserve that we are doing is it expected claims or is it even out?

Gopal Balachandran: The second question let me answer; it is all expected losses for Kharif 2017 because we do not have the data, so we have not given out anything. As I said, we just wanted to be conservative because we do not have any data, we did not want to let us say hold a lower loss ratio and take the profit up at the beginning, we will do it when we get clarity on what the numbers are, this is all expected. In terms of some of the claims of last year flowing into this year on the Crop side, if you recollect our combined ratio for Crop Insurance last year was 72% and loss ratio was 84%. If we had known about these losses at that point in time, that number would have been about 77% combined ratio and about 89% loss ratio, so 5% movement over last year's number.

Dhaval Gada: This is the reserve addition of about 5 percentage points on the loss ratio on last year?

Bhargav Dasgupta: Yes, on the net premium that we retained on our book last year.

Moderator: We will take the question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Two questions from my side; if you could give some color on the outlook on growth especially on ex-crop basis? The other thing is what was the reason for improvement in solvency over the last six months?

Bhargav Dasgupta: The improvement in solvency is simply because of the retained earnings that we have is adding to our available solvency margin, while our required solvency margin moves in line with our business requirement, because our profit increases significantly higher our solvency margin is going up, because our net worth is increasing and the available solvency amount is increasing. On the second one, in terms of the outlook, what we have seen and my sense is that market will remain in the same ballpark, if you see the last even five years without the Crop component, the industry has grown by 16%-17%. Our sense is over the next 4-5 years, we should see a similar range as an industry. Now, there may be a couple of small turmoil in the way. We talked about MISP for example. In MISP because of the reduction in distribution margin if the pricing comes down, that could have some impact on the growth. Now, one expects that will not be a material number going ahead but that could be one aspect. Having said that, overall we remain optimistic for the industry to continue to grow between 15%-20% for at least the current to medium-term.

Moderator: Thank you. We take the next question from the line of Sudhir Kedia from Mirae Asset. Please go ahead.

Sudhir Kedia: Good evening sir, Sir two questions from my side; first of all, what is our retention policy on the crop side? Second, my question is if the new motor vehicles act get through, then how does it impact the ROE of the third-party side?

Gopal Balachandran: So Sudhir, on the crop insurance side, I think as Mr. Bhargav had explained, the way we have arrangement in place is through a combination of what we call as a "Proportionate Reinsurance Arrangement" and what we call as "Non-Proportional Reinsurance Arrangement." So let me explain both of them. So far as the Proportionate Arrangement is concerned, on the Crop Insurance side, for every Rs.100 of premium that we source, we reinsure 75% of the risk on a proportionate basis. So that is a complete risk transfer that happens out of ICICI Lombard and the losses are made good by the reinsurers. For this risk transfer on a proportionate basis, we get a commission on reinsurance which is used to defray the cost of acquisition so far as underwriting of the Crop business is concerned. On the balance 25%, we have entered into what I said as a non-proportional arrangement or a stop-loss reinsurance arrangement which triggers at a loss ratio of 110% and goes upwards up to 250%. So at any given point of time, in the event, if the portfolio was to exhibit a loss ratio of let us say 140%, so far as ICICI Lombard is concerned, we would be taking the impact of losses only to the extent of 110% of losses, which is 10% of loss higher than the premium that we retain and anything beyond that would be made good by the reinsurers.

Sudhir Kedia: Sir just to understand on the books when you write Rs.100 of gross written premium, your book will reflect Rs.75 as re-insurance and net written premium would be Rs.25, is that what you are saying?

Gopal Balachandran: That is correct so far as the proportionate reinsurance structure is concerned. On the balance 25% that we retain, as I said, we have entered into a stop-loss arrangement, whereby in the event if the loss ratio was to be 140% as an example, what we would be accounting so far as our share of claims would be to maximum of 27.5.

Sudhir Kedia: That is on the cost side or on the loss side. But on the revenue side you will retain Rs.25 out of Rs.100?

Gopal Balachandran: That is correct, that is so far as the reinsurance structure is concerned, so far as Crop business is concerned.

Bhargav Dasgupta: Let me answer the second part of your question; on the ROE impact of the Motor Vehicle Act, if you look at the third-party policies, there is one peculiarity which is what I guess you are trying to identify, the peculiarity is that the tail of third-party policy is very long, in a sense, the claim gets paid over very long duration, and in India you create a reserve on a nominal basis considering inflation upfront without any time value discounting. So you are in a sense deflating your profit for the year, but over the time horizon during which you will earn the float income, you take the accrual of that income subsequently while you have taken the big hit because of reserving in the first year. Now, the ROE for the third-party business typically is reasonably high by the way, simply because the duration of time, over which you pay claims on an average, can go up to about 5, 6, 7 years and hence given the investment returns that you have in India, you can make reasonable amount of ROE as long as the combined ratio is not way of the chart. Now, with the new Motor Vehicles Act, the dynamics should change -- One change proposed is that in the draft bill there is a limitation of time of six months within which the claim has to be intimated. Now in India that itself is very long duration in our current experience. The claim intimation cycle also goes up to 6-7 years. So if that comes down to 6 months, the float duration will come down. It will come down may be by half because rest of the float duration is because of motor accident claims tribunal, the court take again 5-6 years to settle the claim. So one impact of this from ROE perspective would be that the investment returns will come down. Having said that, in our experience, you know our return numbers on the investment book but in our experience, claim inflation number is built in the reserve for the third-party claim. The claim inflation number is actually higher than the investment return that we have. So when it comes down, the investment return will come down, but equally the underwriting number should significantly improve. So that is at the first level. The second more important point is that when an accident claim gets intimated after 5-6 years, we have very little ability to do a complete investigation on the genuineness of those claims and that is something we really worry about in terms of improper and fraudulent claims being intimated to us. That we obviously expect will come down significantly. So we think there will be two benefits -- One is the frequency benefits in terms of number of claims that we will see will come down; the Second is the reserving requirement will come down because the duration of period over which the claim will get paid will come down. So you will reduce that as well because your claim inflation number as I said is a very high number counterbalanced by the investment loss. On balance, the first one is much stronger positive upside than the second one.

Sudhir Kedia: So this effectively means that the ROE for that product will improve, right?

Bhargav Dasgupta: It should improve, yes. But we have not modeled it because at this point in time it is very difficult to predict how the market will adjust to this new bill.

Sudhir Kedia: And the overall float of the company will come down, right, because of this particular reason?

Bhargav Dasgupta: As I said the float for the third-party piece will come down, but we never mind that because what we earn on that float is less than what we provide for the delay of claim.

Sudhir Kedia: So if that happens, your combined ratio will come down to below 100, right?

Bhargav Dasgupta: Again, as I said, we have not modeled it and so I don't want to hazard a guess on that but suffice it to say that the combined ratio should definitely come down if it happens. One thing you must remember is that we believe in data, we don't go by hypothesis. We will want to watch the data play through and then from our actuarial model perspective, we will make those adjustments. We may not immediately give the benefit just because a bill gets passed on a certain day on our accounting.

Sudhir Kedia: Sir, second question is that your commission ratio is negative throughout. Is it only because of the Crop Insurance or there is something else to it?

Bhargav Dasgupta: That is also because of the overall portfolio of business. There are two components -- One is the commission that we pay out and the other is the commission that we receive. On the commission that we receive, it depends on the type of business that we are doing. One is of course, crop, as you rightly identified. There we do not have any sourcing commission because largely it is all direct business. There is very little expense that we have to pay to the distributing bank. It is largely minimal. On the reinsurance side, we get commission. For certain products, we have reasonably high reinsurance commission that is because of the basic quality of book that we have been able to give to the reinsurance.

Sudhir Kedia: This will continue like this right?

Bhargav Dasgupta: Unless something changes fundamentally, it should.

Moderator: Thank you. We take the next question from the line of Adi Desai from York Capital. Please go ahead.

Adi Desai: Wanted to understand especially on the health side the reduction loss ratios, we have seen YoY and QoQ, how much of that is one-off? How much of that is structural? Similarly how is it for other segments? Is it all cyclical trends that are playing out in the reduction of underwriting loss ratios? I wanted to hear the management's view on that.

Bhargav Dasgupta: Let me answer the specific question on Health. Again most of you that we met and it is there in our prospectus as well. I think one of the things that we have been talking about is the fact that there is a focus on retail health segment and a clear focus to reduce our exposure on the government-sponsored health insurance scheme. Just to give you a mix for us in terms of retail, corporate which is group health and the government-sponsored health insurance scheme, last year, that proportion was 44% retail, 34% corporate, and 21% government-sponsored scheme. We had a couple of schemes, but there is one particular large scheme which was bleeding. In the first half year, if you see the same proportion for us, it is 54% retail, 43% corporate and only 2.4% government-sponsored health insurance scheme. If you look at the Q2 number that 2.4% has become almost zero. That is a one-time change because we have let go off almost Rs.2 billion of premium for government sponsored health insurance scheme which came at a high loss ratio. When it went away, obviously, our loss ratio dropped. The second part of your question is, "Is there a structural shift?" I think we are hoping to see a structural… because this is kind of a one-time call that we have taken and that has played out. The second part in terms of the corporate health insurance scheme, we are seeing some improvement in underlying market dynamics which you could call "Structural." If you see our numbers as ICICI Lombard, till about 2014 we used to have roughly 10% market share of group health which is the corporate employee segment. By the end of last year, that number had dropped to below 5% because the pricing in that segment was inadequate, and the loss ratio was very high. We are seeing some trend line changes this year, we saw it in the first quarter, we are continuing to see that in the second quarter and we are beginning to see some wins in that segment at the price is digestible for us. Now, this could be a trend and this could be a consistent improvement over the years but again like everything else in our business, we would want to see it play through before we jump the gun.

Moderator: Thank you. We take the next question from the line of Shrey Loonker from Motilal Oswal Asset Management. Please go ahead.

Shrey Loonker: Sir just wanted to get a sense, as to, when we look at our GWP growth, it is about 16% but when we see it in volume terms it is 34%. How should we reconcile the gap?

Bhargav Dasgupta: One of the things that we have been talking about is continuous focus on granularization of our business. Just to give you one example that Rs.200 crores policies that you are talking about, that was one policy, but it was Rs.200 crores of premium. To replace that, we need to write lakhs and lakhs of small ticket policies and that is what the entire attempt is. The second is that we also have been writing a lot of these small ticket digital policies through our affinity programs with partnerships, and these are very low priced products where the individual ticket size of the policy is very low. But aggregate numbers are reasonable and we believe it is a very important segment to get into for the digital ecosystem that is developing. Plus there are other categories of products, for example, travel, we had very large growth, and again, these are very small ticket products, but big volume in terms of numbers.

Shrey Loonker: There is a 34% volume growth and 16% value growth and there is a gap as a result. Out of the gap, 3% is explained by this Government business. If you can give us a waterfall like that, that will be very helpful?

Bhargav Dasgupta: We do not have a complete waterfall, maybe we can separately share that with you in due course. But basically suffice it to say that we have kind of been focusing a lot on relatively smaller ticket policies. If you look at the SME segment, again, we had 30% growth in GWP terms, but in terms of policy count, it will be much higher. If you see the digital policies that I am talking about, these are very-very low value policies. In terms of GWP, they will not add up to a big number, but in terms of number of policies, they will add. But as I said, we do not have the waterfall right now but that is the fundamental construct of what is happening.

Shrey Loonker: Sir, a related question, when I look at the press release, and the quarterly numbers, within that when I see other operating expenses, and within that when I see the business support services and the sales promotion, they seem to have grown at 37% YoY for

Q2 alone. Is this number a relevant toggle with the volume or with the value, how should we understand it?

Bhargav Dasgupta: It is basically a bit of both because this is largely to do with two things that I have talked about -- One is adding distribution in certain areas that we are focusing on. Let's say, the retail health, in terms of the SMEs, in terms of Motor Agencies. So that is one which is bit of both volume and top line. But it is also because of significant component of intensity that we have in the market in terms of the cost of distribution. So it is a bit of both and this is something that has been there and we are kind of managing the overall portfolio mix on the combined side rather than just focusing on the expense.

Moderator: Thank you. We take the next question from the line of Dhaval Gada from Sundaram Mutual Fund. Please go ahead.

Dhaval Gada: The question I was asking is on the Motor OD side, we have seen significant improvement on the loss ratios. Just wanted to get a sense of what is driving this – is it pricing or is it loss experience or something else?

Bhargav Dasgupta: One of the things that we have been doing since the last year is that we experimented with the predictive loss cost model and we had good experience, we have kind of used it extensively this year. That is helping us in terms of getting sharper in terms of risk selection at a granular level at the point of sourcing, which is one. Secondly, there is some amount of experience which is showing better trends because of some of the efforts that we have been taking over the last few years in terms of the analytics and fraud, in terms of claims management, all of those are playing out and that is why you have seen the improvement this year.

Dhaval Gada: So basically this is a sustainable number, we do not need to provide…?

Bhargav Dasgupta: We are not talking about the trend sustaining, but we expect the number to be reasonably stable.

Dhaval Gada: In terms of calculation of loss ratio for us, the denominator is net written premium. Just wanted to check is that correct?

Gopal Balachandran: It is net claims incurred upon the net earned premium.

Gopal Balachandran: Just to add to that, the expense ratio however is on net written premium.

Moderator: Thank you. We take the next question from the line of Rajkumar Rati, an individual investor. Please go ahead.

Rajkumar Rati: I want to understand a bit more on the Crop Insurance side. In the last two, three years the Crop Insurance has increased from 7% to 25%. So is there an internal policy that you will not grow it beyond 35% or something like that to have a diversified portfolio?

Bhargav Dasgupta: The Crop Insurance number increased last year because last year was the first year of the Pradhan Mantri Fasal Bima Yojana where the entire market expanded significantly and we kind of took a similar share of our business as a normal market share that we have. As a proportion of the industry, crop has become about 17%-18% end of last year, the number may go up a bit this year and so naturally even for us the number went up. In terms of where we want to head, our belief is that as a proportion the Crop Insurance piece by the end of this year will come down below the 25% that you see as of 30th, September. 30th September is the peak kharif period and so that is where you have a large proportion of the crop insurance being written. Our conscious effort also is not to grow Crop in line with the market growth. So just to give you the six-month picture of the market growth of Crop Insurance, we have data for five months for the industry. The industry has grown at about 113% for Crop Insurance for five months. For us in the six months we have grown about 36.6%. We are consciously not growing Crop at the same pace as the industry. So by the end of the year, you will possibly see that 25% come down.

Rajkumar Rati: Is it an annual policy or a multi-year policy when you write it?

Bhargav Dasgupta: You have all sorts; you have annual policies, you have policies where there is a two year or a three year commitment. Exposure is written for a season. So there is an exposure written for kharif. Again, there is an exposure written for rabi. Even if you have a long-term commitment with a particular state, you will again write it for the next kharif at the same price. The only commitment is that you have that business for let us say, two years or three years at the same price for the entire period, but the exposure is written for each season.

Rajkumar Rati: I believe last year MP increased significantly. Has that continued to be the situation this year as well? How is the geographical diversification?

Bhargav Dasgupta: The answer is yes because with MP we had a long-term commitment, so we are continuing.

Rajkumar Rati: Suppose in a situation where there is bad monsoon in a particular state say M.P. in this case, can one expect a significant loss offering in that half year or a quarter?

Bhargav Dasgupta: I think Gopal had explained the reinsurance structure and that is how we have protected it in aggregate. As he explained about 75%

is reinsured, it is for proportional structure and the 25% that we retain on our books, we have a stop-loss cover further on top of it that is number one and number two is that we distribute our exposure across multiple states. As we speak, we are writing crop insurance in eight states. That is the entire effort in terms of creating a diversification. It is in about eight states and 71 districts.

Rajkumar Rati: One small point is that globally we are seeing a trend of online insurance which can be significantly cost-effective from the customer point of view. In India also there are companies that are raising funds and digital echo has come. How are you preparing the company to be ready for this drop in the premium by the online guys?

Bhargav Dasgupta: We believe that the technology changes that are happening in the world do not limit you to just selling online. When we think of digital, we think of the whole organization becoming digital whether the sales is done offline or online. If you see some of the parameters that we have given even in our prospectus, it will tell you how much of effort and work we have done in terms of digitalization in most of our operations. Just to give you a couple of examples, on motor claims, almost 92% of the claims are settled through TAB which we is believe quite unique in the market. If you see our productivity growth over the years, it has been a consistent 20% growth in productivity over the years simply because of the automation and digitization of processes that we have done. If you see our expense ratio it is one of the lower ones in the market. Coming to your specific point on where the customer shift is happening, I think again on that we have been the pioneers in the market, we are one of the first companies to start selling insurance online and even today we believe we have by far the largest volume of product sales that are happening online in the marketplace. On top of it, we are taking this entire effort on working with the digital ecosystem, in a sense, working with some of the very large ecommerce brands and you may have seen the recent tie-ups that we have had where we are selling very small ticket policies through their apps or through their portals. We believe we are able to do that simply because of the entire process automation and the investments that we have made in digitization. We are obviously looking at this piece in a much focused manner and we believe that we have a significant advantage in that sense.

Rajkumar Rati: One clarification; I find that our growth rate is fairly low compared to other four, five large companies in the first six months. I think that will be largely because of the crop insurance, right? Because the industry is growing at much bigger percentage and we are deliberately growing slow, the other players will be growing fast because of the Crop Insurance?

Bhargav Dasgupta: You are absolutely right. Even if you don't factor the crop insurance that one government policy I talked about, if we had written the same policy our growth rate would have been same as the market. The main reason as you rightly identified is the crop. These are both conscious decision.

Rajkumar Rati: Our yield on investment has reduced significantly from last quarter. Now, I am looking at the disclosure document to BSE, NSE, in terms of percentage it has reduced from 3% odd to 1% odd. What would be the reason for that?

Gopal Balachandran: Fundamentally what has happened is in the second quarter, if you see our relative capital gains number is much lower than what we had in Q1. The way we look at our investment book is that we do not try to smoothen our capital gains number, there is a smooth number which is in terms of the normal interest and the dividend flow that we get. But capital gains can be a bit volatile based on our view of the underlying value of the investment that we have, be it in equity or in bond. If we believe that we need to change the bond duration because of our huge change in the interest rate market, we may change our bond duration which would lead to capital gain. Similarly, if we believe a particular stock has reached its potential value, we may sell it at that point in time rather than having to smoothen our quarter-on-quarter number. There would be some uncertainty in terms of capital gain across quarters for us.

Rajkumar Rati: Just two points there, in yield on investment – one is without realized gain and one is with realized gain. With realized gain, you would have not sold those stocks, right? It will be on the overall Rs.16, 000 crores AUM which you have. On that number I see that in June 2017 it was 3.4% and in September '17-18 it is 1.89%, which is almost half?

Gopal Balachandran: What you see would not be annualized numbers. What you would see are yield on investments of 3% and 1.8% that you spoke of and so far as realized returns are concerned. As Bhargav said, so far as the first quarter is concerned, I think from capital gains which are actual realized income, we had realized about Rs.2.16 billion for Q1. If you were to look at for Q2 of the current year that number stands at about Rs. 1.04 billion . So that is the yield on investments that you would see so far as the filings is concerned. But if you were to look at on the aggregate, so far as the actual realized return is concerned on the entire portfolio on an annualized basis, for the first half of the last year, we had an annualized realized return of 10.8%. That is what we have put out as a part of the presentation which forms a part of the performance review and a similar number in terms of the realized return on an annualized basis for the first half of the current year stands at about 10.3%.

Moderator: Thank you. We take the next question from the line of Anand Bhavnani from Samiksha Capital. Please go ahead.

Anand Bhavnani: I just wanted to understand the tail in the crop insurance business. How long does it take for a case to come across and for us to settle post the season?

Bhargav Dasgupta: Worst case we see about nine to ten months tail. Mostly it depends on the efficiency of the particular state because the crop cutting experiment is done by the revenue department officials, data is collected and then the data is sent to us. We look at the data, then we also wait for the premium to come to us because unless we get the premium we are not supposed to pay the claim and we do not pay the claim. So these processes can get delayed and it is a different picture state-by-state. In our experience, we have typically seen a worst case scenario of about nine to ten months.

Anand Bhavnani: If I were to look at the overall investment returns, including the unrealized gains, our yield on investment has fallen in the first half to 5.35% from 10.46%. This would have been a similar case for all the other players given the market conditions. How long does it take for market to reprice the policy because we might not have as great gains in bonds or equity, so in order to sustain the profitability, in your experience, what is the time lag between investment return tapering and increasing to keep the combined ratio contained?

Gopal Balachandran: I think just to explain the numbers that you kind of spoke of with unrealized gains, the yield on investments were reported at 10.46% for the first half of last year and 5.35% as the yield on investments for the first half of the current year. I think if you look at from an investment philosophy, as Bhargav had explained, our overall investment assets, if you were to look at comprises of both investments in fixed income and equities, and from a reporting perspective, we are not required to kind of mark-to-market any of the unrealized gains that the portfolio would experience, whether it is for the fixed income or for the equity portion of the overall investment book. What you see as 10.46% of yield on investments in the first half of last year is primarily a result of the extent of unrealized gains that we had in the book. So if you were to look at the extent of unrealized gains that we had as at March '16, that number was roughly about Rs.4.60 billion, as at the end of September '16, the extent of unrealized gains stood at Rs.10.60 billion. Relative to that, if you were to look at the extent of unrealized gains that we have so far as the change in the first half of the current year is concerned, as at March '17, we had unrealized gains of Rs.10.40 billion and so far as the current half year ended September 2017 is concerned, that number stands at Rs.10.30 billion. So I think essentially what you see as a change so far as the yield is concerned is primarily the change that has happened so far as the movement in the unrealized portion of the overall book is concerned.

Bhargav Dasgupta: Just to also get a bit more specific on last year's numbers to add to what Gopal said, at that point in time, we had again as he explained, our bond portfolio, we hold-to-maturity, we do not mark-to-market, that is the regulation in India. Given that interest rates came down significantly last year in the first half, on unrealized basis, the mark-to-market number improved and that is basically why you are seeing this.

Anand Bhavnani: Under the MISP, the caps are I believe are 19.5% and 22.5%. Can you give us some ballpark understanding on what the range is at the moment?

Bhargav Dasgupta: The number is different across different companies, across different dealerships, across different line of business of two wheelers, four wheelers. It is difficult to give you a number which kind of reflects the overall aggregate and again I think it would be a bit risky to assume that just because this is coming in, the entire benefit will flow through, we do not know how the market will behave in terms of how much of this will come through in terms of reduction in premium rates or in terms of complete benefit to the insurance industry. I would genuinely not want to unnecessarily give you a positive hope in terms of this. As I said in the beginning, it is a big positive, and we will have to wait for how it gets played out.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to Mr. Bhargav Dasgupta for closing comments.

Bhargav Dasgupta: Thank you, everyone and I know it is pretty late and hopefully for the next quarterly conference calls, we will be able to do it much before this. Again, thank you for attending this and Wish You a Very Happy Diwali.

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