



“Bajaj Finserv Limited Q1 FY 21 Earnings Conference Call”

July 23, 2020



MANAGEMENT: **MR. S. SREENIVASAN – CHIEF FINANCIAL OFFICER, BAJAJ FINSERV LIMITED**
MR. TAPAN SINGHEL – CHIEF EXECUTIVE OFFICER, BAJAJ ALLIANZ GENERAL INSURANCE
MR. RAMANDEEP SINGH SAHNI – CHIEF FINANCIAL OFFICER; BAJAJ ALLIANZ GENERAL INSURANCE
MR. TARUN CHUGH – CHIEF EXECUTIVE OFFICER, BAJAJ ALLIANZ LIFE INSURANCE
MR. BHARAT KALSI – CHIEF FINANCIAL OFFICER, BAJAJ ALLIANZ LIFE INSURANCE

MODERATOR: **MS. BUNNY BABJEE – JM FINANCIAL INSTITUTIONAL SECURITIES LIMITED.**

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 Q1 FY21 Earnings Conference Call, hosted by JM Financial Institutional 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, ma’am.

Bunny Babjee: Thank you. Good morning, everybody. And welcome to Bajaj Finserv’s Earnings Call to discuss the first quarter FY21 Results. To discuss the same, we have on the call Mr. Sreenivasan – CFO, Bajaj Finserv; Mr. Tapan Singhel – CEO, Bajaj Allianz General Insurance; Mr. Ramandeep Singh Sahni – 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 to take us through the financial highlights, post which we can open the call for Q&A session. Over to you, sir.

S. Sreenivasan: Thank you, Bunny. Good morning, everyone. I heartily welcome you to the conference call to discuss the results of Bajaj Finserv for Q1 FY21. We had issued a press release on 21st after our Board approved the results. The same time we had our AGM as well. 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), Bajaj Allianz Life Insurance (BALIC) and where material the standalone results of the company (BFS). Bajaj Finance (BFL) which is another major subsidiary of ours has already had its conference call. But, if there are any high-level questions on BFL we would be glad to take that as well. We will not be taking any question on Allianz’s stake in our insurance companies. Except to mention that the status has remained the same as at the end of the previous quarter and there is no change. Any statements that may look like forward-looking statements are just estimates and do not constitute an assurance or indication of any future performance result. Just as a matter of hygiene to clarify, as required by regulation, BFS has adopted Indian accounting standards IndAS from FY19. The insurance companies are not covered under IndAS. They have prepared IndAS financials only for the purpose of consolidation. For BAGIC and BALIC, the standalone numbers reported below are based on non-IndAS accounting standards (Indian GAAP as you may call them), as applicable to the insurance companies.

Now, just to give you an update on performance, I will start by mentioning generally about the quarter and initiatives taken by the companies before I get into the financial performance. This quarter was the first full quarter where much of the business was impacted by the national, state, district and local lockdowns. Although easing of the national lockdown was announced by mid-May many of the large cities like Mumbai, Delhi, Chennai, etc., continue to be under a lockdown. This clearly affected sales of motor vehicles across all the segments for BAGIC – private cars,

two wheelers, commercial vehicles. As a consequence, the General Insurance industry in general and BAGIC too suffered significant de-growth in the largest line of business which is motor insurance. While there has been improvement in June as auto factories opened up, the capacity utilization and sales are still well below full capacity. Travel Insurance came to a near standstill. Though travel is a small line of business but it's a profitable one and hence, it is important. At the same time, we saw good traction in insurance by corporates mainly property insurance. While there was reinsurance driven rate increase as you might be aware, I would like to share that we have won several accounts in the corporate segment. We had both volume and rate increases in the property segment. As customers were given time by the regulator to extend the cover under the existing policies until mid-May, there was no incentive for customers to renew their policies. BAGIC has been conservative on employer – employee group health business for the last 18 months or so due to excessive price competition leading to high loss ratios. The same has been highlighted in the previous investor calls. BAGIC has also recorded 15% growth in retail health insurance which is well above the industry average. And as with other major players in the industry, BAGIC had losses from the cyclone Amphan which hit the East Coast and to a lesser extent from Nisarga which hit the West Coast.

Now coming to BALIC: In the case of life insurance, we have seen significant de-growth for the industry more so, in respect of equity market linked business like ULIPs. As we saw after the global financial crisis, when the risk environment deteriorates, life insurance policyholders prefer guaranteed products and protection products. This is a customer behavior that we see across cycles. The major difference this time is that the FD rates are at their all-time lows. And therefore, both from a return perspective as well as taxability, traditional life insurance products have become attractive for policyholders. If you recall BALIC had taken the bold step about two-three years ago of changing the product mix, such that the dependence on ULIPs was reduced, and the company had a more sustainable product mix going forward. This required major shifts in the distribution. The launch of term product in early Q4 FY20 also came in handy and BALIC was able to start making an impression in the retail term life market during the quarter.

Both BAGIC and BALIC were able to utilize their digital properties in a best possible way to handle the lockdown scenario when branches were not in operation. Considerable effort was made to reach out to partners, individual agents, retail brokers and point of sale personnel and virtual training programs were initiated to quickly bring them on the digital platforms and help them to make onboarding and sales pitches on digital media.

I'll give you some more light on this because in the past we haven't spoken so much about the digital capabilities of our insurance companies. In BAGIC, we now have an all-in-one customer app called the Caringly Yours and this was upgraded further with more features more functionalities, and customers were able to handle many of their current needs seamlessly through this app, including the features to facilitate social backtracking and doctor on call. The app usage was in excess of 2,50,000 active users during the quarter. BAGIC, digital adoption peaked during the lockdown period with about 85%+ digital policy issuance, close to 80% digital

servicing and 95% telemedical examination. Approximately 50% of motor claims and 55% of health claims are being reported digitally. Agent onboarding was completely through the digital agent onboarding app Saarthi. BAGIC's point of sale personnel channel and virtual points of presence were running on fully digital processes even before the lockdown as you might be aware. As a result, during the quarter, BAGIC was able to issue 3.5 million policies, settle over 1.6 million claims and 700,000 plus customer footprints were serviced. Most of these digital parameters are holding up even post the lockdown.

Coming to BALIC. BALIC has enabled and rapidly upgraded the digital tools across the value chain including those for onboarding of agents, customer buy journeys, lead management, amongst others. This digital foresight helped BALIC in ensuring end-to-end digital journeys through various tools like LMS 2.0, INSTAB (OTP enabled buy journey), I-Recruit (the digital onboarding of agents and POSP) and other digital tools like i-Manage for real-time information for agents and sales managers (SMs). For example, e-Sampark by BALIC is a platform for ICs (Insurance Consultants) and SMs to share personalized and approved content on WhatsApp, e-mails and social media. Although many of these properties for both the companies were already in use, their frequency of use has significantly increased during the lockdown. On the customer service front, various tools are provided to customers to manage their servicing requirements. WhatsApp service with best in class innovative features enabled with machine learning and NLP capabilities to understand customer intent and with live agent connectivity, has also significantly helped digitization during this period. Over 5 lakh customers of BALIC have used WhatsApp service in Q1. Apart from WhatsApp, other self-servicing options, such as Life Assist app and customer website also empowered customers to fulfill their servicing requirement. All-in-all, BALIC issued 90,361 policies (registering 54% growth over last year, the highest growth in the industry). Out of the 90,000+ policies issued in the quarter, term contributed about 37% of the total policies. 70% of total renewals came via digital medium. BALIC relaunched its term plan Smart Protect Goal, a new participating product called "Flexi Income Gold" and introduced an innovative Systematic in Systematic out ULIP platform during Q1.

Both companies were able to recruit agents and POSP personnel in fairly large numbers in this quarter. BALIC recruited more than 1000+ agents and about 7300 POSP personnel. On other hand, BAGIC recruited 2000+ agents and POSP personnel.

Overall, both the companies have handled the lockdown situation very well. Things have started looking up in terms of growth. We hope to see more traction in the coming quarters. However, the situation is still evolving, and the pandemic is not under full control yet. We may be seeing more local level lockdowns until we see a vaccine developed. Both companies are financially among the most solvent, BALIC with 760% and BAGIC 280% as against 150% required under regulation and hence are financially well poised to weather this crisis. The digital initiatives, the wide and deep distribution, and the strong management teams of both companies should help them come out as fitter and more efficient companies.

Moving to the financial results, let me start with a small bit of good news. On 22nd June 2020, BFS was included in the benchmark BSE Sensex of the top 30 stocks in India. BFL is already a part of this index since December 2018. Both companies are now thus part of the two bellwether large cap indices, which are Sensex 30 and Nifty 50.

Coming to the highlights of Q1 FY21: Consolidated total income was Rs. 14,192 crores – up 16% from the previous year, consolidated profit after tax was Rs. 1,215 crores which is up 44% from the last year figure of Rs. 845 crore, and consolidated profit after tax excluding unusual items, which I will explain later, was Rs. 1,459 crores versus Rs. 845 crores last year which is up 73%. Among the major material subsidiaries, Bajaj Finance's consolidated profit after tax was Rs. 962 crores, which is down 19% from last year largely on account of a specific large Covid-19 related provision they have taken. General Insurance's profit after tax was up 88% at Rs. 395 crores versus Rs. 210 crores and Life Insurance's shareholders profit after tax was up 110% at Rs. 130 crores versus 62 crores.

I'll just highlight unusual items mentioned above. There are two items: First, Equity securities held by BAGIC and BALIC are classified as fair value through profit and loss account. They are required to be mark to market when they submit their IndAS compliant figures for consolidation. While in Q4 of FY20 this had resulted in a post-tax negative impact of Rs. 451 crores in consolidated PAT. In this quarter, it has led to a positive impact of Rs. 330 crores in the consolidated PAT. Second, during the quarter, BFL has also upped its contingency provisions under the expected credit loss method by an amount of Rs. 1,450 crores pretax and which negatively impacted the consolidated profit after tax by Rs. 574 crores. You may recall that in the previous quarter BFL had a similar provision of Rs. 900 crores pretax which impacted the consolidated PAT negatively by Rs. 356 crores. If you exclude the effect of these items of unusual nature, BFS's consolidated profit after tax would have been Rs. 1,459 crores as mentioned earlier, an increase of 73%.

A short summary of this performance of major subsidiaries:

BFLs AUM increased by 7% year-on-year to Rs. 1,38,055 crores. Total Income increased by 14% Y-o-Y at Rs. 6,650 crores while PAT was lower by 19% at Rs. 962 crores as compared to Q1 of FY20. The lower PAT was mainly due to the extra provision for credit losses as explained earlier of Rs. 1,450 crores pretax, which is Rs. 1,084 crores after tax. The pre-provision operating profit continues to show strong growth. BFL was able to reduce opex significantly and OPEX to NII came in at 27.9% as against 35% in Q1 of FY20. Gross NPA and net NPA (ECL stage 3), recognized as per extant RBI prudential norms and provisioned by applying the expected credit loss (ECL) method prescribed in IndAS, as of 30th June 2020 stood at 1.4% and 0.5% respectively. Standard assets provisioning (ECL stage 1 and 2) stood at 2.73% including the contingency provision for COVID-19 and just 1.01% excluding the contingency provision. So overall the credit metrics continue to be strong. Capital adequacy ratio including Tier II capital stood at 26.4% and the Tier I capital was 22.6%. The company is very well capitalized. For Bajaj

Housing Finance Limited, a 100% mortgage subsidiary of BFL, the capital adequacy ratios stood at 25.94% again very well capitalized.

In the case of BAGIC, the gross written premium (GWP) came in at 19.5% lower at Rs. 2,289 crores mainly due to lower motor premium, lower government health business – where no tenders were issued in Q1 and lower employer employee group health where BAGIC tactically had sought to reduce exposure. The claim ratio reduced to 68.1% in Q1 FY21 versus 72.8% in Q1 FY20. Claim experience, however was mixed during the quarter with higher claims in property and engineering which were affected by cyclone Amphan and to some extent by Nisarga as well. In addition, motor third party line also had higher claims mainly due to higher reserves. Some other lines like health and motor own damage had lower claim ratios. While there were lower claims reported in some segments like motor and health, especially in April and early part of May, the uncertainty over ultimate losses is quite high for the following reasons.

Motor claim frequencies have started increasing post the lifting of lockdown and are moving towards normal frequency. In respect to the motor third party, MACT and other courts have been at very low activity in this quarter and when orders are finalized, we expect there could be an interest impact on outstanding claims. Many non-emergency and elective health insurance treatments got postponed and as the lockdown gets lifted, we expect higher frequency of health claims. And it is possible that auto garages and hospitals which have lost revenue may seek higher rates once things normalize. One other major risk for the industry is obviously COVID claims at private hospitals, and they are increasing in-line with cases reported nationally. BAGIC has only a 4% share of the total non-government health business and it is expected that the share of claims may be similar. Looking at these factors, the company has sought to increase the margin for adverse deviation in its ultimate expected loss provisioning. Reflecting a strong underwriting performance, BAGIC reported a combined ratio of 97.6% in Q1 FY21 versus 103.1%. This performance is underlined in the underwriting profit which increased to Rs. 175 crores for Q1 FY21 versus Rs. 9 crores in Q1 FY20. As a result of the strong underwriting performance and satisfactory investment performance, profit after tax for Q1 FY21 increased by 88% to Rs. 395 crores from Rs. 210 crores in Q1 FY20. I must mention that the lower tax rate of 25% came into effects from the second quarter of last year. Assets under management represented by cash and investment as on 30th June 2020 stood at Rs. 19,611 crores versus Rs. 17,466 crores as on 30th June 2019, which is an increase of 12%.

Now, a short note on crop insurance, the scheme is modified by the government as you might be aware from 1st April. The major changes are a) insurance being made voluntary for loanee farmers and b) the scheme will be for three years. BAGIC has been able to secure good quality reinsurance backing for three years and will be participating in the tenders for the Kharif season.

Coming to BALIC, individual rated new business premium was flat at Rs. 331 crores in Q1 FY21 versus Rs. 332 crores in Q1 FY20, a performance which was significantly better than the market de-growth of 18% and the private industry de-growth of 23%. The performance was aided by the institutional business side, mainly as bancassurance partners Axis Bank, and India

Post Payment Bank started contributing. During the quarter, another significant event was the corporate agency tie-up with RBL, which also started producing business in Q1. Group protection new business, however was lower at Rs. 89 crores versus Rs. 399 crores in FY20. The de-growth was primarily due to lower disbursements by banks and NBFCs through which these products are largely sold. Renewal premium for Q1 FY21 was Rs. 958 crores, which saw a solid increase of 16%. Increase in persistency was seen in the 25th month and later vintages. 13th month was marginally lower due to volatility in capital markets and COVID-19 related lockdowns.

As I mentioned earlier the PAT was higher by 110% at Rs. 130 crores. Last year the shareholders profit after tax was adversely affected by a provision for impairment of Rs. 126 crores which is Rs. 108 crores after tax. AUM represented by total investments stood at Rs. 60,968 crores as on 30th June 2020 versus Rs. 57,860 crores on 30th June 2019 – an increase of 5%. So, the major landmarks this quarter has been that the net worth of BALIC has crossed Rs. 10,000 crores and the AUM has crossed 60,000 crores.

Overall, faced with COVID-19 and the subsequent lockdowns, the company and its subsidiaries took immediate steps to handle this extreme situation. The company and its subsidiaries are navigating through this challenge with focus on profitability over growth. They're conserving cash, strengthening risk, borrowing long term, strengthening collections and reducing overheads. As a result, the operating companies have strong solvency well above the required capital and are positioning themselves as stronger companies as and when the lockdown eases. Thank you for your patience and 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 Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: I have basically two question. One, in general insurance, we've seen in any case always has been very robust in their business underwriting and now investment performance is catching up and improving. So, this is a business where at least since last two, three quarters, we are once again seeing the glimpse of the kind of older performance of BAGIC i.e. it used to post industry leading performance all the time. Once again, we are seeing that kind of performance is coming back in BAGIC. So, that's a source of great delight. In BALIC, we are seeing some of the key important shape of things to come with the change of strategy initiated over a couple of years ago. So, my question is, we've seen that individual part of the business is being emphasized which is more profitable and more sticky, I suppose. GWP is being deemphasized and rightly, the protection part pleasantly is surprisingly increased to almost about ~17% of the total APE in life insurance. So, all these are very, very healthy and good features. But what I want to know is over three to five years, how will be the shape of things to come, what will be the metrics and what would be the benchmarks, which will be used to anchor life insurance performance, and BAGIC performance over this period. So, this quarter is a delight and we are seeing that BALIC is now getting into a right kind of a shape in terms of behavior, pursuing only right kind of business in

a proper, balanced way. But, if you must view the business over three to five years, how will you define it and what metrics should we track in?

S. Sreenivasan:

Okay. Before I pass it on to Tarun and Tapan, I'll take it and give a broad view. Your question was, as of now performance was good but over three to five years horizon what kind of metrics you would see that the companies will drive to remain as best in class. If you know with BALIC, three years ago we started on a series of levers that we thought will drive the company in the right direction. The first was individual APE growth. The second was persistency that insurer needs to make small amounts of money over long periods from customers to be able to realize the superior NBV and return on capital. The third was focus on NBV rather than NBM, because different products have different margins and ultimately, NBV reflects volume growth as well as margins and product mix. Additionally, we strengthen the management team. So, as we look at three to five years, from a financial perspective, it clearly are the same levers, higher persistency, lower cost overruns and therefore higher NBV/margins, and a sustainable product mix, where no one product line becomes more than say 50 – 55% of the total portfolio. Apart from that new customer acquisition, use of analytics and technology and the expansion of distribution would be the other key metrics.

In terms of BAGIC, as you know, we have had a very robust and a formidable distribution network, which comprises of a large number of motor dealers running into a few thousands. We have the largest network of independent banks, who are affiliated with us that includes all types banks i.e. national banks, regional banks, co-operative banks. We also have one of the most focused underwriting teams in the industry as seen from continued focus on combined ratio. The market is very volatile, and it is very difficult to predict where it will move because pricing and discounting is increasing. We are sharpening our swords on how to select better customers with lower claim experience, how to get more customers and various things on that side. And finally, customer experience is something where we are spending a lot of time, effort and money on; where we are redefining customers journeys getting them into app, more digitization, which is why I took some time to explain the type of initiatives the companies are taking. With this broad opening, I would now leave it first to Tapan then Tarun to take up BAGIC and BALIC respectively.

Tapan Singhel:

Thank you Sreeni, thank you Mr. Shah, very relevant question. If you look at the general industry overall and if you look at it historically also, it's a huge distribution led game. Now, the beauty is if the industry shifts from a distribution led game, where customers need to have a conversation with a distributor to buy, to where customers are realizing the importance of insurance on their own, then that's a very good shift which happens because then customers start looking at adequate, good products, good pricing, and what's beneficial for them. To some extent you see the shift happening, let's say for health where customers are looking at different parameters and you see the health uptake happening and obviously, COVID has also pushed that to some extent. So, I personally feel that as customer awareness keeps on going up, the shift will happen in three to five years' time, where customer would be more looking into what kind of products he needs and what kind of protection he needs. This is important to me that this shift

will be happening and that is why when Sreeni started his talk he mentioned about our apps, he mentioned about our digital strength. He mentioned about distribution strengthen also, I think combining distribution with customer preferences, offering them the best products at the right price. Giving them an out of world experience in servicing is what we should be focusing on and that is what where we're building up now and we have been pushing on this front. That is where we look at the general insurance company's grievance ratio which is among the lowest in industry. In fact, during COVID times our grievance ratio dropped by 90%. So not only we have been among the lowest in the industry for a long time, but in the COVID time because of still competence and capabilities our grievance ratio dropped by 90% further. That gives me a bit of happiness. We want to push a very good customer experience, which is completely frictionless.

Now, while we do this, we should not let go of our strengths, the strength has been one, we have always been an underwriting driven company. And we continue to be so, we always look at good underwriting practices because as I mentioned earlier also if you look back a couple of years, I had mentioned, the volatility in terms of investment returns always keeps on fluctuating. So, a company must be very strong underwriting company and they also have to maintain a good investment team to see how much they can cut on volatility, but a good underwriting company sustains for a very long time. That's been our belief and philosophy of a general insurance company which we should not let go.

Second, our philosophy has been the reach, that we should be at every nook and corner of the country because a customer would be moving and they would be at every place, you can't be just concentrated in one location and that's why you will see that either through virtual office or through a bank branch network, we are into the farthest, in the remotest corner of the country if you go anywhere you will be serviced by Bajaj general insurance company very comfortably. That has been our strength, we will not let go of our strength of servicing a customer at any place, at any point of time, at any part of the country - wherever they are even for the internationally triggered travel policies. So, that is a strength that we are not ready to let go.

The third strength of BAGIC has been the claim settlement, if you take any kind of feedback, any kind of metrics or even feedback from your own people whom you know, they will all mention that Bajaj general insurance company is a very good claim settling company, that is our obsession. Claim settlement is an obsession that we will not let go. That is our key strength which we shall not let go in any circumstances. So broadly put forward, high focus on customers in terms of the choices that he has, in terms of way we service, keeping our anchor strength of distribution reach, underwriting, settlement of claims and handling a customer shall be our key focus for the next three to five years. So, while we look at long term, 5 years, 10 years, we also look at every day, and how do we make ourselves better than what we were previously as we push forward. So, I hope it answers your question Mr. Shah. Thank you for the opportunity.

Tarun Chugh:

Bharat, thanks for acknowledging the shift that you're seeing in BALIC. Actually, it's heartening to hear this feedback and getting this acknowledgement for the team. Yes, we've been through a turnaround and I do feel that we are now sitting on a strong foundation for the future. You

talked about the metrics that you would like to see or what we would like to focus on. Honestly, they're not going to be very different from what you see in the sector, but I'll get into a little bit more finesse within that, persistency and a lot have been mentioned already by Sreeni, so it's not going to be very different from what he said. Persistency is going to be a very key parameter, something we focus on first. And we want to be in the 80s clubs, we are every time, just kind of a little shy of that for the 13th month, but the focus is really to get the subsequent buckets also moving. We are improving in every part of those buckets, but still there is a lot more effort that we want to put in there and that's something that you will see improving as well. In terms of retail APE, no question about it that it is going to be, always has been, and will remain the most important lever to look at. Within that, the critical piece which normally doesn't get reported is the channel mix and the product mix. About four years back, this company was 92% led by agency. Now, while agency since then of course has grown. This quarter, we are now at about 47% agency and the rest is other channels. Bancassurance, which has been the growth engine for quite some time, is popping up, our partnership businesses which are banks and corporate agents, brokers, online players and e-commerce companies is now about 45% of the business and that is a very critical part of our metric that we monitor. Why that becomes critical is that, agency as you know the way it operates in India, because of regulation, agency is a very high fixed cost model. So, one thing we always look at is how we can variabilize our cost more than anything else. And bancassurance allows that kind of shift. Although within that how we will be different from the larger companies (these are the bank promoted companies), and from some who have given their silverware to other banks to own, is we are very clear that not a single distributor is going to be more than 20% to 25% of our business, unlike the larger ones. That is going to be once bitten twice shy with agency, which was 92%. We've learned our lessons there, and that's something that we will be very clear, no single bank, no single partner, will have a such a huge portion that today the large companies suffer from I would say. In terms of product mix, Sreeni mentioned it very clearly, we traversed a journey of being a approx. 70% ULIP company to now under 40%. Of course, in Q1 it's to do with COVID as well at this point in time, but that's the way we see the ballpark will range and that is a very critical bit. Within that we'll have non-PAR term, non-PAR guarantee. We also intend to look at the health business, but only for a small impact for the next one year. But we do want to look at the morbidity risks, which we've not been experimenting with. Although I must say that you saw a 17% non-PAR term, which is of course a very healthy one, this was zero same year last quarter. This is also because of the COVID push and the fact that the rates of term were quite low. The rates have now gone up because of reinsurance. Hence, this will taper down, so let me just be very realistic about the proportions of term. This will come down for the sector, and we won't be very different in the next six to nine months. But, yes I'm quite happy with the fact that this was untested muscle that we were able to bring up. Internally, there are lot of other bits that impact us to build up these external metrics: cost efficiency, percentage of fixed cost, the throughput from every salesperson i.e. the productivity as we talk about, what percentage of business is coming from new products – to ensure that we are relevant in terms of our product piece. The way we manage our risk, that's a very critical part. Some companies are getting aggressive on this, we will always remain conservative. The bane for the life insurance sector globally has not been underwriting but more guarantees. So we are very careful of that and we put a very robust risk management

piece in the last one year in place something that is usually not visible. In addition to that, we are quite strong now on a mortality risk as well. It is something which was not so robust three years back, and now we are as good as anybody else. Broadly I'll leave it there, there's a lot I can still say because this is a very exciting area for us as a group, and we're quite happy the way we are now moving.

Bharat Shah:

Sure, thank you. My second question is related to what you just now mentioned. I've always deeply appreciated, strong focus on underwriting and intelligent and careful underwriting. While in BAGIC, we have seen this all the time, now BALIC is also beginning to emerge with the strengthening of the initiatives over last couple of years. Now as an investor, I have one dilemma. When I look at underwriting profits in BAGIC, it's easier because insurance policies are only for one year and with premium done, the claims and expenses should logically correlate. Hence, we can see what the underwriting profits are, and those underwriting profits are almost close to the reality. But in life insurance, whatever insurance I've underwritten in the past or the distant past, may reflect as a claim today. And to that extent my ability to correlate today's premium with the past claims it doesn't give me a good picture. As far as expenses in life insurance are concerned, they probably will be more closely correlated to the current year premium earning and expenses also will be fairly higher in that year. Though there will be expenses pertaining to the past as well. Now as an investor, I can't really correlate this data very easily because I simply do not have means to be able to do that. So, unless and until the life insurance firm computes the real underwriting profit by properly correlating premiums earned in a particular period, and some kind of a sense of history of the how the past underwriting phase being reflected in form of claims, judicious allocation of cost and expenses both to the new business as well as to the past business. So that we can get a true picture of the underwriting profits, is there any way we can get a help on this, because while I'm sure all of that must be being done carefully, but in a general insurance short term product of a one year easily allows underwriting profit to be closer to the reality is shown. But in life insurance, it is more complicated given the longevity of the policy. So, what will be your comments on that?

S. Sreenivasan:

Bharat, can I take that question? What you say is right, we declare the new business value, which is nothing but the future projected cash flows as made on certain assumptions of persistency, death claim, surrenders, etc. Now, your question says that did you actually deliver on that, and as an investor, how do I know about it? I think what happens in life insurance is that a large part of the first-year premium for most products run at a loss. Depending on the product, and the strain on new business, we have seen that early when the companies were growing but profits were lower or negative. Post that, we saw a period where there was lull in the industry after the global financial crisis, then suddenly the statutory profits (the reported profits) went up. And now last few years, you're saying that reported profits are not growing although the value is growing for many players in the industry. One other thing we could think of as an industry, maybe in future is whether, we can disclose how much is the new business strain on our new business, which means that if I wrote Rs.100 of new premium, how much is the loss I have incurred on that. To that extent, it might answer your question because then it will remove that how much is the profit from the existing book. Internally, of course we have models and different

metrics we track including, how would the new business value flow through, we also have early death claims, subsequent death claims and all that, but they become too statistically complex to actually disclose. In a matter of couple of years, if IndAS 117 comes, it will be required that you show the development of the margin in subsequent years. That's one of the requirements of IndAS 117 or IFRS 17. So as of now, that's what I can tell you. and we will decide on disclosing the new business strain, which shows that shows how much of loss from new book and true profit from renewal book in line with industry.

- Bharat Shah:** Thank you Sreeni that will help.
- S. Sreenivasan:** And some more data if you want we will see what the market is doing as well. But we will try to see if we can give some flavor on our death claim, underwriting capability with term and savings products.
- Bharat Shah:** Sure. That exactly was my intent. Thank you for saying what kind of data can be given, because past new business value assessed today is a number that will really reflect whether it was fairly computed new business value, or it was over optimistic or under optimistic. And that kind of a data over the trend line of the past only you as a company can do. I as an investor there will be no capability to be able to actually do that.
- S. Sreenivasan:** Actually, we do disclose on the embedded value, the variances by different categories. But anyway, we will revisit that and see what we can do.
- Bharat Shah:** Sure. Tarun you have any comments to offer on that?
- Tarun Chugh:** No, largely Sreeni has commented on that already. The issue is basically two-pronged. We are very different as a business, we just don't write only risk. If we were say 90% risk business and 10% saving, it would have been a lot easier to depict the way you are wanting to know. And the other is our APE is really a long term. There are enough complications in terms of modeling and reserving at the back end. Hence, it is a very different business, it's not just about underwriting. It's a lot many things that play there. So, I myself wondering how to be able to answer other than what Sreeni said. Transparency and simplicity are unfortunately something that are alien to life insurance.
- Bharat Shah:** Yes. That is exactly my dilemma because good underwriter should get recognized for what they are doing in a careful risk-controlled way. Because current numbers can get confused with growth, with the way business is being slanted sometimes too much of non-PAR, sometimes too much of one kind of a policy and profits and other numbers can get confused. But overall for insurance business whether general or life, underwriting profit remains as a core, supplemented by investment income and both engines must fire. Good underwriting skills should reveal in terms of pricing power, prudence mix, distribution, balance, persistency, everything. And therefore, if underwriting profits are identified and provided then it results in a better respect and

valuation of careful underwriters compared to the other. And that as a data point, as much as I struggle I am unable to do it myself adequately.

S. Sreenivasan:

One is that, more than underwriting in terms of risk, it is mostly predominantly about guarantee risk. The two things which life companies do, which nobody else does are – one, actually giving guarantees on investments that is fairly long term guarantees on either regular premium or single premium and the second - they take long term mortality risk that people will die a natural death, because accidental death is also covered by general insurance. Clearly in these two there's a considerable number of statistical models, particularly in the latter. And one has to, because some of the products are like 30 – 40 years of coverage. So, I may be able to report profits now but in 20 years' time the profit is not there. Then it will be very difficult to prove that. The other thing is on guarantee. Ultimately it all boils down to how much one wants to expose to this risk as a portfolio. Second, how do you track it? What kind of external instrument you will use to hedge the exposure, like in the case of guarantees there are instruments available to some extent. And thirdly, how would you diversify your portfolio so that you're not a one-horse race. So, fundamentally, we use more management principles and risk principles here and try to control our exposure. That's why you won't see us talking too much about our non-PAR guarantee products offering very fancy returns. Because we don't think that's a good thing to do in the long run, as cyclically you may at times get caught.

Moderator:

Thank you. The next question is from the line of Has Mukh Gala from Finvest Advisors. Please go ahead.

Has Mukh Gala:

Bharath asked several important questions, now I will just add one or two things. Should we start reporting the VNB margin every quarter, because there are lot of things which go in the background in the insurance company which we are not aware of. But at least when you give VNB margin and if possible the embedded value like the other companies have started doing it, that two parameters will help us to understand the direction which the life insurance company is taking. So, what is your view on that, although we are not listed companies, but still for helping the investors to appreciate the results better?

S. Sreenivasan:

Sure. I'll tell you the reason we're not doing that is because, quarter one is basically a very weak quarter for the whole industry. And usually the expenses are up fronted, so it doesn't give a correct picture. And I don't think there's a regulation or any framework under which we can report rolling 12 months, kind of margins and all that. So, last time in the call we had discussed this, we said we will consider reporting this half yearly from this September. We are still working on it and hopefully we should be able to disclose at least interim. When you look at the industry business starts picking up slowly in July then it somewhat goes up in Q3 because of the MDRT and the agent reward programs. And the last quarter is the tax season. This year the whole thing has got upset as well. For the COVID, the tax season was extended, the renewal dates were extended. So, we are onto that and we'll see whether we can disclose it from Q2.

Hasmukh Gala: Okay, that would be great. My second question for both BAGIC as well as BALIC is that going ahead do you expect sizeable chunk of claims to come either COVID or non-COVID related, like you have very correctly mentioned in your presentation that a lot of motor claims could come up, health claims of non-COVID related treatment could come up. So, are we capable to handle all that and how will it affect our finances?

S. Sreenivasan: See as far as finances are concerned, we said that we have increased the margin for adverse deviation, so we have made this provision based on available information because there are limited ways in which you can do that, you can't just put something, you can only do it on existing policies. To that extent, we have actuarially made a provision based on what is allowed under the actuarial standards and IRDA guidelines. We have reviewed that and made some provisions, now exact amount I don't want to disclose now. But there have been some assessment of each of these risks I told you about. Regarding ability to handle, Tapan you can take that.

Tapan Singhel: Thank you, it's an interesting question because this is very relevant in terms of how the quarters will move going forward. So, COVID if you look at now on a per day basis, number of claims have moved up. In fact, for industry it has started touching close to 10 cores now. So, expectation is COVID claims will move up and like Sreeni mentioned we have assessed this, and we have made provisions on that basis for ensuring as it moves up, we have adequately provided for it and we don't start losing in terms of where you'd be caught by surprise.

The second phase where we feel that things will come into is motor third party part as Sreeni mentioned in his opening speech. Right now, because of courts being closed a lot of judgments have not come and then because of delay in judgment, there would be interest which will be levied, and the claim size will actually move up higher. Again, for that also we have assessed ourselves and provided for it in terms of how it will move.

The third part is motor Own Damage, because of lockdown a lot of vehicles had less movement. So, there seems to be an advantage in short term. But what we forget is that as the lockdown gets over and looking at what has happened in the countries other than India, let us say Wuhan, China if you look at that, post lockdown got over, lot of people preferred to move in their own vehicles instead of looking at commercial movement, which means that the number of vehicles on the road increases dramatically. This also means that the frequency of action goes up. So, belief again is as you rightly thought about it, in time to come the motor OD claim will also move up and that also we must assess and see how we could provide for. So, as a company, we have assessed these three big impacts which would happen in businesses. In fact, some impact would also happen in the industrial business. But that's because of the Nisarga and the Amphan cyclones. But that has already got impacted to a large extent. But predominantly in retail these were the three big impacts which we have now taken into consideration and we have provided for. So, in that sense as of now we feel that based on the information that we have, we would be prepared to handle this scenario as it progresses.

- Hasmukh Gala:** Okay. And my last question is on the crop insurance, what is your thinking like, how will we move now, which are the states which we will cover up, etc.?
- Tapan Singhel:** That is too micro a question for investor call but let me give you a broad view on that. If you look at our crop insurance performance, we have been there from 2014 in crop insurance if I'm right, and every year we are able to generate a profit. So, our segmentation, our picking up the states and our spread of the business has been delivering results. Our hard work on the ground, in terms of deployment of people, in terms of crop cutting exercise, in terms of collaborating with the government, in terms of technologies we use, has been fruitful. We have been pushing ourselves and picking this business pretty well over time. Value will remain the same, that is what we have done. And if you look at it also, like Sreeni mentioned in opening speech, even for three years on the government requirement, we have also arranged for good reinsurance support in that sense. Hence, this is one business, we have really worked hard, understood the business well and we will continue doing the business as we have been doing in the past.
- Moderator:** Thank you. The next question is from the line of Harshit Toshniwal from Premji Invest. Please go ahead.
- Harshit Toshniwal:** Two questions. One - protection in Q1 we had a strong competitive pricing advantage, but we have taken the rate hikes in the near end of the quarter. To that extent I understand that maybe for industry the volumes might normalize, but our market share which we saw, how do you think that gets impacted for the balance nine months?
- Tarun Chugh:** Yes, we had a very aggressive pricing, but at the same time a very strong underwriting capability which we could do. See what we've done is, we've increased prices like everybody else and in fact, honestly we would have wanted to increase more, but we found that other companies were not increasing more than a certain amount. Now, what we have done is we've got both non-medical and a medical rate. And we do expect that the price hikes will affect the overall business for the life sector because as advisors could see this coming they've ensured that they have pushed a lot more term cover as a fire sale in the first three months of the quarter and honestly with COVID there, there was a lot more interest in term, particularly when the lockdown had exponentially taken up the risk. Now, we are going to be focused on term, but overall, I do find that at this point, our guaranteed product are also selling more off the shelf. So, I do not expect that 17% term mix is sustainable because there was a movement of significant purchase that was happening. Now that is going to get down, so within our own business there is going to be a reduction in market share there, but nevertheless it's going to be an engine which we are very clearly looking at. Plus, we are very mindful of the kind of risk we're writing. Therefore, we are only hardening our underwriting as we're going and getting more and more experience. So, when there's a lot of demand for a product, you have to balance out underwriting practices as well. So, we are going to be mindful of that, as far as the sector is concerned we will be broadly in sync with the sector.

Moderator: We move to the next question from the line of Lalitabh Srivastava from Sharekhan. Please go ahead.

Lalitabh Srivastava: I wanted some thoughts from BAGIC. This is a yearly renewing business and we as an insurer would have assumed a certain number of hospitalization days for an average client of a particular age category and so let's say suppose, we have the average cover is around 2 lakh and we have assumed x as a probable amount of expense claims to be paid. So, 2 minus x is what is the margin that we have. Now with the COVID situation, not only the probability of a two day or three day hospitalization has gone up, the expenses have also climbed, which means that the margins that an insurance company would normally have would considerably come down for a lot of its customers if the pandemic continues the way it is. So, my question is that, are we expecting or how are we planning to address this? Thank you.

Tapan Singhel: I am very impressed with all the interesting questions that are coming up. Pandemic is a black swan event. When a black swan event happens, lot of things changes very, very fast. Let me explain two things, one side is where you are saying that the COVID claims are coming and the expense obviously i.e. the fact is the severity has moved up considerably and the frequency also is moving up now. Second, if you look at most hospitals if you heard them, their occupancy is only 35% for non-COVID part of the hospital as many people are not going to hospital right now, because of the fear of COVID. So, whatever can be postponed or what does not require urgent intervention, they are not going. So, it is interesting across the world the occupancy of hospitals fell sharply in the COVID time. In India also, 25 – 35% is the occupancy of hospitals, the beds are going vacant now. While the COVID ones are overflowing, the non-COVID ones are going empty. So obviously, there is some benefit there of beds going empty based on the previous calculation. That is a relief and COVID obviously is building up as the claims are moving up. Now, Sreeni in his opening speech also mentioned that if you look at our BAGIC share, it's about 4%. And a company like BAGIC, which has got multichannel, multiproduct, multi-distribution and the widespread, we assume things like this. Let's say, when a cyclone happens then the property business gets hit. These two cyclones happened earlier in the first few months itself i.e. we got hit pretty bad in April and May itself, and now it will build up. So, the general insurance business, expects these things. That is why a good insurance company will diversify the product and will diversify the geography also by being at different places. Because when a certain event happens, it does not cripple the company to a large extent. That is why if you look at BAGIC as a company because of its diversified presence, it is able to handle such shocks pretty comfortably and it's been tested over time.

Now coming to the health part of it. In the COVID part as you rightly mentioned, now if you see the severity and the frequency is moving up and the per-day cases are moving up pretty fast. There are two things happening which is interesting here. Now, a lot of home treatments are happening. The hospital beds are not available, and that home treatment has a different cost compared to a hospital treatment and hospital treatment too happens only when ventilators are in place and then the frequency and the severity moves up.

Now having calculated that and the uncertainty of that, in our books using the actuarial calculations as provided within the guidelines of IRDA and the actuarial society, we provided for these kinds of future events that will be happening on our book. So that when it happens, we have already provided for it. We're not caught off by guard, but yes, black swan events are very, very interesting. They teach you a lot and they got very, very interesting factors. As a company, we have looked into this and we are measuring that trend and how the claims will be moving up and we are providing for that so that we're not caught off by guard. But because of our distribution and our multi-product strategies and our strength in nearly all the products that are in the market substantially, even if this goes higher, the company will not be hit very badly.

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

Dhaval Gada: I had three questions. First is for Tapan, this is related to the retail health business. So last year, I understand we set up a separate vertical for health business. And we expected the separate distribution to gain significant advantage on the growth side. So, but when I look at the market share trends, it doesn't seem to be reflecting the momentum as yet, just yet. So just wanted to understand when could we see the benefits starting to kick in, in terms of more velocity of sales and the consistent 20% plus kind of momentum on this line of business, so that is first.

The second, again to Tapan is on the crop business. So historically, we've had this philosophy that this is a 7 to 10 year business and should be looked at in cycles. So how does the regulation change impact the overall business model thought process that we initially had. Does it change that, or it only strengthens the approach to the business. So just wanted to understand the outlook on the crop business. Maybe you partly answered, but just more clarity.

Then the third one was to Tarun. This is on the agency side. So, over the last couple of years, we've been trying to maximize profit of this channel by reducing the share of ULIP and optimizing it for other products in order to get closer to where the large size, something like IPRU, etc., operates. So just, where are we in that journey and how much more is left to see the benefit on that side?

And lastly again to Tarun. As far as persistency is concerned, we have been migrating to this one step higher customer segment, more to mass affluent kind of category. And then traditionally that segment offers better persistency is what our understanding is. So why are we not seeing that in the 13th month persistency just yet. Is there some other reason that I should look for to see the benefit come through in the subsequent period? Thanks.

S. Sreenivasan: Tapan, you want to take first?

Tapan Singhel: Yes. So again, thank you for your question. So, let's talk about the health vertical. If you look at the health vertical, it would be growing at 170 odd percent. But we must also see that BAGIC didn't start health fresh with health vertical. We already had health in our portfolio, done by our

agency and our different distribution networks which are already there. So, from pure health vertical perspective they will be growing well, but the base would be big for them to make a huge impact, which you will see in terms of growth percentage we're talking about immediately. And as time progresses, that would show impact on that base which is already there. So, we need to understand that, it is not that retail health started just about year and a half back in BAGIC, and that is why if I look at pure health vertical yes, that's growing at 170% and their growth is going fine. But we already have a large pool of retail health, which is already there in the book that we have. So, on that, if we add that this percentage growth looks lower. But having said that, if you look at the percentage it is still over the industry growth in retail health. Obviously, we'll continue doing and continue building on that. So, that's a significant line of business and we keep working on that. And it depends, sometimes we go aggressive, sometimes we go slow depending on how the market is behaving and how the underwriting and the profit pool in the market is seen at. So, it is not something that we consistently press the accelerator. At times, we de-accelerate also if we don't find the market conducive. But yes, we have all the armies and all the distribution network ready to fire whenever we want to fire a particular product in a particular line of business, in a particular place which is there. So that is why you don't see overall a big impact. But yes, as a channel when you look alone, it has an impact which is there.

Coming to the crop business, if you look at it, we have already been doing crop for close to 5 – 6 years and in all these 6 years BAGIC has been able to generate profit on the business. As mentioned earlier if you look at a longer perspective and now we will also see a lock-in of 3 years, the fundamentals don't change. It is cyclical business but overall like any line of business with risk diversification by proper selection of tenders to bid for and reinsurer to back it – BAGIC is confident to run crop profitably. And the next year also, with acquired reinsurer backing and right tender selection, we will end up doing business. As, I mentioned these are businesses which you have to work hard to understand, to learn, like any of the business. If you look at BAGIC, you look at our motor business we have been able to generate underwriting profit there. If you look at our property business, for that matter for all lines of business, we have worked very hard to understand business as an underwriting company and we were able to generate returns and profit on that business. Similarly, on the crop also we have worked hard. We worked on the field, we worked on the claim settlement, we worked on the pricing, we worked on tenders, we looked at the underwriting part of it. And if you look at the number of people we have put on the field in crop would be among the largest in the country that is there. So, it's a serious business that we take, and we work on it and we deliver results on that also based on our core expertise which is there. And so, we will continue looking at it as I mentioned to you until we really find things to go out of control, which is not there. Having said that, if you look at the three year's move, the pricing has hardened in crop overall compared to what it was last year for the industry as a whole if you have seen the three year's lock-in has happened. Still, the significant number of states are participating in this. So, I just feel that the business is still going strong and let us see how it develops. I hope, I've been able to answer your question. But thank you, I love the question that you are asking. Thank you very much.

Tarun Chugh:

Yes. Very, very intricate questions. You asked me two questions, one on agency, the second on persistency. The agency one is particularly quite interesting. What you asked was on the journey of profitability, where are we and you've taken examples of few other companies. So, the agency is been on the path of transformation for the last three years. And, as far there are three levers on which you largely work. One is the product mix, which is possibly the most critical lever, the second is productivities and the third is fixed costs.

On the first one, we have pretty much ended our journey. We've achieved what we wanted to. We had a bias towards ULIPs. ULIPs need not necessarily be the most cost-effective for companies. At the same time, you want to shift only when you have a customer base that is willing to buy non-ULIPs and a distribution which is capable of doing that. That transition has been very aptly made and like this quarter itself, I was explaining that we are under 40% for ULIPs. But for the sake of comfort, I would say that ULIPs are very customer-friendly may not be very shareholder friendly. So therefore, 40% is where we'll keep that ballpark around. So, we are a lot better placed now. And among the agencies we are as strong as everybody in terms of our ability to sell non-ULIPs, something which was a weakness four years back. So that journey has ended but as I was answering Bharat there the entire bit around the term sales is something which is still on and we will continue on that path. So that part of the production will be more gradual. It's a very different kind of process versus selling the savings plan.

On the productivity piece, we are as good as anybody else, particularly if you look at an indexing of, with the leaders you talked about ICICI there, in terms of ULIPs and non-ULIPs. If you index these products and try to figure out productivity, we are as good as anybody else there as the productivity per sales manager gets to a very critical piece.

Then comes a bit about fixed cost and honestly, this journey has very seriously begun thanks to COVID. And we've begun this with so much gusto than I don't think anybody else in the market is looking at. Let me just give you a little brief of that. What we've been looking at is if we can have a low fixed, high variable kind of a model within agency. So, we are remodeling that and trying to see if we can pay for performance and work aggressively on that model. A few companies, the smaller companies have got success in this, but none of the large agencies have been able to even start this process. And we'll be the first ones to initiate it, and the path towards that has already started and that benefit will be seen in a couple of years.

The second bit is how we manage our fixed costs around admin and branches. Because given the infrastructure that we normally have for having a wide footprint like the way Bajaj Allianz Life has, that is a fixed overhead that we always carry. Now, we huddled up with a lot of consultants, looked at various ways in which the rest of the sector is, not just in India but abroad is thinking about work from home and being able to optimize that. We've basically gone back to the basics that agency business was never really meant for the way it is right now, the offices were never really meant for customer walk-ins. But in India somehow it has been large agency offices and very little customer space within that. So, what we've done is we've relooked at the combination of work from home and Bombay is a model where we are trying it out first. I'll just

take Bombay as an example, 16 large branches, where we have branches upto 11,000 square foot of space, the customer area gets to be about 150 odd square foot there. But if you look at Southeast Asia, the way it works is that people are more out of the branch and selling than sitting in the branch. Usually in the afternoon branches are all empty. So what we've done is we are now consolidating 16 to 6 places and at the same time few places would be in the range of 2,500 to 11,000 as few properties we own. But the rest of the branches will actually move into smaller customer shoppes. It will be about high street branches, 300 to 350 square feet digital branches where customers can self-service as well. This is expected to have a significant effect on our fixed cost and we will be using a good mix of work from home. So we want to make this change as work from home pitch and culture has just about begun, particularly in BALIC we're quite seriously looking at it. So, on the cost, the journey has started, just to kind of summarize it at the end there.

On persistency, you raised a very good point. In the last two years and I'm happy that you're all watching us, that the customer segment movement begun into earnest. This will always remain a work in progress, but we are quite well placed. Now you asked this question with a tinge on persistency and yes, the higher net worth customers usually have a better persistency. How we are different from the others, our peers, is that a lot of their customers have got in through bank branches. Now that makes a big difference. If you're not able to contact the customer, you have another port of call, another source of data to really go and be able to reach out to the customer, you have alternate numbers, you have got other means of reaching out, another sales team almost at your behest to help you with that. Given the fact that we were a largely agency business, we've had a slight of that problem. But having said that, this is the year where we will enter the club of 80s. We would have done it in the last year itself, but for what happened in the month of March, it got missed. But this year, we are very clear that we will be in the 80s club and then the movement begins strongly we are really going after auto-debit. Usually, our 15th month persistency which is better than our 13th month, but what is measured is 13th month by IRDA. If you just look at a perspective of the second year premium and not just a 13th or 14th or the 15th month because all actuarial models actually look at the second year and not the 13th month only, then we are actually well in the 80s already. Are we the best, no not yet. As the business distribution mix changes and the customer segmentation is going to be a work in progress all the time, this is going to get better and better. I hope I answered the question.

Dhaval Gada:

Yes, thanks. This is all very clear. And just one last thing for Sreeni. Any update on the Medtech and Finserv market initiative, any plans for FY21 on those fronts, thank you.

S. Sreenivasan:

No, I think we are basically still fine tuning the model. Clearly, the Finserv direct model has already started selling on the marketplace they are selling loans. But our initial idea is we primarily want to use that to attract new to Bajaj customers using a completely seamless platform for distributing financial products. So, they were selling more of loans, insurance, but because of the slowdown in the market the sales will be a little bit slower than what we thought it was before this year. But for the model to develop, it is still maybe more than a year away. But we are very happy with the traction of new customers on the website they are utilizing the services.

We also have our own payment interface Bajaj Markets Pay. So, we'll wait and see. On the other one, it's still too preliminary to make any advance comment. We have started tie-ups and pilots with a few hospitals and doctors. But as things evolve, we will be communicating more information.

Moderator: Thank you. The next question is from the line of Abhishek Saraf from Jefferies India. Please go ahead.

Abhishek Saraf: So, I have one question on life insurance. Basically on the non-PAR savings side, if you can help me understand what portion of this is all the guaranteed products that we are selling that have become so popular right now and seems like most players are doing that and probably, the share of non-PAR savings is shot up sharply 33% and we do acknowledge that on guarantees that it can be a bit risky in the medium-to long-term perspective. So what are the internal tolerance levels for the non-PAR savings kind of product, I understand that right now this there obviously can be the temptation as these products tend to be a bit on the high-margin side as well. But what are the internal checks and balances that we have?

Tarun Chugh: So, it's a very good question and a very important one. Guarantees is the one thing that life insurance companies, and Sreeni mentioned that in his starting speech as well have to be very mindful of, we've been on the top of this and being very proactive. I can give you that comfort very clearly. We normally hedge our portfolio well in advance. So, at this point in time, if I was to continue to write a similar percentage of this business for the next 9 months or even a year, I am still hedged. So that's a good part. As a group, we have to be careful on risk and that's exactly the way we are looking on. So just to give you comfort, if this momentum continued even till March for us, we would not be in any stress whatsoever or be bothered to go cover more. But there is another point, maybe let me just add here. Till now, we've been covering this risk very comfortably with very high-grade AAA corporate bonds backed with very strong management because we know how AAAs sometimes have turned out in the past. So very mindful of that. Beyond that what we've also done this quarter is, adding another layer of comfort through FRAs. So, at this point in time, because of the high liquidity in the market, FRAs are actually looking very, very comfortable. One of the reasons where life insurance companies are actually selling a lot many guarantees is because at the back end they have FRAs to cover this. We've also started doing that despite the fact that we're already well covered with partly paid bonds. What we are already in the process, let me also give you a little bit more comfort, is bringing down our guarantees, although we need not, honestly at this point in time because we are well covered, from the first week of August itself. So we're very clear that we want to be more conservative, while other players may not be. Instead, what we've done is we have moved our business and the transition is currently a little slow because the non-PAR is really flying off like I said earlier. But onto roughly a path-breaking new PAR product, which again Sreeni mentioned the FIG - Flexible Income Goal Plan, this is something that is from August onwards it's going to be a very critical part of our portfolio.

- S. Sreenivasan:** If I can just add to what Tarun said, if you look at three types of products PAR, non-PAR guaranteed and unit-linked, they actually meet three different needs of the customers. PAR, it gives a low guarantee, but it gives an upside, it gives a lot of protection and typically sold with a lot of riders. And this is the product which largely caters to the middle class and the lower middle class across India. For years, LIC has sold that kind of product that limits how much profit you can take. But clearly, without doing that, you can't be in business. And in the long run it's an infinite ROE business if you build the reserves properly and remain in the business long enough. In case of non-PAR guarantees, there are times when people want guarantee. This is one of those times. The downside for the customer in non-PAR guaranteed products is there's no upside. That's what you get. It's very clear from upfront and from an insurance company's perspective, it is obviously important whatever means you use, you use cash flow, natural cash flow hedging, you could use partly paid bonds, you could use FRAs and maybe in future some other instruments may be allowed. But net-net, what we are like to look at is, when there is a market you have to expose yourself and this is one segment of customers who want guarantees or customers who normally want growth may look for guarantees when the market risk environment is difficult. Unit linked clearly is the only product which has the potential to beat inflation in the long run, although the performance of the Sensex and Nifty the last 10 years doesn't show that it has beaten inflation. But it is one where the customer by investing prudently for the long term, can get both protection and growth beating inflation. So as market cycles change, you need to be nimble enough. The sales techniques required; the distribution required for selling each of these is different. As a company, we would continue to be diversified. Depending on the market, we will expose to different segments differently and at the end of the day all the risks have to be covered - we have a balance sheet risk, especially in guarantees, which we monitor every quarter internally. The company monitors much more frequently, and then we will take appropriate decisions.
- Abhishek Saraf:** Sure, thanks that's quite reassuring. Last bit on it so, is it possible to share that what would be the currently on a stock level. So, if I were to compare with the balance sheet number, so what will be our share of non-PAR in this, in the guaranteed product let's say as a percentage of our liabilities?
- S. Sreenivasan:** We have shown that. Still Tarun, how much is non-PAR guaranteed products of our total retail?
- Tarun Chugh:** It is hardly anything. Bharat, would you have the number on the stock flow? non-PAR will be very, very small.
- Bharat Kalsi:** Rs. 3,000 crore is the non-PAR retail fund AUM.
- S. Sreenivasan:** That's the accumulated balance sheet exposure.
- Tarun Chugh:** Although lot of that, this is the one which is waning off, there is a large almost like 2/3rd of this is one written, maybe 10 – 15 years back. So that's the one that's going up and maturity is happening there. The new portfolio is pretty small.

- S. Sreenivasan:** Yes. However, newer broader guidelines you can see this again, with a lower, we can start new series at different rates. So that increases the flexibility available to the company to manage the guarantees.
- Abhishek Saraf:** Sure, thanks a lot of that. Just one question on the general insurance part. So, on our catastrophe thing, so what would have been our losses due to Amphan and cyclone Nisarga?
- Ramandeep Singh Sahni:** Yes. Total exposure is about 44 crores.
- Tapan Singhel:** Yes. That is net of reinsurance. Otherwise, on the gross basis, it's higher.
- Abhishek Saraf:** And in reinsurance, I presume that the excess of loss ratio treaty will be there. So our losses are capped at what level in these events?
- S. Sreenivasan:** On our reinsurance treaties, we don't want to divulge too much. But they are structured with multiple layers and of course that treaty is one of the treaties we have. But we have very good protection on our net and there is a certain amount of risk we take as a company on catastrophes, but there are protections available on that as well. S, if you look at the reinsurance commission, the ceded ratios, you may get some feel of what we are doing there.
- Moderator:** Thank you. The next question is from the line of Kishore Kaushal from Max Life. Please go ahead.
- Kishore Kaushal:** My question is for BALIC. Is there any COVID death happen out of our customer base. How many claims have been received and how much we have paid for because of unfortunate COVID?
- Tarun Chugh:** Yes. So, there are 9 deaths that have happened and there's a total amount that is about 50 lakhs that we paid.
- Kishore Kaushal:** 9 deaths, okay thank you. And one more question I had, briefly tell about retail protection through bank regular pay term product, how our sales have and can I get some color on that without brokerage?
- S. Sreenivasan:** As of now our protection product itself is only 6 months old and as you know, bancassurance some of the banks we are dealing with are basically branch based. We have already started activating them since May. So, it will take some more time for us to get more flavor of protection versus non-PAR and ULIP and all that.
- Moderator:** Thank you. The next question is from the line of Deepika Gupta from First Voyager. Please go ahead.
- Deepika Gupta:** I have a couple of questions on the protection products. Firstly, which channels would you have grown protection this quarter? that's the first question.

Tarun Chugh: I didn't really get exactly. You said something on the protection product?

Deepika Gupta: Yes.

S. Sreenivasan: You want to know which channels are selling motor protection product?

Deepika Gupta: Yes. Correct. What would be the breakup of the channels for retail protection?

Tarun Chugh: So, the channels that have been selling this more are the agency and online channel.

Deepika Gupta: Okay, got it. So just wanted to understand the market right now. We've seen a very high growth in the overall segment at the same time, there's a pricing competition that we're seeing among the various players. Given that protection is a relatively riskier already the pricing in India is quite low when you compare to the global averages, do you expect the aggressive pricing on protection to continue?

Tarun Chugh: No. I don't expect the aggressive pricing to continue, although I just want to give it a little bit more view to you. If you look at protection rates and I'm going to not talk one or two years, but in 2000 and the way they have flown all the way then in 2010, 2015 and now. Protection rates have really come down significantly from the time there was no private sector and they've come down drastically. So, if you look at it from that perspective, there's only a little blip that they've gone up and hence, I would say that from a customer perspective, these are still low. Currently, there is a major reaction of not buying too much protection at this point in time in this quarter more because there was a fire sale of low-cost products that have happened till May, June. I expect now that the prices of term plans will only remain at current levels.

Deepika Gupta: Okay. So, I just wanted to understand the long-term strategy here. It's been highlighting earlier that our pricing is low, but we're trying to make it up by better underwriting. Once we see the market sort of stabilizing, what kind of advantages could a player like Bajaj have because you already have like three, four larger players in the market, so how are we planning to compete with them? That's my final question, thanks.

S. Sreenivasan: I will take it before I hand it over to Tarun. You see unlike general insurance, it is very rare for customers in life insurance to be chased by multiple companies. Because the way the distribution is for life insurance is that the bank has got its customers, it tries to sell it to its customers. You've agents, each of whom has got a set of customers they try to sell it to those customers. And people don't know, when a car is sold immediately there are means of knowing that somebody has a car for renewal and therefore by the next year they will all chase that car for renewal. So in that sense, it is not that if somebody is doing better, then we would do worse. Secondly, in terms of term life, it is more or less the commodity. There is no financial value of course we do sell a lot of return of premium products, but no return product as such. And therefore, it is a question of how you manage your distribution, what kind of product mix you have, how do you drive profitable growth on that. Tarun?

- Tarun Chugh:** Yes. Sreeni's answered it to a significant bit. So, there is nothing that is going to be suddenly coming out of a magic box on this one. We have dedicated distribution: we haven't been in term for such a long time. Wherever this commoditized product can be upsold, it will be. Our advisers have been passed for this, so they are going to keep selling. The only bit comes in when you require something different from your competition, when you have an open perfect market, which is really the aggregators. In that perfect market, we are as good as somebody else and there usually the brand plays a big role. That by itself will be a strong enough bit for us. When you are just about 2% of the entire life insurance market if I count in LIC, I don't think we need too much of rocket science really to make it work very well, if you ask me.
- Moderator:** Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.
- Rishi Jhunjhunwala:** I have couple of questions both on the motor side. So one, we wanted to understand basically, if we look at last year, there was a significant divergence or at least growth differential between your motor OD and motor third party products. But what we have seen in the past four months in the lockdown that the decline in businesses in both the businesses have been similar. So just wanted to understand the reason behind that, whether it is because of the vehicle mix or is it that because of impacted by new sales versus renewal. Just wanted to understand that, sir?
- Tapan Singhel:** Yes. If you look at it during the lockdown period, most businesses in motor came down. But commercial vehicle came down very heavily. The decline in commercial vehicle was to the tune of 60+ percentage. Obviously, they would be paying premium when they will be moving on the road. And if you look at our business mix, it's distributed well between four wheelers and commercial vehicles, and some two wheelers which we have. So, a significant drop in the commercial vehicle segment lead to the number that you're seeing because the drop is there. But as commercials will start picking up again, those numbers should get better.
- Rishi Jhunjhunwala:** Understood. And secondly, just on the loss ratio. we have seen significant improvement on the OD side, but we have seen a lot of, basically the TP loss ratios go up substantially. Just wanted to understand how, are there different ways in which you are assuming provisioning in both of these considering the lockdown and do we intend to see that converge for the rest of the year?
- S. Sreenivasan:** Rishi, I answered that early in my opening speech. We did strengthen the margin for deviation and with the longer tail businesses would obviously get a higher share of that. So, we still don't know how this thing is going to evolve in terms of health, motor OD and TP. To some extent, commercial claims may be a little bit easier to predict. Therefore, we'll see as it evolves. So, this quarter, we may have some impact of that. But otherwise, we don't see any major trend. Tapan?
- Tapan Singhel:** Yes. Agree with you Sreeni you've summed it up well.
- Rishi Jhunjhunwala:** So just on TP, basically last year which really had 65%. So, do we expect for the full year also that the numbers will be substantially higher than last year?

- S. Sreenivasan:** Never ask a general insurer as to what the claim ratio will be. If you ask me tomorrow, I won't tell you because I don't know whether tomorrow there is going to be a storm or not.
- Tapan Singhel:** So, these are too micro questions. But as I earlier said that we have worked very hard to ensure that, we underwrite well, we pick up good risk and serve the customer well. We continue doing that. So, to tell you exactly what the next move would be and how would we pick business, I don't think we can do that in this call.
- Moderator:** Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.
- Dhaval Gada:** I just had a question for Tarun, related to the Axis Bank channel. How does life change after the sort of formal announcement of Max Axis transaction and any progress that we've made on the credit protect business from the bank or the other channels where we were not given access initially, so just some comments on that channel. Thanks.
- Tarun Chugh:** Okay. So yes, we got the Axis transaction last October. At the time we got it we were well aware that there will be one major player and there will be a smaller share given to us. That was something which was very clearly told to us by the Axis management. They've been very transparent on that from day one and we appreciate that, and it's pretty much remains the same after the announcement as well. So nothing has really changed for us from that perspective. As far as the channels you talked about, well we're currently in the liability sale which is really the new customer acquisition channel and that's where we are selling only. As far as credit protection is concerned, we've been in two zones of Axis and we continue to be there. Albeit since we've come in the productivity of these zones have particularly gone up versus what they were earlier and at the same time, I must say it's not that the credit protect business today is flying off-the-shelf for because credit is not being given out at all. It's really going slowly at this time. These are the channels that we are largely there.
- 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 and the senior management team of the insurance businesses and all the participants joining us on the call today. Thank you and have a good day.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of JM Financial Institutional Securities, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.