"Bajaj Finserv Limited
Q3 FY2020 Earnings Conference Call"

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Please note that the transcript has been edited for the purpose of clarity and accuracy.

**Moderator**: Ladies and gentlemen, good day, and welcome to the Bajaj Finserv Q3 FY2020 Earnings Conference Call hosted by JM Financial Institution Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bunny Babjee from JM Financial. Thank you and over to you.

**Bunny Babjee**: Thank you. Good morning everybody and welcome to Bajaj Finserv's earnings call to discuss the third quarter FY2020 results. To discuss the same, we have on the call Mr. S. Sreenivasan, CFO, Bajaj Finserv Limited; Mr. Tapan Singhel, CEO, Bajaj Allianz General Insurance; Mr. Milind Choudhari, CFO, Bajaj Allianz General Insurance; Mr. Tarun Chugh, CEO, Bajaj Allianz Life Insurance; and Mr. Ramandeep Singh Sahni, CFO, Bajaj Allianz Life Insurance. May I request Mr. Sreenivasan to take us through the financial highlights, post which we can open the floor for Q&A session. Over to you Sir!

**S. Sreenivasan**: Good morning everybody. It is again our pleasure to welcome you all to the conference call to discuss the results of Bajaj Finserv Limited for Q3 and nine months ended of FY2019-2020. In this call, we are largely concentrating on the consolidated results as well as the results of our insurance operations through Bajaj Allianz General Insurance and Bajaj Allianz Life Insurance Companies. Bajaj Finance, another major subsidiary of ours, which is listed, has already had its conference call. However, if there are any high-level questions, we will be glad to take that as well. We will not be taking any questions on the status of Allianz's stake in our insurance companies. The status has remained the same as at the end of the previous quarter and there is no change.

Any statement that may look like forward-looking statements are just estimates and do not constitute an assurance or indication of any future performance result. As required by regulation, BFS has adopted Indian Accounting Standards from FY2019 i.e. last year. The insurance companies however are not covered under Ind-AS, they have prepared Ind-AS financials only for the purpose of consolidation. Accordingly, for BAGIC and BALIC, the standalone numbers reported below are based on non-Ind AS accounting standards as applicable to insurance companies. The standalone numbers of BAGIC and BALIC are given in the investor presentation, which was uploaded in our website yesterday is also on the Indian GAAP basis. However, the consolidated results of BFS will reflect the Ind-AS adjusted numbers of BAGIC and BALIC.

Let me now take you through to the key highlights of the quarter. All the three companies, BFL, BAGIC and BALIC have recorded strong growth in premiums. BFL has continued its stellar performance, it has recorded highest ever quarterly consolidated profit again boosted by strong growth and solid operating performance. BFL's growth was also aided by the lower corporate tax rate. Both BFL and BAGIC have already opted for the lower tax rate of 25.17% including surcharge for this financial year. BFL recorded year-on-year growth of 35% in consolidated AUM, 41% in consolidated total income and 52% in consolidated profit after tax.

Given the general slowdown in the economy, we believe this growth is quite exceptional and it is once again a testimony of the strong momentum that BFL is keeping not only in topline but in bottomline as well.

The GNPA and NNPA as per expected credit loss method under Ind-AS was 1.71% and 0.70% respectively. Excluding the provisions for IL&FS, made in the previous quarters, the GNPA and NNPA would have been 1.45% and 0.59%, respectively.

Bajaj Housing Finance Limited, BHFL, closed the quarter with an AUM of 35,035 Crores with 115% Y-o-Y growth and the profit after tax of 131 Crores, which for the last year was 37 Crores. BHFL recorded an annualized ROTA of 2.1% for Q3 FY2020, which is an encouraging sign for us.

Higher claim ratios including losses in crop business from Maharashtra and Madhya Pradesh affected the underwriting results for the quarter of BAGIC. BAGIC combined ratio for Q3 was 103.6%, which increased as a result of higher claim ratio of 72.6% for the quarter as against 64.3% in Q3 of FY2019. The claim ratio increases were largely because of losses in motor OD and crop insurance segments. BAGIC's profit after tax decreased due to the higher underwriting losses and they were partly offset by higher capital gains of 58 Crores and the lower tax rate as well.

BALIC recorded excellent growth in new rated individual premium, renewal premium and gross premium. BALIC also recorded growth in profit after tax, which was also helped by a higher profit on sale of investments and a lower tax expense. BALIC AUM crossed 60,000 Crores during the quarter.

Before we open up for Q&A, I would like to inform you that from February 1, 2020, Mr. Bharat Kalsi, who has been with us for the last few months, will be taking over as the CFO of BALIC; Ramandeep, the CFO of BALIC will be moving to BAGIC, where he will take over from Milind Choudhari, who will retire in April. This is a planned succession, as part of our group succession planning.

Before I pass it on for Q&A, I would like to highlight one more point. Over the last few quarters, we have found that we have explained in great detail our approach to crop insurance business and various segments of business. So, we would very much appreciate if we focus on the results for the quarter. We have the team from BAGIC and BALIC led by Tapan and Tarun with us in the call, and they would be assisting us in giving us appropriate replies to your questions.

Finally, to come down to the consolidated results, the consolidated total income was up 31% at 14561 Crores, the consolidated profit after tax was up 32% at 1126 Crores. Bajaj Finance consolidated profit after tax was up 52% at 1614 Crores. General Insurance profit after tax was 191 Crores for the quarter and life insurance shareholders profit after tax was 143 Crores, which is an increase of 28%.

For the nine months, the total income is up to 9% at 41,057 Crores, the consolidated profit after tax was 3,175 Crores, which is 33% higher than last year. Bajaj Finance consolidated profit after tax was higher by 53% at 4,316 Crores and the General Insurance profit after tax 695 Crores, which is flat compared to the previous year figure of 697 Crores and the life insurance shareholders profit after tax is at 412 Crores and is higher by 6% over the previous year. I now open the floor for questions and answers.

**Moderator**: Thank you very much. We will now begin the question and answer session. The first question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

**Hitesh Gulati**: Sir, I just wanted to know the advance premium number from long-term motor third-party policies in our General Insurance business?

**Milind Choudhari**: Rs 683 Crores.

**Hitesh Gulati**: Just also wanted to understand Sir that in motor own damage the claim ratios are moving slightly upwards because of competition, but motor third-party we are able to maintain the claim ratios, so are we like pretty confident that this is the trend in motor third-party that claim ratios are going to be stable or do we see any impact coming here as well?

**S. Sreenivasan**: Let me take this. In the General Insurance business, as you know, our third-party claim ratios have always been fairly good and last year we did give out our reserving triangles as well for the benefit of the investing community. In the General Insurance business, as far as claim ratios go, we cannot take any quarter as a trend and we have to look at a long-term trend and we have been having a reasonably good performance for motor third-party over the last two to three years. Going forward, we will have to wait and see how things evolve. Yes, in the past we have been getting price increases, but each year the rate of increase has been lower than the previous year. Of course, the overall industry performance will also determine how rate increases will happen going forward. The new Motor Vehicles Act has come into force; it is too early to say what the impact of the new Motor Vehicles Act will be. There is an expectation that the time for reporting claims will shorten. So, in the initial stage, the part of the float, which remains with us from the time of loss till the time of reporting, may reduce. At the same time, the settlement of the cases still has to go through the MACT and other courts, so therefore the settlement periods, the court period as of now there is no indication that they are going to come down. Faster reporting could also mean that there will be fewer frauds and timely investigation of claims, which normally happen after the first year and therefore these are trends that we will be watching carefully, and evaluating. Tapan would you like to add anything to that?

**Tapan Singhel**: No, Sreeni, I think you summed it up very well.

**Hitesh Gulati**: Thank you Sir. That is it from my side.

**Moderator**: Thank you. The next question is from the line of HR Gala from Finvest Advisors. Please go ahead.

**HR Gala**: Congratulations for really good set of numbers. Bajaj Finance really, pleasantly surprised us yesterday. Talking about our Life and General, you said that the taxation has been lower, so we have adopted this 25.17% in insurance company also?

**S. Sreenivasan**: Well, as far as BAGIC is concerned, it is applicable because BAGIC has adopted 25.17%, and this was announced last quarter itself. As far as Life Insurance business is concerned, they are not covered by the new tax change because they are under a different tax regime where the effective tax rate is at 14.56%.

**HR Gala**: Okay. So BAGIC has already adopted?

**S. Sreenivasan**: BAGIC has adopted, yes.

**HR Gala**: Now Sir, as far as the crop is concerned, which has been mainly the reason for underwriting loss, how do you see fourth quarter panning out?

**S. Sreenivasan**: See crop is a business we do. It is a short-term business. There is a kharif season and the rabi season. Each year depending on the reinsurance terms, depending on the way we assess the market and the performance of the past years and the general feel of the market, we will decide whether to quote or not and which clusters to quote. That has already happened. Obviously, in this business, as we have always been saying, once in 3 to 4 years, one will have a really bad year. This year has been exceptionally bad because we had rains even in October and November. Even after the harvest there were losses. So therefore, this is the kind of loss this business will take. However, if we look at the last 3 – 4 years, this has been a reasonably good business for us and that is where we stand. Going forward, we will continue to do the business, but we cannot say how much we will do. That depends on our assessment of the market. We may or may not participate. Last year, we did not participate in kharif; we participated in rabi. This year we have done in kharif; we will be participating in the modest way in rabi, but next year is a different story altogether. So, there are multiple factors basis on which we determine whether we participate or not. This is not a recurring retail business. Does that answer your question?

**HR Gala**: Yes.

**HR Gala**: Okay, I understand. Also, third question is regarding the impairment of some of the troubled bonds, etc., which we have, we still have to provide 115 Crores in BALIC?

**S. Sreenivasan**: Of?

**HR Gala**: Of the nonperforming.

**S. Sreenivasan**: If we take company-by-company, last year, we first had the IL&FS, which we provided 100% in both the companies, so there is nothing to be provided for in those cases because we are holding the unsecured paper there. As far as DHFL is concerned, we have provided 60% of our holding in Q1. We are waiting for further information as it has been referred to the IBC and we are awaiting what further action comes out of that. As of now we are comfortable with this provision.

**HR Gala**: Okay. So, these were the only two accounts?

**S. Sreenivasan**: These are the only two, which are not performing. All the others are performing assets and what we have shown as stressed assets are only those assets where in our public disclosures, we have since July of 2019 indicated that it has been downgraded since we bought it. It does not mean that they are non-performing, they are all performing assets. As of now, they are paying interest and we have no reason to believe they will not pay in future as of now.

**HR Gala**: The last question on BALIC. We do not report the VNB margin, but last year we had 6.9%, so what is your expectation, will it remain in that range or because of the Axis Bank that we have added there could be some high upfront cost?

**S. Sreenivasan**: Next year we will review with the company whether we need to disclose it at least half year. That is the call we will take early next year. As of now I can only say that the trend is positive. We are very hopeful because in the Life business what happens in the last quarter is very critical in terms of topline and therefore a substantial proportion of one's expense overruns actually come down in Q4 because the expenses do not go up proportionately in the last quarter. So that is a big swing, which is why we have chosen to report it only once a year. Tarun, would you like to add anything to it?

**Tarun Chugh**: I think broadly you have addressed. Let me just add one more point to that: we are actively monitoring our product mix and channel mix. That too contributes to NBV and our intention is to keep growing our NBV margins and more important to me actually is the absolute NBV.

**HR Gala**: As far as the product mix, as you rightly said, is very important, now we see from the trend that now ULIP is contributing relatively lesser percentage, so our focus will be more on the non-par, par protection, how are things going to move from here on?

**Tarun Chugh**: See, it is a balanced approach. From higher ULIP we are now down to way lower ULIPs. As a company last Q3 we had 61% ULIP, we are down to 52% ULIP. We still believe ULIP as a product is particularly for the affluent and the HNI in larger cities and has good acceptance. Again, there is a significant move towards non-par, par. We were not in the term business and now we have launched our term plan as well. As we mentioned during our last call, we have started selling the pure protection business.

**HR Gala**: Okay. So as a result of change in product mix you see the positive trend in VNB margin should happen because their profit margins are probably relatively better as compared to in ULIP is that correct?

**Tarun Chugh**: Yes. See I will always be careful talking about the future. Yes, but the focus is to try to get it up.

**Ramandeep Singh S**: On a sustained basis, you are right, it should be, but like we discussed earlier we have made some investments in terms of manpower for Axis Bank, so like Tarun rightly said we will have to wait and watch how Q4 plays out for us and then give some guidance.

**HR Gala**: Okay and how is the Axis Bank progressing?

**Tarun Chugh**: So as Raman said, we have started the system integration. Starting up with a new partner usually takes some time and that is quite progressive in the way we are working. So, the system integrations is in process & we are trying to do frictionless processes and of course there is hiring that is currently going on.

**HR Gala**: Thank you very much. Wish you all the best.

**Moderator**: The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

**Nidhesh Jain**: Sir, firstly, in General Insurance, especially in motor OD segment, we have been seeing consistent increase in loss ratio and that is true for peers as well as industry. So, do you expect that trend to reverse next year or we should expect sustained higher loss ratio in motor OD?

**Tapan Singhel**: It is a fair question. So, there are two components to the increase in motor OD loss ratio this year. One component is if you see there has been a series of floods. So, flood also has an impact in the motor OD ratio because a lot of losses happen when water goes into the car more than what is supposed to be going into. The second is the discounting in motor has increased when MISP (Motor Insurance Service Provider) Guideline was implemented, and the discount increases, and then obviously the premium that you realized per vehicle goes down. When the overall premium goes down the ratio goes higher. Now we are more confident. that the ratio may change if flood losses next year are lower than what is today. On discounting, I think more or less industry has reached the peak. So, I do not see it going forward any more in the next year. So, if a reduction happens next year it will predominantly be because if the floods are less than what it was this year. Does that answer your question?

**Nidhesh Jain**: Sure Sir. On pricing you are not seeing any positive relief, pricing continues to remain subdued?

**Tapan Singhel**: Yes. If you look at it, overall, also the motor combined ratio for the industry also, there have been an increase by several percentage points. . Increase in combined ratio may happen if the TP price increase does not come the way industry expects it to be; then there would be a price increase happening in the motor OD part of the business, but predominantly there will not be a very significant price increase by the lowering of discount, if I say so, next year compared to what it is; this is my personal feeling. .

**Nidhesh Jain**: Sure Sir. Secondly, in the General Insurance business, we have seen expense ratio also going up despite decent growth coming from crop insurance where the operating expenses should not be material so what is the reason for that?

**Tapan Singhel**: Yes. So, if you look at the expense ratio moving up predominantly, if I look at, let us say, our company, we are doing a massive transformation on the IT space. We are investing a lot in that and we also have got new relationships; we invested in manpower for some relationships. Those obviously taper down as the year progresses and the coming year. Now from an industry perspective, if you look at the growth for the industry, is now coming down. Now if you look at for the month of December, the growth of the industry was a low single-digit number. The general industry normally follows the economic growth of the country. So that is about 8 to 9 months lag to the economic growth of the country. So as the slowdown is there, it starts reflecting into the insurance growth also, which is where the reflection is coming through right now. So, when the industry growth starts coming down, obviously, the industry expense ratio will start moving up because the ratio again of premium to the expense ratio. Does that answer your question?

**Nidhesh Jain**: Yes, and on Life Insurance, in this quarter specifically we have seen strong growth in institutional channel - NB institutional business. Does it include Axis Bank?

**Ramandeep Singh S**: Not yet.

**Nidhesh Jain**: Thank you Sir. That's it from my side.

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

**Avinash Singh**: Two questions on BAGIC. First one, looking at, the health line that the claims ratio has been somewhere in the range of 85% to 90%. Now given the sort of a low float and all those things and adding the opex and commissions, probably, of course, overall underwriting losses will be meaningful. Are you comfortable with this, do you see this to be this range bound or do you expect or taking certain initiative to improve this and what would be sort of your comfort zone as far as the claims ratio in the health segment is concerned. That is the question number one and second question is more from that sort of an industry dynamics perspective. Given the recent decisions that the regulator has taken in the context of how distribution is being done by the large OEM-related driven brokers, do you see that can bring meaningful change to the industry distribution dynamics or it is just going to be very slow and not very, very impactful decisions?

**S. Sreenivasan**: Avinash, can I take the second question first and then I will transfer to Tapan? See, there has been a regulatory order against some motor insurance service providers who are organized as brokers; however, this is a legal matter. Those companies, we believe, will go to the Securities Appellate Tribunal and we will have to wait and see what the order is like because there are many multiple issues, which are raised in that order and it is for appropriate legal forum to comment on the appropriateness of that. So, till such time we are not taking any call on that. We will wait and see what happens. These things take time. In fact, today only I was reading about a very old order on a Life company where it has been referred back to the regulator to review the amount of disgorgement that company was asked to do, so these things will take time. On the second question, the health piece, Tapan, would you like to take it?

**Tapan Singhel**: Sorry, I missed the question, Sreeni. Could you just repeat the question once again?

**S. Sreenivasan**: The question was that the health loss ratios are about 84% - 85%. He wants to know whether we are comfortable with that loss ratio, or which way do we see it moving as we go forward?

**Tapan Singhel**: Okay. So, if you look at the health loss ratio, predominantly, we had an extended monsoon this time. Now if you predominantly look at the entire industry health loss ratios of retail, you will find the major two reasons are fevers of unknown reasons, dengue and the chikungunya, which actually picks up on the past three, four months and this year it was extended. So, the pace at which the loss ratio moved up was higher compared to what it was last year. Coming to the point, so if you look at the health loss ratio movement has happened, it is because of this reason. Now going forward, on the retail health basis, the loss ratio, I believe would be constantly around 73% to 75% is where it would be and that is how it would stabilize. The movement up is because of the monsoon, which has been there and I think that it will come down from where it is today.

**Avinash Singh**: Yes. Given your mix of, the retail and group, so expenses would be different, what would be sort of your comfort zone where you think that, your ROEs, your capital backing that will be respectable, is it like on a portfolio versus 80% where is the comfort zone?

**Tapan Singhel**: No, I will just say between 73% and 75%.

**Avinash Singh**: On an overall portfolio or just for retail?

**Tapan Singhel**: No, overall also. If you back it up, if you just talking a pure group, group will always be a 95% plus. If you see this year we have reduced our group exposure and we are pushing retail higher. So overall if you have a health loss ratio between 73% and 75%, then you get the required ROC.

**S. Sreenivasan**: See, Avinash, just to add to what Tapan said. While we reduce group, we have already contracts in place so the claims will continue to come. That is the nature of the business. It normally takes about 9 months to 12 months before you see the result of any action that you take. Having said that we started this initiative on group health, I think by the Tapan and his team have started this almost a year ago and now we will start seeing hopefully better results and the mix between group and individual is a very complex issue , which keeps changing every time depending on how the market behaves, sometimes this is profitable, sometimes that is profitable, so we will have to wait and see how it comes out as we go along.

**Avinash Singh**: Your Health Insurance business sold on BANCA platform, does that come under group umbrella or individual, in classification, it will be retail, but how do you classify if you are selling a certain health product offered on a BANCA platform?

**Milind Choudhari**: No. I think just to clarify on that, these products, which are sold through banks, they come in the group platform or a group classification.

**Avinash Singh**: Okay. Yes, but behaviorally it will be more of a retail product. Okay, very clear.

**Milind Choudhari**: Yes, thanks.

**Moderator**: Thank you. The next question is from the line of Ajox Henry from B&K Securities. Please go ahead. As there is no reply from the current participant, we move to the next question from the line of Vinod Rajamani from HSBC. Please go head.

**Vinod Rajamani**: I have two questions. One is what is the mix in terms of two-wheeler, passenger cars and CVs for your motor portfolio and the second one is that now reinsurers are signaling that there is going to be some price hike in fire. So how do you see the fire portfolio sort of developing?

**Milind Choudhari**: Yes. In terms of the business mix as such, overall, around for the 9 months, 2-wheeler is around 15%, 4-wheeler is 46% and commercial vehicles is 38% and I think remaining 2% comes from some miscellaneous classes, which is motor others and extended warranties.

**Vinod Rajamani**: Thanks for answering that question. The second question was on fire. So, reinsurers are signaling that there is going to be some kind of price hike in the fire portfolio, so how do you kind of visualize how that portfolio is going to develop for you specifically?

**Tapan Singhel**: Now if you look at the fire and the statement that you made of reinsurers. It is not reinsurers who are signaling anything on this. What GIC has said, which is the Indian National Reinsurer that based on the loss ratio of the industry, their minimum price what they would expect in the treaty would be fixed. Now the loss ratios are being taken from IIB, which is a central depository of the data of insurance companies . The occupancy, which has lower loss ratio - their prices will go down and the occupancy, which has higher loss ratio - their prices will move up. So, the statement that overall there is a price increase is not a right way to put it, the price increase and decrease will happen on the portfolio performance, which is, since most of our underwriting consideration that GIC has taken. It is not something which every reinsurer is taking on that basis, but obviously they would look for how the portfolios are developing. So, some lines of businesses the movement will happen. For some it will go down. So, the ones which have performed well, there, premium will decrease. So, therefore the average there would be some increase in what we see, but it is not something which you would see a huge significant increase happening on that basis and they are just pegging the underwriting compared to the loss ratios. That is what they are doing.

**Vinod Rajamani**: Thank you so much. Thanks for answering those questions.

**Moderator**: Thank you. The next question is from the line of Ravi Mehta from Deep Financial. Please go ahead.

**Ravi Mehta**: I have a broad question on BAGIC strategy, so are we opting for growth over underwriting profits or this year is an aberration?

**Tapan Singhel**: Okay. So, if you look at our strategy, which has not differed over time, we keep on looking at opportunity to grow and we also remain an underwriting company. That has been a clear strategy and that is what it is. If you see this year the things which hit us pretty bad were the series of floods, which happened and since the BAGIC, even in the fire portfolio, we are predominantly a retail player and we also have some promotion, which is there, but because we have a big retail book in the fire portfolio and since we also have a big book in the private car and health also because of those rains and change monsoon also have an effect. So, you will see a loss ratio movement, which has happened in all these three lines of business because of extended floods and series of floods, which happened. Now when you are a player, which has a good retention because you want to be an underwriting company and when you have series of losses happening, it hits you more compared to the market, which is there and that is why you will see an increase in our combined ratio, but our strategy is very clear, we want to be able to remain a good underwriting company because our belief is good underwriting company will be able to serve customers better. Does that answer your question?

**Ravi Mehta**: Sure. So just to ask you further that, but any thoughts on bringing down underwriting profits for growth, is there a thought going around?

**Tapan Singhel**: No, why should we change our thoughts. We have sustained with philosophy for so many years. We will continue the way it is.

**Ravi Mehta**: Probably a 95% - 96% kind of a combined ratio is something that you have already targeted.

**Tapan Singhel**: See those are forward-looking statements that you have been asking me. All I am saying is that we believed in strong underwriting. We do not change the philosophy there. This year had series of floods, which has happened, which has obviously affected our results, but in the building General Insurance business you see the volatility all across. So unlike other businesses, GI business has high volatility in terms of events. So, if you look at this year, let us say, the Australian fire or the cyclone in Japan. So, you have these cycles in the GI business. So, it is a normal cycle. I do not think that these cycles will start to evolve how the philosophy of our thoughts will reach.

**Ravi Mehta**: Thanks. That is helpful.

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

**Rishi Jhunjhunwala**: Just one thing on the provisioning made on the investments in BAGIC, that number seems to have gone down, has there been any reversal?

**Milind Choudhari**: No, nothing, no reversal.

**Rishi Jhunjhunwala**: So, in Q2 PPT we have said impairment provided for was 1231 million whereas now we have said 742 million?

**Milind Choudhari**: So, I think the 123 Crores is the total portfolio on which 60% provision is made.

**Rishi Jhunjhunwala**: Okay and because the disclosure last time we did said impairment provided for 1231 million so that is you are mentioning about the portfolio?

**Milind Choudhari**: Yes, right.

**Rishi Jhunjhunwala**: Okay. So, you are saying 60% has been provided now?

**Milind Choudhari**: Yes, we are maintaining the same.

**Rishi Jhunjhunwala**: Understood. Sir, second is, just wanted to get some understanding on the crop in terms of split of the loss ratio, how much is attributed to the excess loss cover versus actual experience on losses, so our year-to-date crop loss ratio is 110%, I just wanted to understand the split between the loss provided for and the excess loss cover cost?

**Milind Choudhari**: See, basically, whatever the losses are there, they are currently within the threshold only because our excess of loss treaty will trigger only after 130%.

**Rishi Jhunjhunwala**: Okay. But there would be cost associated with taking that treaty I am just trying to understand, is it like 10% - 15%?

**Milind Choudhari**: See, that cost keeps varying because it has different variables. So, I will not be able to tell you exactly what the cost effect is because it keeps changing based on the impact of other catastrophes also, so whatever cover we would have taken is covered over and above the overall crop also, which is entity level catastrophe cover.

**Rishi Jhunjhunwala**: Understood and in motor, basically, you mentioned 2-wheeler breakdown is about 15%. Just wanted to understand from a slightly longer-term perspective where do we want to take it to considering that, clearly, if you really look at the regulatory changes that have happened, there is more focus around 2-wheeler compliance or at least from a long-term TP perspective and all that, so what percentage of OEMs are we already tied and is there a restriction in terms of how much more will be there?

**Tapan Singhel**: Let me take this question. Tapan here. So, if you looked at it, the way we plan the business is, wherever we have a good opportunity in terms of a good portfolio and our service network is good, we do that business. So, 2-wheeler, as you are aware, there was **a** significant proportion of 2-wheeler on the road that were still uninsured and the impact of the changes was felt for a couple of months and then again it is going back to the normal. So, if because of the new Act, the people awareness goes up and people insurance goes up, obviously we will take our reasonable share of market in that business. In the OEM side, so we keep on looking at a good portfolio and then keep on trying that. That is our regular business model. Does that answer your question?

**Rishi Jhunjhunwala**: Yes. Just if you can give some sense in terms of how many of the OEMS we are tied up in terms of percentage?

**Tapan Singhel**: We have 3 or 4 OEMs tied up right now.

**Rishi Jhunjhunwala**: Fair enough and one last thing any update you can provide on the Axis Bank Banca in terms of how the ramp-up has happened, have we started getting business and what is the plan from a 12-to 24-month perspective?

**Tarun Chugh**: Yes. The ramp-up has started. I do not think we can get into too much details about their own plans and what we tend to do in detail, but what I would broadly say that it is a step-wise process and structured methodology. We have already started hiring people. There are some segments, which are opening up. Pilots are already on for the month of January. Some business might start coming in Q4. Will it be very significant? not really, but it will be there and then I think the effect will start really showing up in Q1 or Q2 next year.

**Rishi Jhunjhunwala**: Great and sorry I am going back to the first question. In your disclosures you have mentioned BAGIC, the total nonperforming assets are 123 Crores out of it 74 Crores have been provided, which I guess is 60% this number last time in Q2 was 172 Crores and 123 Crores am I reading it wrongly?

**Milind Choudhari**: There would be some error. I think we are continuing with the same provision. Because IL&FS has been provided last year itself so including IL&FS it will be 123 Crores.

**Rishi Jhunjhunwala**: Alright maybe I will take it offline. Thank you.

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

**Madhukar Ladha**: Just following up on the previous question, that was, I had the similar question and in addition to that in Q3 there is an increase in downgraded investments from 560 Crores to 713 Crores Q-o-Q what is this on account of, what exposure is this?

**S. Sreenivasan**: Milind, Raman, has there anything added to the downgraded list in this quarter?

**Ramandeep Singh S**: No, I do not think we have added anything.

**S. Sreenivasan**: Is it?

**Ramandeep Singh S**: Yes.

**S. Sreenivasan**: Maybe we added Yes Bank. We will have to check that. I think it will be in the public disclosures anyway.

**Madhukar Ladha**: In BALIC, correspondingly, there has been a decline in the total stressed exposures on a quarter-over-quarter basis.

**S. Sreenivasan**: Some of them we have sold during the quarter.

**Madhukar Ladha**: Okay. I also noticed that, on a quarter-over-quarter basis, our commission and expense ratios are going up. So, what is this primarily on account of?

**Ramandeep Singh S**: Sorry, this is for BAGIC or BALIC?

**Madhukar Ladha**: I am sorry, BAGIC.

**Milind Choudhari**: See commission expenses are directly in proportion to what kind of premium we are procuring and the kind of competition, which is going in the market. So commission rates actually will keep fluctuating depending on the market situations and I think on the expenses part, Tapan has already mentioned earlier that the kind of investments we have been making at the beginning of the year and some of the expenses, the investments, which are getting tapered, I think you will see an improvement towards the end of the year in terms of the overall expense ratio.

**Madhukar Ladha**: I understand the expenses because we are obviously widening our distribution reach with the additional partners, but is there anything specifically happening in the market, which suggests that you are paying higher commissions for certain segments or businesses?

**Milind Choudhari**: That I will not be able to indicate on the call with respect to which segments we are paying higher commissions.

**Madhukar Ladha**: Okay, but there are certain places where competitive intensity is high.

**Milind Choudhari**: Of course, I think our strength lies in terms of segmentation and underwriting. In order to attract the right segments, we need to pay higher in some places and lower in some places.

**Madhukar Ladha**: Alright Sir. On BALIC, can you disclose what would be the sort of strategy with Axis Bank is and how much can we scale up with them, are there any targets that I am sure you will have some targets. Can you talk a little bit about that over the next one, two years, what the sort of numbers can we achieve from there?

**S. Sreenivasan**: See probably, before I pass it on to Tarun, I will take that question. If you roughly look at the total business of Axis that is about the total individual related premium of BALIC from all channels. We already do a lot of group business with Axis anyway, which is a group protection business. So therefore, even if we get a reasonable share of that, I do not want to put a number there, which Tarun will explain, it is still a significant growth for us and as we build the relationship it will continue to grow. As of now we have not put any numbers, we are still discussing with Axis and we are integrating the systems and putting together the whole platform. Tarun?

**Tarun Chugh**: Yes, I think, Sreeni has directionally said what is correct. I know there is a lot of excitement around Axis externally and internally from our side as well, but it is a long-term relationship that we are getting into. We do want to take a lot of that share as well, but then there is a process towards improving the share and I can assure you it will be a significant part of our business, but as the discussions moves & at an appropriate time we will keep giving you the guidance and there is still some more time before the momentum builds up.

**Ramandeep Singh S**: At least on the journey, which we started on the group side, a lot of momentum has indeed picked up and for nine months we ended up doing about 170 Crores of business, so at least that side it has picked up. Like Tarun said on retail we will come back maybe after a quarter or two.

**Madhukar Ladha**: Understood Sir. Alright. Thank you for taking my questions.

**Moderator**: Thank you. The next question is from the line of HR Gala from Finvest Advisors. Please go ahead.

**HR Gala**: I just wanted to know this Chinese virus. Can it become a big problem for the insurance companies in India?

**S. Sreenivasan**: Good question. I think in the past, we have had scares like these, we had SARS, we had H1N1, we had bird flu and things like that, but so far, we have not seen a pandemic in India, which resulted in a lot of claims. It largely depends on the cost of treatment, how long they will get treatment and whether, in fact, it breaks out in India in a big way or not. The positive side of that is, today, people seem to be better equipped. We have started screening from day one in all the airports and thousands of people have already been screened, which is a positive sign. The negative sign is because it is from China nobody really knows what it is. Therefore, we will have to wait and see. The market penetrations are a lot higher in terms of what it was say, 5 – 6 years ago when we had H1N1. Therefore, the chance is that more people will claim, if it happens, is also there, but these are things that we will have to wait and see how it turns out.

**HR Gala**: Thank you.

**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 what would our combined ratio would look if you exclude the flood related losses or the losses how it would look because 103 % combined ratio is including the flood events excluding it and what would be the likely number would be for us or is it comfortable to last year?

**S. Sreenivasan**: I would presume it will be closer to between 101 % and 102 %.

**Sanket Godha**: Okay. Perfect and just two questions on Life. When I go and check Policy Bazaar the protection pricing what we are offering is now the lowest among the industry and just wanted to understand because most of the life insurers in the call have said that the reinsurance rates are hardening in the individual protection business. So, whether this pricing what we are offering in the protection business is sustainable or we will revisit if the rates harden in future?

**Tarun Chugh**: Yes, I think it is a very good question. I really appreciate that you have been watching the sector very closely. Yes, the prices will harden and yes, we will increase prices at the appropriate time and it will be a pass-through the way we are looking at it, but there is no change from our side in the quarter. This is a strategy that we follow because to break the clutter. It is a profitable business at this pricing itself. What we have done is we have taken a lot of mitigants in place, so none of our policies can be issued on a non-medical basis. Hence with 100% medical underwriting, we are getting very good quality lives. The percentage of impact from Policy Bazaar, we have good data of lives, which are upwards of 10 lakhs of annual income is a significant proportion of this quality. As I It is very good quality that is coming in and because they are all medically appraised, so the underwriting is also so much more comfortable. The reinsurers have really taken this call because of the not so good experience including non-medical underwriting cases; , which is why we took that call . So strategically, I think it has really worked well for us. We are seeing a good momentum in our agency business and now with Policy Bazaar our systems/processes are integrated, and this will remain a key product in our portfolio. You should expect a price increase from us also, but this quarter there is not going to be any increase.

**Sanket Godha**: Internally do we have any target of individual protection to be contributing to our individual rated premium in, say, next 2 or 3 years down the line what the appropriate mix we are looking at and which channel will drive the growth?

**Tarun Chugh**: Yes. So, what happens is that, currently, because of this pricing we have been restricted in terms of how many cities we can sell. Currently we are selling only in 150 locations. Hence as a result, the term proportion is not going to be very high, it is going to pick-up gradually . I think in the last or the call prior to that, I had explained that we were getting our claim process payouts processes right and they are now looking very strong, I am quite satisfied with the way we have moved on our claim handling capabilities. You will see that our claim settlement ratio has already moved to upwards of 98.5% or around, which is very good. First, that has to improve. The protection business will be a key feature in our portfolio and will go up gradually as it is a strategic call. I would rather have good quality lives than have any kind of lives .

**Sanket Godha**: And on the distribution will it be more Policy Bazaar driven business model for us or we will be focusing, say, on the agency and/or also on the incremental Axis Bank tie-up what we are getting into?

**Tarun Chugh**: So, every channel will sell. Agency at this point is incidentally selling much more than Policy Bazaar and that has been a good movement for us. Of course, then what it does, it hits our average premium in agency. The protection premium is under 30,000, wherein our average premium for Agency is well above 55000, but it is a good quality customer, bottomline is pretty good. Policy Bazaar has just started selling in the last two weeks because it takes a little bit more time in terms of process integration. The other channels including Axis Bank will also be selling.

**Sanket Godha**: Will you mind to quantify the monthly run rate of the business how you have seen for the last two, two-and-a-half months since we have started doing it?

**Tarun Chugh**: No, I do not think I will be able to give you that.

**Sanket Godha**: Okay and lastly on the group protection business, I just wanted to know 1,250 Crores of business what we did it for 9 months, can we get that breakdown into channels like BAF, Bandhan Bank and others and also within the products, consumer durables, MFIs and mortgages?

**Tarun Chugh**: Raman will answer that?

**Ramandeep Singh S**: So, I have it partner-segment wise. We do not have it at the consumer segment level. Like we have discussed in the past, out of 1,250 Crores, it is largely divided in two parts. One is the MFI piece and then there is the other, which is the other credit protection. So, of 1,250 Crores about 700 Crores is credit protection through MFI and the balance is through banks and NBFCs. Of which like I mentioned earlier Axis Bank is about 170 Crores.

**Sanket Godha**: And Bajaj Finance would be?

**Ramandeep Singh S**: Bajaj Finance is another 250 Crores.

**Sanket Godha**: Fine. Thanks.

**Moderator**: Thank you. The next question is from the line of Adarsh Parasrampuria from Nomura. Please go ahead.

**Milind Choudhari**: Just before that I wanted to reconfirm what Sreeni mentioned about downgrade of investments in BAGIC, it is on account of Yes Bank only, 75 Crores exposure, which is there.

**Adarsh Parasrampuria**: Okay. Sir, I just had a repeat question on the protection rates, the reinsurers are expecting to hike. You did mention about the experience on wherever policies do not have medical, so can you just confirm whether it is mostly related to that or there are more factors because when we discussed with a few insurers it seems that in general as the penetration is expanding, including, say, online platforms, the profile of customers that is in general coming is because the penetration you are having different experiences, so a different set of profiles are entering the protection space, so if you can just kind of talk through what is apart from what you mentioned medical, what is leading to them to hike the reinsurance rates?

**Tarun Chugh**: Yes. Very good question. It is early days for us to be able to claim the right to knowledge on this. So, let me not for a minute even imagine that I can give you a perfect answer, but let me just take it up based on my experience otherwise. See, the moment you see the customer face-to-face and the moment you are doing the proper due diligence, which is through medical usually then at least you are able to get the anti-selection out of the entire portfolio. Why did I answer the earlier question from Spark that we want to do this gradually is exactly the reason. Some companies, for whatever reasons, are going for numbers, and it is a strategy that works for them. to see what, let us say, 200,000, 300,000, or even 100,000 lives, then maybe from an reinsurer perspective because we reinsure most of the risk, you can start relaxing lots of these issues, but like BALIC is starting slow and we have our number of lives covered will, of course, is increasing quite nicely. We are quite happy with this, but having said that, there will still be few thousands, maybe under 10000 by the end of this quarter. So, there is a long way to go for anybody to relax. From a reinsurer perspective, life is very different because it all depends on whether they have been able to price correctly at partner-level based on the experiences they see and then they get tied to that price and that is where the problem emerges. So yes, lately, given the fact that term is in focus & basis the current experience, reinsurers are increasing the pricing. Nobody wants to lose business here. So, they are very clearly doing it in a calibrated manner. If you do realize and just go back in history, we have reduced pricing and term rates started selling in some significant numbers in online and otherwise only around 2009-2010. So, in the last 10 years prices have come off crazily almost by 60% - 70%. So, we did go one way. Now there needs to be some recalibration that is required. Overall pricing scale will be quite handsome, we will be quite comfortable with the customer, but this is a process of experiential learning and then we will be correcting because the data was not there earlier, only LIC would possibly have that data. They do not share that data. So as long as we stick to medicals & proper due diligence, which is the process that we are using, pricing can be controlled, but the moment it starts growing volumes, and of course, there is going to be a balancing act that people will have to play. So, you already heard a few other CEOs talk about pricing increasing and I think it is imminent. We too will be doing that

**Adarsh Parasrampuria**: I know it is too early, but do you sense that some of these hikes in cost on reinsurance may not be fully passed because everybody wants to do protection, people may be willing to lower the threshold on margins that one operates that in the protection space?

**Tarun Chugh**: God bless who are all will be wanting to do that we are not going to do that. We are very clear. We will pass on the price hike. Because see here you are taking up life for 40-59 years & not a year, which is the case of credit life20s of years, and there are various people are trying to outdo each other in terms of regression or product structures. So, one has to be very careful in the way one handles this. So, I would only recommend that it should be appropriately passed on to the customer. Because like I said it is already down by 70% odd the time it started 10 years back and having said that life insurance companies will have to, of course, take their own calls. Margins on these products are good and if it becomes a dog-eat-dog market does not help, but what I have seen is that if you go for margins with volume, in any case, even the reinsurance rates for some companies will go against their wishes worse than what we even, insurance will price for other companies so it is a balancing act we will have to play.

**S. Sreenivasan**: Actually if I can add to what Tarun said, see when you look at our product mix, and within that, the guaranteed ones and the term are the two major risks where you could end up taking a significant amount of risk and it is not something like a nonlife that comes for renewal every year, so we can decide that, okay, I tried something, it did not work, so I can move on. In Life, you are stuck for a long period, and if you see the experience of countries in the west, largely, these two are the ones, which have really been the significant risk for Life companies. We do not see that kind of issues maybe with the unit-linked product or even the par products although there is a guarantee. I think the way the par product is structured with a 90-10 structure, I think, it is not that significant, but on the non-par guarantees and the non-par risk we need to be a lot more vigilant. What we want to create is what to add what Tarun said is sustainability. We do not want to do something this year because that is a flavor of the year and then next year we find that something has gone wrong and so we have to roll back, which is not good to build a very long-term business like a Life business.

**Adarsh Parasrampuria** : Perfect. Thanks, Tarun and Sreeni.

**Moderator**: Thank you. The next question is from the line of Vinod Rajamani from HSBC. Please go ahead.

**Vinod Rajamani**: Sorry to kind of berate on this, but on this term plan, how much of it is medical underwriting, how much of it, is there no medical underwriting and also what is the combined ratio that, some indication of the combined ratio on term that you are currently facing?

**Tarun Chugh**: See we do not work on the combined ratio. I will answer that one first. There is a different approach that we have because typically it is not a 1-year product. The 1-year product, you can do work with combined ratios.

**Vinod Rajamani**: No, that is right, but just an indication because if you think of it, it is almost like a nonlife product. It is a long-term product, but just in terms of just comparing it just on a standalone, annual basis, what would be the combined if you were to do it?

**Tarun Chugh**: Let me say it again, it is not comparable. There is nothing like combined ratio possible on this. If I was writing a single premium for a one year you can do that because the risk is carried forward for 20, 30 years, so you cannot. It will be based on some assumptions. Also, assumptions basically will result in an NBV and the NBV on these products is very good. It is the best in all our portfolio, the other is, of course, it is on first year, if you want a blunt answer, it is a higher strain product because, so the PAT takes a hit. Before we grow and of course, also if the underwriting is not right then more will be the strain and therefore it will hit on PAT. It is that something we will have to be careful because we will have a lot of growth engines including Axis and we will have term. So that could, that does typically hit on PAT. But of course, the NBV is very good and that results impact in subsequent years.

**S. Sreenivasan**: Let me add to what Tarun said. See, the focus of BALIC now is, or rather the most important metric for us is NBV not even the NBM because we have multiple products, some products are inherently having higher margins, some have lower margins and there is always a gray area of how to treat single premium in this. The NBV reflects both the volume and the margin and the breadth of business that we have in terms of the profit maximizers, the scale builders, the ones which are like in between, and we try to balance that in a manner such that we get a desired amount of NBV growth. We have been growing our gross NBV quite strongly over the last 2 – 3 years, obviously over a smaller base. We are very hopeful that over the next 3 to 4 years, we will continue to see good traction on NBV combined with the higher volume leading to lower overruns and better cost control. Within our net of overrun margin, we should see a fairly significant move. Of course, this is forward looking and there are so many assumptions or expectations built into this, but I am just giving you a directional move, what the company is seeking to achieve over the next 3 years is a significant improvement in the NBV.

**Tarun Chugh**: Your first question on medicals and non-medicals. So just to kind of give you comfort, we are currently not writing any business less than 50 lakhs cover. It is mutually, if you look at statistics the more of number of deaths come in 25 lakhs and around and below and sometimes the pricing becomes too tight to be able to handle this in the portfolio. The other piece is we have 100% medical & financial underwriting today and like I answered earlier, this is a long-term sustainable business we want and the better our experience to start with the better will be the belief from the reinsurer to give us good rates and that we can give the benefit to the customer. The other way around, very high volumes, means bad experiences, and therefore, higher rates from the reinsurer and that is something we do not want to do and that becomes in to – too many tactical calls in the entire process. So, we are going around in a very cautious way and I am happy to say that at this point in time and when asked, even like, I would say that among all the insurers, I think we will possibly have the best quality lives coming to us despite the low rate.

**Vinod Rajamani**: Thanks a lot. Thank you.

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

**Nidhesh Jain**: Sir, can you explain how the reinsurance work in protection, when we get the reinsurance coverage that is covered for the entire life of the policy or it is just a 1-year cover?

**Tarun Chugh**: No, it is entire life. That is why the reinsurers are getting worried and increasing price. So that is for the product. It is basically you tie up for the length of the product.

**Nidhesh Jain**: So, on the policies, which are already underwritten, there should not be any significant risk in terms of profitability, but forward policies that we will write if there is a reinsurance price increase and if someone is not able to pass it on there will be an impact on profitability?

**Tarun Chugh**: Yes, it is only that way. The only thing is, of course, of the experience is that there are mortality, this is a direct hit. So that is where the due diligence comes and there is some retention on our books, and then the rest, of course, is ceded to the reinsurer. So, whatever is on our books that of course hits us, but as you can see in the case of other life insurance companies, the reinsurers are facing pressure and therefore the problem and hence , they are increasing price. Life Insurance, we have the money loss on even bad mortality usually is restricted because the retention is lower on books.

**Nidhesh Jain**: And is there any pressure to retain more also from the reinsurers?

**Tarun Chugh**: No. So, it all depends, actually. See reinsurers, if you ask me, if you look at 3000 feet, reinsurers hardly underwrite anything significant on Life. So, the portfolio from a reinsurer perspective they are just about getting started in getting some of the books created. So, they would, they would rather increase the price and keep same retention and that is how the actual model usually works, so there is no pressure as such. Pressure is only to increase pricing, not retention.

**S. Sreenivasan**: See just to add to that. I think the key here is the selection, the type of customer segmentation you do, the kind of data you use. Unfortunately, Life being a product where the higher tickets normally go to the more affluent segments and they tend to be of the older age, so the choice becomes a little bit more complex. However, once we are starting this product with full medicals we will learn that quite well that is why we said gradually and as we gain more experience our long-term goal maybe to retain more and reduce the dependence on reinsurer except where we feel the risk is too high for us to take on any individual case and that is a direction over 3 - 4 years, we may seek to do. As of now, we have not decided, but it is just directionally, this way we are looking at the business. We may cut rates and get business today for something which is 20 years term.

**Tarun Chugh**: Yes. I think that is very good point Sreeni has raised. The moment we get to a number of 1 lakh lives or more lives, maybe I do not need to see too much as well. So rather, and we do have a large capital. So, we could use a little bit of that. But currently, we are where it is.

**S. Sreenivasan**: Again, these are parallel with BAGIC where over the last 15 - 16 years, you see how our retentions have moved up over time as we gain the underwriting knowledge on segments. Some segments are very new to start with liability, for example. Today, we retain a lot more liability than we used to do before. So, this is the process of learning, and it is a very long-term business, so we have to build it carefully and sustainably and that is what all companies are doing.

**Nidhesh Jain**: Sure Sir. That's it from my side.

**Moderator**: Thank You. Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Ms. Bunny Babjee for closing comments.

**Bunny Babjee**: On behalf of JM Financial, I would like to thank Mr. Sreenivasan, the senior management team of the insurance businesses and all participants for joining us on the call today. Thank you so much.

**S. Sreenivasan**: Thank you.

**Moderator**: Thank you. Ladies and gentlemen, on behalf of JM Financial, that concludes this conference. Thank you for joining us. You may now disconnect your lines.