"Bajaj Finserv Limited Q4 FY-19 Earnings Conference Call"

May 17, 2019

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MODERATOR:	**MS. BUNNY BABJEE – ANALYST, JM FINANCIAL 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 Q4 FY19 Earnings Conference Call hosted by JM Financial 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 '*' and 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 Securities Limited. Thank you and over to you Ms. Babjee.

Bunny Babjee: Thank you. Good morning everybody and welcome to Bajaj Finserv's Earnings Call to look at the fourth quarter FY19 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. Milind Choudhari – CFO, Bajaj Allianz General Insurance; Mr. Tarun Chugh - CEO, Bajaj Allianz Life Insurance and Mr. Ramandeep Singh Sahni – CFO, Bajaj Allianz Life Insurance. May I request Mr. Sreenivasan to take us through the financial highlights post which we can open the call for Q&A session. Over to you sir.

S. Sreenivasan: As usual it is our pleasure to have all of you for the conference call. In this conference call, we will be discussing the results of Q4 of FY19 for Bajaj Finserv and for the full year ended 31st March 2019. Since, Bajaj Finance has already had its call yesterday, we would be concentrating more on the insurance operations of Bajaj Allianz General and Bajaj Allianz Life which are the other major contributors to the consolidated results. However, if there are any high-level questions on Bajaj Finance, we would be glad to take that as well.

The status of Allianz's stake in our insurance companies remains the same as at 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 future performance.

We now come to the financial results for the year ended 31st March 2019:

This is the first year we have reported full year results on Ind-AS. Bajaj Finserv and Bajaj Finance including its subsidiary Bajaj Housing Finance Limited are under Ind-AS. The insurance company's standalone results are not under Ind-AS because it is not yet applicable to them, however, for the purpose of consolidation, they do give us Ind-AS compliant figures. Therefore, the consolidated numbers are compliant with Ind-AS and the previous year figures are also comparable.

Highlights of the quarter:

They are already in the press release and we have put up our investor presentation on the stock exchanges and our website as well, which I hope all of you would have seen. It has been a very good quarter for us with 32% growth in consolidated profit, 44% growth in consolidated revenue. Bajaj Finance consolidated profits are up 57%. The GI business profit is down, to Rs. 83 crores as against Rs. 187 crores in Q4 of last year and life insurance profit after tax is also down to Rs. 112 crores versus Rs. 171 crore. For Bajaj Finance, the consolidated total income is up 52% in Q4 FY19; the profit after tax up 57%, the AUM is up 41% and the net NPA as per the extant RBI prudential norms and provisions as per expected credit loss which is required under Ind-AS is 63 basis points, i.e. 0.63%.

Coming to Bajaj Allianz General Insurance Company:

It has been a very good quarter for us in terms of growth. Our overall growth during the quarter is 23% in GWP and even if you exclude the crop business which we did a bit of during the Rabi season, our GWP has grown by 17%. This is well above the market. The underwriting result was a loss of Rs. 146 crores, the first time we are reporting an underwriting loss in a few quarters and you may be wondering why. It is primarily due to 3 reasons, one is the provisioning for crop insurance in Rabi season and secondly investments in technology. Over the next couple of years, we will be investing deeply in technology to revamp our core insurance module and also to support our data warehouse and analytics teams. And thirdly in terms of upfront investments both in terms of technology and manpower in bancassurance channel. You may be aware that we have a considerable number of bancassurance tie ups, amongst very large banks many are tied up with us and we have signed up with Citi Bank recently, as well as Central Bank apart from HDFC Bank, Canara Bank, PNB to name a few. Altogether, we have about 60 bancassurance corporate agents in our portfolio and we are hoping that over the next 2-3 years, they will be drivers of growth as well as profitability. For the full year, the impact of Kerala floods finally has turned out to be Rs.50 crores which is reflected in the FY19 results. Overall, we are quite satisfied with the performance of BAGIC and we are looking forward to a very strong performance in the next year.

For Bajaj Allianz Life Insurance Company:

We have seen all the levers of business which we were driving in the transformation program we started a few years ago, working in favor of the company. The product mix has become very sustainable. We have now a 60:40 product mix for the year, 60% ULIP and 40% traditional and what is interesting is that, in the second half of this year, the growth of the bank sponsored insurance companies has been only 10% which means that those who are heavily dependent on ULIP did have some problem with growth, because, the market conditions have not been conducive for further investment in ULIPs over the last few months. However, our balanced product mix did help us in driving substantial growth. Our rated individual business premium which is our primary tracking metric was up 45% in Q4 which is one of the highest growth rates in the market. Our renewal premium continues to grow, we grew it 15% in the quarter and overall GWP again was higher by 23%. However, the profit after tax for the quarter was down at Rs.112 versus Rs.171 crores, primary reason being the business strain due to strong growth, - but, it was also affected by additional provision of Rs.40 crores against expected losses from impairment of investments. In terms of the investment in IL&FS, both companies have provided for 100%

of their exposure, in the life company it is about Rs.126 crores on the shareholders account and BAGIC is about Rs.49 crores.

Coming to new business value, we have seen very good growth in our margins and new business value. Our new business value is up from Rs.222 crores to Rs.347 crores, this is an increase of almost 50%. Our margins before overruns have gone up from 12.5% to 15.6% and even after overruns, we have a positive margin of 7%, the first time in a few years that we are reporting a positive net margin. Our EV has shown reasonably good growth and stands at a shade under Rs.13,000 crores now.

I will now open the floor for questions and answers.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Just a few questions. Firstly, could you break down the combined ratio for the full year in BAGIC from 92.3 to 96% ex the flood losses. How much came from loss ratio amongst major segments and how much is related to the opex increase that we talked about the investments in tech etc., how much was contributed to that? The second question was on the guidance on combined ratio, how do you see a combined ratio moving into FY20 given the pricing environment in motor TP and other segments, what is your thought process on combined ratio. Then I have question on BALIC, but I will just wait for the replies on BAGIC questions.

S. Sreenivasan: I will let Tapan take this question.

Tapan Singhel: Yeah. So, if you look at the combined ratio breakup, predominantly for the loss ratios, other than the increase in Agriculture which is towards the fourth quarter, for the year our loss ratio was comparable and a bit lower also in some segments and in Group Health it was a little higher, but overall it was equivalent to or a bit lower than what it was last year. The basic increase in combined ratio has got two reasons, one like Sreeni mentioned our investment in technology and our investment in manpower. So, if you look at our overall expense ratio is higher compared to the peers which would have been there in the recent times because of the investment. So, that is the breakup of the components of combined ratio. For the next year, there has been no TP rate increase. So, you rightly mentioned about the increase of loss ratios there. It will happen because of inflation in third party claims and the TP rate increase has not happened. But the regulator has mentioned 'as of now', so, we are hopeful that maybe mid year they may give some rise, but let us see how it comes up. Minus that I think if I look at the market, the correction has not happened. The interesting part is if you look at the market combined ratio, last year it was 113% and by the last result that we have, the market has already crossed 120%. The market combined ratio has deteriorated by over 7% in this year. Prices in fire etc. which has hardened a bit, that was due to GIC. The rest in terms of motor as you rightly said the TP now increased would lead to some deterioration in the loss ratios, but overall I don't see major shifts happening next year, either in increase of profitability or deterioration of loss ratio for the industry as a whole.

S. Sreenivasan: Just to add to what Tapan said, if you see motor TP, I think BAGIC has a fairly good loss ratio as compared to the majority of the players in the market. So, our ability to withstand the pricing pressure due to the IRDA not increasing the prices for this year is relatively better than the market. So, we think we are well poised and a lot of the investments in manpower will help us especially in the bancassurance channel. As I have said before, the banca channel is a growth engine, because, we have so many new tie ups where we are starting with practically zero base next year. The growth rate we are very hopeful will be very high. We expect, as a proportion of our total mix, bancassurance will grow higher. It is about 12% now. Thirdly, bancassurance gives us considerable amount of non-motor business. Almost 75% of the business from bancassurance is small property, health and other personal lines of business. So, it can be a growth cum profitability engine, and it is a very powerful engine. We are very hopeful about bancassurance helping us to deliver superior combined ratios as we move forward.

Dhaval Gada: Sure. And just lastly on the crop business, what is our thought process and second how much is the pricing sort of improved or deteriorated if you sort of look at premium per acre just versus 2018, last year versus this year, just some thoughts around that?

Tapan Singhel: If you look at crop insurance, this year in the first half, we did not write much, because, we saw deterioration in the price which is there. In the second half in Rabi it was more stable and that is what we wrote but unfortunately in Rabi we had a bad year. Past 3 years were good. When you look at crop business, you should never see it on a yearly basis. It has to be simply seen on a 4- or 5-year cycle basis. There are cycles which were good, cycle which is bad. But overall in a 4- or 5-year cycle, it has been reasonably good for the industry and that is why when you put it together you can see that. Like for us the Kharif was very good but, the Rabi deteriorated, which is there. So, on crop, I think we always try to position ourselves on the price that we feel is just right. We neither go overweight nor we go underrated, it is more or less comparable to our overall market share for the industry and that is where it is. This time the crop which we wrote is a bit less than our market share, but that was a conscious call that we took and these are big lines of business, crop or look at health. Like for all over the principles of business that we do, we try to underwrite from a perspective that it is good for the company and we try to serve the farmers and others on a very proactive basis. So, we will continue with this strategy of ours.

Dhaval Gada: And overall pricing is better or worse, this year or ….?

Tapan Singhel: If you look at from last year perspective, it has gone down a bit but that is more also because the year before that was good. Now as I said, the crop insurance has to be looked at cycle of 3 to 4 years. So, when you have a good year the price does come down the next year, when you had bad year price goes up the next year. That is how it gets done.

Dhaval Gada: Understood. And this last one on BALIC. If you could just give some more details on the protection business between individual group credit protect and group term GTI and then I have a follow-up on profitability, how do you see given that we have come to positive territory on

VNB post cost, what is the thought process on margins over the next 2-3 years based on product mix, persistently etc.?

S. Sreenivasan: I will broadly take that question. We are very positive on the profitability of the life business because the new business and the renewal book is building up quite strongly and some of the new business strain that we invested in the last couple of years should help us improve the margins as we go forward. There is a fine tactical play on the product mix. It is not just about the ULIP versus PAR versus non-PAR, but also within non-par, the risk versus protection and that is something we tactically look at every quarter, every year. But having said that, I will let Tarun and Raman handle the question on what is the exact proportion of protection and the other questions that you asked.

Tarun Chugh: It is a pin pointed question. But on group risk, let me just tell you that we have had far significant growth this year. Last quarter 32% and for the year 48% growth. Overall as per our percentage of business in group protection which we were 7% of our ANP, in terms of the retail protection we have spent whole of the last couple of years to sort out our claim handling and mortality ratios which are now looking quite strong and now we feel confident that we should start entering into the retail life as well. Lots of things normally are required in terms of the system we put in place which are now in place. We will therefore increase our presence in the retail risk as we go ahead in the coming year. We did I would say dabble a little bit with health risk and we have had a fine start there, but there is of course a lot more to be done on the retail risk side. In terms of the NBM, as Sreeni said, we have turn into positive territory after a few years now. So, at 7% approximately. This we can see it in the positive trajectory given the product mix now and the bigger impact on the profitability at this juncture, not just comes in from the product mix but also the channel mix - about 3 years back agency to be as high as 92%, but now we see a significant growth in non-agency channels. So, as agency continues to grow, was still at 69% mix now and the rest of the channels have grown by a healthy upwards of 80% for our institutional business which is bancassurance and the proprietary sales which is really a calling based direct sales business, offline business. These two growth engines have plugged in, these are far lower cost than agency.

Dhaval Gada: Thanks, Tarun. Just if you could share the number, absolute premium from protection and just break it down into individual and group, that would be very useful?

Ramandeep Singh Sahni: So, individual we hardly do any business, but on group side we have done about Rs.1,450 crores in the year.

Dhaval Gada: In the new business?

Ramandeep Singh Sahni: Yes, new business.

Dhaval Gada: Okay, and largely credit protect?

Ramandeep Singh Sahni: Yes, largely credit protect.

S. Sreenivasan: Group term as well, right.

Ramandeep Singh Sahni: A big group proportion is credit protect.

Dhaval Gada: Okay. And Sreeni, just one request. If we could add on the general insurance side as well, loss ratios across segments, since the public disclosures come little late, that would be very useful.

S. Sreenivasan: We are considering that. We will probably do it next year. The IRDAI has already come out with some white paper on additional disclosures including reserving triangles, there is some elements there which are not consistent. So, we will wait for the final guideline to come and we think we will be able to start doing that sometime next year.

Moderator: Thank you. The next question is from the line of Devansh Nigotia from Securities Investments Management. Please go ahead.

Devansh Nigotia: My question was mainly related to general insurance piece. So, our equity exposure of the investments that we do, what would that be currently?

S. Sreenivasan: On general insurance? Milind, how much will that be about 5%?

Milind Choudhari: 6%.

S. Sreenivasan: 6% of our portfolio. We are gradually increasing equity exposure because in general insurance as you know we are focusing more on cash flow generation, investing that prudently. But over time we want to gradually increase exposure because it is like a permanent part of our portfolio, it is not something that we can keep changing dramatically. So, we will gradually keep increasing it. As we build more solvency, we will keep increasing it.

Devansh Nigotia: Sir because by regulation by what I know around 40% to 50% of the investments we can make in equity and …

S. Sreenivasan: No, 25% for GI business but see it causes more volatility in your P&L. And if you see the components of PBT, I will divide into recurring and non-recurring. The recurring profits are your underwriting profit, within that how much is coming from reinsurance commission and how much is coming from core retention. The regular interest and dividend income which is recurring and third is your profit on sale of assets, because, we don't mark-to-market, you can play around like the public sector companies have been doing for years. If you see the proportion of the recurring sources which the underwriting profit and the investment income, we would be among companies having such sources as the highest contributor to the PBT. This has been one of the corner stones of BAGIC's sustainability over the number of years in terms of profitability and we continue to maintain that, even the dependence on reinsurance commission as PBT for us is lower than many our peers.

Devansh Nigotia: Okay. So, what would be the current strategy. Of course we will increase this, but any timeline, like up to what exposure we are very comfortable with in…

S. Sreenivasan: At the initial stage we are looking at 10%. However, in the immediate future I cannot say, because, there are lot of uncertainties in the market. This is a call that investment team will make as to how and when they want to increase the exposure and we will do that gradually.

Devansh Nigotia: And sir next question was related to our motor insurance piece. So, what would be the segment mix within CV, PV and two-wheelers?

Milind Choudhari: In terms of the overall mix of the total motor business as such?

Devansh Nigotia: Exactly.

Milind Choudhari: Around 8% comes from two-wheelers, around 45% from 4 wheelers, 41% from commercial vehicles and the remaining around 5%-6% comes from the other lines of business within motor like the agriculture, tractors and other things.

Devansh Nigotia: Okay. So, sir in our motor insurance piece, we generally throw some channel checks that we figured out that commercial vehicle as a piece has more loss ratio as compared to other segments, if that is the right interpretation or…?

Tapan Singhel: I will take that. See, two broadly generalized and this is more loss ratio than the other, maybe yes. But if you break it up, it is not the case. You have lot of good profit pools in commercial vehicles also and which actually gives better returns than private car would, at times do. So, I think it is a very vast segment. If you look at commercial vehicle as compared to the market what we have in our books is mostly a reflection of how the market would be, right? In terms of two-wheeler, four-wheeler, commercial vehicle in terms of overall owned damage premium. Two-wheeler will be a bit underweight because of brand conflict posed by certain 2W manufacturing companies. Our two-wheeler penetration maybe in these companies is much lower. But commercial vehicles and private cars we would be a bit overweight and that is how we balance out the entire portfolio for our business, in line with the market. But in all segments, we are profit pools. Then generally we can make a statement as such, but specifically it will be different.

Devansh Nigotia: Okay. Sir because when we look at our peers, they have more exposure to passenger vehicles, two-wheelers which seems like with lesser loss ratios. I was just trying to understand where are we bringing the difference on the table?

Tapan Singhel: How it happens is, any business where you see the loss ratio would be, let me give you an example in passenger cars. If you go 8-9 years back, the high-end passenger cars were the most profitable. Today it is among the worst. These have not been stable kind of environments, right, in which you can say that this will always be like this. It keeps on shifting. The market where we see profit, others would move in and that is why profits are de-growing. And in GI, it happens very fast. So, unlike other industries in GI, the profit pool diminishes very fast and we have to create other profit pools. And that is the ability of a good insurance company to able to figure out what was the profit that was getting created, where to write what business and where it is deteriorating, it happens. In passenger cars also if you do a study, just take out the loss ratios of high-end vehicles, even just 5-6 years back and see it today. This year massive deterioration. So, I think it just keeps moving.

Devansh Nigotia: And sir one disclosure related question that I had, do we plan to disclose reserve triangle in our annual report?

S. Sreenivasan: I already answered that question. We would be looking at it sometime in FY20, if not the first quarter by second quarter we will do that.

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

Nidhesh Jain: Just on general insurance where I think there was a weakness if we compare the performance of the company over last 3-4 years, this is probably the first time we have seen combined ratio going up and you mentioned that there is a one-off element of crop insurance and also the investment. So, this investment that we have done in this year, do we expect similar sort of quantum over next couple of years?

Tapan Singhel: First I will answer the part on combined ratio and then I leave it to you for the investment part of it. See, on a combined ratio basis, you have to plot the deterioration and the rise of combined ratio of the industry. As a company, we benchmark also to the industry and as I mentioned earlier in my talk, combined ratio industry last year was 113% which has gone over 120% this time. It is clear about 7% deterioration of combined ratio industry and if you look at BAGIC's upper movement is much lower than the industry deterioration, which means in fact BAGIC has now outperformed the industry by bigger margins than it had done last year. I think these are relative terms, when you look at it in this perspective, then use our proper perspective of how the performance of the company has been, right? On a standalone basis, it may appear that it has gone up. But on a relative basis at least the difference of the combined ratio this year or BAGIC combined ratio of the industry is better in terms of what it has been in the last year. So, the market also plays a force and for a significant large market player like us and market dependence is there, the good part is we are again able to out beat the market in terms of how the combined ratio has gone. Sreeni, on investments?

S. Sreenivasan: Nidhesh, couple of answers on the investments. There are two large pieces of expansions that we have invested in. One is manpower, because, we have a large number of banca tie-ups of different models. Some are branch banking base, some are tele-calling based, some are centralized. So, it does require manpower and there is lot of technology integration that the banks require as well. Additionally, as I mentioned before, we are investing in our core systems in terms of technology. So, technology investments in our core systems will continue for the next

2-3 years. It is not something we will cut back on. In terms of manpower, as the volumes build up in Banca, we expect the expense ratio manpower cost to GWP and NWP start coming down from FY20 and for the next 2 years. So, overall to answer our target combined ratio has never been very low. It is always as we have guided before we would be very happy to have a combined ratio below 100%, maybe 97% - 98%, it is what we think is sustainable in this market. But on a quarter-on-quarter basis, you will also have blips. You will have catastrophes, sometimes, you will have bad monsoons, you could have crop. So, some segment or the other could have occasional quarter losses. It is not a one quarter business. It is a long-term business and we are not really worried, we think BAGIC is on a very sound footing and has reported very good results for the quarter as well.

Nidhesh Jain: Strong set of performance that the company has delivered, but going into FY20 we have event of Orissa cyclone, we have no price hike in TP, but do you think next year also you can deliver our combined ratio of less than 100%?

S. Sreenivasan: We are not saying now, we don't predict what the combined ratio will be, there will always be events like the Orissa or catastrophes, we do not think Orissa floods will have such a significant impact as of now, we are still waiting for information, because, lot of Banca business claims gets reported late. Having said that in terms of TP, I have already mentioned our TP loss ratios among the best in the market. We have much better ability to withstand the pricing decision by the IRDAI.

Tapan Singhel: So, if you look at the two things, forward-looking statements has no relevance, you should look at the past track record that we have. I think consistently over years we are trying to keep our underwriting philosophy same and we try to look at market enhancement, customer experience investment in technology innovation. We continue doing that. And like Sreeni mentioned, one-offs may happen. Orissa has happened. There would be some loss, which we would be reporting, but we have a good NAT CAT cover in Orissa also, some would be on the net**.** That is fine. That is part of business. Last year you had Kerala floods, before that you had Uttarakhand, Chennai floods etc. So, this would keep on happening and for a company would be cover insurance throughout the country in terms of geography in terms of our presence across the market, if a particular state does get hit, we have the capacity to be able to meet that.

Nidhesh Jain: Sure sir. And if you can just give two datapoints on general insurance, what is the segment wise loss ratio in motor OD, motor TP how it has moved from FY18 to FY19. And what is the advanced premium that you have received on long-term motor third party premium?

Milind Choudhari: Total advanced premium from long-term plans are currently around Rs.300 crores and which is majorly coming from private cars as well as two-wheelers both, 3 year and 5 year.

Nidhesh Jain: What is the quantum of advanced premium?

Milind Choudhari: Rs.300 crores.

Nidhesh Jain: And segment wise loss ratio, motor TP, motor OD?

Milind Choudhari: Motor TP overall let me see, the loss ratio is lower than the last year. It is only around 65% and motor OD is around 60%.

Nidhesh Jain: Thank you sir. And on life insurance if you can share the reason of negative operating variance this year of Rs.17.2 crore. What is contributing to that and what is the other variance of Rs.261 crores?

S. Sreenivasan: The other variance includes the provision we made for IL&FS and the dividend that BALIC has paid. Okay, last year we paid Rs.105 crores of dividend and we had the IL&FS exposure of Rs. 126 crores that comes as other variance, because, it affects the NAV.

Nidhesh Jain: And operation variance, why it is negative despite we seeing persistently improvement?

S. Sreenivasan: It is very marginal. I don t think in the context of MCEV, it is a very big amount, it is not a material amount.

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

Avinash Singh: Couple of questions. The first one crop, I mean that, what is the sort of for FY19, what is the final number of loss ratio in crop including the reinsurance cost and how has been the reinsurance arrangement because I mean a Rs.115 crores kind of a loss in a Rabi reason looks a bit on the higher side. So, some more color on the reinsurance arrangement in the crop you had this season. So, that is the question number one. The second question again related to GI only, particularly if we look for the growth outlook, growth and profitability going into FY20, now of course motor TP as you are saying, hope it is temporary freeze on the rates, but at least is there. There is still no sign of benign competition on the OD side and crop, you have sort of an intention not to be very aggressive. So, I mean we can expect a sort of a lower than market growth in the crop side. Additionally, what you said about property and fire line, okay, that GI circular has impact, but at the same time we are also hearing that now clients have come back to the same old era where they are again negotiating hard for the discount on the group help side. I mean, so in all the sort of external environment and on the macro side your vehicles sales, new vehicle sales are again not great. So, how do you see that growth and profitability going in this year, I mean because there are some many factor working against.

S. Sreenivasan: See, always factors have been working against in GI. This is the only business where we have seen significant depreciation in prices over the last 10 years or so. So, it is not something new for the market. Only the type of challenges that you face, keep changing year on year. Tapan, would you like to take other questions?

Tapan Singhel: If you look at the reinsurance of crop for us in this year was led by GIC, because I think nearly all players minus a couple of it, GIC led the reinsurance program this time and we had a good quota share with stop-loss arrangement. Having said that if you look at the overall crop business for the entire year, it has not made losses for us, I think we still have some profit from that. The second point is in terms of the markets getting tougher. Like Sreeni mentioned, I think this is normal for us, tough market is not something that is something new nor we are afraid of it. The sales of cars would dip, the TP freeze would happen, but as I said earlier in my speech, I think the beauty of general insurance is, it is widespread. It has lot of components. On a general basis, these statements are right. On a specific basis, smart companies which are very customer obsessed, focused and innovative are still able to find out areas where they can do good. That has always been our endeavor and I think we have some real good talent with us and that is what we shall continue doing. So, the point remains is that the market as you rightly said massive correction either, which I said in terms of profitability, in terms of huge losses or in terms of market transforming will not happen. Market risk is additional, and we have seen the impact of it, the last year results, if I look at the PSU results which has happened this time, solvency for couple of – few has also got hit. So, I think the companies would be a bit wary of really trying to push things bit too much beyond what it already is. A bit of drop in passenger car will happen, but as a company which has been there for 18 years, I think we have substantial book of existing customers, we have substantial book of players and Sreeni mentioned we also got out of banks tied up for this year, good names which is there. The market would be tough, that you are right, no denying that. But as a company I we have not seen easy market for so many years. So, it is perfectly with us.

S. Sreenivasan: Overall, our strategy is to grow market share in the segments which we prefer. So, that segment the way we define it is a much more granular and detailed than what the lines of business are. So, in each segment based on analytics, we try to find more and more finer segments where we would like to grow our market share. That has been our strategy till now and that will continue.

Avinash Singh: Thanks, Sreeni. One follow-up question for you. Do we have, I mean our group entity exposures to the stressed group like Dewan Housing, ADAG and Essel?

S. Sreenivasan: As of now we have fully provided for IL&FS. The others we are evaluating on a group basis for each BAGIC and BALIC separately and we will see as things evolve. We only provide against where there is a known default, we cannot provide based on market rumors.

Avinash Singh: No, can you disclose the extent of exposure to these companies?

S. Sreenivasan: I don't have that data with me now. We would have some exposure in individual funds, on PAR, non-PAR funds in the insurance company, that we would disclose, it if required in a later stage.

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

Hitesh Gulati: Sir, just to clarify sir, the motor mix that you said, so you said about 40% on CV, is this number moved up substantially from last year, what it was in FY18?

Milind Choudhari: The business mix in terms of commercial vehicles has improved as compared to last year and this has multiple compensating impacts and I would say the auto sales had slowed down in this financial year. Although in an absolute manner, we actually increased our number of policies by almost around 22% and we have improved our penetration in most of the OEM programs. But in spite of that, I think the commercial vehicle segment offered better opportunities and I think as everyone knows it has a longer impact in terms of availability of float and the recurring investment income which it will generate.

S. Sreenivasan: To add to what Milind said, more than half of our motor overall business from two-wheelers, private cars and commercial vehicles TP, 56% is from TP and 44% is from OD for the current year, last year it was only 48% from TP. Our loss ratios on TP are very good, at 65% overall and the OD loss ratios are about 60%. Overall motor loss ratios haven't changed. So, there is a lot of adjustment between lines that happen and we are building float quite handsomely in our motor business.

Hitesh Gulati: Sir, actually can we get the number what is the CV proportion in FY18?

S. Sreenivasan: I gave you 48%. CV proportion?

Hitesh Gulati: Yes, in motors. For example you said 41% in FY19, what was that in FY18?

S. Sreenivasan: It was 33%. It has moved to 38%.

Hitesh Gulati: 33% has moved to 38%, is that right?

S. Sreenivasan: Yes.

Hitesh Gulati: Okay. And sir this mix that you are giving is what the overall motor piece can we assume similar mix for motor OD and motor TP because in TP having a claim ratio 65% looks very good. So, is that the same assumption we should make that TP also has a similar CV mix?

S. Sreenivasan: I think that is something you will have to make an assumption, because, as we mentioned before it is a very dynamic business. If you ask me next year what it will be, it depends on not only the volume but also the pricing and how we see the market quarter on quarter.

Moderator: Thank you. The next question is from the line of Danish Jain from Aarti Industries. Please go ahead.

Danish Jain: Sir my question is on BALIC. Sir if we see, the company has reported very strong growth mainly in NB, growth of 45% level and it is mainly contributed by the growth in company IB side. So, do you think that the growth moment will continue?

S. Sreenivasan: That is a difficult question. We always would like the growth momentum to continue. This year has not been that easy a year because ULIP market was quite subdued and in the IB, I think last few years ago we have made a conscious effort to grow our individual rated premium at a faster rate than our group premium, which anyway we were doing quite well.

Tarun Chugh: Yeah, so that is a pretty good question here. And as Sreeni has also responded, we have been put together a focused strategy around institutional business and we have grown by 86% last year. I Can't make a forward looking statement. But I can tell you that the IB side will of course remain a focus area and therefore grow more. And similarly, we also have another proprietary sales channel, which has also grown healthy 82% if I remember and there also the growth rate shall be good, but I cannot make any forward looking statement on percentages. And you will see a non-agency business grow faster than agency, broadly I can say that.

Danish Jain: And the second question, as you mentioned in the speech that due to some weak investment scenario in last month that the company focus on mainly balancing mix and company focus less on the individual side. So, in the coming time due to changes in this political scenario and all, if there is a change in investment scenario mainly if you have become positive, so it may be possible that company is going to focus more on the ULIP side, get the investment scenario.

Tarun Chugh: I don't know, the sound wasn't very clear. So, is your question on the product mix and the ULIP and non-ULIP direction, is that the question?

Danish Jain: Yes, correct.

Tarun Chugh: See, as stated earlier on the call, we have always been intending to move towards a balanced mix and last year we made some significant movements. Of course, we have a broad plan towards achieving it, but the underlying business scenario is that we have a city based strategy. So, given the presence that BALIC has got a strength over the rest of the industry, we are present in about upwards of 400 cities, which most life insurance companies are not, in fact we are in some cities where LIC is also not present, so as we have a city based strategy, unlike other life insurance companies we are not just dependent on the metros which are more ULIP focused. We are able to therefore run on a portfolio level a good mix and our focus shall be to grow both metros and non-metros and as a result, the product mix shall be balanced and it is not that we want to push customers in a certain direction, but I do expect that in the non-metros the mix of traditional will be higher and metros like Bombay and Delhi, the big ones at least where people are more financially literate and do benchmark our products, do wealth products as well. So, therefore the investment direction shall be more around ULIPs. So, largely we shall remain like that. Whether it is agency and other channels as well, the balance mix is going to be propping up from every channel and city. There will be tactical calls that we will take quarter on quarter, for example we will have to see how the market behaves in the next 3 months and because this is expected to be a little bit of a different situation versus what we have seen in the past. As election results come out, the direction of the market will get clear and then tactically we will work around product mix for the quarter. Directionally, we shall remain balanced in both traditional and non-PAR, PAR and ULIPs.

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

Rishi Jhunjhunwala: Sir, first wanted to understand your strategies on group health, it has grown at almost 86% year-on-year. How have the loss ratios moved as a result in FY19 versus FY18 and what is the nature of corporates that you are addressing?

Tapan Singhel: So, if you look at the group health this year, the initial stage, I think the pricing will harden and then it softened a bit again. And like somebody asked the question this year expectation will soften more. So, last year when the prices happening, we entered the group health space and we grew in. Most of it is like some big corporate from the IT consulting side and some small segment. So, the loss has deteriorated, which is a right statement. But group health also has a couple of plays which happened. See, group health gives you access to lot of number of customers and these customers, because, of the large numbers enable to negotiate with hospital's better pricing compared to what we were normally offering to retail customers which has an overall impact on the retail customer perspective also. The group will typically would never have a loss ratio which is very low. It will always hover between 90% to 100% because if the loss ratio of our group health is typically lower, why would a CFO of a company get a group health done, if he has to pay substantially more premiums than claims? But the insurance companies look at group health for two reasons. One, it gives them mass, it gives them volume in which they can negotiate with the hospitals for better rates which impact the retail portfolio also. And two, it also gives us lot of data in terms of figuring out what is happening in the space of health and how it moves. So, it serves the purpose and I think at times the company is right, a tangent comes up. So, last year we have written group health ratio and for a specific reason. And this year we shall again see the prices remains soft, we will not be that aggressive as we were last year.

Rishi Jhunjhunwala: Okay. And on crop, what has been the loss ratio this year versus last year and have you won any tenders has yet for the Kharif season?

Tapan Singhel: Yeah. We have won quite a few tenders of the Kharif season. Overall loss ratio I would request Milind, because, I am travelling, I don't have the figures right now. Milind can you give overall loss ratio?

Milind Choudhari: I think overall loss ratio for the current year has been around 121%. So, I think which as compared to around 70% last year. So, that is what has taken an impact particularly in Rabi, because Rabi loss ratio has been around 150% plus particularly in two states of Maharashtra and Andhra Pradesh, so I think that has resulted in deterioration in Q4 results particularly.

Rishi Jhunjhunwala: Okay, we didn't have an excess loss cover over 110 in that case?

Tapan Singhel: No, we have excess of loss cover, but we set a benchmark higher than that. 110 is too short on excess loss covered ratio.

Rishi Jhunjhunwala: Understood. Fair enough. The other thing is on motor, so we have seen clearly pretty strong growth in TP for you, but market share on OD has marginally declined on a full year basis. How are you strategizing around it considering that with the long-term TPs and we will probably see some movement were people also adopting long-term ODs, if the pricing is right. How do you see that strategizing around it and also as a result of this, do you expect loss ratios structurally to be higher but compensated by probably higher float and investment leverage?

Tapan Singhel: First and fore most when look at OD deterioration, you are looking at premium, and I think Milind mentioned earlier, NOP growth for us has been strong. The deterioration in OD premium is simply because there were more discounts in OD this year compared to last year and that is precisely why and that is one reason why I told you earlier that we keep on looking at where the profit pool is shrinking, where it is moving and keep on shifting our portfolio on that basis. So, overall, if you look at NOP growth, you likely see a good growth in the motor business, the number of vehicles that we written over 20%. Look at premium, it is lower, we lost our market share in the OD premium space, which I think is fine for us, we have been in segments which we picked up on that basis where we felt the profit pool was shrinking, we did not try that segment**.** And that is why, you heard about our TP loses has been much better than the market. So, I think we did it very consciously this year. In times to come, yes float generation would be a big issue in terms of money, but it also sees generation vis-à-vis the inflation of the claim which is happening. I think you have to see the rates returned on the float and the inflation of the claims is how do you balance it out. As mentioned earlier 3 years or 4 years from now, how you play out, would not be something that we look at very strongly. We look at how the next year is going to be, look at how it is going to play out, how the regulators looking at it. So, technically a locking in TP for 3 years or 5 years, on the same premium. So, that is something which is there. So, it will be a very interesting play which would happen in the motor business in times to come.

S Sreenivasan: To add to what Tapan said, OD component of two-wheelers particularly is very small. The total OD premium for us will not be more than 1.5% of our total GWP and the TP component is much higher than two-wheelers. So, therefore two-wheelers because of the 5 year rule and because of the higher penetration under the 5 year TP, we think it will remain a float business.

Rishi Jhunjhunwala: Understood. And lastly on Life, so we have seen a substantial jump in our solvency ratio which used to 590 odd percent, it is now 804%.

S Sreenivasan: That is because for a couple of years IRDAI had allowed us to classify some part of our excess capital as funds not required to meet solvency margins. So, that was not technically counted for solvency ratio, although the money was still lying in the company as shareholder funds. Our last year, we took a call a call to merge it back, because we did not find any advantage because most of the prudential norms of IRDAI applied to this fund as well. So, we did find any additional advantage by keeping it separate. So, we merged it. So, the reported solvency will actually go up, though technically the amount of fund was always available with us, Raman, am I right?

Ramandeep Singh Sahni: Yeah, absolutely right.

Rishi Jhunjhunwala: And so as a result of this excess capital, are we looking at, we have introduced dividend from last year but are we looking at increasing it, I think this year we have just maintained the same rate?

S Sreenivasan: Yeah, we have maintained because this year the profitability PAT is a little bit lower. This is the matter we will review. We have a dividend policy which we will keep reviewing every year. This is a joined venture decision between the two partners. So, we take a decision as we come, as of now this is what we will maintain.

Moderator: Thank you. The next question is from the line of Sumeet Kariwala from Morgan Stanley. Please go ahead.

Sumeet Kariwala: I had two questions. One is on the operational variance; I know the amount is very low. It is only Rs.17 crores. But just have this question as to what is driving the negative part because if I look at persistency, that has improved quite well. Growth this year has been very good. So, that was my first question. What is driving the negative stuff over there and second question is ticket size improvement which has been very good over the last couple of years. Even this year when you reduce the ULIP mix, the ticket size has done really well. So, what is driving that? Those are the two questions.

Ramandeep Singh Sahni: So, I will take the first one. I think the small operational variance is the impact of actualization and what we disclosed there is nothing but actualization till year end. So, this will always remain a small number and essentially it is the impact of cancellations which happen during the year. So, that is a very small number in any case. The other question I think Tarun will take up on the average ticket size.

Tarun Chugh: So, Sumeet, so what has been happening is that as we have been relooking at our focus areas, customer segments and there is a lot of data crunching that happens with the bank end. We have consciously now balanced out from being a mass market player to a mass affluent and HNI player as well. So, what has been happening is, the smaller cities we have been skimming the top now as well while we are usually entrenched in the mass markets there. And in the metros, of course we are present in all segments, but largely on a ticket size basis, it tends to deliver higher average ticket. So, as a result, the phase of our agency, I mean the kind of advisors we have been hiring has, if I say the quality of customers has gotten a lot better. So, these agents are once who moved up to mass affluent and above customer segments. We have been hiring these kinds of agents more. As a result, in ULIP, the ticket size has moved up from Rs.76,000 to Rs.86,000. Even traditional, there has been a far larger shift in terms of our ticket size, from Rs.23,000 to Rs.36,000 because what we were seeing was that, when we used to write lower ticket traditional, the early mortality was higher. So, we basically on a focused manner moved up to higher ticket and traditional. Overall agency traditional has also moved up from Rs.44,000 to a Rs.58,000. So, as a result which is a rare thing you will see with us, with most life insurance companies are non-agency ticket sizes are currently low, while agency ticket sizes are high. Having said that, I think it is already kind of near peak and we don't expect too much of a ticket size movement in the agency now.

Sumeet Kariwala: The numbers look very good actually. So, on slide #27, if I look at your average ticket size and the agency channel is now Rs.75,000, that is correct, right?

Tarun Chugh: Because of ULIP and traditional average.

Sumeet Kariwala: Got it. And last question is on assumption change, that is quite a positive number. Anything which is driving that?

Ramandeep S Sahni: Largely the change coming from improved lapses. So, our persistency as you see has been improving year on year across all buckets and this is essentially the impact of that.

Sumeet Kariwala: Alright. I am a bit confused as to why is that not reflecting in operating variance still?

Ramandeep: Actually, it is a classification issue. So, if you look at both the buckets together, that is essentially the operating variance.

Sumeet Kariwala: So, you do assumption mainly at the start of the year, is it?

Ramandeep S Sahni: We do it at not really the start, but in the quarter one.

Sumeet Kariwala: Okay. Then I get that. Because then it is reflecting on assumption change.

Moderator: Thank you. The next question is from the line of Sachin Mittal from Karvy Stock Broking. Please go ahead.

Sachin Mittal: Okay. Sir I have question on BALIC. Particularly what do you think will be the back book growth which is going to change in the coming year? How it is going to change the cash efficiency? Second question is what is the decision, how do you decide as a contribution which it came to the policyholders from the shareholders and what is expected to change in that. And the guidelines on the direction of surplus transfer to shareholders account from policyholders in the coming years to come?

Tarun Chugh: Sachin, your voice wasn't very clear. Can I just broadly summarize your question? One is you are talking about the back book, how is it going to grow? Your second question, and correct me if I am wrong, is around policyholder fund surplus, is that what your question?

Sachin Mittal: Particularly for the PAR business whenever you said there is a shortfall in the policies, in the surpluses. In that case the shareholders profit is transferred to the policy holders to make for that particular guaranteed products, how it is going to change and how the firm is going to decide on that? And the third one is, what is the direction of the surplus transfer from the policy holder to the shareholders in the coming years?

Tarun Chugh: Let Raman take the second and the third and I will take the first after that.

Ramandeep Singh Sahni: So, just correct me if I have not got your question right. So, in terms of contribution there are two parts to it, one is if there is a deficient in any line of business that needs to be funded by the shareholders. So, there are some channels in which some lines of business where you will see as invest and that is why you will see a contribution from some of the LOBs, there is indeed a contribution. Now to answer your question, just correct me if I am wrong is, what is the trend expected going forward. So, currently we have some deficiency in some lines of business, because, we are running over some of these lines of business. Do we actually look at it from this perspective and try to have a scenario of breakeven at LOB level, I don't think we will go at that level but we will look at more at a channel level than at a LOB level. So, if a channel is selling combined product mix of ULIP and traditional and if the net result is healthy positive then we do not get into micro managing at that level. So, that is you might have some LOBs which might still run in the overrun situation and that is why the contribution will be there. Having said that, for us the surplus has been lower largely on two counts, one is that the realized gains on the investment portfolio were lower compared to last year and the second one was the strain which is coming from the new business which we are writing that is why you have seen that the policy holder surplus is depressed. And as you know the more business you write, until you have a big mass of in-force book which is created, you might still see the strain in the coming periods also. So, as far as there is a healthy growth in the numbers, I don't think we should worry about surplus being depressed, but having said that I think moving from here, you will see that maybe for a next few quarters that amount is depressed but then it will turnaround because your in-force book will start getting reflected through the policyholders revenue account. I hope I have answered your question.

Sachin Mittal: Because you know the priority mix is going to be, going forward to the non-PAR and ULIP, that is what because most of the peers, they are reducing their stakes particular in the PAR business because they have guaranteed products and it does not go well with the profitability for the firm itself. But here the priority will on in PAR as well which actually raises this particular question that how guaranteed profit will be granted for it and to what extent?

S Sreenivasan: See, you have to understand the PAR business in a little bit different way. In a PAR business you normally give a low guarantee. You give a positive policyholders reasonable expectation in terms of bonuses. The expected policyholders return is built on either 8% or 4% investment income scenarios as committed. Typically, most PAR products in terms of the normal guarantee plus the bonuses come to maybe 3%-4%-4.5% of IRR which in today's interest rate scenario and what we have seen in India for a growth market like India, gives you reasonable spread. Additional profits would be added by the policyholders with lapse but the only condition being that the shareholder gets only 10% of the distributed profits. The key here is how much money you make, how much you distribute and how you build your estate or FFA as they call it, Fund for Future Appropriations. Our fund for future appropriations has been growing over the years and once the fund for future appropriations reaches 8% to 9% based on the current solvency margin norms your PAR business becomes completely capital free. Whatever it adds and whatever bonuses you can give will be free of capital and infinite ROE. Therefore, the PAR business is a long-term business. It does makes sense to do a lot of PAR business because India's largest segment of customers who save money is still the PAR segment, most of LICs customers are PAR customers. They are people looking for protection. They are not people looking to make market return from equities. But they want protection, but in case nothing happens to them, they want their money back with some IRR which is at least comparable to a savings bank account. There are people who buy PAR products also for tax savings under 80C. So, for them the actual returns could be higher because, you don't get that in all other types of investments. So, this is roughly the mixture of PAR and having PAR in the mix is very important to acquire customers and to be in a market which is the largest segment of the market.

Tarun Chugn a See, Sachin your first question on maturities and the back book will keep increasing. So, just to tell you that this is the first year since 2013 that we have had a net premium accretion as positive that we have bulked up maturities till the last year. Our surrenders have come down significantly because we have been focusing on how to retain customers and how to let them stay invest it for the longer term. So, our surrenders came down by 44% and that has helped us get a net AUM accretion of 8.9% for this about Rs.5,800 crores of additional AUM, that is being built in the business. So, hereon, we expect that the back book is going to get stronger and therefore help in the FFA build up in the entire shareholder surplus as well. So, this is to me a payoff of the focus on quality that we particularly had in the last few years.

Sachin Mittal: That was very helpful. Thank you sir. Regarding the surplus transfer from the policyholders and shareholders, how do you see that in the coming years? The surrender value has reduced but the benefits paid are reduced accordingly, but will you actually transfer it more towards the EPS growth or the ROE growth for the firm or it will be transferred to the bonus distribution for the PAR and such as this dividend payments to the shareholders. How do you going to see going forward from here?

S Sreenivasan: See, I don't think we have got your question clearly. The PAR business is very clear, you can either keep an FFA or you can distribute as bonuses. If you distribute as bonuses the shareholder gets 1/9th of what you give to the policyholder. That is 10% of the total distribution. So, it depends on total surplus generated each year. There is a policyholder reasonable expectation for each product which you have given in the past, you could in an occasional year give a one-off bonus, but, being very clear that this is a one-off thing. But overall that will continue. So, our objective will be to generate and distribute to the PAR policyholders and within that we will get our 10%. In the meantime, we will keep building our FFA till it reaches 10%-12% of our total AUM.

Sachin Mittal: Sir, my question was on was it transfer of the dividends and the bonus will be the focus or the firm will focus particularly on increasing the ROE percentage. That was my question sir. Sorry.

S Sreenivasan: ROE is mainly lower only because there is a significant solvency surplus sitting in the shareholder funds. That is something as we mentioned before in terms of our dividend policy- we as of now we are continuing to maintain what we have. Over time, we will keep evaluating what the surpluses and take a call as it comes.

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

Vinod Rajamani: So, I just wanted to know on the motor side, what kind of price erosion have we seen in terms of motor own damage this year, that was question number one. Then on group health, so this year you have grown your group healthy portfolio, so just wanted to know how the outlook you think for that segment is likely to be?

S. Sreenivasan: I think that is already covered in an earlier question by Tapan on Group Health.

Tapan Singhel: Motor price which is as close to 15% or 20% that is the discounting which has increased in the private car segment.

Vinod Rajamani: In the 15% to 20%

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

Abhishek Saraf: Sir, just one question on Life and one on General. So, as I see that the individual non-PAR mix has actually decreased very sharply this quarter to around 16% while it used to be anywhere around 5% to 7%. So, just a bit curious on this, is it more of a tactical in nature or are we actually seeing a reasonable growth opportunity here. The reason I ask is that a few other life insurance companies have now started to focus on non-PAR savings segment a lot given the need for longevity solutions rather than only mortality solution. So, are we also falling the same line of thinking and within this, if you can just give some more thoughts and color on the margin and the kind of customers you are able to get in this segment?

Tarun Chugh : Sure. That is a very good question. So, see, we have since last year moved to PAR, non-PAR savings and ULIP mix and as we progress, we will also have a fair mix of non-PAR risk as well. But having said this, the strategy last year has been to check out the POS products, the point of sale products which today are simplistic in nature and largely non-PAR and the reason why we have done that is, see, if you just look at the overall industry. The number of advisors that been added to the industry have actually been negative or near stable. So, the net number of advisors aren't happening significantly to the life insurance sector. We have also been in the range of about 70,000 advisors. Now we are very clear that we would therefore try to test out simpler products which can be sold by a set of population which is willing to get into the distribution of life insurance products and that is a strategy which has worked quite well in the second half for us. So, as we got an approval for our POS plan, it is a POS saving plan, we have found that there is a segment we can therefore pursue and it has been encouraging. It is already picked up by our agency channel very well. Not only that, even in the institutional business the POS saving plan is relatively a lot easier to explain to customers, has clear offerings in terms of cash flows and gives a lot more customer, I say increases customer trust because in the case of PAR, future bonuses of course cannot be predicted while in the case of non-PAR, you do know your cash flows which are there in the saving plan. So, this has added another segment for us in the mass affluent and the lower mass affluence space. We intend to go out further in this strategy and I think what IRDAI has allowed in the POS product and the POS channels is unique and we shall extract more out of these on a city by city basis. Last year was more like a testing phase where we as I said launch on the second half and we tested it with few of our partners and few agents, now we have got a specific POS channel within agency where we try to onboard part time agents, get used to simple life insurance products and then graduate them into a proper agency license and in the institutional business side, as you are aware we have a tie up with India post payment bank. Now as we move towards working with them, we would be testing whether India post payment banks selling through the Dak Sevaks is able to sell simple products like POS, because there is a person who has a very good relationship but may not be financially very literate as of yet, but with support of training, can sell which is a simple cash flow based product. So, this shall remain a strategy. We have also been talking to the regulator to see if more products can come into the POS basket and therefore add a segment of distribution which has largely been untested in the Life Insurance side. We remain bullish on this. Given our large presence and I talked about this earlier in the call, more than 400 cities where hardly any Life Insurance companies present in some of our locations we shall be getting that, using that advantage because this is where you can add more distribution without necessarily making it more cumbersome for somebody to go through a sale process and licensing process.

Abhishek Saraf: Thanks for your detailed explanation sir. Sir just a few follow up on this. These would be mostly like immediate annuity plan kind of products or deferred annuity?

Tarun Chugh: These are neither remitted annuity nor deferred annuity. These are cash flow based products. So, you basically the pitch is around a certain IRR on the cash flows.

Abhishek Saraf: Okay. Sir how do we manage the interest, I believe that the interest rate risk will be with the company as such with shareholders, so how do we intent to manage that risk?

S. Sreenivasan: I will answer that question. As of now it is a very small proportion of our AUM, but as it builds to a certain level, we have put in a threshold. We will start looking at hedging it.

Abhishek Saraf: And sir what could be the threshold?

S. Sreenivasan: That we have not decided yet. It is a very small threshold as of now. It is a very small percentage

Tarun Chugh What we have done is, we have got it comfortably hedged as of now in terms of the current cash flows here.

Abhishek Saraf: Fair enough. Sir, one question on the general insurance side, on the motor business as such, so just wanted to have some sense on what is the kind of retention of motor insurance policies of the existing book. So, basically you see a lot of migration or churn happening in terms of as the insurance policies for the year matures. So, the customers tend to have switch between different insurers. So, for us what has generally been the experience in terms of the transfer out as well as transfer in. Just some color or your thoughts on that?

Tapan Singhel : So, if you look at the motor business now, 60% plus NOP of retention would be there, for the good companies, we would also be over 60% and the churn is of two reasons. One, some of them sell the vehicle to somebody else and there will be some churn happening which is shift happening. Now churn which happens is more or less again gets evened out because if I look at my roll over business, it also has a reasonably good growth compared to the new business. But predominantly why does the churn happen and what renewable ratio let us say for lines of business we study that, for two-wheeler the renewal ratio for industry has grown 26 odd percent. Which means quite a few two-wheelers don't even insure their vehicle that is why you have the long-term policies come into play because I think uninsured TP would be an issue. For commercial vehicle about 30% vehicles don't insure. That is why again that is also a beginner issue which has been discussed with IRDAI. And private car OD about 80% vehicles are insured, 20 are not insured. See, if your retention ratio on NOP basis which is lower 60% or 65%-66% and you see that about 80% are the ones which have insurance and 20 are dropping out as it is and it will also see that there would be some which will be selling the cars to somewhere else and that is where it hovers around, for the industry and for the good players which would be there. I hope it answers your question.

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

Nidhesh Jain: Sir, just one question on motor TP, if I look at the loss ratio on motor TP is 65%, if I look at other players they are hovering at around 100%. So, what differently we are doing, if you can just throw some light, because there is a very sharp difference between your motor TP loss ratio versus industry…

S. Sreenivasan: The question is why it is so high for them. Because motor TP, is a court matter and we have a very strong legal TP team. Historically, it is not just about private cars, two-wheelers and commercial vehicles, there are multiple segments, geographies, customer segments within that and we have always been strong in that. So, we can't answer for why others are high.

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

Dhaval Gada: Just couple of questions. First is Sreeni, about 18 months back we had this initiative at the group level to sort of mine the group customer base. So, just wanted to get an update where are we on that front and just performance on that? And if you could share the cross sell ratio for the insurance businesses both general and life, that is the first question and second is could you share the reserve releases from prior years in FY19 for the general insurance business?

S. Sreenivasan: First of all, it was not a data mining exercise. We had just collated and created a system by which companies can put in data, enrich the data. Each company would then be given the data base. So, we don't have a system of sharing data across companies at all. That is not allowed by regulation either. So, each of the companies has got much more enriched data which already is happening in many ways. Each company is doing as got cross sell and upsell initiatives. That I will let Tapan and Tarun take it.

Tapan Singhel : Okay. So, if you look at the general insurance business typically, I think I mentioned lot of talks, it is typically a push product in which automobile is one which customer looks for**.** There is health or a personal accident or home insurance, the continuous interaction customers where you offer them, cross-sell ratio has definitely moved up, but not significantly. It moved up by some extent, but continuous effort is there because we strongly believe that somebody has to crack this because overall if you look at GI business as a whole, the cross sell ratios are much lower than say banking position and typically is the customers behavior in terms of how he looks at these products. So, lot of conversation, lot of discussion has to happen. It is one of our focus areas. Numbers have moved up but it is not so significant which I would tell right now, but the efforts are still on.

Tarun Chugh: From the Life side, what we have done is, I talked to the proprietary salesforce. So, this is a channel which basically works on the principle that Sreeni has discussed with you. It basically, these are data scroungers. They work on enriching the existing data that we have on customers who work on profile base pitches and also service calling. Based on which, we figure out what right time and when to call a customer but what kind of an offering. This for us is of course small, but last year has moved up to about 10% of our entire business and as I explained, this has been one of those healthy growth channels for us. So, we did about Rs.180 crores of new business, retail weighted new business out of this channel and we shall remain focused on enriching the data and getting more out of this in terms of how we can pitch through personas.

Dhaval Gada: Sure. And just on general insurance, would the cross sell be more than 1.5 at this point?

S. Sreenivasan: No, it will be less than that. That is one of the big initiative we will have over the next 3-4 years. We have set up a setup analytics team for both Life and non-Life and it is our intention because we see that as a big profit pool.

Dhaval Gada: Sure. And the second was on reserve releases from prior years in FY19 for the general insurance business?

S. Sreenivasan: Milind, is there any significant reserve releases last year, overall?

Milind Choudhari: No, they have been more or less in line with earlier years only. So, no significant releases as such.

Dhaval Gada: So, 1% to 2% of combined ratio that is the broad range, so…?

S. Sreenivasan: It won't be that much I think. Will it be that much, Milind?

Milind Choudhari: No, it wouldn't be that much.

Dhaval Gada: Just last thing. On this health insurance business, so the health business we have done some restructuring in the GI company to sort of increase the focus. So, just some update around growth in the individual business and what is our broad mix today and some color on where the retail health could be?

S. Sreenivasan: See, last year if you see, in the market we have grown about 15%. About 3 standalone companies have grown faster than that about 28%-29%. Two of the large competitors and the composite insurers have actually degrown their health insurance business. One thing we were not doing is the benefit based bundled business which the bank owned companies were doing. We have kept away from that for various reasons including potential concerns about creating a compliant structure for that. So, we predominantly sell more than 90% of our products on indemnity based, majority of our businesses come from agency and banca. So, our growth overall in retail health was 15% last year. We have also become the largest payer in claims among the composite insurers in the private sector which we believe based on our study of US companies, building the payment capacity is very essential to have control on the pricing going forward vis-à-vis the hospitals and the network partners.

Dhaval Gada: And what would be the broad mix today between government, corporate and individual?

S. Sreenivasan: Government we have done only, it is the first year we have done…

Milind Choudhari: Around 15% Sreeni this year., Group Health is 50% and 35% is retail

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would like to 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 everyone.

S. Sreenivasan: Thank you everybody.

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