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Ladies and gentlemen, good day, and welcome to the Bajaj Finserv Q3 FY '19 Earnings Conference Call. (Operator Instructions) Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Karan Singh from JM Financial. Thank you, and over to you, sir.

Karan Singh Uberoi, JM Financial Institutional Securities Limited, Research Division - Vice-President of Equity Research [2]

Thank you. Good morning, everybody, and welcome to Bajaj Finserv's earnings call to discuss the third quarter FY '19 results. To discuss the results, we have on the call Mr. S. Sreenivasan, who's CFO of Bajaj Finserv; Mr. Tapan Singhel, who's MD and CEO, Bajaj Allianz General Insurance; Mr. Milind Choudhari, CFO, Bajaj Allianz General Insurance; and Mr. Ramandeep Singh Sahni, CFO, Bajaj Allianz Life Insurance. May I request the management to take us through the financial highlights, subsequent to which, we can open the floor for a Q&A session. Over to you, sir.

S. Sreenivasan, Bajaj Finserv Limited - CFO [3]

Good morning, everybody. It's our pleasure to host you again for our conference call for Q3 of FY '19 for the quarter and period ended 31st December 2018.

So welcome, everyone. We have already uploaded our opening statement on our website yesterday. However, for those of you who have not had a chance to read it, I will just go through it shortly. In this call, we will largely be concentrating on the consolidated results as well as the results of our insurance operations through Bajaj Allianz General and Bajaj Allianz Life Insurance companies. Bajaj Finance, which is another major subsidiary of ours, has already had its conference call. However, if there are any high-level questions, we'd be glad to take that as well. We will not be taking any questions on the state of the Allianz stake in our insurance companies, except to state that the status has remained the same as of the end of the previous quarter and there's no change there.

Any statement that may look like forward-looking statements are just estimates and do not constitute an assurance or indication of any future performance. As you are aware, this year, from quarter 1 of this year, we are moving to Indian Accounting Standards for our consolidated results. Bajaj Finance is also on Ind AS.

The insurance companies' standalone results are on Indian GAAP, the IRDAI's preparation of financial statement regulations. However, apart from the consolidation, they do make available to us in their high-impact compliant financial statements, their very contributions. And we do have a provision against exposure to IL&FS. In the case of BFL, their exposure is secure. The total amount due is approximately INR 240 crores. And with the loan against property, the property is complete. It is already leased out. However, because the matter is sub judice, the escrow account is temporarily not -- we are not allowed to withdraw from that. The account went into an MBA bucket, and they have a cumulative provision of 23% on the total outstanding, including interest outstanding. So last quarter, we have awarded 10%. We are increasing to 20%, plus the additional interest.

In the case of BAGIC and BALIC, BAGIC had a total exposure of approximately INR 50 crores, INR 49 crores. They have provided INR 37 crores to allow 75% of our exposure is provided, and this is on the commercial paper within our secured on the holding company. And last quarter, we had provided 25%. They have increased it to 75% this quarter. Similarly, in the case of BALIC, we have a INR 126 crore exposure to the nonunit-linked portfolio, which is largely manpower and shareholder funds. Again, we have raised the provisions from 25% to 75%. During Q3, this has resulted in a pretax exposure of INR 25 crores in band, even INR 66 crores in band here.

Overall, this quarter was -- we started this quarter on the aftermath of the events that unfolded after the IL&FS default. And thereafter, there were tight liquidity conditions. Interest rates were really volatile. The

10-year recirculated then capped to almost 8%, and it has come down. And liquidity conditions remain tight. In this circumstance, I think it is remarkable that Bajaj Finance has produced its highest-ever quarterly consolidated profit. The AUM grew by 41%, the profit after tax has grown by 54%, and our consolidated profit has grown by 16%.

Bajaj General Insurance profits are lower than last year for a variety of reasons. One of them is the provision we had to make for the IL&FS impact on the investment income as we do have higher expenses. As you are aware, we have won a large number of bank assurance relationships over the last 2 years, including some very big ones, and this required some extra investment in manpower. And as the business has started coming in, that we hope over the next few quarters, business will continue to grow. There are a certain couple of segments where we have found the loss ratios were higher than what we anticipated, although all our loss ratios are under control. This was on group health particularly. And we will be tweaking our portfolio as we go forward to address this.

So to summarize, 39% growth in consolidated total income, 16% growth in consolidated PAT. We believe the quarter has been quite good for us.

There is also one more aspect, that this quarter, our growth in the GI business has been really strong. We have grown 35%, which is significantly higher than the market growth rate, and even assuring growth -- our growth rate to 33% against approximately 16% growth rate for the market. So this quarter, our earned premium to return premium ratio is actually lower than the same quarter of last year. But over the next 6 to 9 months, that will get adjusted.

In the Life business, again where the consolidated premium continues to grow. As you recall, last year, around this time, we had announced that we wanted more stability, not product mix. And therefore, we will be pushing for a greater proportion of traditional, individual products in our business mix. And I'm glad to report that by the end of this quarter, we have achieved 61% unit and 39% traditional compared to 72% unit and 28% traditional.

Overall, in Q3, we have seen a subdued performance on the higher-ticket ULIP market. People lock our shares because of the raised bond equity markets, and so all market-linked products are temporarily subdued.

We do hope that Q4 and a couple of quarters from now, things will improve. However, uncertainty will continue until the elections are behind us, so for the next 2 quarters. Our ULIP premium growth has been strong in Life at 20%, and overall, GWP was also higher at 22%.

I will now open the floor for questions and answers.

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Questions and Answers

Operator [1]

(Operator Instructions) We give the first question from the line of [Padav Charivana] from [Vito Capital].

Unidentified Analyst, [2]

I have 2 questions (inaudible)

Operator [3]

Mr. [Padav Charivana], I'm so sorry to interrupt, but sorry, we are unable to hear you that well.

S. Sreenivasan, Bajaj Finserv Limited - CFO [4]

Can you speak a bit louder?

Unidentified Analyst, [5]

Hello? Am I audible now?

S. Sreenivasan, Bajaj Finserv Limited - CFO [6]

Yes.

Unidentified Analyst, [7]

So what I was asking was on your insurance business is that if you look at the regulation pertaining to the higher TP, my understanding there is that the agency will have a slightly tough time because at the start of the policy, when I knew it can be soon, I think volumes will have all, is what I'll say. So even at the start, you are very, very strong with agency. So how does this impact our business? That is the first question. Technically, if you can just highlight with respect to the retail part of motor and also health, I mean, we have done quite well on the group side in the health, but what is the outlook on retail and on the retail side in motor and health because the growth moves slightly lower on the effect?

S. Sreenivasan, Bajaj Finserv Limited - CFO [8]

Okay. I will -- before I pass it on to Tapan, I'll take your -- the first question. Yes, you are right, because of the 3-year and 5-year mandated third-party policies, it does move more business to the OEM because at the point of sale, insurance is always sold along with the motor vehicle. But our -- in BAGIC, we have always been very strong in the OEM segment. And apart from the OEMs, we also have a large number of dealers who are motor insurance service providers. Our agency business continues to grow quite well, not only in motor, but in other lines. So that broadly answers your first question. But now I'll hand over to Tapan to handle your -- to add to this.

Tapan Singhel, Bajaj Allianz General Insurance Company Limited - MD, CEO & Executive Director [9]

Thank you, Sreeni. So if you look at the -- in the new car policy, we're talking of C plus C plus C, which means that, no, you're talking of ODs here and TPs here. The benefit is just 2% for that kind of policy. So typically, we see that most policies are right now, even from the OEM perspective, are having a 3-year TP, but 1-year OD, which means that it's still a little open to agents and others. But to your point, and as Sreeni mentioned, we also see a trend moving towards volumes. One, these benefit in times to come. But as Sreeni mentioned, our strength on the OEM, on the private side, is very, very strong. If you look at 97% of the records, which are solid in India, through the different volumes, we would have a tie-up with them, along with other partners also. For that as well, we are swapped. I think the business is shifting there also. We are strongly positioned in that space too. So that will be something which will be there. In the 2 winners, obviously, the expectations are much higher. It's 21% of the 5 plus 5, which is there. And in a similar space, I think if I look at it, well, ratio also earlier, when it was a 1-year policy, it used to be 25% in the next second year. So in a way, I think the follow-up of the 2 will have issues of -- if by insurance or no insurance, would, to some extent, get solved by this, that's a positive sign. Now coming to the point of retail health, if you look at in the GI space, if you exclude the health insurance -- standard health insurance companies, the growth of BAGIC in retail, it will be better than the GI growth of retail health overall, so which is -- which gives the comfort that it is not there. But yes, insurance companies will do much better. And it is also our mission to see that we can push that to the next level. But having a health company has its own advantage because of the regulatory help which it already has, that they can appoint anybody of the agents and the process or not, when an agent for them is much easier and the process as long. So they have their advantage, and that's why to do an effect on pricing, you're looking at a GI company's growth rate and retailers to where it is always, BAGIC, that it will have an effect on BAGIC. But having said that, as I mentioned, we're working on seeing how do we reach too higher growth rates compared to us, a standard of the company also. The retail is still growing strong. If you look at our agency, the more of a region's growth has been, compared to our last year, close to a 64% growth in number of agents that we

had. So we are focusing on retail, and we are focusing on agency. And we are growing our agents also to take care of the next level. I hope it answers your question.

S. Sreenivasan, Bajaj Finserv Limited - CFO [10]

Just to add to what Tapan said, we just checked the numbers. For Q3, the market growth rate for GI companies in retail health is 0%, and we have grown 13%.

Unidentified Analyst, [11]

Yes. And what are we looking at on the market rate? I mean, we only see standalone doing well. I mean, if you're seeing probably where everybody wins, then absolutely...

S. Sreenivasan, Bajaj Finserv Limited - CFO [12]

See, there are 2 issues there: a, standalone companies are growing well, as Tapan mentioned, rightly because they have a couple of distribution advantages. Having said that, we are not aware of any standalone company making yearly good profits. A sustainable level they have to make, somebody goes, this is -- they don't get any front benefit out of retail health. This is very small, a short-tail business. Having said that, we have always focused on that, and we will be looking at the standalone companies as well as we go forward. Compared to many other bank, car, type of players, we do almost entirely our portfolio into making these products, which is more long term, which is renewable and which is higher-ticket.

Operator [13]

Next question is from the line of Riddhi Mehta from Haitong Securities.

Hitesh Gulati, Haitong International Research Limited - Analyst [14]

This is Hitesh from Haitong. So my first question is because you have grown so fast in this quarter, will there be an impact of not being able to defer the acquisition cost in Q3, and what would that range be? And secondly, so my second question is, what would be the group health claims issue because you spoke about that we are slightly moving upwards? So that's my 2 questions.

S. Sreenivasan, Bajaj Finserv Limited - CFO [15]

The first question, this is a very normal thing, that when you grow, in that until the premium gets earned, you will have impact of acquisition as well as direct expenses. So that is something we will continue to grow. We will continue to have that streak. The question is whether we are building our nonpremium result healthily and whether as the business pans out, we will make profits, or in our down-cycle, we will generally recover a lot of the profits. In terms of group health, for Q3, our losses show that's been 102%. Compared to -- and last year, again, it was 104%. Overall, for the 9 months, it is at 100.4% compared to 96.5% last year.

Hitesh Gulati, Haitong International Research Limited - Analyst [16]

And can we quantify the impact of acquisition cost on this...

S. Sreenivasan, Bajaj Finserv Limited - CFO [17]

Remember though, this is not a requirement of the law, but roughly, if you wish you would take the proportion of a net turn premium to net return premium, then that same proportion of acquisition cost will be deferred.

Operator [18]

Next question is from the line of [Joseph Gojivas] from Investec Capital.

Unidentified Analyst, [19]

My question is with respect to the Life Insurance business. As you mentioned in your initial commentary that there is a slowdown in the high-ticket ULIP, and that is largely because of the market scenario. I just wanted to understand, this is a BALIC in gaining market share in high-ticket ULIP because the largest player is losing market share over there. So I just wanted to understand the dynamics of that high-ticket ULIP.

S. Sreenivasan, Bajaj Finserv Limited - CFO [20]

Raman?

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [21]

Yes, so you see, the data at that level may not be available, but what we are focusing on is a high-ticket ULIP slightly comes from the affluent category of customers. And in the last 2, 3 years, our focus has been that because we were known to be a mass-market company in the past, and our focus was to move through the mass affluent and above category. Just to indicate to you how we are migrating in this category, about in FY '17, about 27% of our business came from this category of mass affluent and above, that has moved up to almost 50% now. So we are penetrating more into that category. So maybe in the indicative way, it answers your question that we may be taking through the pie of others in that segment.

S. Sreenivasan, Bajaj Finserv Limited - CFO [22]

Just to add to what Raman said, we had launched for the first time this goal actually for that, which had the return of mortality premium that we hold to maturity. That has been a big success, and for some time, there were no compatible products in the market that has gained market share. We are also gaining market share on the online space, both on the B2C as well as the ULIP side of the bank aggregators. Growth rate has been very strong. So the way we are playing it is by customer segment, by channel, and certain channels, we are being able to leverage the power of that channel better and that is why we think everything grew. At the same time, on the other end, we are also looking at sustainable product mix by selling more of traditional business through, mainly, through our agency channel and some parts of our institutional business. This meeting will provide us the balance and the risk as well as ability to control expense overruns and thereby report a higher MBV and margins as we go forward. This clearly is the thinking process, and I think this was outlined last year again and that we're repeating it now. And we will continue this journey. We are very optimistic about the Life business over the next 3 years because all the levers are functioning. And we continue to push those levers. We hope the result will be as we expect.

Unidentified Analyst, [23]

So my second question is with respect to BAGIC. So in this quarter, we have gained -- we have increased a sharp -- a share of group health and our loss ratio is also higher in that segment. So I just wanted to understand, by next year, what is our key focus segments and which other segments will be for -- which other segments receive further improvement in loss ratios?

S. Sreenivasan, Bajaj Finserv Limited - CFO [24]

Before we pass it on to Tapan, I will just briefly say it's such a dynamic business, that what is good for you today may not be good for you tomorrow. So therefore, we are continuously evaluating our product mix, our channel mix, introducing new products, looking at low ticket, high ticket and across the lines. As we gain experience, we continue to tweak our portfolio. So we would expect that next year, some of the loss-making lines or where we feel the market conditions have changed, we would slow down on those and will try to push more aggressively on those lines which currently are profitable. Tapan?

Tapan Singhel, Bajaj Allianz General Insurance Company Limited - MD, CEO & Executive Director [25]

Yes. So I guess, Sreeni, I think you summed it up beautifully. But if you look at group health, it constitutes only just a chance for the health portfolio, even today, in all our food industry. And the group has loss ratios that typically are hovering around 100 or over 100. I think if compared to last year's food industry, group health loss ratio has reduced from what it was. Group Life predominantly would be at a loss ratio close to 95 to 100 because if you look at the company, if the group has loss ratios, 60%, 30%, they would do and so is insurance. Why would they give to the insurance company, no? So group health typically gives you scale to negotiate with hospitals. It gives you scale to experiment. It gives you scale to understand other portfolios, some. And when you look at the profit, all around, they give you, let's say, a fire, marine, group health, that is a combination of portfolio, in which you will get popular lines of business, and you may be announcing your loss-making business over and out of the basket. So it ends on top. And on the annex, at play, you can look at the group health portfolio as it comes through. Having said that, as Sreeni mentioned, I think we have -- we keep a really constant watch in terms so that no portfolio should start bleeding for us. All around, they're non-givers. Charity could want it. And we keep on tweaking on that basis. So this year, all industry groups had loss ratios reduced, and that's what you saw become growth. In the private company, where also group health, you will see a growth for all private companies in the industry. And then next year, again, the losses decrease. You would see a decrease in the group health portfolio going forward. So as Sreeni mentioned, our business is very, very dynamic and it moves very, very fast, depending on how the market is moving and where do we see an opportunity. We move in and move out as it progresses. I hope it answers your question.

Operator [26]

Next question is from the line of [Krish Sunbar], individual investor.

Unidentified Participant, [27]

So my question is on the reinsurance business. We are hearing reports that Allianz wants to enter the insurance business. Is this with you, or they are going separately with some other player?

S. Sreenivasan, Bajaj Finserv Limited - CFO [28]

The Allianz has always been present in the, again, reinsurance market by providing support through reinsurance treaties as well as facultative support on a case-to-case basis, for not only us, but for other companies as well. Now because the regulation has come, where foreign reinsurers are allowed to set their branches and they get an order of preference which is superior to cross-border reinsurance, which is done from outside India, that they have decided to set up a branch in India. That will be 100% owned by

Allianz. It will not conflict with our business because we are not in the reinsurance business. We are in the insurance business, and through this branch, we will also seek support of Allianz where we feel they offer good comps. Tapan?

Tapan Singhel, Bajaj Allianz General Insurance Company Limited - MD, CEO & Executive Director [29]

I think Sreeni summed it again as briefly as it can be. So if you look at the reinsurer and direct insurance, are different ever since, as Sreeni mentioned. So -- and all direct insurers have a strong range of backing Life for us. We have Allianz, we have Munich Re, Swiss Re. We have Berkshire, who back us up strongly in the present. And because of the few requirements, now reinsurers will set up a branch here, get all their preference. That is how regulations had been defined. So if you look at most of the big players that set up their unit here, a bit Munich Re, a bit Swiss Re, now Allianz has also set up their unit here. I think then that Berkshire will come, maybe then Gen Re, which has set up their unit here. And they're all owned 100% by their own subsidiaries in their countries with direct insurers. It's just a natural flow of regulations for them to set up their business here, and that's what Allianz has also done.

Unidentified Participant, [30]

They are all 100% ownership?

Tapan Singhel, Bajaj Allianz General Insurance Company Limited - MD, CEO & Executive Director [31]

Yes, in the reinsurance then, that is how regulations are. So if you look at not only Allianz, say Munich Re, which, again, if you look at it, it is there in the end market with Apollo or with -- if you look at Gen Re or Swiss Re, they're all traded up at 100% business. That's how regulation allowed them. So these guys are a new generation in that market. But now with all their footprints, that each have been offered to a company who has branch locally, wealth before gold, I would say, so it's really advantageous for them to set up a branch. So they start a branch here, which is very nice for them, so -- and there are no conflicts with the business. It's something which is already happening, but now they have a physical branch, with new relations that's coming.

Unidentified Participant, [32]

Okay. And my second question is, sir Ramandeep, can you share the embedded value of the Life Insurance business as of, particularly, December?

S. Sreenivasan, Bajaj Finserv Limited - CFO [33]

No, we don't even publish it in March.

Unidentified Participant, [34]

Okay. So my -- the other question that I had, other question, just a little, is do you have any target for growth rates in the embedded value because I see that it is subpar compared to your competitors in the Life Insurance business?

S. Sreenivasan, Bajaj Finserv Limited - CFO [35]

Typically, is you see embedded value, I mean, we are talking about the operating return on embedded value, excluding the investment variance, because investment variance can be positive or negative each year. Typically, you see the ones which are bank-sponsored and which are captive banks. They tend to have maybe 12%, 13% or a higher return. And typically, the nonbank-sponsored ones will tend to have a slightly lower one, maybe 8% to 9%. Look, they have some cost and one-pagers being captive in the group. I'm doing more of retail products and long-term products to their own captive bank. But we are closing in on that. We didn't have any slow overruns which was much higher than what it is today. That had dragged down our return on EV, but year-on-year, we are seeing improvement in our ability to handle the overruns. Our product mix change also should be favorable for our margins net of overruns. And we hope this will add to the embedded value. To repeat what I said earlier, we are focusing on the levers of quality business, pushing the right levers, and we expect the results to come. If they don't come, they will look towards a direction as it and when it happens. As of now, things seem to be working well in our favor.

Unidentified Participant, [36]

But my question was I have you at targeted. You should have been the top...

S. Sreenivasan, Bajaj Finserv Limited - CFO [37]

We don't have a target for EV as such because EV is actually a -- you cannot drive business saying that as soon as it's starting, so much EV. You can only drive business for products which will give you higher margin, balance your product mix because in that, we marry to what the customer wants and what the distributor is willing to set. So it's a very complex thing. We can put anything on paper, but actually, the market may behave differently. So it is something you have to continuously evaluate, rebalance and course-correct, which is what we do all the time. And that is all we have around and about sustainable product mix now.

Unidentified Participant, [38]

I understand that really. But just to paint this point forward, you know what is happening in -- you went after selling whatever products that you are selling. Do you see that the cumulative value-adds capturing the embedded value is not getting reflected a bit? So you may sell a lot of premium, but if it is not capturing embedded value, do you think that is the right way going forward?

S. Sreenivasan, Bajaj Finserv Limited - CFO [39]

No, I think we did have several bad years when we had some de-growth in our -- especially in our individual-rated premium. And in a business of this scale, when you do not have growth, then you are operating leverage acts against you. Last 3 years or so, we have been growing well, but we would still like to see our top -- top line growth will drive embedded value. To answer your question more succinctly, if we claw back some market share over the next 2 to 3 years, we should see an increase in embedded value because we are selling products which are much better margin on an overall balanced basis.

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [40]

Okay. Just to add to what Sreeni said, I think the issue has been, in the last few years, are we have seen a significant amount of de-growth, and then we got into this journey of transformation. And if you see, we've started seeing the green shoots on that. Our individual-rated new business growth was about 14% for the last 2 years. For 9 months, again, it's pretty high at 15%. Of course, that mix in the last 2 years has been largely concentrated on the Olympics. Obviously, we turned up full with the kind of expenses until we have, and that we are now diversifying that. And you've seen a significant improvement in that. Our protection business has taken off significantly. Protection growth, this has been at about 16%. Our renewals were a very stressed consistency, and that was used to be the worst in the industry. Our renewal growth this time is at 23%. Consistency is inching up to -- at peer levels. So I think all of the parameters are now looking

positive. And once you start seeing the benefits of that going to the P&L and obviously then, to the EVs, when you will see this stabilize. So at this stage, we are still in that journey of transformation, and we're still trying to improve on a lot of these quality parameters. So maybe a few more quarters and you'll start seeing the results.

Operator [41]

Next question is from the line of [Winodra Jamani] from HSBC.

Unidentified Analyst, [42]

I just had one question on General Insurance. Could we see a softening of OD rates because insurance will slightly lock in customers for a longer period than these material policies. Also, just related to that, what kind of investment leverage would be there on -- post these new material policies?

S. Sreenivasan, Bajaj Finserv Limited - CFO [43]

I will let Tapan handle the first question. Investment leverage will be mainly coming only from third party. And what we look at is, really, that is not the purpose we do business, and what this does, a statute-free business. We have a quota of third-party business. And when you do OD business, it is attached to the OD as well. So the dynamics of both will play when in third party, will you make profit, or the prices will be under pressure. Secondly, younger and smaller companies will always try to be very aggressive in the motor business because that is the one which is the easiest to scale up as compared to other business which requires a lot more capability-building at the back end. So we are not particularly looking at it, but we have always been focused and among the top company doing motor business. Our investment leverage has always been about 3.5x to 4x. We haven't taken borrowing as yet. But other than that, if you look at the pure cash flow generation this year, our AUM is INR 16,300 crores. We started the year at a little over INR 14,000. And hopefully, we will end up in the year by adding another close to INR 1,000 crores. So we have always been generating AUM through appropriate product mix. Tapan?

Tapan Singhel, Bajaj Allianz General Insurance Company Limited - MD, CEO & Executive Director [44]

Yes, so the softening of rate has happened. So your point out there is right. But rate further soften, I don't think so. I think the initial, entire top softening, what has to happen, what if it's an OD? It has always taken cost this year. I don't see further softening in the years to come. I think people are liking the softening and not really giving them the value that it should be. So my hope is that the market will not soften further in the next year. But yes, this is softening. It has already happened...

Unidentified Analyst, [45]

And to what extent will you say, I mean, in terms of OD rates?

Tapan Singhel, Bajaj Allianz General Insurance Company Limited - MD, CEO & Executive Director [46]

Equally first and then the new records.

Operator [47]

Next question is from the line of [Sanggit Gota] from Spark Capital.

Unidentified Analyst, [48]

Just a couple of questions. I just wanted to know, okay, can you quantify how much this advanced premium and from the longer-term motor plans, ticket plans, how it contributed to your investment income, investments, basically, area? The second question is, basically, I just wanted to know your view on the 2-wheeler business because the slope created from these long-term policies is significantly higher compared into -- less compared to the cost. So I just wanted to understand, because the investment income could be a bit fickle for the profitability, whether you incrementally will be starting, focusing more on 2-wheelers, I'll say, could be a significant ROE driver. And so basically, on this envelope, Ramandeep, I think you mentioned that 97% is of car exposure, so it means you have exposure to car OEMs. What are the causes of hold in India? So what would be the clinger number for 2-wheelers for us?

S. Sreenivasan, Bajaj Finserv Limited - CFO [49]

How about Milind?

Milind Choudhari, Bajaj Allianz General Insurance Company Limited - CFO [50]

Yes. What I would like to say out here is that the overall advanced premium working cost as on 31st of December, where the rest is going to come in later on, in the coming years, in around INR 150 crores. So out of those INR 150 crores, almost INR 83 crores is coming from direct cars and INR 65 crores coming from 2-wheeler. As Tapan mentioned, the regulations, almost around 98% of the 4-wheeler premium is coming through a 1-year OD and a 3-year TP. There are -- there is a 3-into-3, or a 3-year OD and a 3-year TP, is a very miniscule percent of around 1.6% for me. But the position is really different in 2-wheelers, around 20% or 21% premium is coming through long-term. That means all-year as well as the TP bundled for 5 years. And around 80% or the 79% is coming through premium reaches of 1-year OD and span a remaining 5-year TP. So I think this combination is going to generate data around premium and advantage in terms of float. And a great lead we'll be working, with all the -- we have good penetration in terms of the 4-wheeler OEMs in the market. As far as the 2-wheeler market is concerned, we are already trying to reach our, I will say, penetration and reach 2-radius channels, and particularly, there is currently a huge amount of under-insurance in the 2-wheeler sector. It's not necessarily limited only to the new 2-wheelers, I'll say. Here, I would request for more comments from Tapan.

Tapan Singhel, Bajaj Allianz General Insurance Company Limited - MD, CEO & Executive Director [51]

Yes, thank you. So if I look at the 2-wheeler, both -- it's at 27% right now in our business. We show that, yes, our focus would be there definitely. And the new -- oh, yes, our tie-up is with Bajaj and Vespa. We're trying for a couple of more reaches there. But in the agency channel and our great channel, I think to do both is very good. And like Milind said, because we've seen opportunity of -- in car insurance, acknowledgments in the renewal, we see -- obviously, if we can tap that market, that would be good for us. So that is where we are focusing more.

S. Sreenivasan, Bajaj Finserv Limited - CFO [52]

I just will add to that. I think I'll be a little bit cautious on this float benefit. In the near-term, yes, it looks good, because in the last few years, we have had good increases on third-party premiums, which has brought down third-party loss ratios. However, incrementally, the rate of increase granted has been coming down. As we go forward, this float is required to also meet inflation in third-party claims over the longer term. So therefore, unless you earned a return which is higher than the inflation in the claims as we go forward, this float is required for that. Second question there would be, do I want to share my investment income also with the policyholder in the form of higher discounts on OD or on higher acquisition cost? That place can go either way because it becomes a cash flow underwriting effectively. So

sometimes, you have to run -- we'll have to draw the line. We constantly monitor this, and we try to keep the balance intact.

Operator [53]

Next question is from the line of Nidhesh Jain from Investec Capital.

Nidhesh Jain, Investec Bank plc, Research Division - Analyst [54]

So also just on the float that you have got on this long-term policy, the one it accrue, is it the outstanding float as of December '18 because December looks slightly on the lower side? Was this the -- your peers who have generated -- the quantum is quite high for them.

Milind Choudhari, Bajaj Allianz General Insurance Company Limited - CFO [55]

Yes, that is the outstanding amount, which is there under the total amount.

Nidhesh Jain, Investec Bank plc, Research Division - Analyst [56]

And what is the quantum of money that we had received from -- for compulsory personal accident, and how is the penetration there, whether it is long-term or a 1-year policy that we are sourcing?

Milind Choudhari, Bajaj Allianz General Insurance Company Limited - CFO [57]

I think compulsory personal accident has gone through in terms of once it was mandatory, then there were some relaxations which came in. Then again, there were some clarifications we're sure by our guess, that where the vehicle owner doesn't have a driving license or where there is already a vehicle where those turn up so many years on this. I will say carloads are turning now. And there has not been a stable policy as far as compulsory policy has been confirmed in the last quarter. So I think the real impact of a compulsory policy is yet to see. But I think in how the things are going, that a new way comes, the synergy of the compulsory policy, I think, is turning fine. But the initial ways which were required is the only kind of a standard record, INR 750, which was initially drawn. I think that kind of rundown, and then each company has to file as soon actuality-required risk. So I think at this part of time, it will be difficult to comment on the impact on the TP as I think these origins will be the original stabilizer from customer so and so, that we know more clarity about it. I think the whole picture will be much.

Nidhesh Jain, Investec Bank plc, Research Division - Analyst [58]

And sir, what will be the view on crop insurance now because the entire private sector seems to become quite cautious on the crop insurance? So what is our stand on the crop insurance going forward? Probably, the pricing may become slightly more attractive going forward.

Tapan Singhel, Bajaj Allianz General Insurance Company Limited - MD, CEO & Executive Director [59]

So as we mentioned earlier, I think we keep our watch in the market. And depending at our comfort level, we participate into all businesses. So crop also, as you know, we have watched and we have looked at the insurance financing for this year. All the price is looked at. [And depending on what we saw at the price this year compared with underwriting], we quote for that. So that's our view. For any business, we don't have a

view that we will be very aggressive. We -- in terms of business, price year comparable has been up last year (inaudible) and for crop, it remains the same.

Nidhesh Jain, Investec Bank plc, Research Division - Analyst [60]

And sir, lastly, on the market, we understand that Bajaj has won a bid in [markets], in some of the states where the pricing was also very competitive. So how are we looking at that scheme from a strategic perspective?

Tapan Singhel, Bajaj Allianz General Insurance Company Limited - MD, CEO & Executive Director [61]

Yes, so if you look at the state that we have won the tender, as of now, I think the loss ratios look decent. So if you look at the tender [in which we possibly are leaders], that has been at the price that we want. It looks decent. So now that we undercut the price [while we're getting business] where we participated, we're the leader in the tender. So as I said, that's for any business. Now if you look at the entire GI business, you pick up new [sales], pick up government, health, you pick up crop. They consist a substantial amount of the entire market in terms of the business we do from them. So for any large company, I think we'll have to see -- welcome that in terms of getting the business more right in terms of looking at how to participate, in terms of pricing which is right. And that's what we keep on doing. And you can see, most of the time, we get the pricing right in terms of where we participate in business.

Nidhesh Jain, Investec Bank plc, Research Division - Analyst [62]

Just one question on life insurance. If you can share some more data on the texture on protection. What is the share of retail protection? What is the share of death -- life and death protection?

S. Sreenivasan, Bajaj Finserv Limited - CFO [63]

I will hand over to Raman, but before that, I'll just add we don't run the [care] protection business through group protection. We have started selling retail protection mainly through our B2C and aggregator channels. So Raman, can you give more flavor on that?

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [64]

So like Sreeni said, retail currently is a very small proportion for us, it's less than 1% of our individual business. That's mainly because we don't have a competitive product in place. But in the next quarter, hopefully, we should have one in place. So that's an area we are completely out of currently. But that's something which we are focusing on, and you'll see us come back over there. However, on the group risk part, which is credit protection and similar products, there, we've been growing at a very, very healthy pace. So for the 9-month period, we've done about INR 1,000 crores of premium [there], which is a growth rate of about 58% compared to the same period last year.

Nidhesh Jain, Investec Bank plc, Research Division - Analyst [65]

This growth is primarily driven by credit life or...

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [66]

Yes, correct.

Operator [67]

Next question is from the line of Abhishek Saraf from Deutsche Bank.

Abhishek Saraf, Deutsche Bank AG, Research Division - Research Analyst [68]

Yes, most of my questions have been answered. Just a few things on the...

S. Sreenivasan, Bajaj Finserv Limited - CFO [69]

Can you speak a bit louder, please?

Abhishek Saraf, Deutsche Bank AG, Research Division - Research Analyst [70]

Yes. Sir, just wanted to understand, in your view, when we post overruns, so when do you think it'll be turning? So I have -- I presume that it is currently running at a negative on the margin, right?

S. Sreenivasan, Bajaj Finserv Limited - CFO [71]

We will announce it by end of the year because the business is very seasonal and the operating leverage changes quarter-on-quarter. But nothing really unforeseen, doesn't happen. We expect to close the year with a positive margin, net of overruns. This will be the first time we are doing that in the last 4 or 5 years. And we think that is a significant milestone in our turnaround strategy because we have been pushing all the levers. Our renewal premiums, you'll see us again growing at 20%. Consistently, it's moving up. So all in all, product mix has become more diverse. So all in all, all the levers which are required to improve the margins and control the overruns are in place. Clearly, with further growth, we should again get more operating leverage, and that should further add momentum to this growth in margins. We think we are quite optimistic over the next 3 years. But by end of this year, we hope to be able to deliver positive net margins after overruns.

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [72]

Just a word of caution that we probably had -- we entered the positive territory, but you also have to understand we are making a significant amount of investments in the new channels we're entering into. So just to mention, we've done 5 new bank tie-ups, including Dena Bank, Jana, Ujjivan SFB, Bandhan Bank. So we will have to make some investments in terms of manpower in these shops to get into the market share there. So next 1 or 2 quarters could be a little subdued because of that, because of the investment we are making. But like Sreenin said, I think we are moving rightly in the positive territory, and you should continue to see that trend going forward.

Abhishek Saraf, Deutsche Bank AG, Research Division - Research Analyst [73]

Okay. Okay, sir. Nice to hear that. Sir, one last question on the credit life part. So you said that around INR 1,000 crores you did in the 9 months. So which are the key banca partners that you're seeing this growth coming from? Or is it like well disposed? Just some color on credit life, how -- the key drivers behind that.

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [74]

There are 2 parts. So one is the credit life which we do with banks and NBFCs where the largest one is Bajaj Finance itself. And then there are multiple banks after that. And on the -- the second part, which is about half the proportion, is from the MFI space where again it's well distributed with various large entities like Bandhan Bank; Ujjivan; Jana SFB; SKS Microfinance, now Majat -- sorry, Bharat Financial Inclusion. So it's a well-diversified portfolio as of now if you ask me.

Abhishek Saraf, Deutsche Bank AG, Research Division - Research Analyst [75]

Right. So sir, do you expect -- you now assume that going forward, the share of these banca has definitely been one of historically least contributing segment. So going forward, is it fair to assume that this will rising further? And if you can give some guidance on what share you're looking from bancas?

S. Sreenivasan, Bajaj Finserv Limited - CFO [76]

Yes, I will take that question. I think what we have been trying to do last couple of years was to improve our individual rated premiums from bancassurance, at the same time, keeping the group protection, which is the -- ones which was with the asset book of the banks. I think so far, this avenue has worked quite well. Our individual rated premiums are growing. In a few smaller partnerships, especially in the MFI space, it was a big change actually because they're not used to selling anything other than normal bundling of credit protection products. But we have made the move. And for the last 2 years, we have had significant growth on a smaller base. But even this quarter, a lot of our growth has come actually from our institutional business, on the individual rated premiums side. Our endeavor will be to continue this momentum going forward to have the balance of both group and individual. But if you ask me in 3 years' time, I would expect the share of the group to actually come down from where we are today and individual, to go up.

Abhishek Saraf, Deutsche Bank AG, Research Division - Research Analyst [77]

Fair enough, sir. And sir, share of banca, if you can...

S. Sreenivasan, Bajaj Finserv Limited - CFO [78]

Not entirely different. As of now, we have now Bandhan Bank, India Post, Dena Bank. We also have a bunch of SFBs as Raman pointed out, Ujjivan, Jana, ESAF. And so we continue to see tie-ups. They are a bit slow in coming. We still haven't got a big bank yet. But we continue to be in discussion with a number of partners. And hopefully, over the next couple of years, we may get a couple of banca partners that can change the equation quite dramatically. But I think we have the team in place. We have a unique setup for integrating partners into our system. Our IT systems have been upgraded to handle banca. So we are in a good position. Now we have also some names to show the potential partners. So hopefully, that will help us get more partners.

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [79]

To add to that, Sreeni. Our focus, like Sreeni mentioned, has been that we move away from concentration on one product portfolio or one line of business or one channel. The agency used to be the sole provider of retail business for us for about the last few years. And from having a concentration of about 90% over 2 years back, we are down to 70% in this year. And this will only improve going forward.

Operator [80]

Next question is from the line of Nischint Chawathe from Kotak Securities.

Nischint Chawathe, Kotak Securities Limited, Research Division - Senior Analyst [81]

Two questions. One is, what is the percentage of claim inflation in third-party in the last couple of years?

S. Sreenivasan, Bajaj Finserv Limited - CFO [82]

Milind, do you have that data? Claim size for...

Milind Choudhari, Bajaj Allianz General Insurance Company Limited - CFO [83]

I don't have the updated one right now.

Tapan Singhel, Bajaj Allianz General Insurance Company Limited - MD, CEO & Executive Director [84]

But it was around 5.8% or so for last year. And so it varies between 7.8% to 5.8%. But I just want to emphasize, we don't have it right now, but this is [as accurate as it goes].

S. Sreenivasan, Bajaj Finserv Limited - CFO [85]

I think it varies according to the segment of business, especially in commercial weighters, [the products] they are carrying, goods carrying, heavy weighters, light weighters. And we have also used this information to grant price increases. So each one's business mix will determine the inflation there as well. But some of them are prone to have more severe accidents than others.

Nischint Chawathe, Kotak Securities Limited, Research Division - Senior Analyst [86]

On the LI business, what was the percent of the premium that you generate in the Bajaj Finance's credit protect.

S. Sreenivasan, Bajaj Finserv Limited - CFO [87]

30%, I think. Right, Raman?

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [88]

Yes, it's about 30% as of now.

Nischint Chawathe, Kotak Securities Limited, Research Division - Senior Analyst [89]

And the balance will be?

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [90]

Like I mentioned earlier, from various other institutions, MFI as well as banks that we have since put together.

Nischint Chawathe, Kotak Securities Limited, Research Division - Senior Analyst [91]

My question was a little different. What you're saying is that 30% of your credit protect business comes from Bajaj.

S. Sreenivasan, Bajaj Finserv Limited - CFO [92]

Oh, no. Out of that finance credit protect business, we do 30%. Correct, Raman?

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [93]

Yes. And it's lower that -- for 9-month period, it's about 35%.

Nischint Chawathe, Kotak Securities Limited, Research Division - Senior Analyst [94]

But sir, my point was that, of the business that you generate from Bajan Finance, is it only credit protect or you -- they sell any other products for you?

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [95]

So we started the journey of selling the retail with them, and this started only late last year. So in addition to credit protection, we are running various pilots with them to start selling retail. So we are in the first full year of doing retail business with them, and we expect a healthy double-digit number to end this year with.

Nischint Chawathe, Kotak Securities Limited, Research Division - Senior Analyst [96]

On the share of retail with the total business.

S. Sreenivasan, Bajaj Finserv Limited - CFO [97]

That's right.

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [98]

Yes.

Operator [99]

Next question is from the line of Adarsh P. from Nomura.

Adarsh Parasrampur, Nomura Securities Co. Ltd., Research Division - Executive Director [100]

A question on life business. This ramp-up in ULIP business in the last 2 to 3 years, just wanted to understand what RIVs, say, on a 10-year product that are -- or a 10-year basis you're not offering, vis-à-vis where the other large players will be.

S. Sreenivasan, Bajaj Finserv Limited - CFO [101]

What is RIV?

Adarsh Parasrampur, Nomura Securities Co. Ltd., Research Division - Executive Director [102]

The charge that you baked into the product, the -- like I said, the policy after, say, 10 years. What is the gross return minus the net return in the ULIP business?

S. Sreenivasan, Bajaj Finserv Limited - CFO [103]

That is just for RIV. If you track our gross national product, actually return is about (inaudible) also. So if it is after 10 years, I only earn the -- we only earn the FMC on that product. So that's a different product there. Raman?

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [104]

Yes. So I think the way we have to look at it is we do that at the very channel level. So with the channels, which are high cost, you will see that there, the range is in line with what the maximum allowed wider regulation is. By far, lower cost channels, which is our proprietary sales force and online, there, like Sreeni said, it could be as low as only 1.35%, which is the maximum allowed FMC. So there's a wide range, wide as in from 1.35% to what is the maximum regulation allows. But I think what are -- like if you compare us with other industries, the range will be very narrow because the allowed wider regulation itself is very limited.

Adarsh Parasrampur, Nomura Securities Co. Ltd., Research Division - Executive Director [105]

The point I was trying to ask you is when you compete in this market and I don't know how much is for these pricing matters, but I'm just -- what I'm trying to understand is that some of the players like ICICI still would have cost structure which will be significant, at least as of today, significantly better off, and offering same or lower RIV, like how does it add up in terms of VNB margins for you?

S. Sreenivasan, Bajaj Finserv Limited - CFO [106]

In every product that we have launched, we are comparable with the best in the market in terms of the eventual return to the customer based on what the underlying investment. So we do the benchmarking with every product in the market, and we are among the best. (inaudible) and our products are also similar to the range maybe LIC over the IRR return, what type, and we are in line with the market.

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [107]

Sreeni, I think, what's the optimism from an affordability perspective. Yes?

Adarsh Parasrampur, Nomura Securities Co. Ltd., Research Division - Executive Director [108]

No, what I was trying to ask is that -- the point I was trying to ask is like if you're offering probably the best returns to the investor and having a higher cost base than the VNBs and ULIP, how is it stacking up vis-à-vis, say, some of the larger guys are? Overall, like how are the VNBs and the ULIP business did in the last couple of years?

Ramandeep Singh Sahni, Bajaj Allianz Life Insurance Company Limited - CFO [109]

So I think the right way to answer that question is -- the way we manage it is -- see, last few years, like you rightly said, we've been selling a lot of ULIPs. But that was the clear intent that we wanted to get the scale of business up to a particular set of -- level of sustainability and then start focusing on having a diversified mix to manage our bottom line. So first question, to answer, what product can we afford it by a channel to maintain that particular level of profitabilities with what we have? So there, the need for diversification actually played there. And if you see what Sreeni mentioned earlier, we moved away from selling a lot of ULIPs, largely in the agency channel, to now having a well-diversified mix to ensure that our margins improve. Second, obviously, is that in the product segment itself, how much uplift do we do. And that, what I mentioned earlier, comes from the fact that how much of cost actually gets loaded into the agency channel. So the channels which can afford a particular cost level will be able to sell the product they afford. So like I said, online cost are lower and, hence, they can sell a product where an ROI is much lower than what agency can do. So that's how we play it.

Operator [110]

Next question is from the line of [Anedh Vansarkar] from Principal AMC.

Unidentified Analyst, [111]

My questions have been answered.

Operator [112]

Ladies and gentlemen, this is the last question for today. I would now like to hand the conference over to Mr. Karan Singh for his closing comments. Over to you, sir.

Karan Singh Uberoi, JM Financial Institutional Securities Limited, Research Division - Vice-President of Equity Research [113]

Yes. On behalf of JM Financial, I would like to thank Mr. S. Sreenivasan and the senior management team of Bajaj Finserv and all the participants for joining us on the call today. Thank you, and goodbye.

S. Sreenivasan, Bajaj Finserv Limited - CFO [114]

Thank you, everybody.

Milind Choudhari, Bajaj Allianz General Insurance Company Limited - CFO [115]

Thank you.

Tapan Singhel, Bajaj Allianz General Insurance Company Limited - MD, CEO & Executive Director [116]

Thank you.

Operator [117]

Thank you very much. Ladies and gentlemen, on behalf of JM Financial, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.