“Bajaj Finserv Limited
Q3 FY2021 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 Q3 FY2021 Earnings Conference Call of Bajaj Finserv hosted by JM Financial. 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 Madam!

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

S. Sreenivasan: Thank you. Good morning, everybody. I welcome everyone to the conference call to discuss the results of Bajaj Finserv Limited for Q3 FY2021. As before, 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 Insurance (BAGIC) and Bajaj Allianz Life Insurance (BALIC); and where material, the stand-alone results of our company, BFS. Bajaj Finance (BFL), which is another major subsidiary of ours, has already had its conference call yesterday; however, if there are any high-level questions on BFL, we would 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 of the end of the previous quarter, and there is 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 result. Remark on Ind AS, as required by regulation, BFS has adopted Ind AS from FY2019. However, the insurance companies are not covered under Ind AS. They have prepared Ind AS financials only for the purpose of consolidation.

Accordingly, for BAGIC and BALIC, the stand-alone numbers reported below are based on the non-Ind AS accounting standards or Indian GAAP as applicable to insurance companies. Our results, the press release accompanying the results and our investor deck have been uploaded on our website yesterday evening. I hope you have all had a chance to go through those.

Now to give you an update on the performance. Conditions, as you know, have been tough, though sequentially, we have seen improvement in business performance, and business conditions in Q3 as compared to Q2. Under these challenging times, our businesses have shifted focus to recovering growth while continuing to manage risk.

In general insurance, though the growth for BAGIC was below industry for the first 2 quarters, there was a sequential recovery that was being witnessed, as seen from the fact that BAGIC reported a growth of 11% in Q3 FY2021 versus the industry growth of 2% and private players growth of 8.6%. This was from a 20% degrowth experienced in Q1 of this year. BAGIC, however, has adopted a calibrated approach to growth. BAGIC is seeking to grow in preferred segments, which are private cars, two-wheelers, commercial lines like property, engineering; and retail health, while remaining cautious on group health. As you are aware, most of the retail health businesses that we do are the indemnity-based retail health business. Within commercial vehicles, passenger vehicles, a segment in which BAGIC has had a strong presence, is yet to reach pre-COVID levels. At the same time, as we mentioned in an earlier call, BAGIC has been conservative in recognizing the potentially higher claims on COVID, increasing claim frequencies and potentially higher third-party claims due to potential interest from MACT. Most of these have panned out as we had expected. To give some more details, the motor segment showed a turnaround since the end of last quarter and hence, during the quarter, motor two-wheeler and motor four-wheeler segments reported growth of 13.1% and 9.6% respectively, while there was a 19% degrowth in commercial vehicles. But, commercial vehicles segment also showed a better quarter-on-quarter performance because for the 9-month period, we have had degrowth of minus 33%.

The demand for retail health insurance has slowed down, partly on account of the fact that growth in the first two quarters for most of the industry as well as for BAGIC was supported by COVID related policies and furthermore, there has been a price increase by many of the players in this quarter, which has dampened the demand. On the other hand, BAGIC continues to be conservative on employer-employee group health business due to excessive price competition, leading to high loss ratios.

Among the commercial lines, property, which is predominantly what we call fire insurance, continues to drive the growth for industry on the back of IIB-based rates. However, rate increases have been higher for riskier segments, while the more profitable segments have seen lower increases. Therefore, significant rate increases are also accompanied by higher risk. In some cases, there has been reduction in rates as well. As you are aware, BAGIC is always focused on the more profitable segments and therefore, the average rate increase may seem lower for BAGIC. Nevertheless, we are very pleased with the overall performance on property, engineering and allied corporate lines. For example, in Q3, our property business grew by 33% and 9-month growth was 39.8%; engineering grew 22.3% in the quarter and 38.5% for the 9 months. Liability also showed a strong growth at 18.5% for Q3 and 14.4% for the 9 months. An important point to note here is that since the property price increase based on the IIB rates, was started since Q4 of FY2020, going forward, price-related rate increases may not be as high as we have seen in the first 9 months of this year. That will apply not only to us but, we believe, for the industry as a whole.

In the case of life insurance, since the opening up of the economy in September, the industry has continued its recovery and private players reported a growth in Q3 for the first time in the last 3 quarters. During the quarter, the industry reported a strong growth in October, but de-grew in November as spending shifted towards consumer goods and durables due to the festive season. Finally, in December, post the festivities; there was a swift recovery in the growth momentum. In fact, BALIC's grew over 40% in the month of December 2020, which is significantly over the industry growth, is a welcome sign, and we are optimistic about maintaining the momentum going into Q4, which is normally a very high sales season for life insurance.

Given the uncertainty due to the pandemic, retail term protection had seen a significant uptake in Q1, but with recent increases in price and possibility of availability of vaccine, there has been a consolidation in demand. On the other hand, while guaranteed products showed a strong preference in H1 FY2021 given the market volatility, the demand for ULIP in Q3 FY2021 has improved on the back of strong recovery in the equity markets. This was also a key driver for growth in Q3, particularly in December. Despite these circumstances, BALIC has done very well, recording a growth in individual-rated NB of 14% in Q3 as against degrowth of 9% for the market and a growth of 3% for the private sector industry. Both BAGIC and BALIC continue to utilize their digital properties and continue to emerge stronger through this crisis.

We have seen a substantial increase in the digital penetration across several parts of the distribution and service chain across both our insurance businesses. For example, in BALIC, the digital asset usage increased by 77% till November FY2021, and two-thirds of the renewals are now coming via the digital medium, which were a little under one-third before COVID. Further details regarding BAGIC and BALIC's digital capabilities are covered in the investor deck uploaded on the website yesterday.

Coming to BFL, BFL already had its call investor call, so broadly touching upon the high-level results, Q3 was all about granular business recovery, significant improvement in risk metrics, tracking implementation of the business transformation plan that the company had set out and putting into motion a plan for pre-COVID financial performance from Q1 FY2022.

During the previous quarter, in Q2, BFL has an estimated expected credit loss in H2 to be around Rs. 2600 Crores to Rs. 2900 Crores. Post Rs.1352 Crore of provisioning in the current quarter, the company expects a residual credit cost of Rs. 1200 Crore to Rs. 1250 Crore in Q4. Hence, with respect to the initial estimate of Rs. 6000 Crore to Rs. 6300 Crore of credit cost in FY2021, BFL is expected to have a credit cost of about Rs. 5900 Crore to Rs. 6000 Crore in FY2021 overall. In addition, the company experienced continued improvement in portfolio quality in Q3 and new volumes originated across businesses during Q3 has risk metrics better than the ones originated prior to COVID.

The net NPA for Q3 is 0.19%; however, if we include the standstill assets as per the Supreme Court order, even then the net NPA ratio would have been 1.22% only. The company has started dialing down the liquidity buffer that it held, which was about Rs. 22400 Crore as of September 30, 2020 is down to about Rs. 14300 Crore as of December 31, 2020. Overall, from BFL, the core AUM growth is expected to resume to pre-COVID levels by Q4 FY2021, along with loan losses and provisions reverting to pre-COVID levels in FY2022. The highlights of our consolidated financial results are announced in our press release - I will just repeat it for those who have not had a chance to go through that.

Consolidated total income Rs. 15961 Crore for the quarter versus Rs. 14561 Crore. Consolidated profit after tax Rs. 1290 Crore versus Rs. 1126 Crore. Bajaj Finance consolidated profit after tax, Rs. 1146 Crore versus Rs. 1614 Crore last year. General Insurance had a strong quarter, recording Rs. 330 Crore profit versus Rs. 191 Crore, which is an increase of 72%. Life insurance shareholders profit after tax, Rs. 118 Crore versus Rs. 143 Crore. And as you know, the life insurance business largely works on new business margins, which also includes the expected profit as policies get renewed over the lifetime of the policy.

For the 9 months, the consolidated total income, was about Rs. 45200 Crore versus Rs. 41057 Crore and consolidated profit after tax, Rs. 3491 Crore versus Rs. 3175 Crore.

I must add that, in the case of the insurance subsidiaries, while their own stand-alone are in Indian GAAP, for consolidation, we are considering Ind AS compatible results. Hence, the equity securities held by these companies is treated as fair value through profit and loss account. During the quarter, this has resulted in increase in consolidated profit after tax by

Rs. 384 Crore and for the 9 months by Rs. 896 Crore. BFL, as a matter of prudence, has written off / provided for principal and interest of potentially unrecoverable loans, which were under moratorium, by utilizing the available expected credit loss provisions.

BFL continues to hold a management overlay of Rs. 800 Crore in provisions, given the dynamic and evolving nature of the pandemic, along with other variables. Overall credit cost for BFL for the quarter was higher by Rs. 521 Crore and Rs. 2762 Crore for the 9 months. BFL has a very strong capital adequacy ratio at 28.18% with a tier 1 capital of 24.73%. This is more than twice what is required under the regulation. Bajaj Housing Finance, 100% mortgage subsidiary of BFL, the capital adequacy ratio again stood very strong at 24.94%.

BAGIC has had an excellent combined ratio in Q3 FY2021 at 96.1% versus 103.6% in Q3 FY2020 and therefore, it also had an underwriting profit this year as compared to an underwriting loss in the Q3 of last year. The profit after tax was Rs. 1057 Crore in 9 months FY2021. I must hasten to add that this is the highest ever 9-month profit that BAGIC has reported for the period April to December in its history. The underwriting profit for the quarter was Rs. 27 Crore as against a loss of Rs. 87 Crore in the previous year. Largely, this is due to lower claim and lower expense ratios. Though there were lower claims reported in motor, the claim frequency for motor own damage is almost back to pre-COVID levels.

On the health segment, number of COVID claims reported have started declining over the last few weeks, but as expected, the non-COVID retail health claims are inching back to pre-COVID levels, as customers have started visiting hospitals for nonemergency treatments, elective surgeries and delayed corrective surgeries. Overall, BAGIC's COVID claim share is in line with its market share in the segment i.e. around 4% and at the current moment, based on the available information, we are well provided for these. Finally, motor TP claims are still not being settled at the same pace, as courts are still not operating at full capacity and we do see potentially a risk of higher interest when the claim gets settled and I must hasten to add that BAGIC has taken a view on that and is reasonably well provided at this stage.

Coming to BALIC, BALIC AUM crossed Rs. 70000 Crore. This is the highest ever AUM reported by BALIC, and net worth of BALIC is a shade under Rs. 11000 Crore. Total New business premium grew by 21% in Q3. The performance was aided by the institutional business side as bancassurance partners, Axis Bank, Bandhan Bank, RBL, IDFC FIRST Bank and India Post Payment Bank have started contributing well. Excluding the fund business, the group protection business; however, de-grew by 12% during the quarter. This is largely dependent on the credit off-take by banks, NBFCs and MFIs. While it is improving sequentially, it is still well below COVID levels.

BALIC has also recorded a strong 26% growth in renewal premiums. While there was some pressure on the 13th and 25th month persistency, the BALIC persistency has improved well on the longer vintages beyond 37th month to 61st month. Overall, we do see a trend where about 5% of the 13th month is collected in arrears after the 13th month. BALIC has now a formal guarantee policy and the forward rate agreements in place to hedge its interest rates arising from guaranteed products. Finally, both the insurance companies are among the most solvent. BALIC has a 708% solvency, and BAGIC has 330% solvency and hence are financially well poised. The requirement by the regulator is only 150%.

Finally, Q3 FY2021 was a satisfactory quarter with BALIC pushing forward on growth, while BAGIC recorded excellent profit growth. BFL is now looking forward to getting back to growth with a close eye on risk and the credit cost due to the lock down and moratorium has largely been resolved. Before I open the floor for questions and answers, I have a small request; please try to focus on the bigger questions on the larger issues. We have gone through a very difficult time and come out in a very satisfactory manner, and we are very optimistic about Q4 and FY2022, as things stand today. We are in long-term businesses, particularly in the insurance side, and one quarter's result is not really an indicator, and the capabilities that we are building over the long-term is what drives our company and what has driven our companies in the past. Thank you. I now open the floor for questions and answers.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Dhaval Gada from DSP Investment Managers. Please go ahead.

Dhaval Gada: Thanks for the opportunity and congratulations on good performance. I had 2 questions. One is related to the motor business, and I will split the question in 2 parts. One is related to the TP loss ratio and I think you mentioned in the commentary around claims getting delayed in terms of settlement and therefore from 1Q onwards, we have seen like loss ratios at a slightly elevated level. The question is when do we see sort of normalization in your assessment and any sort of approximate time line on this would be quite useful and any monitorables around it, so that is the first part and the second part on motor is related to growth, so I think one of the conversation, which a few quarters back, we used to have is around discounting by certain players and therefore, we were not so strong or aggressive in terms of growth in the segment. How is the environment right now and how do you see market share gain opportunity going into next year so that is the second and the second part is on the life insurance business - so we made this transition towards mass affluent customer segment, but when I look at persistency data and the early vintage persistency data, it does not seem to sort of reflect the benefit, which we envisaged while seeing this migration, so at what point do we see the persistency number move closer to where the larger players are given the migration that we have done on the customer acquisition side?

S. Sreenivasan: Thank you. I will just take a high-level answer before I hand it over to Tapan first and then Tarun. On the motor third party, as we mentioned, the courts are not operating at full capacity and as you know, under actuarial principles, we are supposed to provide for the ultimate expected losses. Clearly, there is a substantial amount of uncertainty over this and the actuaries do take a fairly conservative view. Because I have seen our claims triangles that we publish annually and based on that we continue to be reasonably conservative. As to when this will normalize, I think it is a million-dollar question. There is no specific answer, but things are improving quarter-on-quarter and we wait and see, and hopefully if the vaccine drive works very well, we think this should be coming back to normal soon. On the second question on motor discounting, I have nothing much to say except that discounting is nothing new for BAGIC. We have always been very strong players in motor insurance across a wide variety of channels. We have MISP, brokers, agency, virtual points of presence, proprietary sales force, online B2B / B2C channel and together, we are working very closely with all of these channels based on our assessment of profitability, effective price, and where we can build a sustainable business, where we can acquire, keep and grow our customer base. In terms of persistency of life insurance, yes, in the past, we had moved on to a higher proportion of mass affluent and above category but majority of the persistency impact has been on the unit-linked business, where, as you know, the higher ticket affluent people have been holding on for the last 6 months, but in the last couple of months, we have seen good traction in terms of appetite for risk in terms of buying more unit products. I will now hand over to Tapan to add to this and followed by Tarun on the life insurance persistency bit. Tapan?

Tapan Singhel: Yes. Thank you, Sreeni. I think you summed it well. See, as courts open up and cases get settled, we shall see the things getting normal in terms of how settlement is happening. Now when you have TP claims getting settled, interest is calculated from the time of the loss, which is payable. Now if you look at reserving, it is typically done based on your past experience of a normal settlement time. In today's time, because of courts being closed and settlement getting delayed, so let us say 1-year delay has happened, so if a 1-year delay has happened from a normal time, the interest on that 1 year is going to be added to the order, which is going to be passed. So typically, what will happen is if you have a book, which is for simplification, let us say for which you have a reserving of Rs.100. Now in normal time, we would be doing Rs.100 reserving because that is a normal pattern that is following, but now this 1-year delay, the interest on the 100 has to be provided for because that is what the judgment is coming, and it is going to come because you have seen a few judgments, the interest is being added. Therefore, that period in which is not being settled is what we provide for and as courts open up, settlements starts happening, but given the lag of this period, whatever time where settlement has not happened, will obviously, and part interest will be paid on the book that we already have, and that is what Sreeni was mentioning. So that is why the reserving must be strengthened for this particular part and that is what we have done and that is why you see that TP loss ratio there. The second issue on motor discounting - those are market forces. They will continue to operate that way as each company has a strategy in terms of what they find good, what they find wrong and we also have our own strategy. We keep on doing business, in which we are able to serve customers well. If you look at our claim settlement ratios, if you look at our grievance ratio - it is the lowest in the industry, if you look at IRDA sites and it is all available in the IRDA site, look at settlement ratios, ours being the best in the industry, so I think our focus is very clear that we want to serve the customer very, very well. We do not want to be in the game of just giving discounts or zero discounting. We try and price the risk for what the risk is supposed to be and that is what we shall continue. We are doing it from the beginning and continue do in the future, and that is what our focus has to be i.e. the customer service and claim as we are in the business of paying claims, let us be clear about it and that we do not compromise on, and that is what we are focusing on. I hope that answers your question.

Dhaval Gada: Just one clarification. So, if this delay in settlement were not to happen, would the loss ratios, which were around 65% - 66% in motor TP, would have been lower because the incident rates would have been lower, is that a right understanding?

Tapan Singhel: Yes. So, if you look at the incident rate again, that depends on how many cases have come to the court, or which have come to you or it got intimated. If I look at the lock down, the private cars initially were off the road, but if I look at commercial vehicles or if I look at others at minus 2 months, they started moving on the road and if you read newspaper reports of a lot of actions happening for migrant labors and all, those claims have to come as yet for us to make a judgment that whether the incidents rates are low or high. So, the intimation is yet to come and if you look at third party claims, there is ample time for it and the average time where the incidents get reported is about 4 years. That is how it has been, but on the own damage part, yes, the frequency had reduced for those lock down periods, but if I look at today, we are at pre-COVID levels in terms of the frequency and the claim on the own damage part. It has already reached there. So, if the own damage is already reached there to assume that TP has not picked up, just because you do not have intimation, but that is a trend. In TP, you do not have immediate intimation, you have a delayed intimation coming through. So, I think as time progresses, I can tell.

Dhaval Gada: Understood, thanks.

Tarun Chugh: So, let me come on the persistency bit for BALIC. I think it is a good point made, Dhaval, and we are totally cognizant on the fact that there has been a 2% drop in 13th Month persistency. Let me just give a little bit color to this data. Now actually before I give this, let me just give you a little bit of a trend because you talked about the mass affluent and how we moved as a company. So, I think your point is absolutely on target. When there is a movement from mass to mass affluent, these things should start getting better, customer capability to pay is getting better and we have had a journey, we weren't so great earlier i.e. in the early 50s, and now we are in the late 70s. So, the journey is directionally positive, and we have moved from average premiums, which were half of what we are today. So, the movement towards mass affluent is strong and sturdy, but let me just also tell you that we do have segments where we write small ticket policies, as we have partners like the small finance banks. So that is a small mass segment that is there, although as Sreeni correctly pointed out and until now I have answered your question on the mass affluent, really, so the point I am making is there is a segment of mass, which is on proportion basis slightly higher because we are relatively smaller to the listed companies that you also track, given we are one of the largest players in the SFB segment, but having said that, the persistency is showing a very different kind of movement on the HNI side and I have been interested to see if you see something similar in the other listed companies as well because this is something we are kind of learning as we are going, and this is a unique time, so just a little bit color on this. Upwards of 3 lakhs ULIPs, we have seen a drop of persistency by almost 4.9% or 5%, and then if I look at the various profiles of investors, who are our customers, who have been with us, we are seeing a segment, which has actually gotten unemployed and there is about a 5% drop in that segment, plus in the housewife segment too, we are now seeing a drop. These segments have been robust in the past, but as unemployment is impacting particularly and the higher ticket is getting hit, my guess there would be that this has a lot to do with the self-employed, who are now either keeping some money in their own hands in form of cash with them and then deploying it back into business. That is possibly impacting us in numbers. When you start going from the late 70s to the 80s, then you are working on fine margins, right, so every bucket has to get better. So, this bucket has actually gotten a little worse, so that is broadly how I had said it, but largely on ULIPs, 13-month persistency has actually dropped. So that is one key segment, but the positive bit there is that these are only early signs as the year progresses. Because there is a 13th month and then there is future buckets that start coming in, so I mean, of course, the IRDAI benchmark, which all of you also look at, is a 13-month bucket, but I am more interested honestly in the second premium, whether it comes now or 13th, 15th, 16th month because in actuarial valuation, that does not really have much of an impact, but in COVID, it becomes very necessary to look at. So already I am seeing that my rolling bucket of the past has gone upwards of 80. So, it is getting better and this is only going to help us. The difference between us and the other listed bancassurance companies is that a very systematically large proportion of HNIs for them come from the bank side. For BALIC, although it is agency, bank and the proprietary channel, which makes a big difference because if you go to a bank now, I might have data on customer mobile numbers, but there may be contactability data, which company can lack vis-a-via the bank. That bit on bancassurance does have a little bit of an upper edge and I should very clearly tell you folks that, that does impact persistency, as contactability tends to get better.

Dhaval Gada: Understood, thanks Tarun. All the best.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers Ltd. Please go ahead.

Bharat Shah: Once again, delighted to see the progress on the life part of the business and continuing strength in the general insurance. I had basically one point to discuss about, which is about the technology. Now collections and payments being done digitally and policy issuance being done digitally is routine and bread and butter application, but from the business point of view, how much is technology first is the DNA of the firm in terms of conceiving, creating, and executing things from a digital perspective, because in general, services are most amenable to digitization and finance is the intersection of that particular financial service as well as the technology, so we see that over the period of time in Bajaj Finance where things are conceived from that value and mindset and it is important to have the DNA of technology as a fundamental approach, so from that perspective, where do we stand and what are the plans?

S. Sreenivasan: I will broadly take that question. I think while Bajaj Finance has been showcased, I think the insurance companies are not far behind, except that we are also looking at changing our entire core system, we are in the midst of big projects in both the companies to make this thing adaptable. Secondly, we are investing heavily in analytics and our digital capabilities in terms of servicing, such as on the spot claim issuance for motor or health, I think we are very much ahead of the market in terms of that space. I will now hand over to Tarun and Tapan to take the question further.

Tapan Singhel: Good question but let us understand that the two businesses i.e. lending, and insurance are very different businesses and their requirements are very different in terms of distribution. So, if I look at the insurance business, in terms of direction, what we basically do is, we issue policies, settle claims and how do we do it, insurance business is basically distribution-driven, it is done by distributors. So, most of the advancement in technology will happen in the hand of distributors, which should be there. If you look at BAGIC, in the year 2013, we started something like VSO, which is Virtual Sales Office and we set up about 1000 locations. We have already crossed about 1000 Crores of premium there, set up massive distribution without any physical infrastructure. It was the first in the country and maybe to a large extent, among the first in the world where something like this was experimented. Today, I am happy to see most of my competitors also copying that footstep and setting up those kinds of distribution. Now that could not have happened if you are not digitally strong because we are issuing policies, settling claims at the doorstep of the customer just using a tablet, without any physical office presence. I think that was a very massive movement. Like Sreeni mentioned, I do not think that we have been talking about it and that is why this question have come. Now second, if you look at, by the year 2014 and 2015 itself, we were among the first in the world to settle claims on the spot using machine learning, uploading of documents, scanning, OCR, whatever technology is used. So, if you look at, if a claim happens on motor, even today, if you are a automobile customer and, God forbid, if you have to claim up to the limit allowed by IRDAI, you can actually get down from the car, use our app, click pictures, upload, and we transfer money to your account in 20 minutes' time. We do it even today and it is one of the most advanced propositions in the world. Now quite a few companies are doing it. When we started it way back, I do not think there was any company, which was thinking of doing that. Now, if you are a travel customer of ours, you are traveling, there is something called compensation for flight delay. We use block chain and then if a flight delay happens, and if you have registered your travel policy through the app, you actually get the claim paid on your phone even without you asking for it. So, from a digital perspective, I think as a company, we would be the frontrunners of innovation and pushing things forward. Now the point that Sreeni was mentioning in terms of the core, if I look at it, we are the first, again, in the non-life business, across the world, maybe, who is putting up the entire core, that is TCS BaNCS, that we are working with, on the cloud and now where have we heard somebody moving the core to the cloud, but our belief is with the number of transactions, the hyper speed at which things are happening and innovation changes happening, you cannot have a core which is on-premise. So, we took the bold step, put it on. It is already become a showcase in the world in terms of a company, which is challenging and pushing this to that level. So, I can go on and on in terms of the digital infrastructure that we have created, that we are pushing innovation and what we are doing currently and like rightly mentioned by Sreeni, I think this is something that we should talk more about, but thank you for the question. You gave us a chance to speak about it. Thank you very much.

Tarun Chugh: Tarun here. Let me just address this, as what I think Tapan and Sreeni have done a brilliant job already. Bharat, I think it is a very good question, as always. Because numbers are finally an output of all the inputs that go into building a company. It is particularly in BALIC's case, because it is a big u-turn we are seeing, this becomes so much more important. So broadly, I will just quickly address it in 4 layers. I think one in a way Tapan touched on the core policy systems, so BALIC too is moving away from legacy systems which we today have. We are actually setting up a core system, which will be on the cloud and it is a first of its kind system in the country and actually not just in the country in the world, so we partnered with Infosys for this. Its system is called NGIN and it is being set up parallel to our existing core, which we have earlier sourced from Allianz. So, a lot of things are going to be determinant on this because how soon and how often and whether virtually you can reach out to the core in a secured manner is very simply to put is going to decide how this future really moves for various companies, so we have already taken that sturdy call, although this impact does not start coming in just asap , it takes time. The core is getting implemented, will take a few more years in the case of BALIC because these are long-term policies, which have to move. So that is on the core itself and there is a digital layer. I think everything else, which is customer relationship management (CRM), customer communication management (CCM), and all other set of architectural layers that can come in, all that is already in the process of getting digitized and separate systems have been acquired and put in place. A lot of our expenses actually and investments are going into this as a company. The third layer, which, I think, gets referred to particularly where BFL excels is on the data side. Bajaj Allianz Life is pretty much on the same track. There is a lot of learning we have from BFL, which we have been gladly taking on and I must say that we have only just benefited because the group is very positively inclined towards data, so as a company, we are only just getting better and better at it. The good news there is the life insurance data because we capture a lot of data points on customers, much more than any other financial services sector. It is really a boon and how to be able to up-sell, etc., becomes very critical, I mean one very clear outlay of the output is the fact that our proprietary sales channels, which is about 10% of the company, was something that started 3 years back, and it is totally dependent on this up-selling data and it just goes back to existing customers and based on profiles, offers new policies, new services, and just kind of gets more ingrained in that household in terms of a relationship because ultimately ours is a pretty long-term relationship product. I think that is what we are getting to. The fourth layer is really the innovation layer, if I might call it and I think one thing we are very clear about in the group itself is that we do not do innovation for the heck of it, we do it based on context and benefit to the customers and one clear example of this has been the one you may have seen in earlier decks, which is a Smart Assist, so we really saw that today's problem was social distancing and customers unwilling to meet, so around September, October, we launched a product where our secured app, on which today you would buy a life insurance policy can be done on a distant basis. So, you need not be sitting next to me and looking at the paper. I can be sitting 5 meters, 5 miles, 500 miles away from you, and you can actually talk to me, converse and do form filling on that. So that is done very well, 21000 policies and 5x at multiple in terms of customer interactions have already happened through that and that has helped us in Q3, as Sreeni talked about how we have kind of moved, so I think you should be rest assured that in BFS group, each of the companies will be only just doing more and more, and I think that is the core of the group.

Bharat Shah: Thank you for those very detailed responses. Just one last point on that, you see technology has become inevitable across the businesses and increasingly businesses will be fusion of both physical and digital, so that’s given and therefore, there is constructive pressures on all businesses to adapt technology. My moot question was, when technology comes from, as a core DNA of the business as the heart of how we do things, then our technology responses are productive and in anticipation rather than delayed and reactive, so the issue that I wanted to understand was is technology at the heart of what we do and how we conceive?

Of course the business remains protection and cover and to do it efficiently at intelligent cost and adding intelligent value to the capital of the business, but if technology is seen as the core to the business, then our responses, our plans are of one kind and when it is seen as a popular thing to do or need is felt in the environment, then our responses even if they are efficient, they tend to be of a different kind, so I wanted to understand how far is it central to our schema of things?

S. Sreenivasan: I will give that answer, Bharat. Across the group, I think we are very much focused on technology. However, the way we look at technology is that it has to be a digital business where technology is a significant enabler. Anybody can buy the technology, they can copy it, and they can use it, but how smartly you use it will be the differentiator. BFL, obviously, is in the lending business where it is more about managing risk than demand, because at a certain price, there is unlimited demand for lending. However, in insurance business, it is highly regulated, even for the regulator to allow full digital issuance of policies, I think it required a pandemic to enable that. There are a considerable number of rules and regulations, every product has to get approved. The product goes through, maybe, a 6-month cycle of approval at IRDA, and the final output of the approved product may not be exactly what you wanted. So, we are in a business where we have these significant overhangs. Within that, we have to operate. For example, if you take commercial vehicles insurance, largely people buy at the time of buying the vehicle along with the registration, and there is a whole lot of intermediaries who work in that space. Now you have to work with those intermediaries. Because when you buy a commercial vehicle or a private car or a two-wheeler, you are not going to change your car because the insurance is cheaper. So therefore, if you see even B2C businesses across India have not really picked up in a big way in the general insurance space. In the life insurance space, it is all about savings. In the long run, you have to deliver on your promise to the customer, you have to deliver a superior return, so if you use technologies, which are not adding value to the customer or where the customer does not perceive value, then we are not going to add significant value in terms of the savings or the promise you made to the customer. So, given the context of all this, the whole focus of technology in the group is to enhance customer experience, make it as simple as possible to buy a policy and make it as simple as possible to make a claim. More importantly, when there is a claim, how fairly you assess it and both our companies I think, stood out on those counts. You can look at all kinds of statistics, you can look at the grievance statistics, you can look at the claim settlement ratios. For example, if you look at health claims, as health is something which has considerable number of preexisting conditions and other clauses, the rejection ratio of BAGIC, is probably in less than 5%, but if you look at many of the peers, you will find that their more than 10% of the claims are rejected. So, we are very focused on customer experience. In insurance, we do deal with customers across the spectrum. We do social businesses, we do rural businesses, we do very small ticket businesses, we also do the affluent, the HNI and the whole gamut of customers.

In lending, one has to be selective as to which segments you want to lend to and we want to, so we combine all this. At a BFS level, we have very strong institutional framework to address technology, to transfer knowledge and to encourage people across the group to actually get together and learn from each other. Obviously, the new risk that we are seeing across the group is cyber-security, which is becoming more and more important and in a few months' time, we will have the data privacy bill as well, which will pose a further layer of diligence that is required. So compliance costs are high for any regulated industry within that framework depending on what the regulator allows, I think we are really on top of technology and as we go around, if you ask me 3 years from now, a lot of the stuff that we do today will be seen as bread and butter and the stuff that we are doing then, would become a lot more appreciated by customers and all other stakeholders. Tapan, Tarun, anything else you want to add?

Tapan Singhel: No. I think, Sreeni, you did a beautiful summary. You summed it up very, very well.

Tarun Chugh: Nothing more.

Bharat Shah: Thank you so much and all the very best.

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

Ajox Frederick: Thanks for your opportunity. I have 2 questions, one for BAGIC and one for BALIC. The question on BAGIC is with respect to motor OD claims, of course, it has been better for us versus last year and you did mention about the frequency reaching almost to pre-COVID levels, so the only way that can be true is that intensity is pretty low, so how far can we extrapolate this into the future for the intensity being low or is it because of the mix shifting in to favorable segments?

Tapan Singhel: Yes. So, if you look at it, I think let us understand why the loss ratio for motor OD looks lower. It is a cumulative loss, which you see. So, what actually happens is, in the month of April and May, the loss ratio dipped because the vehicles were not in use, and it was low. By making a statement that is back to pre-COVID level means the loss ratios have reached the pre-COVID levels, as we progress now. So, going forward, it will be the way it was before COVID and all of us, if you look in the streets, you actually see the traffic back to normal. I think I remember in the COVID times when I used to come to office, it was like one-tenth the time I took, now it takes me the same time it used to take me before COVID, in fact, sometimes more also now. So, I think the vehicles on the road have reached what it were before COVID, so obviously, the loss ratios also are now reaching the same level as it was pre-COVID time, that is the statement. So, I expect that it has normalized now in terms of what loss ratios were there. It will continue there in terms of the quantum of loss and the frequency. Now loss ratio is also a component of what price are you charging. So, let us say if people have started charging less and the frequency and the severity is reaching the pre-COVID level, then obviously, loss ratio for the industry will start shooting up now. That is why discounting in the market has to be observed very carefully, so when the lock down was there, it was less and that, cumulatively, it looks less, but as these months progress and no fresh lock downs comes in, then I think you start seeing that from a pure quantum of loss in terms of frequency and severity, it will be where it was pre-COVID, but if the price charge has been lower then the loss ratios will shoot up as months progress now in the motor business. So that is what I would be seeing as we progress further, so that was my answer to your question. I hope I could answer what you asked.

Ajox Frederick: Yes, sir. So even in 3Q, we had that lock down effect for us?

Tapan Singhel: So, it was moving up, if you look at start breaking up quarter-wise, you will see the frequency and the severity, it started moving up. From April to June, it was the lowest. The second quarter, it moved up. Now third quarter, as I told you, it is really at pre-COVID levels and the fourth quarter would be the most interesting to watch and as you get segment-wise loss ratios and data from IRDA site, it will be very interesting to see how it has moved on and how the industry has played this on to see that. So I think that is the time when you likely will be good to see and then you see my word, what I mentioned to you, that with the frequency and the severity reaching pre-COVID levels, this industry is charging less than the pre-COVID times, then the loss ratios start going to hit in the fourth quarter much higher than what industry saw in the pre-COVID time, so let us see how it plays out.

Ajox Frederick: That was helpful. Sir, the second question is on BALIC, we saw some very strong growth on the institutional business, so what kind of businesses are these savings, protection and if savings is it because of us alignment in FRA market that is giving us an advantage into that?

Tarun Chugh: Yes, the impact has been more positively pronounced for the institutional side and as you know, BALIC hardly had any institutional business 4-5 years back. In fact, 4-5 years back, we used to be 91% agency, so that movement has been strong. There is a lot of ground that we had to cover, and I think that is getting covered. So yes, from channel's perspective, institutional business is the one which is contributing a lot to the growth. In terms of the product mix, it is currently a very low percentage of term, particularly in the last quarter, as we are seeing, and Sreeni talked about it in the earlier part itself, that it is now balancing out. Term is maybe currently recalling in terms of growth, it is coming down for the entire sector as a percentage of overall business. Maybe it will balance out once this entire price increase has gone and will get stabilized, so having said that, the initial 2 quarters was pretty much in line even for institutional business, where the term was growing up segmentally as much as in the agency and the PSF side, but that has not come down proportionately like for the entire company itself. But yes, the non-par and even the par, I am quite happy to say, is actually selling well in the institutional side, which usually is restricted to the non-par. As far as the risk side, which you just kind of allude to, yes, we are totally covered by FRA on the non-par side, and we have actually had a very good, I did say, very comforting hedging strategy in the last 4 months, as that has only just helped us stabilize IRRs, stabilize NBVs, and feel a lot more comfortable on the guarantees that we have.

Ajox Frederick: Got is. That was very helpful, Sir. Thank you. That's it from me.

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

Nidhesh Jain: Thanks for the opportunity Sir. Firstly, on the general insurance - given your commentary on the motor OD loss ratio expectation in the future, do you expect price hike to come into for the industry next year or sometime in the next year?

Tapan Singhel: That, the market forces decide. So, I do not think that is how it goes because every company has their own strategy. If you look at the industry combined ratio, and this again in the world is not seen before, 2007 - free pricing happened and now it is what, 2021. Industry combined ratio has been way over 100% for such a long time. If you pick up any case study in the world for the GI industry and try to find where the combined ratio has been so high for the long time, you may not find any. I think this is unique in its own way and that happens because quite a few companies are comfortable with a high combined ratio, and they are comfortable with that kind of ratio, so to predict how the market would move in terms of pricing, it would be difficult. It depends on each company's strategy as to how they would like to position themselves and how they would like to be there.

S. Sreenivasan: See, just to add to what Tapan said. It is about selection. There are two aspects to choosing business in insurance. One is the price and one is the selection. The two are linked - at a certain price, where do you want to select and BAGIC's effort has always been to find more and more granular ways of cutting and slicing the business. It is not something we started 2 years ago. It has been there for the last 20 years, so we will continue to do that. We are sharpening our analytics, we are sharpening our technology, and we are sharpening our data lake. So quite a lot of steps we are taking at the back end to continuously improve this. So, at any given price, we would be able to select better customers because on an average, only about 25% of the customers will have a claim in any given year. The challenge of underwriting is to select the 75% who are not having a claim based on data, analytics, and propensity models and we will continue to do that.

Nidhesh Jain: Sure. Just because prima facie it seems like in the motor OD segment, we have lost some market share in 9 months and probably in Q3 also, because probably the price is not adequate?

S. Sreenivasan: I think it is largely related to commercial vehicles, especially passenger vehicles, because we were more aggressive on commercial vehicles 2 years ago, but after COVID because of loss of production. So, motor OD is not a segment for us. We have private car, we have 2-wheelers, we have commercial vehicles, we have multiple cuts within that by make, model, geography or goods carrying, passenger carrying and based on what we see at a given point of time, we will take a call and that is how this business is very dynamic. What works today may not work tomorrow and what worked yesterday is not working today, and you have to be very agile and fast.

Tapan Singhel: Yes. I think that is right. If you look at passenger carrying commercial vehicle, it is yet not back to the pre-COVID time, so car shares moved up and I think in the presentation, it is mentioned, if you look at our growth in the new two-wheeler and private car for the quarter, it's over the industry. So it is not that we would have lost that position there, but passenger carrying commercial vehicles have not moved up to the pre-COVID levels in terms of the sales or in terms of where the business is moving and we had a good sense of commercial vehicle, the right segment, and that is why you look at our loss ratio was good and as you see now, that has come down, so obviously, a good segment that we were strongly present in when that comes down, then it takes time for us to make it on other segments and like Sreeni said, it is a very agile business, we keep on moving and seeing where and what opportunities lie, and we keep on taking it on.

Nidhesh Jain: Thank you Sir. Secondly on the life insurance, our protection business has been quite volatile, in Q4 and Q1, there was a really strong growth, and it had become almost 17% of our APE and then it suddenly declined to 5% of APE in Q2 and now 4% too of AP in Q3, so if you can just explain what is happening and what is the strategy going forward with respect to that reduction?

Tarun Chugh: Yes, I will just respond to that. I think it is a good point and I mean it is the pretty much a trend that we have seen in the sector. Of course, companies have been in term life for longer than us; have learned their ropes on it and maybe they would be selling on a little bit higher percent of product mix than we are at today. We are, of course, focused on the term side, but we do not want to just make this as the core. It is also something that customers want to buy. We should not forget that India has an average age of 29, where term will sell, of course, but it will not be always the first product while it should be, but it today is not. So, in terms of strategy, we are focused, but we are not going to be kind of making it so critical that we just focus only on this being the major product mix, it will be an important part, let me put it this way. As we go by, we are looking at ways of issuing policies a lot more quickly, I think the big issue around the term is around how soon you get the policy issued, what is the kind of process we follow, what is the kind of reinsurance guidelines. These are things that have mold the sector in this year and they have changed so much in the last 6 months where reinsurers have struggled themselves and passed that struggle on to the life insurance companies as well, so we need to have this stabilize and then start looking at things afresh, but like I said, it will remain a very critical part, but it is not that we kill ourselves only doing terms.

Nidhesh Jain: Sure, Sir and lastly, do you expect further reinsurance rate hike on term insurance?

Tarun Chugh: I think for the time being, it has stabilized. I do hear some reinsurers who are dealing with some of the companies who have developed concerns with them, but this is all here say currently, I think we should wait and watch, but I feel at least in our book, we have stabilized quite well because we have been quite mindful of the kind of policies we are writing.

Nidhesh Jain: Sure, Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati: Thank you for taking my question. Sir, I just wanted to check on the pricing in group health because you mentioned that group health pricing has probably deteriorated and also on crop, because I think crop pricing has improved this year, so does that explain why our claims ratio is down in crop in 9 months and also growth has been strong in Q3?

S. Sreenivasan: Let me take that upfront. Group health, Tapan will give greater flavor, but on crop, I think this is now 6th year since 2015 when the Fasal Bima Yojana was launched. It has undergone many metamorphoses in the process and today we are in the sixth year. We have consistently maintained a similar level of crop insurance throughout these 6 years and I think every year, we have been able to deliver good underwriting results. As we mentioned earlier, this is not a float business because governments do take time to pay. So, it has to work on combined ratio. Given the size of the risk, it must be heavily reinsurance-driven, and we have one of the best reinsurers in the world to support us. So therefore, crop insurance is something we take a call every year. We do stress test to see how much the downside is, what is the upside, and we have taken and overtime, we have built a lot of capabilities, which I think Tapan can again further expand on what I am saying. Tapan?

Tapan Singhel: Let us look at group health. I think we need to understand what our assumption on group health was, so that, we get a better idea. So, if you look at group health, it is an annual contract, and how COVID was coming up and the way COVID claims, started rolling in, and, if I look at learning which we have from the SARS outbreak a bit many years back, in Hong Kong - when SARS was there and what happened to hospital claims when SARS ebbed out. Actually, the claims shot up much above the levels what were there before SARS happened. So you combine the two together to make a guess on the pricing we write or not write for group health was a bit difficult because if COVID claims and the way it actually went through the roof in the month of August, September, October these were 400% odd and it starts going up, and now with COVID coming down, the hospital claims moving up, so we thought it is better to be a bit low on the group health policy because on an annual contract basis, it is not like a retail health policy where, okay, fair enough, we have a higher claim ratio this year, but next couple of years will be better. So that is why for group health and that is the point Sreeni mentioned, in terms of the pricing, we were a bit cautious on that, and we said we go a bit slow here because not very clear as to how it will pan out. On the crop business, I think, Sreeni said it beautifully. We have been doing it about 5 - 6 years and it is not a hobby for us. Consistently, we have delivered good results in the business. It is not about price moving up, it is about selection like for all our business we do selection of risk of our spread, our commitment to the ground level, our commitment to serve well, and our commitment on the technology part of it and be one of the leading players. I think I mentioned in one of the previous calls also that as a company, we want to be in all lines of businesses and in all distribution and we want to be one of the leading key players and for that, we work hard to understand the business and do it well. I think that is what we have been doing consistently for the long time. This is not like one-off that we say, okay, this quarter, this has happened or that is happening, it is part of a business plan.

Hitesh Gulati: Thank you, that is it from my side.

Moderator: Thank you. The next question is from the line of Harshit Toshniwal from Premji Invest. Please go ahead.

Harshit Toshniwal: Congratulations on good numbers. Just 2 questions, Sir. So one, that yesterday on Bajaj Finance call also, they said a lot about creating the ecosystem and marketplaces for insurance, asset management products, etc., just want to understand that how cohesive the entire group decision is with respect to, so when they say it as a marketplace, do they mean specifically for Bajaj products or they mean that they would want to be a platform for all of the insurance and the asset management product?

S. Sreenivasan: Let me take that question. Bajaj Finance, as you know, as a corporate agent, they are allowed to have 3 life insurance, 3 general insurance, and 3 health insurance and they have never been exclusive corporate agent of our group companies only, so our focus is on what the customer wants and Bajaj Finance, with the type of business they run and the various verticals they run, they have a variety of customers. You have retail customers, B2B2C customers, B2C customers, personal loan customers, and home loan customers. Depending on that, I do not think there is any one company which can meet all their requirements and also meet their underwriting requirements. So, it is for that company to decide and the insurance marketplace obviously will now provide a digitally seamless platform where the customer can choose from multiple insurers and so as this thing, they are a part of their strategy, which Rajiv must have talked about, it will be like that. The next wave of that will be also the investment marketplace, where they have their own FDs, but they will now offer mutual funds and other investments and therefore, across this, customer has a choice. Now, we are very confident that because we have strong companies, both in life, non-life and others, we have the lion's share of that business, of the type of business that the companies want. So, there is interaction between the companies. Some of the ecosystem is common to all the companies, especially on the digital technology side, some of the ecosystems are unique to each company because of the nature of their businesses and as we go forward, it will be more and more about the ecosystem, the partnerships, and how well we combine across the board. So, it is not a particular risk for any of our companies because you could say that the investment marketplace of BFL could be a competitor to its own strategy of acquiring FDs, but it would not be like that because there will be a specific focus on driving up the value that they offer, the security that they offer, will also drive customers' demand for those products. Similarly, insurance would be driven more and more by the claim experience, the product range and the ability to quickly deliver what the customer wants.

Harshit Toshniwal: Got it, got it and maybe just one more thing. On the crop insurance, when we look at the current loss ratio, so please correct me if I am wrong, I think this is the Kharif season, which is getting reflected, for the RABI, we are going to get the numbers in Q4/Q1?

S. Sreenivasan: That is right. Q4 will be the time we write the premium. We make estimated provisions based on information available because we track the growth of the crop across all the clusters over the sowing season till the harvesting and based on that, we have a reasonably good estimate as at end of March. The final determination will be sometime in April-May by the state governments and the central government.

Harshit Toshniwal: Thank you, Sir.

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

Sanketh Godha: Thanks for the opportunity. Just wanted to understand that in slide you have mentioned that we have taken price hikes in the retail health segment, which I believe from October 1, 2020 onwards many players have done, so I just wanted to understand the quantum of price hike we have taken and likely impact of it on combined ratio because do you think because of more inclusions happening, the severity could potentially go up and combined ratios can deteriorate for the kind of price hike we have taken or you think it can potentially improve and maybe severity will not change meaningfully, that is the first question I have on BAGIC and the second question on BAGIC, I just wanted to understand given our PCV, our passenger commercial vehicle have slowed down, just wanted to understand how overall motor mix looks maybe in the current 9 months and compared it with the previous 9 months of last year, so those are 2 questions on BAGIC, and on BALIC, just wanted to understand, we have seen a sequential improvement in the credit protect for the current quarter and even in Q2, so just wanted to understand that given we had a bit of negative experience with respect to MFI portfolio last year because our negative operating variance was from MFI portfolio, this growth what we are seeing or revival in the growth we are seeing on potential basis is largely coming from non-MFI portfolio or if you can give us the broader indication that how much is Axis Bank backed and MFI mortgage, some flavor on that particular piece beyond it, these are the questions I have?

S. Sreenivasan: Let me just summarize the question. The first question was on retail health, the price hike and whether with this price hike, what will be the impact on combined ratio, especially with more and more people taking health insurance, is that your question?

Sanketh Godha: Yes, even the inclusions are increasing because of the high cost more to consider more inclusion, eventually severity will go up potentially or not?

S. Sreenivasan: Yes. Okay. Then you had a question on Life Credit Protect, whether MFI portfolio is causing losses or whether we have a better spread of business across MFI and non-MFI portfolio?

Sanketh Godha: Right.

S. Sreenivasan: And third was on the commercial vehicles, you had a question whether how we are seeing the 9 months and the rest of the year, is that?

Sanketh Godha: No. I was largely asking for the mix of motor, how it appears now compared to previous year, given commercial vehicles have declined for us in the current fiscal?

S. Sreenivasan: Okay. Tarun can take the MFI and the credit protecting and Tapan can take the health and the commercial vehicles.

Tapan Singhel: So, let us understand the retail health issue for the industry and then see how it moves and I think on giving the motor mix as of now, in terms of our segmentation and how much business we do, I would like to refrain from because that is too micro a question, but on the industry part, I would like to answer. As per regulations, we cannot increase the price for 3 years. Now there are 2 things to it. If you look at the medical inflation, that will hover from 12% to 15% and hospitals in India are not regulated, so from that perspective, the price moves up, and we saw it in COVID times how the prices started moving up for the treatment of COVID, which is there. The third thing, which comes into play is that if you look at the book of retail health, on the first year, the loss ratios are in the range of, let us say 30% to 40% and by the fourth year, they would be in the range of over 100%, that is for the same policy as it moves forward. So, it is not a simple calculation of how much increase we do and how the combined ratio starts improving immediately and how does the market play out. It is a complex parameter of 3 - 4 big issues and few more micro issues, which seize the perspective and then we decide how do we look at the business and how does it go forward, so if we write a new book, let us say, if you write more new business, then overall, your loss ratio will look lower because the new business has a lower loss ratio compared to the older book, which is there. How do you balance the two and how do you create a book which is long-term standing and how do you serve your customer well is what the health pricing is alluding to, that is how it has be done and that is why it is not that suddenly because of September, October, you saw a price hike happening. It happens once in 3 years that is how the regulations allow it and then as companies see their books and they try and figure out at what segment what they should be looking at and what is the right way to look at, that is how they do that, so that is what we have also done, and some companies have also done it. Which actually means that, as the COVID ends, then the other issue comes in is the awareness part of it, if you look at the retail health. In the month of April, the retail health growth for the industry was minus 3%. It peaked up in, let us say, August, where it reached 40%, and it had the corona product also in that. If you look at the retail health growth now, it is again back to about 14% - 15%. So fortunately, unfortunately, if I look at the awareness level, it peaks up when the crisis is high. We saw that in floods also when we saw Chennai flood, when we saw Uttarakhand flood, the awareness for home insurance was at high for about 5 - 7 days. As the floodwater receded and as things went back, the awareness there was as it was before. Having said that, retail health is a huge chunk of business, which has still to be done because if I look at total coverage by the industry, it is about 10 Crores - 12 Crores, in fact, the government scheme covers about 40 Crores, which is much more than what the industry has covered over so much time. So, there is a huge chunk of population, which has to be covered, it is a very good product, and that is the endeavor, and we should keep on doing that. The loss ratio will definitely get better with the price increase, but that is combination of 4-5 reasons that I have explained to you, not just simply a price increase.

Sanketh Godha: Got it. Just on credit protects, Sir?

Tarun Chugh: Yes. If you see, the trend in general on MFI and the non-MFI credit protect, there has been a degrowth more on the MFI side on credit protect in the last 9 months, and we see that continue even in the last quarter, but having said that, the non-MFI part, the NBFC and Axis Bank as well, there has been an upside in terms of the credit protect in Q3, although overall, the bucket is still negative, all of this put together, but Q3 has been relatively positive for the non-MFI side. You did also hint about the past experience in the MFI business as well, I think we have taken a lot of actions as a company and I think I would say that today, as a company, we are way more led by lead indicators than lag indicators on how we manage the MFI portfolio as well, so we were actually a lot more stable and relaxed the way it seems as of now. Of course, it is a statement I am making in the midst of COVID on the MFI portfolio as well, so despite the fact that, yes, it is a substantial part of our business and despite the fact that we have Axis Bank and NBFC's, I am still quite proud of my MFI business.

Sanketh Godha: That is it from my side.

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

Hasmukh Gala: I just wanted to know in the BAGIC, what is the difference of net earned premium and gross written premium, if so why, I think one factor will be definitely the higher reinsurance ceding, how much would be on extra reserve, etc., because we do not have that P&L with us?

S. Sreenivasan: In general insurance, gross premium is what you get from the customer, net of GST, then you pay the reinsurer, depending on the type of policy, you may have different reinsurance arrangements, for retail policies, you normally retain more, for large high-ticket policies, you may retain less. Then if you deduct that, you get what is called net written premium. However, this net written premium has to be spread over 365 days. The premium cannot be earned on day 1. So, you create a reserve for the amount of unearned premium and after you deduct the net change in unearned premium, you will get what is called net earned premium. That is a premium you book. You carry forward that unearned premium because still the policy expires, you still have a possibility of claim and when that claim happens, you must have the premium in your books to offset that claim.

Hasmukh Gala: Because in Q2 from P&L, we have seen that reinsurance ceded was almost 2000 Crores from gross written premium of 4100 Crores, and this adjustment for changes in reserve was only 100 Crores?

S. Sreenivasan: It depends on the make of business. If you write more of the higher ticket business, you will have higher reinsurance. Quarter-on-quarter, we cannot compare. Overall, it depends, line by line, if you check it, there would not be a significant difference. There will be some difference because every year we do relook at our reinsurance treaties, but you would not find a major difference, but if we have more of the corporate business because this time, for example, fire, engineering, there has been price increase, so their share of the premium is higher. So, you will find the reinsurance component is maybe higher, but when the motor and health are growing faster than the commercial lines, you will find that you will have higher retention and lesser reinsurance, so there is nothing specific that the company does to manage that.

Hasmukh Gala: My second question is, in case of BAGIC, a lot of questions have been asked about the claim ratios being lower and you expect more claims to come as things get to normal, especially on the motor side, your crop claims also will start coming, so you think that you are reserving what we have done, it is quite adequate to cover those higher claims?

S. Sreenivasan: The very fact that we recognized the problem early answers that question and as more data comes in, we keep putting it into our actuarial models, and we keep recalibrating our results. Eventually when all this blows off, we will know where we stand and at that time, we will know where we, it is just like the banks and NBFCs are also providing for credit losses. They estimated in April, how much it will be, but by November, they have a better picture, by March, they will have an even clearer picture.

Hasmukh Gala: And the last question is on the unit-linked policies, what will be our stand going ahead in BALIC?

Tarun Chugh: We do not take any specific stand on products like what you just said. We are a lot focused on customer segment and distribution segment as well as the cities we are working in. Like in Bombay, you will find more unit-linked selling, the moment Bombay starts thriving a little bit better, it has been struggling, I did say in the last 8 - 9 months to all companies, few of the ULIPs going up, so these trends are actually ruled more by city-wise plans that we have got and distribution segment-wise plans, but yes, directionally, we are working towards a product mix, which is more balanced and you would have already seen that ULIP has come down, and that directionally has been a conscious call, yes, and shall remain. If I was to make a statement that am I comfortable with the amount of ULIP that we are selling or would I want it to be higher or lower, I think at this point in time, I am at a sweet spot, I like this mix would I want us to be higher or lower, no, I think it is just perfect.

Hasmukh Gala: And as far as the group fund business is concerned, what will be our stand because that has substantially increased in Q3?

Tarun Chugh: Good question. I think normally, it does not get asked in these presentations, but group funds is basically a very low margin product. At the same time, it is a very low-cost product because it is a fixed cost of your sales teams and the sales team is quite limited in size. It is like, we will have maybe 25 to 30 people only selling it, so if the throughput through that team goes better, it is only just good. It is not a conscious push, I would say, so if I was to be asked whether I would do more of that than retail, I would do more of retail, of course, but if I am getting this based on the same cost containment, it is great because this then helps me, in terms of my brand, it helps me in terms of up-selling, it helps me in standalone profitability because group business by itself, group employee benefits business, is a profit-making business.

Hasmukh Gala: Thank you very much, Sir. Wish you all the best.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: Just one thing I wanted to check was your views on the banking license, do you have any updated view on this?

S. Sreenivasan: See, that is there is an IWG report, that is not a regulation yet. It has raised a lot of questions. I think debates are going on. We will have to wait for the final guidelines. We had in the past, as you know, in 2013, applied for one. The situation was different then. We did not have on-tap licenses, then they brought in on-tap guidelines, but then nobody really applied, but we will have to wait and see what the final guidelines are and whatever is good for our companies and our group, we will do. At this stage, that is all I can tell you because we still do not know what the guidelines are going to be because RBI is responsible of giving out the guidelines.

Nischint Chawathe: And from a promoter point of view is there any kind of a comfort that if you take this down to 25%, is there some comfort that seems to be okay?

S. Sreenivasan: Obviously, the higher, the better, and the law does not allow more than 26%, but if it is less than that, we will have to wait and see how we want to take a call. Obviously, that involves a much higher-level decision than the managements of the companies, but I think everybody sees that a problem, the risk, the opportunities presented by the banking license, the strength of the brand and the role of the promoters and everything is there. I mean, the availability of liability funding, so we know what are the pluses and minuses of doing that and as an NBFC, we are well capitalized now for the next 3-4 years, but if there is an opportunity coming up there, we will look at it on merit.

Nischint Chawathe: And just one last aspect in this, in terms of processes or your compliance with PSL, etc., are you kind of preparing for it or are you well placed or you want to do some more?

S. Sreenivasan: See we will keep doing our math internally. I think if it does happen and we find the opportunity, and we want to get into it, we will be well prepared. Clearly, converting from NBFC to a bank has its own set of challenges in terms of the asset side being logged in PSL, but as you know, we already run an SLR book. Our liquidity is almost stronger than what a normal NBFC should keep. We also do a lot of rural business on our auto finance and our regular financing side. There will be some gaps, we will assess as it comes. In case if we would take that decision, we will take a call at that time. We will do our math completely and then take a decision at that time.

Nischint Chawathe: Prima facie, PSL is the only thing that you will have to work on?

S. Sreenivasan: Maybe.

Nischint Chawathe: Perfect. That was my question. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, 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 Sir and the senior management of the insurance businesses and all the participants for joining us on the call today. Thank you very much.

S. Sreenivasan: Thank you.

Moderator: Thank you. On behalf of JM Financial, that concludes this conference. Thank you for joining us. You may now disconnect your lines.