ICICI Lombard General Insurance Company Limited

Q4 & FY2020 Earnings Conference Call

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Moderator: Good Evening, ladies and gentlemen, a very warm welcome to **ICICI Lombard General Insurance Ltd Q4 & FY2020 Earnings Conference call.** From the senior management we have with us today, Mr. Bhargav Dasgupta, MD and CEO of the company, Mr. Gopal Balachandran, CFO, Mr. Sanjeev Mantri – Executive Director, Retail and Mr. Alok Agarwal – Executive Director, Wholesale.

As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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 – MD & CEO, ICICI Lombard General Insurance Limited. Thank you and over to you.

Bhargav Dasgupta: Good evening, everybody and thank you for joining the Earnings Conference Call of ICICI Lombard for Q4 FY'2020 and for the Full Year of 2020.So I would like to give you a "Brief Overview of the recent developments in the Industry and our responses to them. Post which our CFO, Mr. Gopal Balachandran will share the "Financial Performance of the Company."

As we speak today, we are operating in unprecedented times. The COVID-19 pandemic has disrupted every aspect of our life. At the last count, the virus has affected 210 countries across the globe. As far as India is concerned timely measures taken by the state such as the country-wide lockdown to break the transmission chain, calibration of trade and commerce activities, social distancing norms, etc., have helped limit the contagion. At the same time, this would lead to significant economic impact, the extent of which is not exactly quantifiable at this stage.

In ICICI Lombard, we have reorganized ourselves to service our customers and support our channel partners while ensuring the safety and well-being of our employees. We have been able to achieve this, thanks to the technology journey that we have traversed over a decade. Today, our customers can experience the entire insurance process from purchase to policy servicing to claim intimation to renewal in the digital mode. Right in the purchase stage, we offer multiple options for transacting through web, mobile apps, etc. Today, about 96.5% of the policies issued by us are in paperless form. With regard to claim settlement, we offer multiple digital solutions for quick processing, a case in point is “InstaSpect” for motor own damage claims. This feature available on our mobile app does away with the need to physically survey the damage vehicle, allowing real-time claim assessment and approval. Since its inception in 2017, we have approved more than 6.5 lakhs claims instantly throughout using InstaSpect. During the lockdown, we manage to conduct damage assessment of 100% of the cases using InstaSpect. On the health insurance front, we introduced an AI-enabled claims settlement engine to authorize some of the health claims during the lockdown in April 2020, 31% of all the health claims were authorized using AI.

For policy servicing and query resolution, we are encouraging our customers to make use of our digital solutions in the lockdown. We have experienced that more than 50% of the customers calling the call center, prefer to opt for our digital platforms when given the option to do so. We are heartened by the responses we have seen, as we look ahead, we will continue to promote our digital services available 24x7 to our customers.

Now going beyond customer support, we have been pursuing ways to truly address customer needs in these challenging times. We introduced a dedicated product “COVID-19 Protection Cover” that provides 100% of sum assured on the first diagnosis of the virus. We have offered this relevant proposition across channels, including entering into tie-ups with entities such as Flipkart, BharatPe, etc., to reach their customer base.

Amidst this lockdown, obtaining medical advice is a big challenge. So harnessing our health ecosystem and the technological prowess, we have introduced a tele-consult feature on our mobile app - “IL Take Care.” Within four months since its launch in January 2020, we have seen a surge in utilization of this facility. The app that was first introduced to corporate customers, witnessed an increase of more than 50% during the lockdown among its base. Further, the app is being rolled out to our entire retail customer base. It will enable us to expand our scope of wellness and other value-added offerings to customers going beyond addressing their insurance purchase, claim intimation and query servicing needs.

Engaging with customers beyond business critical in these times, we introduced several initiatives including online webinars to help customers stay positive, cyber safe and engage. Each of these sessions witness participation of over 4,000 customers. Further, for corporate customers, we conducted focus sessions involving eminent professionals from the healthcare space, and our senior members to discuss on relevant risk and insurance aspects. We reached out to more than 3,500 corporate and SME clients in the process.

Turning to our “Channel Partners,” as you know our diverse distribution set up forms a key component of our competitive strength. Over the years, we have deployed technology solutions to equip our channel partners with the right tools to conduct business and service their customers.

In these trying times, ensuring customer retention becomes an important growth lever for our channel partners. To help them in their retention efforts, we have deployed the latest technological tools, for example, Robo Calling and CRM tools for motor dealer partners. We have also activated our remote work from home call center for this purpose. Further, we have encouraged increased usage of digital tools like “MyRA” and “iPartner” for sourcing and servicing customers, while many of our partners were already using these tools, some of them required hand holding. We have conducted training programs for these partners to familiarize them with these tools and guide them on other challenges they faced during this lockdown. More than 4,500 channel partners have gained from our online webinars conducted by senior leaders.

April, May are the months when we ran a focus campaign for the SME segment called “Udaan”. This year despite the constraints we have launched this initiative through our multiple digital platforms, positioning it as “Digital Udaan” This approach has yielded results as we have witnessed 89% of business sourcing through our digital solutions during the lockdown for the segment.

Even as we work towards supporting our customers and channel partners, we have been ensuring the safety and well-being of our employees. In fact, we have taken steps on this front in early March much before the lockdown; at our key office set ups, we had introduced social distancing norms, use of sanitizers and deployed screening equipment to monitor employee health. As we moved to a complete work from home scenario post the national lockdown, our technology solutions and remotely deployable IT infrastructure has helped us in maintaining service continuity. Today, our employees have the right tools to operate and collaborate with colleagues across more than 250 branch offices and virtual office locations. Further, we have been engaging with our employees in multiple ways. During this time, we accelerated our efforts towards upskilling our employees by leveraging technology platforms. In this regard, we introduced e-Learning programs, self-consumption videos, and scheduling live training events. Over 3,200 learning hours were consumed through e-Learning models. Further, our employees were given access to 987 videos with 150-plus hours of learning content on our video portal, “K-Point.” For those requiring special assistance, we have scaled up our internal platforms such as "Santulan" which provides online counseling while ensuring wellbeing and productivity of our employees. Given the unprecedented scenario, the management committee and the senior most level of the organization has decided to forego 50% of its annual bonus of FY 2020 and salary increment for FY 2021 in order to contain the expense of management.

At ICICI Lombard, we are committed to support the efforts of policymakers and the society in containing the impact of the pandemic. As part of our CSR commitment, we have contributed to ICICI Group support of ₹ 1 billion towards initiatives aimed at curtailing COVID-19 impact. This includes contribution of ₹ 50 million to PM CARES Fund by our company as well as voluntary salary donations by our employees with contributions ranging up to one month salary donation amounting to ₹ 12 million.Further, we have introduced free COVID-19 testing for the underprivileged sections of the society. For this we have partnered with reputed diagnostic brands. In addition, we have provided Personal Protection Equipment or PPE to medical staff treating COVID-19 patients at certain government hospitals in high impact cities like Mumbai.

Amid our efforts, authority has been forthcoming and has announced several measures for the benefit of policyholders and to ensure smooth operations of insurer. This include directing insurers to simplify claim procedures, ensuring claim authorization within two hours, etc., It has also ensured a swift response to product approval enabling insurer like us to introduce dedicated COVID-19 solutions in time. Further, the authority has been instrumental in ensuring that insurance is classified as an "Essential Service."

I would also like to touch upon a few specific announcements by the regulator. The authority had notified on March 27, 2020 that "Insurance companies shall continue to charge the prevailing rates for motor third-party liability insurance covers from April 1, 2020 onwards until further order is issued." This will impact the industry loss ratio adversely for the current year.

Further in April 16, 2020, the authority announced further relaxation for payment of premium on renewals from motor third-party and health insurance policies till May 15, 2020. For the industry, this could lead to short-term impact on premium growth as customers may choose to renew at a later date. Additionally, subdued auto sales in the last few quarters followed by temporary shutting of OEMs are expected to impact new business sourcing. It would thus be a challenge for the motor insurance segment to maintain the desired growth trajectory in FY 2021.

Pursuant to regulatory guidelines and prudent management of financial resources, the board of directors have not recommended final dividend for FY 2020. In this scenario, the interim dividend declared by the company will become the final dividend for FY 2020.

It is important for you to note that despite the current meltdown, we have demonstrated a strong solvency position of 2.17x as at March 31, 2020. Our solvency ratio continues to be well above the regulatory minimum of 1.5x.

Let me now appraise you of the industry performance in the recently concluded fiscal year. The general insurance industry registered a growth of 11.7% in FY 2020 over FY 2019. The industry GDPI moving up from ₹ 1,893.02 billion in FY 2020 from ₹ 1,694.48 billion in FY 2019 as per GI Council Report. Excluding crop segment, this growth would be 10.7%. The overall growth and growth excluding crop segment was 1.7% and 4.3% respectively for Q4 FY 2020 as compared to Q4 FY 2019.

The combined ratio for the industry was 112.6% in nine months FY 2020 as compared to 113%.Further, the overall combined ratio of the private multi line general insurers was 106.5% in nine months FY 2020 as compared to 103.4% in nine months FY 2019. These numbers are based on available public disclosures, information published on their respective company websites, excluding National, United, Reliance Health and Aditya Birla.

Coming to the outlook for the year ahead, it is extremely difficult to gauge the exact economic damage and consequent impact on our industry at this point. As such giving a guidance at the stage could be misleading. Having said that, I would still like to share our current view of how different segments could behave in the near-term.

As far as the commercial lines are concerned, given the increase in rates for some of the occupancies, we expect the fire portfolio to grow reasonably well. However, marine and engineering segments may witness de-growth due to reduced transit of consignments and delay in project commencements. We have also witnessed policy extensions, installments due to working capital related constraints. Group Health penetration should increase given the overarching health concerns and the Ministry of Home Affairs directive on workers. We expect rural segment to witness faster turnaround post-lockdown. As the lockdown is lifted, idle plants and stalled construction projects may lead to startup risk on resumption. We expect event insurance, credit and liability insurance segments may see increased claims. Demand for pandemic risk cover should rise as it is currently not a prevalent covered in India.

As far as retail lines are concerned, motor portfolio growth would get impacted due to subdued growth in new vehicle sales, further influenced by the zero hike in third-party premium rates till further intimation from the authority. We expect lower impact on agency and point-of-sale based channels due to higher focus on renewal portfolio. While we are currently experiencing lower claim incidents in motor portfolio, there could be a surge in claims once lockdown is lifted.

Further, with regard to the retail health indemnity portfolio, we expect subdued growth in Q1 FY 2021. In particular, we expect health agency should grow during this period given our efforts to build this network over the last few years. Talking about the Health Benefit portfolio, we expect muted disbursement in banking, NBFC and HFC sector, which may have an impact on growth of the segment. Travel segment demand would be most adversely impacted. On the other hand, we expect the SME channel to continue exhibiting higher growth given its move to digital adoption.

Amidst the current challenging operating environment, we continue to reorient our business model as the event unfolds. Even through this unprecedented situation, the fundamentals of our company remain strong. We are also preparing to unlock underlying opportunities that this event has provided to us. Our focus will continue to be creating value for all our stakeholders through prudent risk selection, harnessing technology and pursuing sustained profitability in the long-term.

In spite of immediate challenge, we remain confident that the long-term prospects for the industry remains robust, and in fact may become even stronger in certain segments. Our effort would be to disproportionately benefit from any long-term positive that may emerge for the industry.

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

Gopal Balachandran: Thanks, Bhargav and good evening, Hope everyone is staying safe and healthy. I will now give you a brief overview on the financial performance of the company for the quarter and the year ended March 31, 2020. We have put up the 'Results Presentation' on our website. You can access it as we walk you through the performance numbers.

Gross direct premium income of the company stood at ₹ 133.13 billion in FY 2020 as compared to ₹ 144.88 billion in FY 2019, a de-growth of 8.1%. Excluding the crop segment, our GDPI increased to ₹ 133.02 billion in FY 2020 as compared to ₹ 120.36 billion in FY 2019 registering a growth of 10.5%. This was in line with the industry growth. Excluding crop segment, the GDPI growth was 2.9% in Q4 FY 2020 over Q4 FY 2019 as compared to industry growth of 4.3% for the same period. Our GDPI growth was primarily driven by our focus on preferred segments such as fire, health, motor, marine and liability. Consequent to the increase in minimum prescribed rates for certain occupancies under fire segments, this segment registered a healthy GDPI growth of 42.9% in FY 2020, thereby aiding the GDPI growth of our property and casualty segment. As indicated in our 'Results Presentation' the overall property and casualty segment grew by 20.4% in FY 2020 over FY 2019.

On the retail side of the business, SME and Agency channel and Health indemnity, continue to grow faster and remain our area of focus.

To harness the potential of these segments, we have been expanding our distribution network to increase penetration in tier-3 and tier-4 cities. Our individual agents, including the point-of-sale distribution were 47,548 as on March 31, 2020 as against 35,729 as on March 31, 2019.

The long-term motor penetration for private cars increased to 19% for the period-ended March 31, 2020 from 3.6% for the period-ended March 31, 2019. And for two wheelers, it stood at 15.8% for the period-ended March 31, 2020 from 28.8% for the period-ended March 31, 2019. The advanced premium was ₹ 30.25 billion as at March 31, 2020 from ₹ 13.24 billion as at March 31, 2019.

Combined ratio[1] stood at 100.4% in FY 2020 as compared to 98.8% in FY 2019 primarily on account of long-term motor policies, change in product mix and losses from catastrophic events. Combined ratio[1] stood at 100.1% in Q4 FY 2020 as compared to 99% in Q4 FY 2019.

Our investment assets rose to ₹ 263.27 billion at March 31, 2020 as compared to ₹ 248.45 billion at December 31, 2019. Our investment leverage net of borrowings was 4.21x at March 31, 2020 as compared to 4.16x at December 31, 2019. Investment income increased to ₹ 18.47 billion in FY 2020 as compared to ₹17.55 billion in FY 2019. On a quarterly basis, investment income decreased to ₹4.06 billion in Q4 FY 2020 as compared to ₹4.14 billion in Q4 FY 2019. Investment income of Q4 FY 2020 and the full year 2020 included impairment on equity investment assets of ₹1.2 billion as per its policy consequent to market volatility at the end of the year, resulting from uncertainties and impact of COVID-19 event. Our capital gains including the impairment of equity investment assets was lower at ₹ 1.99 billion in FY 2020 as compared to ₹ 4.25 billion in FY 2019. Capital gains again including the impairment on equity investment assets in Q4 FY 2020 was at a negative ₹ 0.25 billion as compared to ₹ 0.56 billion in Q4 FY 2019.

As a company, we have always exhibited tighter internal exposure norms as against regulatory limits. On the fixed income side, we continue to focus on safety, liquidity and returns in that order of priority given that we do have a large fixed income portfolio including government securities. Accordingly, we have invested a high proportion at 81.7% of the debt portfolio in sovereign or AAA and above-rated securities. Further, we are focused on the quality of portfolio. On this front, we have zero exposure of our fixed income portfolio and securities rated below AA. We do not have a single instance of delayed interest or default over the last 19-years. We will

[1] Basis IRDAI circular dated May 20, 2019 Combined Ratio has been revised from 98.0% in Q4 FY2019 and 98.5% in FY2019

continue to adopt a disciplined approach in terms of the investment that we make.

Our profit before tax grew by 6.2% to ₹ 16.97 billion in FY 2020 as compared to ₹ 15.98 billion in FY 2019 whereas profit before tax grew by 7.3% to ₹ 3.71 billion in Q4 2020 as compared to ₹ 3.45 billion in Q4 FY 2019.

As stated in the previous quarter's earnings calls, the company has elected to exercise the option of lower income tax rate. The effective tax rate was 29.7% in FY 2020 and 23.9% in Q4 FY 2020.

Consequently, profit after tax grew by 13% to ₹ 11.94 billion in FY 2020 as compared to ₹ 10.49 billion in FY 2019 whereas profit after tax grew by 23.8% to ₹ 2.82 billion in Q4 2020 as compared to ₹ 2.28 billion in Q4 2019.

Return on average equity was 20.8% in FY 2020 as compared to 21.3% in FY 2019. Return on average equity for Q4 FY2020 was 18.8% as compared to 17.5% in Q4 FY 2019.

Solvency ratio was 2.17x at March 31, 2020 as against 2.18x at December 31, 2019, continue to be higher than the minimum regulatory requirement of 1.5x.

As we conclude our address, I would like to summarize that we ended Q4 FY 2020 and the full year 2020 with a diversified product portfolio and healthy financials. The company continues to focus on prudent underwriting while improving its competitive positioning. Further, we remain focused on enhancing our digital capabilities and drive the agenda of sustainable growth.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Suresh Ganapathy from Macquarie. Please go ahead.

Suresh Ganapathy: I know it is a very, very tough environment and difficult to give any guidance and there are several moving parts here. But if I were to really look at your combined operating ratio, considering that there will be losses in third-party and there is a certain operating leverage in the motor business, how do you see this panning out Bhargav, would it increase from say 100.4%. Directionally we just move on to a number for financial year 2021 or you think there is a possibility that you can sustain it because currently the claim experience is favorable, right. I mean, because there are lower accident claims and stuff, so can it offset the negative impact coming from COVID-19?

Bhargav Dasgupta: Suresh, this is generally a very tough question to answer at this point in time because as you rightly said, there are many moving parts and there are changes that are coming in from quarters that you did not anticipate ever in your planning exercise. Having said that, when we look at, our current view looking at the situation today, unless there are some unpleasant surprises that we could not anticipate, on balance given the positives and negatives that you yourself have articulated, plus what I talked about in terms of some claims increases that we see, plus the fact that TP price hike would not happen, also the frequency of claims right now are lower, on balance, we believe that we should be able to continue to deliver on our objective of keeping the combined around 100% even for this year, but as I said it is very difficult to give a guidance. You should look at this as our estimate currently. These estimates can very easily change soon if the underlying reality changes that we have not been able to anticipate as of now.

Suresh Ganapathy: One more question is in the group health where you are seeing a reasonable amount of demand. Would you really think this could be a profitable product proposition because maybe at the individual level, of course, the product is far more profitable than really focusing at a group level?

Bhargav Dasgupta: Look, if you see what we have been doing relative to the industry mix, so, if you see the industry mix of health, the composition of group health for the industry is 49% or something which is a corporate employee segment. For us that number is roughly around 37%, which tells you our approach, of focusing upon building a sustainable portfolio. So , group health has been a segment which has been difficult in terms of pricing in the marketplace. So the point is anyway valid, the point that you are making. So, having said that, in this environment, one should expect a bit more reasonable approach and underwriting from the market. If at all, we find pricing being sensible, then we will look at it. If it is not, then we will remain cautious the way we have been operating. What we have been doing, even when you are looking at that share of the mix that I talked about, our approach has been more granular for SMEs, mid-market small clients, not go for the big ticket policies from BFSI or IT company with huge employee base where the competitive pressure drives the premium down to a level which is not sustainable. So we have not been anyway winning any of this contract and we have deliberately let them be for others. We will approach and the philosophy will continue. We will see how it plays out in terms of price. In terms of price changes needed because of COVID, that is of course a bit of a modeling that we are doing. And like the models that are floating around, it makes a lot of assumptions on what will happen to the number of people who will get infected in India and there is that element of risk that we are carrying.

Suresh Ganapathy: One last question is on the investment book. If you were to look at globally, the interest rates are really heading downwards and structurally it looks like it is going to be a very low interest rate environment globally. I do not know how long it will be sustainable. In this environment your ROE of course has always been pretty good in

20% plus range. Would that not be addressed because of structurally lower investment return considering the way the interest rates are heading or likely to head in future?

Bhargav Dasgupta: This has been true even before this event. We can also have a long debate on what this could do to macro economic over a longer period of time as the global supply chain gets disrupted, what it does to inflation, while the central banks will obviously drive down to lower levels. But it is again very, very speculative to estimate what will happen to interest rates one or two years into the future. Our approach has been over the years, we have seen cycles, we would want to continue to focus on delivering on the ROE. If we believe that interest rates are going down to a level which is not sustainable, we would want to improve the combined. Of course, that depends on the market conditions in terms of the competitive intensity. I think on competitive intensity, we believe this event could potentially strengthen the stronger simply because of the balance sheet strength, some of the companies have built over the years, the solvency cushion that they have. Also, the digital leadership that we have in the market, we believe will help us. But I think the point that you are making remains valid in any scenario, of course, today we are talking about a scenario which is very, very unpredictable.

Moderator: Thank you. The next question is from the line of Mary MW from JP Morgan. Please go ahead.

Mary MW: I have two questions; one is about your technology side. Now it seems to be a pretty tough time for every industry. It means that the overall not only the marketing, the claim and underwriting probably very challenged as well. So my question is, how do you rate the company's technology in both claim adjustment and underwriting perspective compared to the industry? And then the second question is about the specific underwriting. Overall, the underwriting related with the factory insurance are probably relatively small, but the COVID-19 seems to be major pandemic globally. So, I just want to know whether any concern we should have relate to the business interruption coverage, so any updates on this will be appreciated.

Bhargav Dasgupta: Let me take the second one first and then I will answer the first question. On the second one, there are two types of BI covers which you know, BI that triggers material damage and there are non-damage BI, which gets triggered without a material damage like let us say triggered by a pandemic. In India, there is no non damage BI policies in the market. So, all the BI policies that we write are with a trigger of a material damage. I am sure you are aware what is happening globally on this matter, but from a contractual perspective, we do not see a risk. Coming to your first question, I think that is a great one, honestly, the way we see it is that some of the capabilities that we have built, for the SMEs, these are the two big months of policy procurement and we launched our initiative, which we do every year as a digital initiative this year and 89% of the policies we have sourced digitally and the SME business has grown in this period. And that probably tells you the digital capability that we have built. On the claim side, that is probably the most interesting aspect that you have talked about, there are lots of elements that we have built on the retail side we keep talking about. I talked about the 'InstaSpect', virtual inspection that we do. As of now in this lockdown phase 100% of motor claims that are getting settled are using that capability. Similarly, the AI-based health insurance claims, but on the corporate side, this has been a period where we have done a lot of innovative work and I will talk about a couple of them and I will then ask Alok to add anything that he may want to add. So, on the risk inspection side, we started virtual risk assessment. We are doing a video based risk assessment virtually without having to send our risk inspectors in. We are providing remote risk advisory on plant operations. We anyway have a team of specialists who provide risk advisory. We are doing that remotely. We provide IoT based monitoring tools. Not a very large number of customers who use all these solutions, but the ones that are using it are getting triggers sitting at home. So, similarly we have done drone-based loss survey in this period to help customers. Alok, you have anything else that you want to add?

Alok Agarwal: Yeah, apart from the value added services that you mentioned, on the claim side, what we have done is on the basis of virtual documents, we have started settling claims which has helped in reducing the backlog of claims tremendously.

Bhargav Dasgupta: Just to give you a sense of the number of policies for example, in this lockdown period using the RPA solution, we have been able to issue more than 40,000 policies, and these are corporate policies.

Mary MW: So just want to confirm, so are you very optimistic on the company's market share gaining or the market positioning after COVID-19 because the experience for example, China, Korea and other many developed markets, strong innovation seem to give more opportunities for the company. So I just want to get some color how the management think about the company's future after the COVID-19 then?

Bhargav Dasgupta: We remain very optimistic relative to the other players in the market. As I said, we are definitely cautious about the larger environment and what it will do to the economic growth and consequently insurance business. But within that, as I said right in my opening address, we should be able to benefit disproportionately because of some of these points that we made – Innovation, Technology capability as also Balance Sheet strength.

Moderator: Thank you. The next question is from the line of Shreya Shivani from CLSA India Private Limited. Please go ahead.

Shreya Shivani: So there was an IRDAI committee set up which is going to talk about indemnity-based health products to be sold by life insurance companies as well. I want to understand how this will impact general insurance industry or ICICI Lombard as such specifically and do you see because of this the price competition going ahead, the product becoming less competitive for you guys to keep growing in the way you have been growing? Also, second thing which I wanted to understand because you have a group company which will get IRDAI license to do indemnity-based health product, can you throw some light on that, how does that affect your group strategy, etc.,?

Bhargav Dasgupta: So let me probably answer the third one first, because that is separate from the response to the rest. Wherever there are segments of business where we have similar products like for health benefit, we compete in the marketplace and that is how it is and if this happens in the indemnity side, we would also compete in the marketplace, we would not worry about that. Coming back to the larger question that you are asking, yes, the committee has been formed, but the committee as far as I know could not meet, because of all of this. I do not believe their meeting has happened unless in this lockdown period, virtual meeting has happened that I am not aware of. So the committee has to come together and give the report. We will have to wait for the report that the committee gives. While we do not know what the committee will say, if you step back till about FY 2015 -16, there was no such separation, the life companies were allowed to write all types of health. And in fact, we as a company wanted to write long-term health which we were not allowed to at that point in time. The separation came at that point in time. It was not, as if in those days also, the life companies were doing a lot of health indemnity business. And let me get into the elements of that business. As I said, if you look at the overall health business, of almost 50% of the business comes from group health. Now, in group health, typically, we offer a bouquet of solutions to corporates which has fire, which has marine, which has liability, and we offer that bunch. Now, logically, there should not be any big competitive advantage that a life company may have unless they want to undercut further, that is one area. If they want to do that, that is a choice, but generally, we would not expect that to be a sustainable strategy. So, a large part of the volume of business comes from group health. And we as an industry have scaled up that business including using the flow to manage the network. And the other thing that you have to realize is that apart from distribution capability, you have to have many other capabilities on the health side to be able to compete, be it in terms of in-house claim service, I mean, we took claim service in-house in 2008. There is some capability and technology advantage that we build, for example, the claim solution that I talked about. You can start writing health insurance on the retail side using a TPA, but I do not know if that really helps in terms of building these capabilities. So that is number one. Number two, even if let us say life companies do come in, the approach that we are taking, if you see what we have been talking about on the "IL Take Care" is really taking health insurance to another level of providing complete solution to people. So, for example, in this lockdown period on the "IL Take Care App", we have a feature for our corporate clients where you can do a tele-consultation with doctors and we have a dedicated partnership which delivers it. That piece we have now opened up for all our customers. You do not necessarily have to be a health customer. And that has really picked up at this point in time. These are the capabilities that is built over the years in terms of network, in terms of ecosystem, in terms of technology, in terms of data analytics. If someone is able to come in and compete, so be it. We would not really worry about that competition. Having said that, we do not know if the regulator will allow it. We will have to wait for the committee report.

Moderator: Thank you. The next question is from line of Jignesh Shial from Emkay Global. Please go ahead.

Jignesh Shial: I just wanted you to elaborate a little further on your opening remarks that you talked about the future growth prospect from individual segment from fire till the health and all, a little detail into it whereby you said that where you are expecting fire to grow well, whereas marine to be a little slow down and all?

Bhargav Dasgupta: I can do that in a granular manner, but it will be very difficult to predict or give any guidance on where we see the numbers for obvious reasons. So, if you look at the corporate segment, the larger segment is fire where we have had price increases during this year and last year. And corporate customers generally do not want to keep their assets uninsured. So the B2B segment I think largely will be protected. Now, within that fire should have a positive growth this year. The rest of it is a bit of an uncertain picture because, for example, marine transit, which is where you insure the logistic chain that obviously is stalled as of now. Now, how do we predict a number if we do not know when red zone will become an orange and when an orange zone will become green? So, even when we are planning for numbers on a day-to-day basis, we are reviewing it very, very frequently internally within our teams. Having said that, we probably could not anticipate this extension in this month. Now, we do not know what will happen 15-days from now. So very difficult to give you a sense of what the numbers will be for the year. What we have decided is that every part of our business, we are basically looking at what is happening on a daily basis. We have completely changed our dashboards of monitoring the business in this period right from even before we went into work from home as a whole company, we realize that this is a big change that is happening, so we completely changed the dashboard. So all we are doing is staying very close to the ground to see what is happening and reacting to it in terms of seizing any opportunity that we see. On balance what we are saying, fire we think will be positive, marines would be negative, engineering would be negative. Now extent of negative, we can say for this quarter, definitely negative, thereafter we do not know. I have talked about the two key ones. Liability I think should be okay. Health should do well, though in this quarter it may be a bit slow, but overall for the year it should be reasonably okay. Motor will be affected. It again depends on when dealerships are open and vehicle sales comes. Now again on new vehicle sales, let us assume two months from now the whole country has been opened up and dealerships are open. Can you predict with any level of confidence the customer psyche at this point in time? There are two contrary points of view. Some of you understand the auto sector as well. One segment believes that there will be more adoption of personal mobility. So people will use vehicles more and so people may buy more vehicles at least to the lower end. There is another point of view that the amount of travel itself will come down and people would not have discretionary spending ability, so they may not actually buy cars. Either one of them can happen. I would not predict with any level of conviction. So, we will have to watch what is happening rather than saying that we know this is what is going to happen. I think one of the most important thing for us to do is protect the balance sheet, focus on risk management, digitize as much as possible so that you benefit inordinately and relative to the market outperform, that is what we will try to do.

Jignesh Shial: And in health, just confirming that you say, there will be some acceleration happening in the group health plan, but where you are focusing was smaller corporate or compared to BFSI or IT companies, right, just to make that pricing a little more favorable towards you?

Bhargav Dasgupta: So those large group health pieces we anyway were avoiding because of pricing being unsustainable even in the past. I think the point that I was making to Suresh is that if the pricing improves, there is an opportunity. If the pricing does not improve, we will stay focused on the segment that we are staying focused on which is the mid-market and the SME segment.

Moderator: Thank you. The next question is from Bharat Shah from ASK Investment. Please go ahead.

Bharat Shah: Bhargav, the COVID-19 event would provide any tailwind for the industry over a period of time. And have you re-thought any part or all of the business based on the COVID-19 event as a future strategy?

Bhargav Dasgupta: So we believe this will be in the long term positive for the GI. Events like this make people more aware of the risks that we have is unfortunate, that is the nature of our industry, but when things like these happen, people realize the importance of risk management and protection. And particularly if you look at the health insurance space, even when 'SARS' happened, post that in Hong Kong health insurance demand went up, naturally. So, on balance, we believe this will be positive for the GI industry in a medium-term. In the short-term, a lot of the top-line will disappear because I think all companies right now must be de-growing at this stage, particularly driven by motor.

In terms of approach, as I said, what we are trying to do is we are enabling the entire part of our organization and the extended arm, which is our distributors, to enable them to do as much of business as they can from home, using tools, using training, etc., that we are talking about. And actually we are kind of opening up a bit more segments to do business than what we were earlier willing to, particularly in, let's say, motor insurance, even health we are going very, very focused in terms of scaling of the business, particularly into the hinterland, etc. So, it's not a big change in segments of business, but the focus is in terms of the renewal, the old book, and how do we get a higher share of the market using our digital capabilities. Sanjeev, you want to add anything more to what I just said?

Sanjeev Mantri: No, absolutely right. And also just to mention, even before last year we had added virtual offices across the country and that has held us good even in the month which has just gone by, April. A drop is there but relatively low, there is still some bit of activity in those regions. So we will probably use what you also stated, Bhargav, the extensive physical resources that we have created through virtual offices across the country will hold us good in the time to come now.

Bharat Shah: Okay. And secondly, as far as the fixed income and the equity ratio of the total investment as on 31st December, 2019, and 31st March, 2020?

Bhargav Dasgupta: Gopal, you want to take that?

Gopal Balachandran: Yes, sure. So, on the equity book, at cost, as on December 31, 2019, the holding would be about 10% of the overall investments into equities at cost. That number at the end of 31st March, 2020, is at about 10.9%, so roughly about 11% or so. And the rest of the book is largely split primarily on fixed income portfolio between government securities and corporate bonds.

Bharat Shah: And could you help with the number from the extent of market maybe, as of today?

Gopal Balachandran: I think from the market value perspective, which is what we mentioned as a part of the opening remarks, if you would have looked at the mark-to-market impact on the equity portfolio, as at the reporting date, I am giving this number before the provision for impairment that we took on the equity assets. The mark-to-market loss on the equity portfolio is roughly about ₹ 550 crore as at that reporting date.

Bhargav Dasgupta: But we took an impairment also.

Bharat Shah: So, in the fixed income book the investment you secured from mutual funds or these are direct held by you?

Bhargav Dasgupta: Mostly directly held. We keep some money in liquid funds, but we also largely use the TREPS market but all the fixed income positions is directly held. Little bit exposure is there with some liquid funds, little bit here and there.

Bharat Shah: And over a large period of time, one of the participants that he had asked when they do fixed income returns, it looks almost certain that over a period of time they will diminish. And if you have to predict return on equity, would you not consider apart from, of course, improving combined ratio that you answered, improving equity allocation in the total investment book?

Gopal Balachandran: Absolutely. If you see, we have been kind of reducing our equity allocation over the last three, four years. In a sense, we were a bit concerned about the valuations. And in this period in the month of March, early April, we increased allocation a little bit, but the market ran up much faster than what we expected. Again, we don't know if this is sustainable, but you guys will know that better than us. But we would want to increase equity allocation. What we are doing is, so we keep evaluating certain companies that we like, and if it comes within our range of price, we increase our allocation. It's not, as if we have a fixed view on that we want to increase it to x percentage, we go stock specific. And actually in this period, we have increased the allocation a little bit, not to the extent that we would have liked to, but we have increased the allocation. So we would do that. The other point to remember is, even in this period when the market froze up, in the month of March, some extremely high quality corporate names yields went up tremendously. And that was a period where even on the fixed income side we bought in some of these high quality corporate names, and even from a duration perspective we just added some little bit there. And that I believe is going to help us in the long-term. What you have to realize is that it is an incremental book, let's assume that the interest rate stays at 6% for 10 years, and let's say, AAA spread is 50 basis points or whatever it is, it's the incremental flow that we have to invest at that level, the old stock remains. Since the rate comes down, we have large mark-to-market positive, I mean, we would have a large mark-to-market positive on the bond side. We would decide if we want to take those profits basis a view what we have in terms of interest rate reviews. And we have generally been contrarian, I mean, about a year and a half back where everyone was saying interest rates will go through the roof etc., we went long, and that call played out. So again, at this point in time, I would be foolish to predict where it is going to go one year from now, but we will watch it very closely and we will take the right call.

Moderator: Thank you. The next question is from the line of Ajox Frederick from B&K Securities. Please go ahead.

Ajox Frederick: Sir, the commission payout has increased dramatically for the quarter. So what drove that?

Bhargav Dasgupta: Sorry, what went up? I couldn't get your question.

Ajox Frederick: Commission.

Bhargav Dasgupta: Gopal, you have the answer?

Gopal Balachandran: So, Ajox, are you referring to the net commission ratios?

Ajox Frederick: Yes.

Gopal Balachandran: So when you look at the net commission ratio, I think Ajox, it's obviously a function of, what kind of business mix you write. You need to split net commissions, in terms of commissions paid, which is what we incur for sourcing businesses. And the second element is more of an income that accrues to us i.e. reinsurance commissions that we earn with respect to the portfolio that we would be doing in terms of the risk transfer. Now, in this quarter, when you look at the breakdown, insofar as the commission paid or, let's say, the acquisition ratio is concerned, there is not much of a movement in terms of what you see. But in quarter four, what we explained as a part of the opening remarks, some of the health benefit portfolio is something that we have not seen as much growth as what we would have expected it to be. And that part of the business is something that we have been historically reinsuring. And to that extent, commission income that we would have earned on that part of the business is relatively lower. So hence, when you look at the overall net commission ratio, it looks like there has been an increase. But in so far as the acquisition cost is concerned, there is not any significant change. That's one. And secondly, i think what we have always kept looking at is more from a combined ratio perspective, because that would be a true reflection of the overall operations of insurance that we underwrite. And there if you would have seen whether it is for the Q4 FY 2019-20 or whether it is for the full year, it is in line with what we have been articulating also in past as well as a part of our calls, is to try and sustain the overall combined at around 100%.

Ajox Frederick: Okay. And on renewals, so business wise like motor and health at least, what proportion is new business and how much is renewals?

Bhargav Dasgupta: Gopal, you want to give the number?

Gopal Balachandran: So, again, if you are looking at, let's say, the motor for example, if you look at last year, we would have had almost a 50:50 kind of mix for the FY 2019. New would have been 50% and renewal would have been 50%. For the current year FY 2020, given that the new vehicle sales have been relatively lower in terms of growth, the proportion of new to renewals, new is about 38% and the renewal will be about 62%.

Ajox Frederick: And on health sir?

Gopal Balachandran: And on the health part of the business, for example, on the indemnity side, when you look at the overall indemnity growth for health, the new retail health indemnity growth, which is what we have also put on presentation deck, that's one area we are significantly focusing on over the last three to four years. And the new health indemnity growth has grown by about 69%. And if you would have looked at that, because that's on a relatively small base, which is why the number looks to be 69% growth rate. The overall health portfolio, again on the indemnity side, has grown by about 37%. The renewal book has grown at about 17%.

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

Nidhesh Jain: Sir, firstly on the reserve releases, this year also I think we have seen decent reserve releases, last year also we saw good reserve releases. So when we are looking at the full year profitability, how should we look at the reserve releases and whether we should expect them to be sustainable in future?

Bhargav Dasgupta: Look, the exact release will obviously depend on our actuarial analysis that we keep carrying out monthly and quarterly. But the principle remains the same, I think Gopal has been talking to you Nidesh over the quarters that, we are conservative about reserving, because we don't know whether all our assumptions will play out, and that's a right approach that most quality insurance companies do across the world. And over the periods, if the actual trend proves to be in line with or rather better than what we had anticipated, we would have had some releases. So if you look at our reserve releases, exact quantum we can never predict, that next year it will be so much. But we should continue to have some amount of reserve releases if we continue with the same strategy. And our strategy of conservatism in terms of reserving hasn't changed.

Nidhesh Jain: And secondly, going into the next year, our top-line growth may remain slightly subdued. In that environment, how much flexibility we have from an operating expense perspective? And also, we have seen a decent expense of management allocation which we have to do from shareholder account, which means that probably in some line of businesses our Opex was higher than what regulatory required.

Bhargav Dasgupta: Yes. So the second one I will ask Gopal to answer. But in terms of the first one, if you see the true fixed cost, I mean, if you look at the expense ratio there is a distribution cost which is the commission that we pay and a true operating cost which is in a sense fixed, nothing is fixed, but that is kind of fixed cost. And that number is actually kind of a single digit number, the operating cost. So, if you see the element of sourcing cost, if a top-line goes down, that will also go down for us. Also what we are doing is, we are looking at all our costs with a fine tooth comb, and we believe from the longer term perspective, obviously, right now we are going through a certain phase, but we believe there are huge learnings that we have got out of this last one month experience, which we would want to continue to leverage as we go along. We would want to become 100% digital company, we would want to have 50% of our employees work from home even in the foreseeable future. So these are things that we are kind of working on and we are working on those plans for the future. It may not have an immediate benefit in terms of operating cost, but in the longer term it should give us some leverage. But honestly, for us, out of the combined ratio, that part is a relatively small part, as I explained. The real large numbers are in the claims ratio and the distribution cost. Gopal, if you want to add anything to that and answer the second question?

Gopal Balachandran: Sure. I think I will answer the second question, Bhargav. So Nidhesh, I think when you look at as a company, we have always wanted to ensure compliance to regulations in so far as expense of management is concerned. So in that regard, as a company, we have been in absolute compliance to the regulatory requirement, which is on an aggregate basis where they expect every company to be within those limits on expense of management. But your point is correct, there is always an element of expense allocation that happens across sub-segments, which is also what is laid down by regulation. And as per the requirement, if in any of the sub-segments, basis the allocation of expenses that happens to each of those lines of businesses, in case if there is any sub segment that exceeds the limit that has been laid down, to that extent the excess of those expenses is required to be borne out of the shareholders' fund. And that is exactly what we have done. But on an aggregate basis, as a company, the attempt has been always to make sure that we are in compliance with the overall limit that has been laid down insofar as regulations are concerned.

And just to add on, I think one other point which is something that we have spoken about also in the past, one should also be equally mindful of the fact that when it comes to fixed cost, one of the things that we have been telling over the last couple of quarters in particular is the acquisition of the CRM platform that we did in quarter three. Now that obviously entails some element of fixed cost in the form of depreciation that comes through over quarter-on-quarter. But the impact in terms of revenue basis the expectations that we had already factored in as a part of buying the CRM platform, that would happen over a period of three to four years. Now, in that regard, the platform that we had acquired in quarter three, again, has been kind of progressing very well in terms of the expectations that we would have set. In fact, in these times of uncertainties, we have actually been able to deploy that CRM platform quite effectively and we have been able to do what we kind of also indicated as a part of the introductory remarks that we have been able to do a lot of Robo-calling and other related aspects to ensure continuity of customers for renewability of their policy, we have actually been able to use this platform to our advantage.

Bhargav Dasgupta: Sanjeev, you want to add to what just Gopal just said about that one?

Sanjeev Mantri: So, absolutely the ‘Auto Ninja’ platform has been a great boon to us. And when we picked up in October, it was more of our insistence where we used to go to the dealer and offer this platform. In the current situation, it has created even a pull demand from this and they also want this to be installed. You will be happy to note that in April, when actually things have been accessed, we have been able to activate almost 67 dealers to become part of the platform. So we are really excited and it should go a long way in terms of strengthening our relationship with the dealers as well as helping them to reach out to their customers for the renewals, which will be the key thing at least for quarter one in a big way.

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

Rishi Jhunjhunwala: A couple of questions. One is, can you elaborate what is the policy regarding recognition of equity impairment? Because if you really look at it, at ₹ 120 crore, almost 5% of what your equity book would have been as of the end of previous quarter. So, is it spread across just, is it only regarding one stock or how do you arrive at that and what are the chances of that recovering back? And secondly, on the health side you mentioned that because of your probably shift from benefit to indemnity, the reinsurance commissions have come off. Is this something which is tactical for the short-term or should we take it as a long-term trend? And as a result, the overall profitability on that segment could be under pressure, considering that was pretty heavy reinsurance commission that used to receive?

Bhargav Dasgupta: So let me answer the first one, and I will cover a bit of the second one and I will ask Sanjeev to elaborate on that. In terms of the impairment, we have a policy, this is not a requirement but we have a policy as a matter of prudence where we test for impairment when there is a substantial fall in market price of security, below our acquisition cost. Now, this is obviously something that happened in the month of March when the market fell as much as it did. And we do an assessment whether the fallen price is temporary, permanent, whether there is a change in the intrinsic value of the investment of investee company. And if we believe that it is prudent to take kind of impairment to reflect the change in the fair value of the investment company or investee company, then we take impairment as a matter of prudence, we need not, but we do that. So that's something that we have tested this time and it's not one company, there are a few companies that we have taken a call on and adjusted the value to, what we believe, is a fair value. Now. So if we believe that a stock is in a sense something that will not deliver returns in the future, we would sell and exit. And maybe gradually we have done that over the years, even during the last year we exited some of the print media stocks. We took the loss and we took it, because we didn't see a future there. But these are not stocks that we believe that we will not get returns in the future. So we have taken a prudential call in terms of taking the hit.

In terms of the second question that you have, obviously, it's not a tactical call to shift out of benefit, we like the benefit business. But as I think Gopal explained, the NBFC disbursements have went down in the last quarter and it's been down for a fair period. And hence the amount of business that we got from our NBFC partners were relatively lower. But we are growing that business elsewhere, and I will ask Sanjeev to explain that to you.

Sanjeev Mantri: No, clearly we love benefit for our business and we have been market leaders in that particular segment, we would love to grow that. But unfortunately for last 18 months, as Bhargav also mentioned, the NBFC sector has gone through a bit of tightness in terms of disbursement, and that has impacted it. Even in this year, with respect to ICICI Bank, as a bank when they were disbursing, we were able to grow our business with them in a very reasonable pace. But this fall in the NBFC side was very sharp, we are diversifying, we are doing new tie-ups, we have done few critical tie-ups on the banking side also last year. So, we will continue to exploit new opportunity of the segment. And as and when the turnaround happens, our relationship is very thick with our partners and we will get rolling on that front also.

Rishi Jhunjhunwala: Great. And this quickly, so clearly we are seeing right now loss ratios in motor segment going down substantially during the lockdown. And on the other hand, we have also seen the regulator postponing the hike in motor TP for the time being. So, just wanted to understand, I mean, how do you see that play out at least for this year? And do you intend to reconsider your inflation that you backed in for motor TP provisioning for this year?

Bhargav Dasgupta: So you will have to watch the numbers. See, I think it's a great question that you are asking. And this is something that our actuarial team will evaluate on an ongoing basis. And, obviously, if the incurred claims drop to a level that it drops and stays down, they would have to factor some of that into the assumptions. But it's really very difficult to predict what will happen when things start reopening. As I said, there are very, very logical and rational views on both sides in terms of whether people will use vehicles more because of personal mobility rather than taking public transport and will it increase claims. The jury is not yet out, we will have to watch the numbers and then take a call. But if it stays down, we believe the actuarial team will adjust some of this.

Moderator: Thank you. The next question is from the line of Jaimin Shah from RWC Partners. Please go ahead.

Jaimin Shah: Two questions. One is, could we talk a bit on the government regulation of compulsory healthcare insurance? And how do you think that pans out for you and the industry? Also, in terms of preliminary kind of queries you get from companies, especially on the SME side, where we are strong and they are probably not kind of covered. That's question one. The other question was more on kind of I wanted to understand the consumer psychology. You have launched the COVID-19 product quite early, who are the inquirers, who are the buyers, existing customers? How was this kind of being kind of different, eventually that could kind of give you a lot more kind of thought process on personal individual healthcare kind of as well?

Bhargav Dasgupta: I think, Sanjeev, you want to take the two questions on the SME and the COVID experience.

Sanjeev Mantri: So I will reply to the COVID one first Bhargav, clearly when we launched this product it was pretty early when things started building up from an India perspective where we had a lot of cases coming up. Acceptance has been very good. We have followed two strategy primarily, one is B2B, and other is B2B2C, where we have also gone and offered this option to some of the corporates, some of the SMEs who wanted to cover their employees and their families. And we have also in a much bigger way given to B2B2C player where we have joined hands with the players who are in the online stream and they are the ones who are offering it to their customers. The initial response has been very, very encouraging. But I must say that we also are very closely looking in terms of the distribution so that we don't have a concentrated portfolio coming up. So we have done all our cuts and balances, but quite naturally I am sure each one of us will agree that anything on COVID that comes in, because it's the imminent risk, evidently, we all are living with on a day to day basis, it becomes a very, very practical way to take a cover on that. While I must also say the normal indemnity cover which each of the customer had, there also COVID expenses in case of hospitalization are fully covered.

Bhargav Dasgupta: Sanjeev, let me just add one point to explain what Sanjeev said. So we have given it to B2B2C or B2B, so as to eliminate adverse selection risk and we are also monitoring the portfolio diversification across the country so that we don't get into any concentrated pockets. Sanjeev, over to you.

Sanjeev Mantri: And also on the SME side in terms of the compulsory health coverage, typically on an ongoing basis we do know that the smaller group health coverage has been far more beneficial from the company's side and we are also able to provide our exceptional service which we have created for even larger corporates to SMEs. We have been growing that portfolio at a reasonable pace of 20% to 25%. We do believe that any progression in corporate any which ways should end up offering group health, so there should be further demand coming and we will keep investing in it. But as Bhargav had also mentioned initially, we have complete clarity that we will pick up this business, if it makes commercial sense if there is tremendous rate war we will probably abstain from participating in that sort of a business.

Bhargav Dasgupta: Alok, are you seeing any inquiry, etc., on that, you want to just touch up from your corporate segment on that?

Alok Kumar Agarwal: So the worker policy that the government has made it compulsory from the Ministry of Home Affairs, we are seeing increased inquiries from the medium sized and large sized corporates, especially from construction, there are a lot of inquiries and a few policies have been converted. And they are the people who are going back into construction of projects, and they have workers working in those areas. But one more point I want to add is that most of the people who are employing workers have an ESI cover which is applicable for people earning ₹ 21,000 or below. But most of the ESI hospitals don't have COVID facilities. So therefore COVID only product, can also be taken for people who have an ESI cover for the workers.

Jaimin Shah: Okay. Just on the COVID-19, so the buyers which are kind of non B2B2C, are these kind of new customers or largely kind of existing customers kind of talking of Lombard?

Alok Kumar Agarwal: So this typically would be our own existing SME customers or corporate customers who have been dealing with us with whom we have been in relationship over last few years.

Bhargav Dasgupta: But the other part, the benefit COVID-19 policy that we are selling through, let's say, digital platforms, because this is going to a segment which is probably not our current customer base. These are probably new customers.

Jaimin Shah: So B2B2C would be new customers?

Bhargav Dasgupta: Yes. The B2B maybe existing customers who have some other relationship with us.

Moderator: Thank you. The next question is from the line of Madhukar Laddha from HDFC Securities. Please go ahead.

Madhukar Laddha: Number one, on the existing benefit policies that we have written, would they kind of get triggered with a COVID-19 case? And what is our risk assessment on that? So what sort of reinsurance do we have? How well are we covered over there?

Bhargav Dasgupta: Sanjeev, you want to touch upon that and then I will add to it.

Sanjeev Mantri: See, current benefit structure of the policy that we done in the past, COVID claims fundamentally don't get triggered on that, the instances are very well listed and at that point of time when we actually had done the policy, there was nothing like a Coronavirus or COVID which could have been sought by the purchaser also. In future how the scenario evolves, we will see it as it comes. But as of now, in terms of COVID cover there is a COVID benefit policy as we spoke about it. And our normal indemnity cover policy if any customer has it, they are fully covered in terms of medical expenses on that.

Bhargav Dasgupta: So just to add to what Sanjeev said, our benefit policies usually have specific illnesses that are covered in them, these are critical illness policies. And these are insured with some of the global leaders in reinsurance. Another point to add to what we just said in terms of your question on risk. I mean, these are the imponderables which we can't predict. I mean, if suddenly there is some regulatory pressure to pay for these claims which are non-payable, those are things that we can't predict as of now, but they should not be, because these are not covered.

Madhukar Laddha: Right. And how are motor renewals behaving so far from the last week of March until now? You have a TP book, OD book which would be renewing. What is customer behavior been there?

Bhargav Dasgupta: So there is a slight drop in retention numbers, but we have seen for the month of March over the last few days we have seen a small drop in retention. But even in April we have seen a small drop. I will ask Sanjeev to elaborate on it. But week on week we are seeing improvement. Sanjeev, you want to add?

Sanjeev Mantri: So clearly from that perspective, regulator has given dispensation and given continuity benefits to the policies which are falling due between the lockdown periods. So some of them to manage their own cash flow have deferred their renewals. But that being said, we have seen marginal drops. If you go channel wise and try to put across, we have seen slightly sharper drops on the dealer side because they themselves are not active and we are using various technology based option like 'Auto-Ninja', sending them bitly links to get things renewed through remote calling or robo-calling. On the agency side, it has been even better because agents were able to follow-up and then push these customers into the digital mode do the renewals. But yes, as Bhargav said, there has been a marginal drop, but a matter of time before it will come in because there is a statutory requirement. Also one more thing on the TP side which I must mention, that any new policy that they sold over last year were all long-term, so the TP any which way is covered by and large. And the own damage part which needs to be renewed.

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

Sanket Godha: Just wanted to understand the Motor TP loss ratios have now fallen to probably the best we have seen, 78.5% in the fourth quarter and the full year 84%. So wanted to check whether this is sustainable? I believe this is largely because of the increase in contribution of two wheeler**,** if there is any change in contribution then do you think 84.5% kind of motor TP loss ratios are sustainable or not? And with respect to third party, just wanted to understand, your view on the minimum quota formula which has been changed based on the non-insured vehicles for motor TP business, to what extent it could be an impact on our overall TP business?

Bhargav Dasgupta: Gopal, you want to take questions number one?

Gopal Balachandran: Sure, Bhargav. So Sanket, I think our approach to underwriting risk is something that we have been talking about for the last so many quarters. Yes, the loss ratio is clearly a function of what kind of a mix that we write in terms of private car, two wheeler and commercial vehicles. One of the things that you should be equally mindful of is also the point that we mentioned, which is with respect to, for FY 20-21 so far there is no rate hike that is being proposed. So doing nothing, that by itself will kind of push up the TP loss ratios for the overall industry. And even for the portfolios that we write. Obviously, it will have an impact in so far as loss ratio numbers are concerned. Having said that, I think what we have tried to do over the years is to capture the opportunity of the business mix, which we think are appropriate at different points of time. And in each of those occasions we have recalibrated the mix depending on the pricing environment that operated. And in that regard, if you would have seen, possibly the mix of business that we write on the overall motor between private car, two wheeler and commercial vehicles, have undergone a significant change even over the last couple of years. I mean, you would have seen those mixes when we would have announced results, let's say, in March 2018, the mix of those three segments was very different as compared to the mix of business that you would have seen for March 2019. And even when you look at it for the current year, I think the mix of business would be slightly different. So in that sense, obviously, it's also a function of what kind of pricing environment operates. And within that we will continue to be risk selective on the mix that we would want to kind of underwrite. And keep looking for opportunities so that we are able to try and sustain the overall profitability objective that we have set for ourselves as a company. And that's a way one would look at how these loss ratios could play through.

Sanket Godha: Okay. Just on the minimum quota formula which is getting changed with respect to TP of non-insured vehicles, just wanted to understand whether it's the impact of a business or it's a neutral event basically?

Gopal Balachandran: Sure. So I think, Sanket, there again I think if you look at the current obligation, I think it's purely a function of the value of the premium that you write. And again, there have been defined formulas basis which the quota is determined, and on that basis you are expected to write a particular volume of business in order to meet your quota objectives. Insofar as the new norms are concerned, I think the working group has submitted their report. And rightfully so, if you were to look at in that context, I think the thought process of moving the quota based on the number of policies and then, of course, there is also a factor of the extent of the uninsured vehicles which also that one has to consider, is something in that sense I think in the right direction, which would ensure that a larger section of the motor vehicle owners are taking an insurance policy, something that has been a challenge for the industry as a whole. So in that sense, when you look at the new guidelines that has come through as a part of the working group recommendation, it is definitely a step in the right direction. Obviously, we will have to recalibrate the mix of business that we have to kind of write between those private car, two wheeler and commercial vehicles, and ensure that we are in compliance with the norms.

Sanket Godha: But initial working do suggest that we need to dramatically change our mix in the sense that we comply with the newer formula.

Gopal Balachandran: It's all a function of, as I said, what kind of a mix that will entail. As I said, you need to kind of strike the right balance between all the three segments, whether it is private car, two wheeler or commercial vehicles.

Sanket Godha: Okay. So just one broader question, when he said that maybe the stronger companies will gain market share post COVID, then still which segment do you think the market share gain could happen? And whether you could see again any price competition in those segments which you believe market share gain could happen?

Bhargav Dasgupta: So, some of the segments we have seen this. We have been talking about this shift in any case, without this current event. We have been saying that gradually market share will shift to the stronger companies. And some of the segments you have seen that play through. So, if you see, even this year in certain segments which, let's say, for example, fire segment where pricing went up last year, our market share increased from roughly about 9.3% to 9.8%, engineering market share increased. So as we said, in the commercial lines definitely market share should increase. In the SME segments, given what we just talked about over this call in terms of claim service also, the market share should increase. We have increased market share in motor own damage, we have now become the number one company in own damage, again, because of some of these strengths that we have built. And incrementally we are seeing faster growth in the health segment in the last maybe about two years. And Gopal gave the number for indemnity growth for this quarter, significantly higher than the market. So we expect even their market share gains to come through.

I think the point is more generic, I mean, if you see the overall mix, if you see the private sector companies, earlier we used to talk about between the private and public market share movement that you have seen. But our senses is, if you see even in private sectors, depending upon where people are and how the market plays out in terms of claims, etc., there are certain pressures that are developing. We will see if that leads to some relative benefit for us. Definitely, as I said, balance sheet, technological capability and the fact that we have been able to manage this engagement even in this period, we should see some benefit. That would be our endeavor.

Sanket Godha: Okay. Sir, just a data keeping question. Loss ratios can we give based on group health? Group, other benefit based and retail, if it's possible, vis-à-vis what were similar number last year.

Bhargav Dasgupta: So broadly, Sanket, I think when you look at the overall health portfolio, I think what we have also been talking about in terms of loss ratios behavior, I think corporate health will fundamentally as a business line will exhibit a high loss ratio. That has broadly remained at about 93-94% whether you look at FY 18-19 or whether you look at FY 19-20. And inherently, again by the nature of the business, I think the retail part of the business is something that continues to exhibit a relatively lower loss ratio experience and it does tend to have a higher cost of acquisition as we look at ramping of the growth opportunity. Again, there if you were to look at the indemnity loss ratios, they have also kind of more or less remained at the levels of 62%, 63%, whether you look at FY19 or whether you look at FY20.

Moderator: Thank you. The next question is from the line of Akshen Thakkar from FIL. Please go ahead.

Akshen Thakkar: I had actually the question on market share which got addressed by the previous caller. So I will ask two follow-up questions. One was on duration on your fixed income book. Could you just help us understand how that has moved through assuming interest rates have been volatile? That was one. And second was, through there if things remain tough, if inorganic opportunities come your way what are the areas within your industry that you are open to look at? Just a question. Thank you.

Bhargav Dasgupta: So on the second one, we have always said that we are open to inorganic opportunities, it should come at a price where we can deliver value to our shareholders in terms of giving a return. And if opportunities open up even at this time, we will always be open. We would look at what franchise incrementally we get out of it, could be a certain distribution franchise, certain relationships or certain businesses which could be additive where we could see some synergy benefits otherwise. So the answer to that question is, yes, open, but it has to be at a price that makes sense for us. In terms of the duration of the portfolio, if you see the overall duration of our portfolio is about 3.72 at this point in time, the duration of the portfolio last year was about 4.76. We are keeping the duration a bit low because we have kept it low because we were, I think from our perspective the long duration bonds did not give us an adequate margin of safety at the level that it was. Of course, one didn't anticipate a pandemic. So to that extent, it's gone down further. But pre pandemic, at those rates, we were not seeing the relative value. We wanted to keep our portfolio flexible so that we could reallocate our bond portfolio in a direction that we preferred. That was our approach last year. So we kept it slightly low, so that we could swivel whenever we wanted to. Right now our approach is, particularly given the volatility that we have seen, wherever we are seeing some market dislocation and interest rates are going up, we are trying to locate and slightly increase the duration.

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

Bhargav Dasgupta: Thank you, everyone. Thank you for joining. Difficult times, I understand, for everyone. And this is a Saturday evening. Though I don’t know on these days whether you can make out what is a Saturday or a Friday. So anyway, thank you for joining. Stay safe. Take care of yourselves.

Moderator: Thank you. 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.

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Safe harbor:

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