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**ICICI Lombard General Insurance Company Limited
Q2 FY19 Earnings Conference Call
October 20, 2018**

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

Moderator: Good afternoon, ladies and gentlemen and a very warm welcome to the ICICI Lombard General Insurance Company Limited's Q2 & H1 FY2019 Earnings Conference Call. From the management, we have with us today, Mr. Bhargav Dasgupta – MD and CEO & Mr. Gopal Balachandran – CFO.

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. I would now like to hand the conference over to Mr. Bhargav Dasgupta – MD and CEO, ICICI Lombard General Insurance Limited. Thank you and over to you.

Bhargav Dasgupta: Good afternoon everybody. I welcome you to the earnings conference call of ICICI Lombard General Insurance Company Ltd. for H1 FY2019 and Q2 FY2019. Before we get into the financial results of the Company, I would like to give you a brief overview of the recently ended quarter, post which our CFO, Mr. Gopal Balachandran will share the financial performance numbers of the company.

The General Insurance industry registered a growth of 12.8% in H1 FY2019 over H1 FY2018 with the industry GDPI moving up to ₹ 818.25 billion in H1 FY2019 from ₹ 725.46 billion in H1 FY2018. For the quarter ended September 30, 2018, the growth was 13.3% as compared to the quarter ended September 30, 2017.

The combined ratio at an Industry level was 114.9% for Q1 FY2019 as compared to 108.9% for Q1 FY2018 based on available information. The overall combined ratio of the private multi-line general insurers was 101.8% for Q1 FY2019 as compared to 104.4% for Q1 FY2018.

I would like to share with you some of the key developments in the general insurance industry in the recently ended quarter:

In line with the direction of the Supreme Court, the Regulator made it mandatory, effective September 1, 2018, for all new private cars and two wheelers to have a long-term third party cover. The coverage is applicable for a period of three years for private cars and five years for two wheelers. This is a positive development since it will address the problem of non-renewal of motor insurance in case of older vehicles.

The Regulator has also enhanced the minimum capital sum insured under compulsory personal accident cover for Owner-Driver liability to ₹15 lakh. The premium has been fixed at ₹750 per annum in case of annual policies. In case of long term motor policies, insurers have been permitted to price the policies in line with their current approach for pricing.

During the quarter ended September, 2018 we witnessed significant disruption in the state of Kerala which was triggered by excessive floods. The overall economic loss incurred by the state is estimated to be ₹250 billion. The gross insured losses for the industry is estimated to be ₹20 billion. The company's share of the estimated gross insured losses is approximately 3.3% of industry losses and is estimated at ₹0.25 billion on a net basis post reinsurance. This has been the 7th catastrophic event, where the company's losses have been much lower than its natural market share.

Speaking about the company's performance, our GDPI growth rate for H1 FY2019 was 12.5% as against the industry growth rate of 12.8%. Our market share for H1 FY2019 was 8.9%. In line with the previous quarters, we continued to register an across the board increased growth in most corporate lines such as Fire, Engineering, Marine and Liability. At the same time we continue to remain cautious when it comes to the government business segment in view of aggressive pricing strategy adopted by some market players.

On the Retail side of business, SME and Retail health indemnity continued to grow faster & remain our areas of focus. In order to harness the potential of these segments, we have been expanding virtual offices and investing in developing the agency channel and point of sales persons (POS) network so as to increase penetration in tier 3 and tier 4 cities. Our Virtual offices network has increased to 751 in H1 FY2019 from 135 in H1 FY2018 and individual agents workforce is 24,751 as on September 30, 2018 as against 23,322 as on September 30, 2017. Our point of sales persons (POS) network as on September 30, 2018 is 3,967. We are encouraged with the following outcomes during H1 FY2019:

- Contribution from SME portfolio has increased to ₹ 5.12 billion in H1 2019 compared to ₹ 3.79 billion in H1 2018, registering a growth of 35.0%.
- Retail health indemnity portfolio grew to ₹ 2.45 billion in H1 2019 compared to ₹1.89 billion in H1 2018, registering a growth of 29.8%.
 - New retail health indemnity grew by 70% to ₹ 0.93 billion in H1 2019.

Our underwriting performance measured in terms of combined ratio continued to be robust for H1 FY2019 despite the catastrophic event during the quarter.

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 the Company for the quarter ended September 30, 2018. We have put up the results presentation on our website. You can access it as we walk you through the performance numbers.

In terms of our financial performance, the Gross Direct Premium (GDPI) of our Company increased to ₹ 73.05 billion in H1 FY2019 compared to ₹ 64.94 billion in H1 FY2018, registering a growth of 12.5%. Excluding crop insurance segment, our growth for H1 FY2019 was 12.9%. The GDPI growth for Q2 FY2019 was 11.3% over Q2 FY2018. Excluding crop segment, the GDPI growth for Q2 FY2019 was 11.6% over Q2 FY2018.

We witnessed an increase in policies issued to 12.4 million in H1 FY2019 from 10.6 million in H1 FY2018 registering a growth of 16.6%. For Q2 FY2019 the number of policies issued were 6.6 million as compared to 5.4 million issued in Q2 FY2018 registering a growth of 23.4%.

We continued to maintain a diversified portfolio in H1 FY2019 across Motor insurance, Health and Personal Accident insurance, Crop insurance and Property insurance.

Within the Health & Personal Accident segment - retail, corporate and mass contributed 54.1%, 44.3% & 1.6% respectively for H1 FY2019 and 48.5%, 49.3% & 2.2% respectively for H1 FY2018.

On the profitability front, our combined ratio improved to 100.1% for H1 FY2019 from 102.7% for H1 FY2018 after considering the losses (estimated at ₹ 0.25 billion) from floods in Kerala (combined ratio was 99.5% in H1 FY2019 excluding the impact of Kerala floods). For the recently ended quarter, combined ratio improved to 101.1% in Q2 FY2019 from 102.9% in Q2 FY2018 (combined ratio was 99.9% in Q2 FY2019 excluding the impact of Kerala floods). Loss ratio was 78.8% for H1 FY2019 as compared to 78.3% for H1 FY2018. On a quarterly basis, loss ratio was 80.4% in Q2 FY2019 as compared to 78.5% in Q2 FY2018.

Our Investment assets rose to ₹ 192.72 billion at September 30, 2018 as compared to ₹ 167.63 billion at September 30, 2017. Our Investment leverage (net of borrowings) was 3.77x at September 30, 2018 as compared to 3.93x at September 30, 2017. Investment income for H1 FY2019 increased to ₹ 9.54 billion from ₹ 8.26 billion for H1 FY2018. On a quarterly basis, investment income increased to ₹ 4.47 billion in Q2 FY2019 as compared to ₹ 3.71 billion in Q2 FY2018. Capital Gains in H1 FY2019 was at ₹ 3.21 billion compared to ₹ 3.22 billion for H1 FY2018. Capital gains in Q2 FY2019 was ₹ 1.25 billion compared to ₹ 1.07 billion in Q2 FY2018.

Our Profit before tax (PBT) grew by 52.1% to ₹ 8.92 billion in H1 FY2019 compared to ₹ 5.87 billion in H1 FY2018 while Profit after tax (PAT) grew by 39.3% to ₹ 5.82 billion in H1 FY2019 as against ₹ 4.18 billion in H1 FY2018. PBT & PAT includes the one off impact of ₹ 0.58 billion recovered on account of doubtful reinsurance recoverable already provided in earlier years. PBT & PAT grew by 42.2% & 30.2% respectively in H1 FY2019 excluding the one off impact.

On a quarterly basis, our PBT for Q2 FY2019 grew by 56.8% to ₹ 4.49 billion compared to ₹ 2.86 billion in Q2 FY2018, while PAT for Q2 FY2019 grew by 43.6% to ₹ 2.93 billion compared to ₹ 2.04 billion in Q2 FY2018. PBT & PAT includes the one off impact of ₹ 0.58 billion recovered on account of doubtful reinsurance recoverable already provided in earlier years. PBT & PAT grew by 36.6% & 25.1% respectively in Q2 FY2019 excluding the one off impact.

Return on Average Equity i.e. ROAE, was 24.4% for H1 FY2019 compared to 21.3% for H1 FY2018. The ROAE for Q2 FY2019 was 23.9% compared to 20.3% in Q2FY2018.

Solvency ratio was 2.10 x at September 30, 2018 as against 2.18 x at September 30, 2017, continued to be higher than the minimum regulatory requirement of 1.50 x.

As we conclude our address, I would like to summarize that we ended H1 FY2019 and Q2 FY2019 with a strong financial performance and balance sheet supported by robust reserving and risk management. We continue to build our distribution with focus on profitable growth.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Avinash Singh from SBI CAP Securities.

Avinash Singh: The first question is on your motor OD premium being soft. Is it because of impact of GST being passed through and that is the benefit you are getting? Also, is MISIP eventually leading to cost? Is it that kind of a pass on effect that has led to soft development in motor OD? Second is on the reinsurance recoverable. Is it flowing through your claims ratio number as well? Thirdly, your health insurance claims ratio has risen, I mean, given that you have retail focus, some color around that on what is happening over there?

Bhargav Dasgupta: On Motor OD, you are partially correct and that is one of the reasons. We have been saying that the benefit in terms of distribution cost savings will definitely get passed to the customer and that is happening. So there is some amount of price correction that we see on the OD premium side. In terms of the profitability, that is quite comfortable. If we look at the five months numbers of the industry

segment wise data, because we have the industry segment wise data for business segments on five months basis, our OD market share has actually increased as against the aggregate motor numbers where the overall motor market share has dropped a bit. But again if we split that up, on OD side we have gained market share. On the TP side, we have lost a bit. There is a structural reason to the same. There is no significant price increase in segments like two wheeler and private car where we are stronger. However, on the CV side given the price increase, certain segments are now becoming viable for us. We are increasing our exposure on the CV side which is visible in terms of growth in those segments. The other big development in motor is the impact of the new regulation. The results are not visible yet because long-term policies started to roll out only from the month of September. However, we are very optimistic about the impact of the regulatory developments largely on the TP side for private car but both for TP and OD for the two wheeler segment. This is the answer to your first question.

As regards your second question on the provision write back, I would like to give you a brief overview. The write back was in relation to particular policies that we had written back in FY 2008 and FY 2009. Due to global financial crisis, the reinsurer got into some amount of difficulty, it was nationalized and back in the years 2011, 2012 & 2013 we had largely provided for the receivable that we had. However, we continued to pursue our legal recourse even though it was a cross-border situation. We made all the efforts to get the amount back, of which, a large portion has been received in the current quarter. Gopal, do you want to address the other points that you have?

Gopal Balachandran: In terms of the presentation of this recovery of one-off doubtful reinsurance recoverable in the financial statements, it does not flow through the claims incurred numbers. It is reflected as provision for doubtful debts in the financial statements. As Bhargav mentioned, a large portion of this amount was already provided for as doubtful

receivables in the past years. The recovered amount gets nullified against those provisions. To answer your point specifically, the amount recovered does not form a part of claims incurred, but, is a part of provision for doubtful receivables where you will observe the credit of money received on account of the recovery.

Bhargav Dasgupta: Your third question was on the health segment. Yes, the focus traditionally has been in terms of retail health. If you observe from FY2015-16 onwards, we have been extensively focusing on the retail indemnity side on the retail health. That segment is performing well. As I mentioned it has grown at almost 30% and the new business has grown at almost 70%. But the retail benefit side has been relatively slow for these first six months because some of the partner's underlying business growth has been slightly slow. But we are hopeful that it will start picking up. Additionally, in this year, we have been witnessing price correction in the group health side. Accordingly, there has been an impact on the corporate segment as discussed in the previous quarters. Unlike our approach until a year back, we are now beginning to win more accounts on the group health side. The way we are operating the group health side is still more granular. While our focus is on the SME segment and the mid corporate segment, we are still not chasing the large group health account unless they are profitable. Currently, we are still not finding the prices to be in the range of our expectation. Now that segment comes at a higher loss ratio, though the expenses are lower than the retail segment, you will see some loss ratio increase because of this reason. The second factor is that in the same period of last year there were reserve releases in the health book. On a financial year basis, the loss ratio was optically lower because the release was in the same quarter of the last year. We do not have any releases from the past in this year. However, the underlying portfolio, in our opinion, is equally good as we had last year.

Moderator: Thank you. We will take the next question from the line of M Kim from JP Morgan. Please go ahead.

M Kim: I have two questions: When you actually look at your line item, the change in outstanding claims overall this claims amount seems lower compared to my forecast. So I want to know the background why this is the case. Second question is about dividend policy. Thank you for the interim dividend. I want to know about the company's broad dividend policy because in the last year there was no interim dividend, so I want to get a more sense about this detail.

Gopal Balachandran: During this quarter, there has been a large outflow of claims with respect to crop insurance portfolio in the state of Madhya Pradesh. The claim relates to the business written in 2017 Kharif season which has been booked in the FY2017-18. Due to this outflow of claim, there is a reduction in the amount of outstanding claims. This is the reason why from an absolute number standpoint you would have observed a decrease in the outstanding claim numbers relative to earlier quarters.

Bhargav Dasgupta: It is a cash flow issue not necessarily anything else.

Gopal Balachandran: Otherwise there is no specific change in terms of our overall reserving approach. As Bhargav said, it is merely a cash outflow in this quarter and not driven by anything else. As regards to your question on the dividend policy, we do have a dividend policy. However, the policy does not specify the percentage payout. I would like to mention that we have been making interim dividend payout. In the first half of the previous year, we had paid a dividend of ₹1.50 per share and this year we have increased it to ₹ 2.50 per share. If you look at the percentage, what that translates to, last year for the whole year we paid ₹ 4 of dividend per share which roughly is about 21% of the profit after tax last year.

M Kim: This dividend policy reflects the company's confidence on the underwriting improvement for the rest of the year. So can you translate in the way then?

Gopal Balachandran: Honestly, it is very difficult to say how the rest of the year would be. However, as we have been saying, our objective would be to obviously run the business in a profitable manner and our stated objective is to try and see if we can get to run the business at a combined ratio of around 100% level. That is obviously something that we will strive for and dividend is something that is finally decided at the board meeting in terms of the level of payout. However, if you were to look at the average dividend payout ratio historically, you will note that we have been a dividend paying company consistently for the last three plus years. On an average, the extent of payout that we have seen so far as the dividend outflow is concerned, it has been roughly at about 20% of the profit after tax.

Moderator: We will take the next question from the line of Nidesh Jain from Investec.

Nidesh Jain: First question is on Motor TP segment. This quarter the claims ratio is significantly lower than the historical experience in that segment, despite there is a muted price increase in the motor TP by the regulator this year, so what is the reason for that? Secondly, in last two to three quarters, we have been observing that net earned premium growth has been higher than the gross premium growth and net premium growth. So is it because of mix change or what is the reason for that?

Bhargav Dasgupta: I will leave Gopal to answer the second question. It is to do with the business mix and what type of products we write but Gopal will explain that in specific detail. To answer your first question, if you look at the loss ratio what you see, the disclosure that we make is the financial year loss ratio numbers. So that includes an enhanced provisioning that we may make for the back book, also, there may

have been releases from the provision that we have made previously. So one of the things that we have been talking about I think even before the IPO is that on the dismantled pool which was the original industry pool, there was some amount of strengthening that we had done last year. So when you look at the financial year number, it includes some of the enhanced reserving that we have done for the back book in a sense which is no longer required in our opinion. That is why the book that we are providing for is a book that we are writing now rather than doing some enhanced provision for the past book. If you look at the Q1 of this year, that number is similar, Q1 also was roughly about 90.6%, for the half year is about 90.5%. On the TP side, we pay a lot of attention to what type of business we bring on to our books because this is one segment if you get your pricing wrong it may not be obvious in the beginning, but maybe four or five years later, it could hurt you really badly. So we are very selective and conscious about the type of risk that we bring on board. This is why if you see the mix of business, you will note that we have been very selective about certain segments of business and certain states. The Kerala event, for example, it is a huge loss, but relative to the industry, it is much lower for us because we always believe that Kerala third-party losses are much higher than our comfort level. So we had gradually been reducing our motor exposure in Kerala. So that is one of the things that has helped us. Lot of the small companies have been hit with large losses in Kerala because of the motor portfolio. So, I think the selection on TP becomes vital and our philosophy of selecting the book remains the same. One change that I have been talking about and let me repeat is that because the price increase that we have seen for the last three years on the CV side, we are beginning to see certain pockets of CV business which we were earlier avoiding becoming more viable and we are beginning to write some of those. But the reserving practice and the way we provide for the TP business remain the same.

Gopal Balachandran: I think in terms of the growth in net earned premiums being relatively higher than let us say the growth in gross premiums, is largely a function of what kind of business mix you write and what kind of tenure that you have with respect to those policies. So, if you were to see particularly in the context of crop, bulk of the crop policies largely with respect to the Kharif season that gets booked in Q2 of the year and typically we will get to see so far as Rabi is concerned, it could largely get booked between Q3 and Q4 in terms of booking of revenues. So in this quarter we had seen those booking of crop happening for us as well and relative to the tenure of what you get to see for other policies, the tenure for crop insurance is much shorter. So hence bulk of the earnings of revenues get earned in this particular period which is why you get to see the increase in NEP for crop to be relatively higher than the growth in gross premiums.

Nidesh Jain: Just one more question on the long-term insurance, what is the consumer behavior on the ground with respect to three year and five year OD policies because that has led to quite a bit of increase in final price of vehicle. So are customers willing to buy long-term OD policies and if they are buying one year OD policies how do you see the renewability of that policy after first year?

Bhargav Dasgupta: So the big problem that has been addressed by this is largely the two wheeler segment, because that is where the drop out used to happen very rapidly after two to three years. On private cars, generally for the first three years, there was some drop out that used to happen but most of the customers would renew in any case. So the long-term policies in a sense addresses the two wheeler segment more than anything else. Now if you look at what is happening on the penetration of own damage component, of course, it is just one month, so maybe we should not draw too much of conclusion from this but we have been very pleasantly surprised with the penetration of the five year OD on the two wheeler side. It has been driven by individual OEMs, not all OEMs have started writing or starting to

launch five year OD product but the ones that have launched, we are seeing very high levels of penetration. They are higher than what our estimated levels of penetration would be for OD. On aggregate, for the two wheeler book on the first one month, which is the month of September, we are seeing in the high 40s level of penetration of five year OD which is a pleasant surprise because exactly for the reason that you said that it increases ticket size, etc., but still people seem to be willing to buy that. There are many factors behind it: One, there is the benefit that we are passing on in terms of the fact that the distribution margins are lower for the second and third year that is being passed on to the customer. There is no additional sourcing cost for renewal that we would normally incur, we are now passing that to the customer. So not only have we made it attractive for the customer but the distributor is also happy to distribute this product. So, for the customer there is a benefit of buying this policy at one go rather than buying in five installments. Hence, we are seeing a very high level of penetration as we speak in two wheelers. On private car, it is not a very high number. Most OEMs have not even started launching the three year OD component. One or two have, and there also the penetration level is in single digit. Coming to your second question of renewal, now the renewal challenge in our mind was more for the two wheelers because the ticket size for just the OD component would be very small and any case the renewability experience was very poor for two wheelers. Now, if we get to see the kind of numbers that we are seeing over the next few months, that would clearly be a big positive vis-à-vis what we would normally get in terms of renewability. Our normal renewability for two wheeler would be much lower than these numbers. So it is a straight-away positive on the two wheeler side. Of course, we will keep on endeavoring to try to renew the OD component digitally and through other outreach campaign. But even if nothing comes out of that, this is the positive on the two wheeler side. On the private car side, it will be the same effort that we used to earlier make on renewal, we will continue to make that effort. One of the advantages that we believe

we have is the fact that the TP is coming to us, we should have a natural edge in terms of renewing the OD going ahead, but that is something that we will discover next year.

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

Harshit Toshniwal: When I look at the personal accident premium, so this health and PA, this PA is the one which has been increased from ₹1 lakh to ₹15 lakhs, is that the segment?

Bhargav Dasgupta: That is effective 1st October. So that does not even come into the numbers of this quarter. It is compulsory PA for private car, for the TP.

Harshit Toshniwal: It will be included in the PA segment itself?

Bhargav Dasgupta: No, that is part of TP and it is not even there in the current numbers, it was not even rolled out at that point in time. That is actually a huge positive for us in terms of top line and bottom line.

Harshit Toshniwal: Just want to ask Sir, generally how much loss ratio do you have in that particular segment which it was a very small amount till now, but going forward it is going to be a bigger amount, so just want to understand what is the profitability of that specific segment if you can share the details?

Bhargav Dasgupta: If you see generally PA loss ratios are low, if you see our numbers on aggregate even this piece was pretty low loss ratio. However, we will have to observe the behavior change because there are two things that may happen: One, when you increase the sum insured by let us say an x-times, premium actually does not need to be increased by the same factor, just by the way the insurance world work. So the fact, just because the sum insured increased by 15x, logically it will increase the profitability of that segment. The counter to this argument is the fact that now it is ₹15 lakhs cover there could

potentially have been certain cases where people did not bother to claim or were not aware of this policy, so maybe they were not claiming when they could have, now all of them will claim. So our estimate is that it will be very profitable but we would want to hold our judgment till we see this over a period of time, maybe about a year, year and a half, but our current belief is that it will be very profitable.

Harshit Toshniwal: Right now whatever the small amount it was, but if I take that segment, the loss ratio would be around 50% or it would be even lower?

Bhargav Dasgupta: I would not want to give you the exact number right now, because honestly that would be misleading for the market because we would want to see how this portfolio behaves. Suffice to tell you that it is actually a very profitable product even today and our estimate is unless consumer behavior changes fundamentally, it should become even more profitable at this price.

Harshit Toshniwal: Regarding the motor third-party, I just want to understand that when we offer the product online and non-dealer channels, have we kind of stopped offering the one year own damage policies and pushing towards three years or five years own damage, is it a very selective approach in terms of our offerings in non-dealer channels?

Bhargav Dasgupta: No, we have not done any of that. If you see the Supreme Court decision and what the regulator has specified, it is for the third party and not for the own damage. For the own damage we have to give a choice to customer, whether it is for one year or three years for private car or one year, five years for two wheeler and that also is applicable for new vehicles. For, the old vehicles you can continue to give one year policy. So we are giving all possible options to the market. Why would we want to restrict the choice to customer?

Moderator: Thank you. We will take the next question from the line of Rishi Jhunjunwala from IIFL. Please go ahead.

Rishi Jhunjunwala: Sir, just wanted to understand on all these regulation changes on the motor side. So first of all, can you give us a sense in terms of how much of your business is from new vehicles sales versus renewal - volume size? Clearly looks like long-term TP policy is significantly positive creating a float income as well as hopefully should improve loss ratios and PA as well is going to substantially add to your overall GDPI and you have already mentioned it is fairly profitable at this point of time. So just wanted to understand how are you changing your strategy in order to ensure that we capture a bigger market share of this because the way we understand is the market share of the new vehicle sales will be quite important to basically capture this opportunity which seems to be significant. So have we made any changes or strategy tweaks either at the OEM dealer level or otherwise just to understand how can we capture it in a bigger way?

Bhargav Dasgupta: So let me start with the second question and I will ask Gopal to answer the first one in due course. The answer is obviously yes, it fundamentally changes the entire approach that we were having to scale up the motor business. One of the advantages that we had was we were always relatively stronger in the new and the OEM space compared to our overall business. If you would remember the discussion that we have had maybe a year, year and a half back, one of the segments that we were relatively underpenetrated was that three to five year segment for private cars which was largely done through the agency channel. So we are focusing on that, but in the new vehicle segment we were anyway very strong. So we have to hold on to our strength as also build on it. It is obvious that we will have to do a lot of work in terms of focusing on that segment. There is of course some of the ongoing work that we were doing in terms of our strengthening our relationships, strengthening the modes around servicing with OEMs, one of the things that we had talked

about in the past was this virtual survey with the garage and the garage app which made life very easy for the dealership. That number is scaling up very rapidly. About a month-and-half back, we celebrated 200,000 claims that got serviced through the app. We are also witnessing some more pickup from other dealerships which were not using that to come on board. So on the service side there anyway was a thrust, we continue to add to the thrust. Second thing that we have done is there are few OEMs for example, Mercedes, Daimler, Bajaj, and similarly couple of other OEMs, that we were not on their platform earlier and have now joined it. Whatever is left in the market in terms of OEMs we are obviously going out and tying up with those partners. Thirdly even at a channel level, if you look at the effort that we are putting in through our entire Tier-3 and Tier-4 outreach, one of the things that on the two-wheeler side, we believe the kind of strength that creates in terms of the fact that we have a person dealing with the Sales & Service points (SSPs) and the Authorized Representative of Dealers (ARDs) which is really the smallest unit of distribution that the two-wheeler companies would have. This would give us tremendous strength in terms of getting a share of the business. So there is a lot of effort, clear thrust in terms of strengthening what was anyway our core strength for us and building on it.

Gopal Balachandran: Just to answer the first question that you had, Rishi, on count of new and renewal mix - the new renewal mix for us, I am talking about for motor as an aggregate which should be roughly at about 55% to 57% of new and the balance which will be about 42% to 44% of the policies will be renewal policy count for us, volume wise, i.e. on count of policies. From a value standpoint, it will be roughly about 50:50.

Rishi Jhunjunwala: Just wanted to understand on this loss ratio, so basically coming off for TP, you mentioned that the old pool basically probably you are now adequately reserved, so is it fair to assume that going forward

incrementally whatever provisions you are going to make will only be related to the new pool and based on your past years of experience post 2011, the experience has actually been much better and so we can structurally see motor TP loss ratios to be lower than what we even have today?

Bhargav Dasgupta: Let me not give a forward-looking statement of what we have today and what it will be in future. However, what I can tell you is that on the motor pool, I do not know if we discussed it in the past, when the pool was dismantled, the regulator gave a number to the industry in terms of what should be the provision that all of us had to provide . I am talking about the year 2012-13 where all of us were given a certain number, stating that for each year, this is the reserve that you hold because they had done the calculation or rather the UK government Actuaries had done the calculation. Even at that point in time, the same year, whatever was the expected reserve that we were asked to hold, we actually held a reserve which is higher than that number. At least publicly no one has talked about this in the industry, so we do not know if anyone else also did the same thing. We believe most of the companies held what the regulator told them to hold and thereafter we were watching because again the data for this needs to be seen for about six to seven years before you get a complete picture. Hence, as the data got richer, we have strengthened the reserve over the years for the pool. I think we are reasonably confident that we do not need to increase that number going ahead, at this point in time that is our view.

Rishi Jhunjhunwala: On crop, 117% is still the estimate number that we had?

Bhargav Dasgupta: It is the estimate number that we will continue to hold for the year because if you see what happens, this Kharif we are getting a sense as of now is an informal sense of how the business has been. The final numbers will get crystallized may be around January, February, by which time we will get the data and crystallize the actual claim number. If compared, Kharif is a much bigger book while Rabi will

be a very small book, however, Rabi numbers will not be crystalized till the middle of June, July of next year. So if we do some releases from the current 117%, in case Rabi proves to be bad, we will have to do some strengthening later. We do not want to do that now. So for the whole year we will hold 117% though in early days our current sense is that Kharif crops have been reasonably good this year for the states that we have provided insurance. Having said that, we will have to wait for Rabi numbers to get done and only then we will know what the final year number will be.

Rishi Jhunjunwala: You have talked about maintaining 100% combined ratio, but we are clearly seeing opportunities in terms of improvement in the ratio, whether it be on motor side probably it will be on the crop side as well, so it looks like if you do not do anything, then it is going to basically go even below that. So how do you intend to basically utilize that or do you still think that you want to maintain 100 despite there can be significant sort of plus over and above that?

Bhargav Dasgupta: I am really very happy to hear what you are saying, but I wish everything worked out what you are saying. However, on a more serious note, what we have said is that even at this level, I mean at 99% or 100% combined ratio, if you see our ROE numbers about 24 plus. We believe that it makes sense for us to use this opportunity to invest in distribution and focus more on growth. If you see what happened this year, the first six months specifically, we have added very large number of offices, the number of head count that we have added in sales and distribution has been more than anything that we have done in the last 10-years in fact. So we are investing. We will see for other areas that we want to invest for the future. In spite of that if it comes on, that is a different issue altogether, but there are always uncertainties in our business. There could be something that could come and hit us which we cannot anticipate right now. So we would want to continue to expect the number will be around at/or

slightly under 100, that would be what we will try to deliver over the years.

Rishi Jhunjhunwala: I mean, there is a big windfall that will come through from PA, almost Rs. 5 billion of GDPI or more will be created, a large part of that will flow down to PAT that is what I was asking?

Bhargav Dasgupta: We will have to wait for the development, let us see how it plays out. While we had lot of good news, undoubtedly, our industry has seen over so many years that bad news come when you do not anticipate. So we do not want to get carried away. If it happens, it will happen.

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

Nishant Chandra: The question was just following on the previous person's question on growth. So currently you are track for let us say 22% to 24% ROE profile over the medium-term. Now, how do you think about stepping up on growth further because let us say 2% to 3% points of incremental growth with 1 or so percentage point of lower ROE would still be a fantastic outcome right. So I just wanted to hear Bhargav, your thoughts on that trade-off?

Bhargav Dasgupta: We are very clear and we have been sharing this with all our investors and the analysts on the approach that we have - we are very clear what is the right trade-off to do in terms of long-term value creation. We could very easily tighten let us say the expansion and deliver even higher ROE. However, we do not want to do that. The investment that we are making, as we just discussed, in terms of these distribution points, we are doing it with as little expense as we can in terms of physical infrastructure that is why we call them virtual offices. But in spite of these investments that we are making, the investments that we are making in technology and some of the other products that we are planning to launch, all of that is because of the opportunity that we see at this point in time. We really believe that

as we have been saying that we are at inflection point in the industry and you are seeing that play out. Something that we have been saying for the last year or year-and-a-half, you are seeing the play out in terms of how the market share is shifting and this is a point to go after growth without compromising the ROE and the combined beyond a point. Now when we look at growth, we are very clear about what creates value in the long-term. It is very easy for us to go and get chunky lumpy business and show growth higher than the market. We do not believe it creates value in the long term. We have the ability to do that, however, we are not going to unnecessarily chase lumpy businesses if we could. If you see our numbers, in the non-government type businesses, the market share growth is pretty robust in most line if you look at fire, marine, liability, engineering, health - all lines have witnessed growth. These are all granular business that we are writing - you heard the number on SME, for example. So we will keep on investing. The numbers that you see still does not reflect some of the investments that we have already made. The investments have just been put in place. The top line numbers will probably start reflecting next year.

Nishant Chandra: So if I were to categorize the growth, so one is basically investments which will pay off let us say over the next 6, 12 or 18 months or thereabouts, the other one is let us say demand elasticity based on pricing adjustments. So have you thought about let us say reducing the margin by some number which will actually give you those extra 2% to 3% points of growth or do you think that is like a very slippery slope and you have chosen to avoid it so far?

Bhargav Dasgupta: We generally believe it is a very slippery slope because when you start, it does not stop anyone else from doing that and particularly for certain lines of business if you do that, it is very risky. So we have not gone that route plus I think if you see what happens in motor for example which is roughly 40% of market, you could do very aggressive online digital strategy which I think in the current

environment makes no sense. Because, the market is completely shifted for this development. So that is one area where we could have done something, but at this point in time, it is put on a backburner, we will want to focus on building the distribution that the way we are building and that probably is the way we want to spend money.

Moderator: Thank you. The next question is from the line of Anand Laddha from HDFC Mutual Fund. Please go ahead.

Anand Laddha: Just a couple of questions from my side: On the TP business for two-wheeler which is five-years, just wanted to understand how this business is sourced -- is it driven by tie-up with the manufacturer or is it driven by tie-up with the dealers?

Bhargav Dasgupta: The way it works is first you have to have a tie-up with the manufacturer who is the OEM that gives you right to play. In a sense you come into the platform, thereafter each dealer chooses to work with one of the companies that is on the platform. So you have to work at two levels - you have to work at the OEM level to first get into the platform which is something that I just touched upon in certain OEMs where we were not there like let us say Bajaj, Yamaha or Daimler, we have come on to the platform now. Secondly, we have to work at a dealer level because each OEM may have 3 to 12 partners for example. A dealer does not work with may be more than two to three players. So we will have to deal at the dealership thereafter. So that is the next level of engagement and the effort that we have to put in.

In terms of how it gets sold thereafter is compulsory, we have to sell a five-year that is a Supreme Court judgment, so any new vehicle that goes out with only a five-year policy, otherwise you are violating the laws of the land. Even if the customer comes online you have to sell him a five-year product if it is a new vehicle.

Anand Laddha: Is there any condition or criteria for the manufacturer to select a particular insurance company to be on his platform or is it just that every year general insurance company goes to a manufacturer, he will take every company on its platform?

Bhargav Dasgupta: There is obviously lot of factors that get taken into account. Again, I will have to go back a bit into history in terms of the approach that different companies had when they entered the market. One of our focus areas was that we build that franchise with the OEMs over the years and thereafter the OEM looks at the service parameters. They measure your claims experience, not just in terms of claims, the quality of claim service, how will you service the policy issuance etc. The experience and brand name that the dealers have is very important for the OEM partner. So there are many factors that we have to look at. The dealer looks at other bunch of factors within that - brand, service, claims, and the speed of survey. For the dealer we believe that is a very important. So there are a lot of efforts that we put in terms of creating these conveniences which we believe become strengths for us and this is what we have been working on over the last may be 15, 16 years.

Anand Laddha: Sir, in a five-year TP, is there any regulation, what sort of commission we can share with the dealer and with the OEM?

Bhargav Dasgupta: For TP, there is no commission.

Anand Laddha: There is no commission for the dealer as well as for the manufacturer?

Bhargav Dasgupta: IRDAI has prescribed commission schedule for new long term two wheeler and private car policies where OD commission rates have been specified for each year. For TP, there is no commission.

Anand Laddha: In a car insurance side, if you have to look at any of the large manufacturer, there are only 5 to 11 insurance companies registered

with them. Do you think given that three-years now is mandatory this will create necessary competition at the manufacturer level?

Bhargav Dasgupta: No doubt it will because everyone will go out and try to get into those platforms. The question is whether they can service, it is not just about getting on to the platform. You can get into the platform at the OEM level if the OEM really believes in your ability to service claims. But thereafter you have to have the distribution into the hinterland to be able to service the claims and everything else that we have talked about. Yes, there will be competition, but then that is not new to us, competition has always been there.

Anand Laddha: If I have to look at your expense ratio that has come down very significantly. Is there any one-off in that or do you believe that this expense ratio will stay here at 20%?

Gopal Balachandran: No, if you look at one of the things that we have been speaking on the earlier calls also, has been that the MISP regulations were introduced in November 2017 onwards. So to that extent, that is the one-off which is the change that has happened in regulation.

Anand Laddha: So the business support services line which used to be around 100 to 200, it has now come down, so this was largely because of the MISP been implemented now?

Gopal Balachandran: Yes, pursuant to the MISP regulation, the regulator had prescribed that any form of acquisition cost that would be incurred by an insurance company, will have to get reflected as a part of commissions paid. By virtue of the MISP change, all those expenses will have to be put under commissions.

Anand Laddha: In fact if we look at our tax rate has gone to 35% from last two quarters. Is it fair to assume that bulk of the investment income base is from the debt side?

Gopal Balachandran: As a GI company, we are subjected to the maximum marginal rate of tax. What you would get to see is some kind of an increase in our overall effective tax rate. If you were to have looked at our numbers relative to the last year, that has largely been as a result of the change that came in the recent Finance Act wherein the entire exemption so far as long term capital gains were concerned that were taken away from exemption completely. So any form of gains that we realize on the equity book, we will be subject to tax at the maximum rate. That is the reason why you get to see a change in our overall effective tax rate.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Blackrock Mutual Fund. Please go ahead.

Dhaval Gada: Few questions: First, could you share the number of prior year reserve releases or additions that we could have done during the quarter and for the first half? Second, could you share the modified duration of the fixed income portfolio at the end of September and where it was in March, just want to see how it has moved, because I can see the share value change has undergone a correction during this period, so just want to see how are we positioned on the bond book on duration. Third, could you remind when do you actually review the IMTP reserving, is it done at every quarter or just yearly, I mean, just if you just talk about it? Lastly on pricing if you comment a little bit on how are you seeing overall pricing in motor OD specifically two-wheelers and private vehicles?

Bhargav Dasgupta: So, let me answer the first question. The strengthening or release is a trivial amount, so it is not really an impact overall for this year. For FY 2018, 4.75 years was the duration of the portfolio. Today it is about 4.63 years. In terms of the approach on IMTP book, we look at it every month, but we actualize any changes to our reserving every quarter. So it is not an annual thing, we do it every quarter, and our quarterly numbers are actually audited though this number comes from the actuarial team.. And in terms of the last question was on

pricing on motor OD. Any specific that you had in mind on motor OD?

Dhaval Gada: I was just going through some of the data points around how the pricing has moved from August to where we are today in terms of private vehicles, four-wheelers as well as two-wheelers and broadly it seems that the pricing, the three-year or five-year factor has been broadly there about, so it has not been too aggressive at this point of time. So just wanted to hear is that what you are also seeing and is the pricing sort of good enough at this point of time?

Bhargav Dasgupta: In our opinion, pricing is good enough, of course there is a pressure and as we discussed there is some amount of reduction in the OD price to cover the benefit that you earn in the distribution cost which passes to the customer. But if you look at our H1 numbers, the motor OD loss inched up a little bit, which basically reflect this ground reality. At this level, we are comfortable with the book that we are writing and we will have to watch this space, because now we are writing at least in certain segments long term OD. We will have to see how the frequency and the inflation work through and see how we adjust for it in due course, but right now we are comfortable with OD business.

Dhaval Gada: On crop insurance, I think the reserving has changed from Y-o-Y perspective, so the numbers will not be comparable. Am I correct in understanding that because I think now you do 100%?

Bhargav Dasgupta: Last year we were doing 100%. I think we discussed in the last call also. Normally what happens is the stop loss premium, the reinsurance that we buy for the stop loss, 110% to 250%, that price gets quantified based on the type of business that we retain. So we used to take this into account in last quarter. Hence, during the year we were holding 100% loss ratio and that amount we accounted for in the Q4 which I think has created some optical increase in the number for the Q4 of last year. What we have done this year is we

are holding the number with 100% loss ratio plus roughly what we believe we will end up with the cost for the reinsurance on the stop loss. So 117% includes 100% plus 17% for the reinsurance cost.

Moderator: The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.

Pulkit Singhal: My first question is on distribution expansion potential in the motor segment. So if I were to just count all the dealership in the country across two-wheeler, passenger vehicle, and CV, what would that number be and what percentage of those dealers are you currently covering?

Bhargav Dasgupta: If you look at the number of OEMs in terms of volume, about 89% of the business we are on the platform. If you look at the dealerships, we are in dealership with about 60%. The question is, in each of these dealerships, how much of their business do we get? That number obviously is different across different dealers. So I think there is a three level opportunity as we speak on the OEM piece. We can increase that 89%, that is not a big opportunity, we have kind of covered most of the market and as I mentioned two, three of the larger OEMs that we have not tied up with earlier, we have just recently tied up with them. The second opportunity that can we gradually move the 60% up, the entire new rollout that we talked about in the Tier-3 and Tier-4 cities. We think it will help us in terms of increasing that penetration and then the effort will be in terms of what we get out of each of the dealers that and that is obviously at a specific dealer level effort that we have to put in.

Pulkit Singhal: Sir, the 60% of the dealerships seems slightly on the lower side. Is that the company has been a bit lower in that ramp up and is now going to pick up that speed given the opportunity?

Bhargav Dasgupta: I do not think any company in industry can claim this kind of number. If you look at the entire universe, let us say 80%, 89% of the OEM

that we talked about, all the dealers will not work with us. There are certain dealers, let us say if you take out the top three OEM partners that we have, all the dealers do not work with us and we also do not want to work with all the dealers. There are certain pockets where we avoid, for example, there are certain places where the dealership has entrenched relationship with another insurance company. It is an ongoing effort for us to break into those relationships. So 60% number is the total dealership base, across the country is something there has been a cumulative effort over the last 15-years and that is where we stand, but of course we can improve that at all times.

Pulkit Singhal: Any number you would like to throw for the next year, five years where would you have given that you are avoiding certain pockets?

Bhargav Dasgupta: We do not have a number because I think one of the things that you probably heard us keep saying is that our business is like value investment. From a business perspective, we have to look at segments where everyone is getting excited, usually the segment is not to go after and vice versa. So there are times when we go into certain markets where pricing in our estimate is good and vice versa, for example, Kerala flood, we used to be in Kerala and then based on experience we reduced our exposure there. So it is a dynamic situation we will want to focus on where we want to go and get to and that number is very difficult to predict today.

Pulkit Singhal: Second question is on the motor TP. From a market share basis, my understanding is that the position of ICICI is lot more attractive given the reasons: One is that we have 50% share of new vehicles in your mix; and second is your two-wheeler segments you have a higher market share and to that extent if the industry grows out there you benefit. And lastly on the CV side, I am presuming that you are growing from a low base, therefore the growth should not be higher than the industry is growing. So given three factors I would have expected motor TP to significantly improve market share from CTP basis as a percentage of industry, but that has not yet played out, I

just wanted to get your thoughts on that going ahead for the next two or three years?

Bhargav Dasgupta: I think what you are saying is absolutely spot on, your assessment is absolutely correct. But there is one more element in the sense because of our private car new business or two wheeler business, we believe we should benefit from the changes that has happened recently. On the CV side, the industry mix is about 40 or 45% of the industry is CV, our share is about 17% to 18% in the last year. That was a conscious strategy that we had because of our concern was about the CV pricing. As we speak that number has increased; last year it was about 18%, this year it has gone to almost 20%, the commercial vehicles contribution to our business; two years back it was 17%. So the changes take some time because you have opened up the CV business in certain pockets post the increase this year. So as we speak we are going into those markets, we are adding distributors, we are adding agents and we will see some growth. So at this point in time we have not still seen the benefit of this opportunity, but in due course we should, you are right.

Pulkit Singhal: Last question is on the motor in the loss ratio. Now if I just look at motor OD and TP from a competition perspective there are only two aspects; one is pricing in each and commission in each, which makes it four variables, but given that pricing is fixed in TP and commission is fixed in both, therefore the only variable available for someone to compete is pricing on motor OD. Now the reality is that motor as a segment is obviously becoming very attractive given the float income that is going to come up. So do you expect all of that to kind of reflect in motor OD pricing pressure which is not just due to the completely dynamics of motor OD, but also due to completely dynamics in motor TP as well as the float as they come.

Bhargav Dasgupta: If you look at last three, four years, you see that the OD rates have not really increased for the industry and this is a reality of the competitive dynamics of the industry even before all of the changes

happened. What we have been doing is we are doing lot of work in terms of adding add-on covers, etc., to compensate from the fact that we are not seeing OD price increase. As we discussed, we have had the benefit of the distribution cost coming down. So, on an aggregate it works. The other thing that we have been doing is a lot of work on analytics, risk selection as also on the claim servicing, not just from the convenience perspective but again using lot of analytical tools behind to ensure that our claim payout is fair and appropriate and there we have been doing a lot of work. Now going ahead how this plays out? We will have to see. As I keep saying in our industry the competitive intensity has been elevated for the last 10-years, it is nothing new, in fact, it is relatively better now than what it was maybe two years back. I think we have enough tools in our arsenal to compete even if the competitive intensity increases.

Pulkit Singhal: I just wanted to check one aspect does the TP competitive dynamics play into OD as well?

Bhargav Dasgupta: It does, it can play.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Prateek Poddar from Reliance Mutual Fund. Please go ahead.

Prateek Poddar: Sir, one specific question, on two-wheelers what is the loss ratio for OD and TP?

Bhargav Dasgupta: I do not think we disclose that number as of now.

Prateek Poddar: Will it be less than your segment average?

Bhargav Dasgupta: Let me tell you that overall our two-wheeler focus is an attractive book which is why we focus on that.

Prateek Poddar: The reason why I ask is, if you do some channel checks, the amount of discounts which have been offered on two-wheeler OD is like

60%-70%. Am I missing something over here or that is the competitive intensity?

Bhargav Dasgupta: I think one of the things that at least what we believe is we should move out from this discount number, this is the discount to tariff which means nothing. What is appropriate is to look at the rate on a standalone basis because certain lines could have been overpriced and certain lines could have been underpriced. So something which is two times tariff could be loss making while something 60% discounted tariff could still be profitable. So when we look at the business we look at what is the adequacy of pricing independent of the tariff and at this point in time we quite like our two-wheeler business, I mean, of course we do anticipate based on the changes that we are seeing, we will see competitive intensity, we will see how it plays out and we will have to use our advantages both in terms of the distribution, servicing, brand relationship to continue to hold on to our market share there.

Prateek Poddar: On the marine, fire and engineering side, the loss ratio kind of spiked up. Is it more because of the severity of the claims or the pricing is a bit aggressive now?

Bhargav Dasgupta: Two factors there: We anyway anticipate one or two large claims when we budget during the year because it always happens. This year we had a very large claim in the first quarter. So there is a spike claim in a sense plus we had Kerala which also had affected the loss ratio there. Same is the case for marine. Marine, we are seeing some amount of pricing pressure for the large ships. But what we are seeing is again most of the growth is coming from the mid-size and the SME segment where we are comfortable. But we had some losses in Kerala, loss in one marine policy and one particular account we had a spike claim.

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

Bhargav Dasgupta: Thank you, everyone. Let me close by thanking all of you for logging in the conference call and we look forward to interacting with you over the next few weeks.

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