



**“Bajaj Finserv Limited
Q2 FY2019 Results Conference Call”**

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Mr. Tapan Singhel – Chief Executive Officer – Bajaj Allianz General Insurance Company Limited
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Please note that the transcript has been edited for the purpose of clarity and accuracy.

The opening remarks for this analyst call by the management of Bajaj Finserv Ltd. (BFS) have been uploaded on the website of Bajaj Finserv under the Investor relations section on 25th October 2018. This transcript is for the Q & A discussion on the BFS results, after the Opening remarks.

Moderator's Remarks

Moderator: Good day, ladies and gentlemen and a very warm welcome to the Bajaj Finserv Q2 FY2019 Results Conference Call hosted by JM Financial. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bunny Babjee from JM Financial. Thank you and over to you Madam!

Bunny Babjee: Thank you. Good morning, everybody, and welcome to Bajaj Finserv Earnings Call to discuss the Q2 FY2019 results. To discuss the same, we have Mr. S Sreenivasan, CFO, Bajaj Finserv Ltd., Mr. Tapan Singhel, CEO, Bajaj Allianz General Insurance Co. Ltd., Mr. Milind Choudhari, CFO, Bajaj Allianz General Insurance Co. Ltd., Mr. Ramandeep Singh Sahni, CFO, Bajaj Allianz Life Insurance Co. Ltd. May I request Mr. Sreenivasan to take us through the financial highlights post, which we will open, the floor for a Q&A session. Over to you Sir!

Question & Answer Section

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Hardik Doshi from First Voyager Advisors. Please go ahead.

Hardik Doshi: I wanted to check in terms of both in general insurance and in life insurance what is the cross-sell rate or the amount of business that comes from Bajaj Finance customers and also related to that, what are the steps that we plan to take, if any, to kind of improve the cross-sell rate given the large customer base of Bajaj Finance?

S Sreenivasan: Let me break that question, in BALIC, we do two types of business with Bajaj Finance. We do group protection business and we do individual savings business. For the individual premium business, it is a focus we started about a year and a half ago, because, we felt that long-term business was required. Group business is annually renewable, so we take a lesser share of the group business, but we take a higher share of the individual protection business. Unlike a bank, an NBFC has challenges in selling individual business, because, they do not have access to current, saving accounts and wealth customers. Nevertheless, Bajaj Finance has started taking deposits for the last three years and that is why we felt it is a more

sustainable area where we need to focus our group efforts on. We have done about Rs.10 Crores of rated individual business in the six months as compared to Rs.3 Crores last year. This business will take some time to develop into much larger scale however directionally we seem to be on the right track. In terms of BAGIC, I will let Milind or Tapan take the question.

Milind Choudhari: Bajaj Finance continues to be our corporate agent and it has contributed around Rs.170 Crores of premium in the first half for this year.

Tapan Singhel: This is Tapan here. If you look at our bancassurance business, the predominant business being done is the coverage of the assets, which the bank is financing. In case of Bajaj Finance the predominant business that we do is extended warranty cover, which we do on consumer durables. On funding of assets or factories or SMEs, their book is smaller, but we integrate very well with them and then pushing it forward. In fact, when I said warranty business, I think Bajaj Allianz's market share will be close to 60% to 70% of BFL's business because of Bajaj Finance's aggressive positioning there, so it is a good partnership. We are cross-selling wherever there is an opportunity to cross-sell and we are picking it up well.

Hardik Doshi: Got it and you mentioned on the individual premium side on the life insurance, but do you see a big opportunity on the credit protect side as well, where I believe some of the competitors are doing a pretty good job with Bajaj Finance?

S Sreenivasan: Protection we used to do a lot more and then we scaled down. Now we are building it up, however, we are cautious on that. We do not want to do too much with our own group company beyond a certain limit. In BFL, we have an open platform for all our products both general insurance and life insurance.

Ramandeep Singh Sahni: We do about 60% of the overall credit protection book, which BFL writes and like you mentioned we were going slow in the past, but this year has been good for us and we have grown that book with BFL at about 106% this year, so about 32% of our total group protection business comes from BFL.

Hardik Doshi: Okay got it. Thanks.

Moderator: Thank you. The next question is from the line of Ashish Sharma from Enam Asset Management. Please go ahead.

Ashish Sharma: Thanks for the opportunity and congratulations on a good set of numbers. Sir, one question on BAGIC, first of all in terms with this new rule from September 1, 2018, where the IRDAI allowed for two wheeler and four wheelers; three year and five year policies; how

has been the behavior in terms of pricing? The TP rates have regulated, but on the OD side are we seeing little too much of competition or too much of reduction in prices, just some update on that and second would be your outlook on combined ratio, because, I think there was another circular where the PA cover has been increased and industry players had mentioned that they were surprised that the pricing is 15 times and with the increase in cover also 15 times, whose behavior will be seen going forward, but people are saying that this is positive from a pricing perspective and a profitability perspective, so some color on that Sir?

S Sreenivasan: I will first take question of this increase in overall premiums especially on the third party and PA., One slight concern is, that in terms of two wheelers, the cost of the two wheelers goes up quite significantly, so this could potentially lead to lower sales of two wheelers, but we are observing over the next six months and we will know whether it has had an impact or not. Now I will hand over to Tapan to take the rest of the queries.

Tapan Singhel: If you look at the way the market behavior has been for the new vehicles, the three year and five years if you see is being done, but for OD and in most of the products still have the one year OD, which the customers are taking. Some customers are moving towards three to five years, but that is a smaller number. On one year OD, since there is no difference in terms of collection of premium as the regular, this current levels are still continuing the same as to what it was earlier, not a major shift there, but I would say that the industry will be watching it as it progress and it is too early to comment as to what the impact is going to have. On the pricing, I think the issue can be, if you look at the TP rates, earlier IRDAI would give an increase based on how the losses is moving on a year-on-year basis. Now we have to see when you lock in a TP rate at five years on today's date how do the losses are going to develop going forward since this is a regular premium and how would an increase happen after third or fifth year, which is yet to be seen, but if the ratios in the past trend keeps on moving up, then this portfolio can become bad, but I am sure the regulators will do something because nobody will want a major portfolio going bad.

Ashish Sharma: Sure, and on the combined ratio Sir?

Tapan Singhel: Combined ratio in personal motor you are asking for or TP?

Ashish Sharma: Overall for BAGIC this quarter there was one off event given Kerala floods, but despite that we were closer to 97%?

Tapan Singhel: The PA premium is a very small chunk of overall business premium, & increase in two wheelers is also a very small chunk overall for the business. I do not think that has a major impact on profitability, that will be too early to say. What you see is general insurance industry across the world has a combined ratio, which is closer to 100% where the returns

on the market is low and a country like India returns on the market is higher, the combined ratio is about 115% or so. So I think we would be looking at a combined ratio, which is closer to 95%, Sometimes we have a good year so it comes a couple of percentage below. Sometimes it moves up a bit, so if you look at our combined ratios in line with our strategy of where we will be positioned.

Ashish Sharma: Perfect Sir and just lastly Sir on your motor business mix in terms of two wheeler what will be the composition of two wheelers in that?

Tapan Singhel: Our two wheeler composition is much smaller. We are a predominant four wheeler private car player and smaller commercial vehicle player. On two wheeler, I think we have mainly Bajaj Auto two wheelers with us, so it is much smaller to overall number. Milind can you have the exact numbers.

Milind Choudhari: Overall out of the total motor business as such around 9% comes from motor two wheeler.

Ashish Sharma: So, it is a 9%.

Milind Choudhari: Yes.

S Sreenivasan: If I can add some flavor to this. Two wheeler while they bring in lot of volumes, the ticket sizes are small, so when we look at two wheeler it is not a scale builder. It is what we do for profitability and it is not something, which will be 30% of the motor market because insurance premium of one car will be at least 10 to 12 times that of an average two wheeler. Therefore, it is something we look at as a source of profit. It will add volumes because it brings customers through the door, so we will continue to focus on that.

Ashish Sharma: Sure. Perfect Sir. That will be all and all the best for the next quarter.

Moderator: Thank you. The next question is from the line of Krish Shanbhag; Individual Investor. Please go ahead.

Krish Shanbhag: Sir my question is on the life insurance business. For the last couple of years, we have noticed that the growth in embedded value of our business is below what our competitor's are achieving? Is it because of our strategy or do you think our strategy will ensure that going forward out the growth in embedded value of our business will exceed those of our competitors?

S Sreenivasan: We publish embedded values at the end of the year. One of the reasons why the embedded value of growth rate was less, was because we had expense overruns for the last few years, which over last two years has been coming down. We are hoping that by the end of this year we might actually come out of an overrun situation. It is a bit too early to precisely

commit that, but we think we are on track. The changes that we have incorporated in terms of changing the focus to individual rated premium, focusing on growth and bringing in product mix change together with operating efficiencies, improvement in persistency and renewal all of them are embedded value positive, so we should see improvement as we go forward. Our focus is on improving our new business value, which is the combination of growth in annualized premium and margin, so focusing only on margin is not our strategy., Therefore by end of the next two to three years we are hoping to see a growth in embedded value. The biggest risk factor there is obviously what we call the investment variance because as the investment market becomes very volatile you will have that kind of variance in the embedded values of all the companies. Barring that on the operating side, on the operating return on embedded value, we hope to improve that overtime.

Krish Shanbhag:

Thank you Sir. My second question is on the general insurance side. Can technology play as a big disruptor in this industry and what steps are we taking to ensure that it does not affective our business?

S Sreenivasan:

It is a very, very broad question. We can have a separate full day discussion on that, but anyway I will tell Tapan to give you a brief on some of the steps that BAGIC has taken in this regard.

Tapan Singhel:

If you look the GI business and if you look at some other business, there is a basic difference and that is a question that you can all answer in your mind “Who amongst us has ever got up in the morning to buy a general insurance product?”. You would have got up to buy apparels, phones, cars, house, take loans, but on a pure GI product the answer when I ask this question to 100% people is no, which means that general insurance always require engagement and conversations. It will always require discussions to happen before the sale happens, which also means that technology makes the process very simple, while selling but all will still require people to have a conversation. If you look at BAGIC when you talk of VSO, we have automated the entire policy iusance on a phone or claim settlement. Also I think we are the first in the world to do on the spot settlement of motor claims where, when you have a claims, you take photograph, upload and the money gets transferred in 20 minutes time or so. We do settlement of claims when you are travelling, if delay happens, we pay the claim., We are focused and very obsessed to ensure that the experience of the customer is something, which he or she does not expect in terms of the speed at which we deliver, but we also strongly believe that for selling of insurance or when a claim happens, the customers do require to have a talk. They do feel because it is high intense emotions playing at the point of time when the claim has happened and that is the moment of truth, so in technology if you look at the way we have progressed, we are frontrunners in the world in lot of places where we are doing stuff, but in terms of the emotional quotient, we are not letting that go also. We are putting the fine balance between the two together. I hope it answers your question.

Krish Shanbhag: Thank you very much and all the best.

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

Avinash Singh: Good morning. A few questions all on GI. The first one is looking at your expense not just the ratio the overall commission and opex, so I am aware of the fact that you have retained a low Agri business and that of course that will have an impact on your net commission, but even if I look, the ratios of course the difference between claim and commission has gone up substantially because of that, but even absolute commission cost and commission and our opex cost has gone up substantially, so some color around that what is going around the commission and expenses apart from that lower crop that is number one? Second is on the owner driver CPA, so multiple things there? One is that it is a compliance requirement still the regulator has gone for like a not bundling it with multi or TP rather than going for one year what is the regulators thought on that ensuring the compliance in the subsequent years and second there has been some noise around that this policy anyway covers the owner driver and if there are multiple vehicle under one owner. One is that it is the compliance requirement still the regulator has gone for like not bundling it with multi or TP rather than going for one year, now what is the regulators thoughts on that ensuring the compliance in the subsequent year and second there has been some noise around that this okay policy anyway covers the owner driver and if there are multiple vehicles under one owner then of course this multiple policy cover is going to be useless because that person of course will die in just incident, so is there some thought going on that if the owner driver has multiple vehicles the one PA policy will do, so these are the questions on PA and thirdly I will come back on the TP part that I have?

S Sreenivasan: Broadly on the question of opex as you know we are a multichannel company and we as a group always invest ahead of the time in several projects, which will take the company forward. So one of the major changes we have seen in the last couple of years is the number of bank assurance relationships that we have acquired. A number of bankers were in the relationships have been acquired in the public sector space and there are many in the private sector space as well including big names like HDFC Bank, Canara Bank, Punjab National Bank, Union Bank the list goes on. The public sector banks particularly in general insurance require manpower to support it. Nevertheless, it is a very profitable channel because the business mix is different. It is not only an engine for growth, it is also an engine for profitability for business mix because 75% of our business from bank assurance is not motor business, so that is how this diversified distribution channels actually add to the risk control as well as the growth of the company. Regarding your specific question on expenses I will let Milind take it along with the other two questions.

Milind Choudhari:

As far as the overall acquisition cost is concerned, it, which has increased particularly post MISF, the commission which is required to be paid to the motor dealers that has increased from the earlier IRDA commissions, - we now have a rate of around 19.5%, which is stipulated for four wheelers and 22.5% is for the two wheelers. Apart from that there are also changes, which have happened on the regulatory side in terms of giving additional rewards to agents and intermediaries so that has also played in terms of increase in terms of the overall acquisition cost. As far as the expenses are concerned as Sreeni mentioned it is primarily on account of investment into initiatives and preparing our infrastructure for a further deep penetration in terms of the bank assurance network, so our expenses have increased a bit partly on account of not writing enough crop insurance business and partly also on account of the manpower, which we have to deploy in terms of servicing these banks, so I think these are the two things. As far as the next question on the owner driver personal accident is concerned, there have been multiple versions coming up not only from Madras High Court, but then there are some subsequent clarifications also coming from IRDAI and this particular mandate has become effective from October 1, 2018 and the companies have started charging different amount of premium for this owner driver PA. Definitely this is a step, which has been taken by Madras High Court considering various accidents, which have been happening and when the bread earner of the family dies and he does not have any coverage other than the mandatory coverage, which was Rs.1 lakh for a two wheeler and Rs.2 lakh for a car, so that is very meager., Considering that, the Madras High Court has given the verdict that the coverage has to be minimum Rs.15 lakh. Of course, in a way it also multiplies the premium, which insurance company should be getting and the premium which is fixed, which is Rs.750 per year, I think that is also working out well, so in terms of overall profitability or loss ratios personal accident portfolio has been good, so it should turn out well. As far as the other sub question, which was there on the coverage under multiple vehicles so definitely a customer has a choice that if he is already covered under a particular vehicle for personal accident policy he has a choice not to take or not to opt for that cover under other policy. Further he also has a choice that if the owner driver does not have driving license himself, then he also cannot be obligated by that personal accident cover, so these options are available, but the fact remains that if somebody having three or four vehicles and he has opted for that coverage under a particular vehicle, only when accident happens to that particular covered vehicle he will get that compensation. If the accident happens in any other vehicle where this coverage is not there, then he would not be getting this compensation, so in a way it defeats the purpose if the coverage is not available on other vehicles, so I think these are some of the nuances of the orders coming in. I hope that clarifies.

Avinash Singh:

Yes. Just a quick follow up on the last one, first you say of course the pricing I will come later on, because if a specific vehicle covered of course pricing looks relatively higher than what kind of a general or overall personal accident policies all the general insurance are selling. So, the pricing is one part? The second part I was asking now okay because the

court said that okay if the cover of Rs.1 lakh is inadequate so you go for Rs.15 lakh, but now the regulator is saying that okay you buy for just one year then who is going to ensure the compliance from the second year in the case to two wheeler so if one person buys five year TP and one year this CPA, from the second year who is going to ensure it, so one party address that okay there is a lower compliance or like lower coverage, so increase the coverage, but at the same you are not ensuring the compliance because if somebody purchases five year TP, I doubt that he is going to come back and buy this PA policy even though it is required from second year onwards, ...?

S Sreenivasan: These are matters, which are being discussed with the Regulator. We can only represent with the Regulator. They are seeing to the matter. Because of the court decision they had to act within timeline, but this will be reviewed by the regulator and they will come out with clarifications.

Avinash Singh: On specific thing again on expense if I see your non-claim expenditure, commission & expense is over Rs.547 Crores for the quarter, can you provide the breakup between the commission and opex of Rs.547 Crores?

S Sreenivasan: Schedule three and four of public disclosure.

Avinash Singh: You have not uploaded the public disclosure?

Milind Choudhari: Commission is around Rs.203 Crores and the rest is opex Rs.547 Crores. Public disclosures will be uploaded within 45 days of the quarter, within the stipulated time prescribed by the IRDAI.

Avinash Singh: Corresponding figure last year? Okay. That will be there in public domain. Thank you.

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

Dhaval Gada: A few questions from my side. Firstly, is on BAGIC, a question for Tapan actually. Could you sort of talk about you know the presence that we have in motor dealerships pan India and how this number would have moved the penetration number over the last two, three years and the second question was the opportunity I mean at least a few companies have been talking about SME General Insurance opportunities with SMEs how are we seeing that and what are the steps that we have taken on this front and a third question was share of virtual offices premium collected in the overall sort of premium may be ex-crop just to get like-to-like number?

Tapan Singhel: If you look at your presence in the OEM space we would have tied up with the all our major manufacturers be it Maruti, be it Hyundai, be it BMW or Toyota if you look at we have

presence all across and that we would continue so as I mentioned earlier we are one of the lead players in private car insurance on the OEM side so that is the focus.

Dhaval Gada: Would you have a number around it or like I mean 80% of the country's dealerships penetrated, some colour on that?

Tapan Singhel: I cannot give you exact number like that but if you look at, the motor dealers that we have, the fresh car business we would be having close to about 9% to 10% of private cars new business, which would be coming to market. So that point of view, we have multiple tie ups with any OEMs and MISPs, but that will how it would be, it should be reasonably good, where we have spread across.

Dhaval Gada: This number would be three years back where would this number be I mean just trying to understand what it would be?

Tapan Singhel: It is close to that only. We have added Toyota this time. It is a new one, so this would move up the number, but mostly if you see from very early on we have been a major player in the OEM space from the year 2000, we were the first to do the Maruti tie up in the year 2002 and then we did Hyundai also, we are in the OEM business right from very early on we have been present in all OEMs and overtime many companies have joined bandwagon, but our market share in terms of our fresh car business has been more or less remained steady in spite of more and more players coming into the business.

S Sreenivasan: Just to add what Tapan said one more thing with BAGIC does is also very strong process of selecting which dealers to work with. There is a regular process those dealers who consistently give BAGIC losses or where they are not comfortable with the way claims have been settled, they keep weeding out such dealers and find new dealers to replace So it is continuous process.

Tapan Singhel: I would like to add that as far as VSOs are concerned we wrote around Rs.332 Crores of premium, which is around 7% of H1 premium excluding crop.

Dhaval Gada: OK. On SME opportunity?

Tapan Singhel: If you look at our banca tie ups, we would be in the leading banca players in the GI space, as Sreeni mentioned is opening remarks. SME businesses happens mostly through the banks. So, you need to look at the brokers for bigger business, agents pickup the smaller personal lines business, SME happens through the banca relationships. So in the SME space we have already be having a substantial chunk of business.

Dhaval Gada: Okay and what would it be as a percentage of our overall business ex-crop this year?

- Tapan Singhel:** If we look at a BANCA business it would be close to 11%, of that ~4% that would be the SME business because, BANCA mostly comes into SME.
- Dhaval Gada:** I understood, and in just one more point on GI, what is your cross sell ratio to existing customer's I know are we raised but just trying to understand are we thinking on this front and some numbers?
- Tapan Singhel:** We have been working on the cross sell but one of the issues is we look at, the personal lines, insurance penetration is very low. A simple thing like a householder policy - less than 1% have a policy - if you look at like a cyber individual cyber crime policy, we were first to come with that, but have hardly any sale on that. To the point I was making earlier and the same question I asked all of us, how many of us have our householder policy? How many of us have taken a cyber policy which hardly cost any money? The issues remain in GI and this is constant. When across the world people have made an effort to do cross sell, but the cross sell ratio is much lower compared to other industry, but the efforts will always be on because the products are good and we have a strong belief that the customer likely requires that because it is a good products and in times of need it plays a major role. Overall for the industry as a whole if you see, the cross sell ratio is much lower for simple reason because people are averse in terms of looking at things at what can go wrong.
- Dhaval Gada:** I understood and lastly on pricing in the crop business that led to you know sort of avoiding some off the business and how would you sort of benchmark the pricing versus last year.
- Tapan Singhel:** We do not avoid business we go for all tenders.
- Dhaval Gada:** No I just think at the prices, which you want?
- Tapan Singhel:** The price was very competitive this time. Actually if we look at overall coverage, the simple way you can do an analysis of it is, look at last year's overall industry premium for crops, look at the overall industry premium for crop this year, and look at the coverage, which have moved up, we will see a substantial drop, in terms of premium for coverage for this year by at least 15% to 20%, so that is how we get an idea how the price is moving in the market and how corrections will happen and how things will go now, better or bad. Every company has its own strategy so they would have thought something about it. From our perspective and we did participate in all the tenders at the price which has been comfortable for us.
- Dhaval Gada:** Sir, sorry would do you think that prices were down 15% to 20% versus what we had expected?
- Tapan Singhel:** If you look at from the last year perspective, yes.

- Dhaval Gada:** Okay, I understood and just couple of questions for Ramandeep Sir, first one the credit protect business of non-Bajaj Finance, it seems that, that is also doing pretty well the growth rates are pretty strong there and what is driving that business and have you added new partners in that business over the last year, you could remind that?
- Ramandeep Singh S:** I think what has really changed, so just let me start by giving the numbers. Overall the credit protection group risk business has grown in H1 by about 59% and Q2 growth was even higher rate about 83%. I think what is really working for us is what I mentioned earlier that we have started gaining share in the partner's shop where we were working. For example in Bajaj Finance also like somebody asked earlier, our share was lower and it is now come up to about 65%, there we are seeing a good amount of growth, 100% plus growth in many other partner shops and hence the growth is significantly higher compared to what have seen in the past.
- Dhaval Gada:** Sir the question was what is driving this, is it better attachment ratios or new partnerships?
- Ramandeep Singh S:** I think it is mixture of both one is better attachment and the second is our ability to service the partner better compared to the other's in the market because you know we are getting into the other's share and you know getting more share of the partner so that is helping us.
- Dhaval Gada:** Okay, and now what would be the mix between MFI, consumer and housing like between the credit protect business? How are they placed?
- Ramandeep Singh S:** I will just give you the actual number so for H1 we did about Rs.600 Crores of total protection on the group platform of which about Rs.270 Crores is credit protection through NBFCs and banks at the balances with the MFIs.
- S Sreenivasan:** Just to add; I think three, four years ago we were one of the strongest players in credit protection business. Thereafter, we reduced some business from Bajaj Finance as they went into multiple partner platform. Now suddenly the competition is also starting to focus on that area over the last year and a half, two years or so. So protection either way whether we are doing individual or group it is still protection, individual protection is a lot more difficult- typically the type of policies sold are usually high ticket policies sold to affluent and above and that market is limited in terms of scope- the big market which is middle class and mass market - typically it is addressed through group policies sold through banks and other NBFCs and FIIs and other financial intermediaries.
- Dhaval Gada:** Sir in this last question you mentioned earlier in the call that you expect the VNB to be positive by the end of the year, I just want to understand when do you think individual business will turn profitable overall from VNB perspective?

- S Sreenivasan:** I mean that what I told you earlier was an expectation that is our internal target and we hope to be able to achieve that, but I think within next two to three years we should actually bring up our margins and our VNB quite well. If we continue with the product mix the only downside would be any macro factor externally, which could affect the business, like savings rates dropping significantly things like that - otherwise I think as of now our plans are on track.
- Dhaval Gada:** Sir you made this comment with respect to individual business not as a whole?
- S Sreenivasan:** Yes.
- Ramandeep Singh S:** Yes, I think what Sreeni is trying to highlight is when we look at all the parameters, which lead to the EV or the NBV net of overruns, growth most of the parameters we were doing poorly if you go few years back. If you look at the last two years the way we have shaped up, the growth firstly on individual business has really shaped up, we were largely few years back a group business company, we started focusing on individual business and last two years you see that the growth has been close to 40% both the years. We have been focusing on one line of product in the last two years and you know that was conscious call we took because we wanted to get the mass volume back and once we got it back from Q4 of last year, we started balancing the product mix as well, so that really took care of the new business quality, which we were writing. In terms of reflection of that or in terms of persistency, we were also lagging compared to our peers that you are seeing, we have really been inching towards our peers and this year you will see that delta between us and the peers should be very narrow in number. Beyond that our surrenders used to be the highest in the market in the last few years, this year surrenders last year also they came down significantly. This year we are running at about 50% of what we saw last year, so I think all the quality parameters, all the topline, bottom line parameters are looking positive and hence you know on an overall basis we will see that what Sreeni mentioned, you will see a significant upside coming in terms of both EV and NBV in the coming few quarters.
- Dhaval Gada:** Lastly, could you remind what is our sensitivity to interest rate? How much economic variances negative could we seen because of interest rates?
- Ramandeep Singh S:** We will be looking at that only at the end of the year.
- Dhaval Gada:** Sensitivity Sir?

- S Sreenivasan:** Typically if you take interest rate sensitivity we use Market Consistent Indian embedded value. Therefore, any rise in the risk free rate should due to higher discounting rate, but that would be true for the whole market I believe whoever is following this methodology. We would announce EV at the end of the year - we also show the EV movement and in that this will come as an assumption change.
- Dhaval Gada:** Thank you and all the very best Sir.
- Moderator:** Thank you. The next question is from the line of Parag Jariwala from White Oak Capital. Please go ahead.
- Parag Jariwala:** You know just one question in terms of the interest rate environment, can you just tell us that how is the fair value of the investment in BAGIC has moved, say last quarter to this quarter?
- S Sreenivasan:** In terms of fair value of investments of BAGIC?
- Parag Jariwala:** Both if you can divide in debt and equity.
- S Sreenivasan:** It would be from there in the public disclosure I believe. between in the last six months the total change in unrealized gains is that Rs.365 Crores majority in debt, so overall we had at the beginning market value of Rs. 13,451 crores and the unrealised gains have changed by Rs.371 Crores.
- Parag Jariwala:** Just one qualitative thing that we know since the rates are going up also how you know quickly you think that you know will be able to re-price the investment book which we have?
- S Sreenivasan:** We run a very low to medium duration portfolio. We have a very strong ALM for that in place and only to the extent of the third party reserves, we would take an extended duration, so our portfolio duration as of September is only about 3.4. We would have substantial portion of our debt portfolio maturing every year anyway, so in that sense if you ask me BAGIC and for the shareholder funds of BALIC usually interest rate increases are positive because the new cash flows that we earn plus the re-investment of the maturing debts every year get reinvested at a higher rate.
- Parag Jariwala:** Okay, one small question to Tapan, in your past what is your experience then whenever the rates go up, ideally the premium should slightly go down because on the investment side you do earn a bit higher, so is that arithmetic actually plays out or we can earn better in terms of investment by not?

- S Sreenivasan:** I will take that question. If your investment income goes up it would depend on company to company how that affects premiums. If you look at the public sector they have been around for a number of years - they have large equity investments, which are not marked-to-market and they have a fair value reserve which quite sizeable. So, they are able to draw upon that and take an underwriting loss and yet report profits. If equity market goes down they would be hit. In the case of private companies, it varies from company to company. We, as a company, have never indulged in cash flow underwriting. If you look at two parameters one is our consistent record of combined ratio. We are not relying on investment income alone to generate profits by taking an underwriting loss. So, we want our insurance portfolio to not lose money - that is number one. Number two, even if you look at the breakup of different sources, which make up our PBT which is - the underwriting profit before reinsurance commission, the reinsurance commission, the regular investment income and the one time profit or loss on sale of investments that you do because you are not marking to market to get that gains when you sell - we would have the highest recurring profit, which is the underwriting profit plus the regular investment income as a proportion of PBT. Lastly, in terms of the share of reinsurance commission to PBT we are one of the lowest in the market. I do not think it exceeds 20% to 25% of our PBT. For some companies it is more than 100% that means they are completely relying on reinsurance arbitrage to actually make the PBT. These are some of the parameters that we look at on a regular basis and the sharing with you on this point.
- Parag Jariwala:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Harish Kapoor from IIFL Asset Management. Please go ahead.
- Harish Kapoor:** First thing is on the Kerala floods we had a Rs.63 Crores impact this quarter, but want to know in terms of these catastrophic events, what are the cap's we have and you know what is that the risk management side that you are doing overall?
- S Sreenivasan:** I will give a broad idea. I think about five years ago before the J&K floods, I think we had less than Rs.1,000 Crores of CAT cover. We had taken higher cover because globally we had seen events like floods in Thailand and we have been continuously increasing our CAT limit. Today our overall CAT limit is a little shy of Rs.4,000 Crores per event and we think that is one of the highest among private sector companies in the market. Therefore, events like this typically get covered by CAT. I think the kind of losses and we have faced in Kerala is not a major loss for the reinsurance and there are multiple layers of treaties under which they are required. We will have first recovery under our normal treaty, when we would see whether we need to invoke our CAT and that is how it is arrived at. To give a breakup, about half of it is recovery from reinsurance and half of it would be reinstatement premium that we have to pay for the rest of the year.

- Harish Kapoor:** So, the CAT limit for you is at around Rs.30 Crores.
- S Sreenivasan:** Yes
- Harish Kapoor:** Okay, and just in terms of the crop business just want to know so we looking at the Rabi season, obviously it is a smaller proportion to the overall crop business for the industry, but do we still plan to participate anyway last year what was the broad split for us in terms of Rabi and Kharif season for premiums?
- Tapan Singhel:** As I mentioned we participate in all tenders as you know that is very clear and not only our tender we are participating in all business and we have a price at which we pay. Rabi also we are participating. We are won some tenders for some states in this, which should play out in the Rabi season later so that philosophy remains I think last year if I look at Kharif, Rabi; Kharif is equal to 70% and 30% would be Rabi when you see the last year proportion. Milind, correct me.
- Milind Choudhari:** Yes, Correct
- Harish Kapoor:** Just one last thing, for the motor TP claim inflation rate assumption could you just say what is the rate that you take for that?
- Tapan Singhel:** It is a rate, which is prescribed by the regulators.
- Harish Kapoor:** So, it is like 12% to 14% in that what you take or earlier?
- Tapan Singhel:** I did not get your question.
- Harish Kapoor:** Sir my question was for the reserving perspective for the motor TP claims what is the inflation rate in your assumption for the reserving?
- Tapan Singhel:** The way it is done reserving it is based on actual calculations in terms of how the past has moved, so we look at the past the TP claims have varied like you said from 10% to 15% is the variance for different cases and different regions is there, so it is a complex actuarial assessment by which the reserving is so we take the condition of how the prices move, what are the new judgments should come, how the courts are behaving and it is based on that, it is an actuarial assumption on which we have done.
- Harish Kapoor:** Sir two small things if you could just talk about little bit on a dropout rate for the motor policy that you face and also the split in terms of retail health or benefit and indemnity for your portfolio?
- S Sreenivasan:** You are talking about renewal rates for motor insurance?

- Harish Kapoor:** Yes, the renewal rate for the motor policies?
- S Sreenivasan:** In policy terms I think it will be about 65%-66%.
- Tapan Singhel:** You are right.
- S Sreenivasan:** Usually about 15% so are not invited for renewal because of profitability or contactability issues and out of the remaining we are retain about 65%-66%, which is approximately about, 75%; however, in premium terms it will be much lower because of no claim discounts and depreciating assets
- Tapan Singhel:** And this renewal rates have been among the best in the industry so that is what the industry benchmarks are
- Harish Kapoor:** This is for all the three, right including CV, PV and two wheelers?
- S Sreenivasan:** Predominantly private cars because in two-wheelers as you know one of the reasons why the Supreme Court passed the order was the very poor renewal rates of two-wheelers where, typically, even in the second year itself almost 60% of the two-wheelers drop out of the insurance spectrum and now with this compulsory long term TP coming in there will be a better coverage of that. Commercial vehicles would be I think less than private cars because there is a drop out, especially smaller vehicles those who are not running fleets, they keep changing insurers and it is a big price picking segment in that market, which we are not very aggressively focused on.
- Harish Kapoor:** And may be that split on health benefit and indemnity and just another question last one is basically we spoke about the Bajaj Finance and attachments towards their products obviously they will be focusing more on the home load side now and the SME piece, which is significant part so how we planning to tap the attachment there and you know when do we see some uptake in that part or what is the strategy overall?
- S Sreenivasan:** See on benefit versus indemnity predominantly, Milind you can correct me, it will be predominantly indemnity products. Benefit products are very few we sell some hospital cash and we sell and critical illness, but I think more than 90% of our health premium would be indemnity products. The SME piece I will let Tapan take that answer.
- Tapan Singhel:** On the SME and we are working with BFL and others also, we are their predominant partners so as the numbers are picking up, we will also facing good the numbers. Most of this if you see the way it is on the fresh loans, when they are setting up when insurance happens with the companies which have partnership there., But when we the SME is already under loans extension then typically the SMEs continue with the existing partner of

insurance. That is how it goes, but we are actively working with BFL, so whatever opportunities are there, we try to closet.

S Sreenivasan: To add one point, Tapan has a flight to catch, if there are any questions on GI, we would appreciate you can ask it in the next 10 minutes.

Moderator: Thank you. The next question is from the line of Gaurav Nigam from Catamaran. Please go ahead.

Gaurav Nigam: Thank you Sir for taking my question. I have a question on BAGIC and for Tapan. So, this is related to the IRDA regulation on three-year and five-year TP policy, which should be issued at the time of sale of vehicle. I wanted to take your sense on the pricing, as the regulator is deciding the pricing how comfortable are you in underwriting this TP side for the first three and five years. That is my first question. Second question is that what is your view will you be pushing the OD policies along side this three year and five year TP policy because, my question is more related to the dealers because they would be getting commissions only on the OD policies, so do you think they would be mis-selling or you would be aggressively pushing the OD policies because they will only take the money and then only BAGIC will be able to write it or in general can you give a whole industry sense on how these things will evolve?

Tapan Singhel: If I look at the TP premium; I think there are two components playing on that. First component playing is that the yearly increase will not happen it is bad news. So the second component playing is that the drop out on insurance was high for two wheelers - at the second year renewal ratio it is only 35%, here the entire premium comes at one go, which means that your penetration of insurance moves up and that would have an impact on the claim ratio coming forward. Now do they cancel out going forward or one would get more losses?, Right now our expectation is they would cancel off, so it is not going to be as bad as thought to be., We have a view, which is we will continue doing the business the way we have been doing. Now when it comes to OD commissions if you look at the relation, they have also defined commission on year wise basis and the commission does not get paid upfront, so from a pure dealer perspective, this commission actually drops for second, third year if he does a three year or five year bundled products, so from dealer's perspective it is also good that we can do it on a yearly basis so he gets a better commission, if he does it together, but if he does it yearly basis he has to invest a lot in the call centres. So the dealer has to weigh out in terms of expense and in terms of gain that is happening. Again if, you look at this will balance out. We do not pay commission upfront so it does not matter whether you sell the five years or three years to get commission on the yearly basis. As of now our 5% to 7% of it is getting bundled with long term. Going forward, because of convenience, maybe dealers will look at bundling together, maybe OEMs may look at

bundling it together, more from a convenience perspective than from a distorted behavior perspective.

Gaurav Nigam: Tapan just on this point specifically see dealers most of the people do not actually renew it from the dealers, so do you think dealers so do you think the dealers because they want to get everything upfront, will they aggressively push for it obviously this is very early for you to comment on it?

Tapan Singhel: No. There is one challenge to the first sentence that most people do not renew with dealers. If you look at Maruti, they would have renewal ratio would be close to 90%, if you look at most of the OEMs because it is good revenue for them. I think dealers have extensive call centres and they are very aggressive on monitoring their renewal ratios, so that is the point. That is why they have already invested in call centers and should they see the per year they get a higher commission if they do not do it every year, they would still do that. But as Sreeni mentioned initially in the two-wheeler piece due to just TP itself, the price has moved up so much. Therefore, the sale of vehicles may come down.

Gaurav Nigam: That answers my question Sir. Thank you.

Moderator: Thank you. The next question is from the line of Ramesh Aggarwal, an Individual Investor. Please go ahead.

Ramesh Aggarwal: I would like to understand whether to get on kind of results especially for the previous financial year or release for previous financial?

S Sreenivasan: Why would we want to do it for previous financial year?

Ramesh Aggarwal: In terms of strengthening?

S Sreenivasan: As Tapan had explained before reserving is continuous process and wherever strengthening is required, it is done every quarter. We do not wait till the end of the year actually, we do it every month so that is based on year-by-year. We have now 17 years of history and all inflation, interest granted and changes in court decisions, average ticket sizes, everything is built into each year's pattern so in that sense it is continuing process. We do not think that we are required to strengthen the past year's reserves in a big way, typically last few years we have seen that our actual paid claims against the IBNR for particular accident years has always been less than what we have provided. Milind would you like to add that?

Milind Choudhari: Actually we keep on doing this comparison every month and as far as at least motor TP is concerned particularly several years for now we have continuously seen releases only because we treat two portfolios differently, there are two portfolios in motor TP, one is our regular motor TP book, which is there and we also have a separate book, which is for motor

TP pool era, which is from 2007 to 2012 in that book we had seen some strengthening in the initial years particularly year 2008-2009, other than we have not seen any requirement of putting additional results or strengthening it apart from these two pool years.

Tapan Singhel: We also do a peer review; we have got Tower Watson to look at reserving, we also have peer review from Allianz happening for reserves and also IRDAI looks at it, so reserving is something we are very sensitive about it and we have two or three rounds of checks that we have and that keeps on happening.

Ramesh Aggarwal: Thanks.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Sir one basic question in BAGIC we have combined ratio at 97% and underwriting profit are still Rs.-12 Crores so can you just?

S Sreenivasan: The combined ratio that is reported in the industry historically and prescribed by the IRDAI Master circular on financial statements is based on the losses on net earned premium and the commission expenses on the net written premium. The logic for that is that in India we do not defer the acquisition cost unlike we do it in IFRS or previous US GAAP as well. You will always have new business with acquisition cost written upfront - you would have always losses on the new business and profit from the renewal book so this is one way which is a kind of rudimentary surrogate you can say, which IRDA has adopted and all companies are required to publish combined ratio on this definition of IRDA as per their master circular for the preparation of financial statement.

Mayur Parkeria: Will you change the underwriting profit method or the combined ratio calculation?

S Sreenivasan: No, we would report combined ratio as per the IRDA's definition, IRDA financial statements format do not have line item for underwriting result and the only revenue account and P&L account neither of which has underwriting profit, so this is presentation that the industry makes and we make because this is way internationally results are presented except for the combined ratio definition, we are required to show it in this way by IRDA's regulation.

Mayur Parkeria: Total AUM around Rs.15,000 Crores, what would be the split of equity and debt?

S Sreenivasan: Equity will be let us say about 5%.

Mayur Parkeria: Any thoughts on increasing that or how?

- S Sreenivasan:** We would be watching the market carefully. We can go up but we are looking at how the market is panning out and we will take the call as the market evolves.
- Mayur Parkeria:** On BALIC I had just one question if you look at the individual rated premium the growth is getting primarily driven not by our agency channel but other channels so can you throw some light on that?
- S Sreenivasan:** It has got reflection on the product mix as well. As we mentioned in the previous calls when we took the decision to move from 78% to 80% ULIP to 60% ULIP, the ticket sizes for traditional policies are typically. Now we are selling improved ticket sizes but even then it is only Rs 40,000 -because that customer segment and the type of products we have that is the kind of tickets you can sell, whereas, ULIPs tend to be higher ticket sizes Rs 75,000 to Rs.80,000. Therefore, even if you write the same number of policies, we would still get a lower premium numbers. Agency is the one which is driving a lot of the product mix change therefore in agency you are seeing that individual new business in NB terms for this year may look lower, but once the base gets established this year or next year with the same product mix we should be able to improve.
- Mayur Parkeria:** So you mean to say that a number of policies, we may be growing better in agency but it is just the product mix?
- S Sreenivasan:** Product mix results in lower ticket, but it is adding to overall profitability is much better with this business mix and lower profitability so once the year gets over the base gets reset it will adjust itself.
- Mayur Parkeria:** Sir you mentioned you had indicated about the direction of NBP margins in the EV as we go ahead likely on the medium term, but a thought that over last 14, 15 quarters we are seeing continuous drop in profitability in the BALIC, when do you think will hit the bottom base in terms of de-growth?
- S Sreenivasan:** It depends on how you measure the profit. If you are looking at profit after tax any growing company in the life business is likely to lose money. If you look at the first seven eight years of the life business many companies have invested large amounts of capital much higher than what we have invested, that is because they were taking losses despite having profitable products because the first year is the loss, that is the way the business works., This is why we report new business value and embedded value and our focus is on growing the new business value, which is called NBAP by some companies and as we grow our business we should be able to cover that. In that sense, I gave you the direction of NBV and embedded value. Having said that, as we continue to grow we will continue to have a strain on the profit and loss account at least until the new Ind-AS in 2020-2021 is effected by IRDAI. Then the whole methodology of measurement changes so we still do not know

what that impact will be but till such time we would have this and we do not mind having that because it is improving our embedded value and it is improving the value in force and it is giving the new business value.

Mayur Parkeria: Thank you Sir and wish you all the best.

Moderator: Thank you. The next question is from the line of Rahul Jha from Bay Capital. Please go ahead.

Rahul Jha: My question is motor TP what percentile of the claims will be settled out of court?

S Sreenivasan: We do not have that information readily available and this is not an information that we publish., We have built a very strong TP team over the years, we have expertise in where to settle and where not to settle- you cannot do too much of either of that - you cannot do over settlement of out of court as well, because then people start making fraudulent claims., We have a very strong and robust mechanism for doing that beyond that I am not able to communicate anything further in this call.

Rahul Jha: Thank you.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

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

Rishi Jhunjhunwala: Thanks for the opportunity. Just going back on the motor TP side so two changes that I have happened in terms of long-term tenure for motor TP as well as CPA, just wanted to understand looks like it is significantly positive for the insurance companies. Have you in anyway changed your strategy in order to be more aggressive on the motor TP side to ensure that we capture this opportunity especially even on the two-wheeler side because of low penetration that we have mostly in the industry?

Tapan Singhel: I will take this question. I think we have and I have answered this before, if you look at it TP is premium, which is controlled by the Regulator, it is not de-tariffed. Now the issue which you will see here is earlier every year there used to be an increase in TP prices to compensate of some increase in losses which will be happening in the TP portfolio in terms of inflation. Now see a long-term policy that is not going to happen, which means a portfolio may deteriorate overtime as it progresses and I am going to say the increase of inflation may offset to some extent the newer portfolio. As of now we do not want to have an aggressive stand or underplay- we are keeping stand that we had in terms of seeking to grow business before and we still look into the same as we go forward.

- Rishi Jhunjunwala:** Can you give some sense in terms of how much of your sales in terms of value and volume comes from new vehicle?
- S Sreenivasan:** If you look at the new vehicle business about 20%- 25% of the business will be new and others would be from renewals.
- Rishi Jhunjunwala:** Lastly you disclosed the number of policies that you shared on both motor TP and OD, just wondering I mean we show motor TP policies are almost like one-fourth of OD, my understanding was that we cannot sell OD separately so why would there be such a difference?
- Tapan Singhel:** OD would be comprehensive. It would not be OD, because TP s is mandatory. Yes there would be a number and OD would actually be the comprehensive policies
- S Sreenivasan:** I do not think I got the question.
- Rishi Jhunjunwala:** Let me repeat so basically in your public disclosures as of FY2018 you sold 1.2 million motor TP policies and 4.65 million motor OD policies so I was just wondering why would motor OD policies be a higher number than TP because I thought OD cannot be sold separately?
- Tapan Singhel:** Comprehensive is not OD. If it is a comprehensive, it cannot be OD, it is comprehensive policy it includes TP also, which you see as OD in the disclosure.
- Rishi Jhunjunwala:** Okay understand so OD will be OD + TP?
- S Sreenivasan:** Exactly yes.
- Rishi Jhunjunwala:** All right thank you.
- Moderator:** Thank you. The next question is from the line of Sanket Godha from Spark Capital. Please go ahead.
- Sanket Godha:** Thanks for the opportunity. I just have one question with respect to group health business, the group health has increased sharply for us in 1H and just wanted to know how much would be attribute to the pricing benefit and the number of people covered in plan?
- Tapan Singhel:** See if you look at group health for the industry had been bleeding for a long-time and quite bit of price correction has happened and that is why we see increase in group health and not only as you see most of prior plus group health growth has been much better compared to the earlier years. I think when the price income close to what we feel comfortable and then that is difference.

Sanket Godha: Do you want to attribute to any number to it because of the price and because of the number of policy?

Tapan Singhel: I think we have acquired more policies and there has been a price increase also. I cannot give you off hand right now, but both have played.

Sanket Godha: Okay and what do you think is full-year growth would be for this segment?

S Sreenivasan: It will be about 40% to 50% is what it would be.

Sanket Godha: Thank you.

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 couple of followups first on the overall CAT limit, you said it has increased to Rs.4000 Crores per event, I just wanted is it proportionate or above Rs.4000 Crores it is in excess of loss policy that we have, what is nature that insurance is covered?

S Sreenivasan: Excess of loss.

Dhaval Gada: Okay above Rs.4000 Crores?

S Sreenivasan: Per event.

Dhaval Gada: Where is cut off basically just trying to understand that?

S Sreenivasan: Cut off by we have already mentioned Rs.30 Crores is our retention on an event.

Dhaval Gada: Okay and up to Rs.4,000 Crores is excess of loss you are saying?

S Sreenivasan: Yes.

Dhaval Gada: Okay got it and the second question that I had was could you give the number of on reserve releases related to prior year, we would have release on IBNR during the year for the first half, what was that broad number I am just trying to understand where the ultimate loss ratio is moving for the year?

S Sreenivasan: I did not get your question because this is something, which is part of our overall triangulation, there is no data we are disclosing as of now.

Dhaval Gada: Just wanted to know the consolidated number, not triangle, just to consolidated number so whatever IBNR?

S Sreenivasan: You are asking about what is run off loss ratio and the current loss ratio?

Dhaval Gada: Yes,

S Sreenivasan: That number we do not have with us right now.

Dhaval Gada: Thanks.

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

Rishi Jhunjunwala: I am sorry. My question has been answered.

Moderator: Thank you. As there are no further questions. I now hand the conference over to the management for their closing comments.

S Sreenivasan: Thank you very much for participating in this concall. It has been very lively and interactive and we hope to see you again in three months' time. Thank you Tapan, Milind, thank you Raman, thank you JM for making this possible.

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

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

End of the transcript