

“General Insurance Corporation of India Q3 FY-20 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the General Insurance Corporation of India Q3 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone.

I would now like to hand the conference over to Mr. Binay Sarda from Christensen IR. Thank you and over to you, sir.

Binay Sarda: Good evening to all the participants on the call and thanks for joining this Q3 FY2020 earnings call for General Insurance Corporation of India. Please note that we have mailed out the press release to everyone and you can also see the results on our website as well as it has been uploaded on the stock exchanges.

In case if you have not received the same, you can write to us and we will be happy to send it over to you. Before we proceed with the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. It must be viewed in conjunction with discussions of future operations, financial performance or achievement to differ significantly from what is expressed or implied by such forward-looking statements.

To take us through the results of this quarter and answer our questions, we have with us the management of GIC represented by Mr. Devesh Srivastava – the Chairman & Managing Director and other top members of the management. We will be starting the call with the brief overview of the company and the financial highlights of the quarter which will then be followed with a Q&A session.

With that said, I will now handover the call to Mr. Devesh Srivastava. So over to you, sir.

Devesh Srivastava: I am Devesh Srivastava – Chairman & Managing Director of General Insurance Corporation of India. GIC Re declared its financial performance for the nine months ended December 2019 at the board meeting of the company held in Mumbai on the 10 February 2020. Against the backdrop of severe claims worldwide during the year 2019-20, higher agriculture claims and flood claims in various parts of India in the quarter ending 31 December 2019, underwriting performance resulted in an underwriting loss to the corporations. Given the steps taken by the corporations in revising premium rates for fire segment based on the Insurance Information Bureau statistics, the fire segment is now on a sound footing coupled with the global overall hardening of pricing environments, I in financial results for Q4 is expected to improve.

Alongside the corporation also pruned the portfolio based on more stringent profitability criteria. The details of our financial performance has been already provided to you, but I am reiterating it for the sake of good order.

The growth in gross premium income for the company was 15.7%. This is a premium of Rs. 41,812.29 crore for the nine months ending 31 December 2019. The investment income for the nine months period ending 31 December 2019 was increased to Rs. 5,216 crore. The net worth of the company without fair value change account was recorded as Rs. 19,350.67 crores.

The company recorded a loss before tax of Rs. 1,547.06 crore in the nine months ending 31 December 2019 as against a profit before tax of Rs. 2,239.74 crore in the corresponding period of the previous year. The reduction in profit is on account of provisioning for investments and increase in agriculture losses.

The loss after tax for nine months period ending 31 December 2019 recorded as Rs. 1,556.50 crore as compared to a profit after tax of Rs. 1,620.94 crore for the corresponding nine months of the previous year. The total assets increased by 7.66% from Rs. 119,367.26 crore as on 31 December 2018 to Rs. 128,509.76 crore as on 31 December 2019.

Incurred claims ratio increased from 91.8% in the nine months ending 31 December 2018 to Rs. 99.1% in the nine months ending 31 December 2019. The underwriting loss recorded of Rs. 5,903.60 crore in the nine months ending 31 December 2019 as against a loss of Rs. 2,312.62 crore in the corresponding period of the previous year.

The combined ratio is at 115.76% for the nine months ending 31 December 2019 as compared to 107.62% for the corresponding period of the previous year. The adjusted combined ratio is at 104.97%. The solvency ratio of 1.51 on 31 December 2019 has come down.

Given this I would like to invite any views or clarifications or any questions that you may have and we would be happy to answer them now. Thank you.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Sanket Godha from Spark Capital. Please go ahead.

Sanket Godha:

Just wanted to understand the recent higher crop losses, basically just wanted to understand our figure on crop because if you look the numbers, the combined ratio as a percentage of NEP, as a denominator of NEP it comes to 115%. To the extent I remember our crop loss ratio triggers or XOL gets triggered at 100%. So just wanted to understand why this extra 15% has resulted in to higher crop loss ratio? And second thing is just want the breakdown of overall combined ratio into domestic and overseas? And overall combined ratio of fire segment divided into domestic and overseas? So, the reason why I am asking fire losses to domestic and overseas is just to see whether the fire loss ratio in the domestic business has improved because of the price hike or not?

Devesh Srivastava:

For our crop business, Mr. Tripathy who is the general manager looking after agriculture insurance will answer your query.

- Satyajit Tripathy:** So, if you look into the crop portfolio, the combined ratio of 115% actually comes from the gross loss that is estimated for Kharif and Rabi along with whatever is the retro cost and whatever is the commission cost, all taken together. So, when you factor all the cost together along with the gross loss together, we stand at around 115% at this point of time.
- Yes, as and when it exceeds 100% gross loss, then only you will be having a recovery. But that does not stop us from showing actually what is the actual loss on that particular portfolio. So, the recovery percentage will come later on when it crosses 100% but if you factor our retro cost and the commission cost the combined ratio stands at 115%.
- When we go ahead and have the Rabi information fully by the end of February then we will know where we stand and that would be getting a factoring in March result.
- Sanket Godha:** So basically 115% is the worst-case scenario in the crop, it cannot go beyond 115% considering the gross loss figure at 100%. The commission cost and the retro reinsurance cost, right?
- Devesh Srivastava:** If gross loss is 120%, I will show it as 120%.
- Sanket Godha:** No, I am saying it cannot go beyond 115% for the simple reason.
- Devesh Srivastava:** What I am saying is it can go to 120%. I can recover beyond 100% but when it is gross loss 120% I will show it as 120%. But here in this case the gross loss is below 100% at this point of time but all the other cost put together take it to around to close to 115%. Recovery is a different issue altogether.
- Sanket Godha:** Sir, can you just give us the contract details of loss retro cover? Basically, how exactly it was? This is a basic question but just give me the details here?
- Devesh Srivastava:** It will not exceed 114% for crop.
- Sanket Godha:** And just the breakdown of combined ratio in to domestic and overseas for nine months and the quarter?
- Devesh Srivastava:** So Sanket, the combined ratio for the domestic business is at 111.1% and for our foreign business it stands at 129.8%.
- Sanket Godha:** 128%?
- Devesh Srivastava:** Yes 129.8%.
- Sanket Godha:** Okay so this is for the 3Q or this is for the full year? For the nine months, I mean to say.
- Devesh Srivastava:** This is for the nine-month period, yes.



- Sanket Godha:** And can you give the similar breakup for fire business into the domestic and overseas?
- Devesh Srivastava:** So, the domestic fire business portfolio clocked 112.5% and that for our foreign business stood at 143%.**Sanket Godha:** And for every natural catastrophe of overseas event, can we assume that the maximum hit on the P&L is closer to Rs. 175 crore, Rs. 180 crore given our XOL gets triggered at \$25 million?
- Devesh Srivastava:** For the foreign protection as it kicks in at USD 25 million. That is correction here. But what is the question?
- Sanket Godha:** Basically, we had overall 3 global CAT events. Basically, the Dorian, then Faxai, the Japanese Typhoon. So, all three put together 175x3 that is the worst hit which we have taken in the overseas business because of the CAT events, right?
- Devesh Srivastava:** So, you mentioned about this year. So those are the CAT events and our protection will kick in at 25 million. So, anything beyond that is recovered from our reinsurers.
- Sanket Godha:** Why I am asking this question is because of the CAT event the total effect in this current year is basically Rs. 525 crores from the global events because of the three CAT events which have happened and another Rs. 500 crores because of the cyclone Fani and Rs. 250 crores because of the domestic monsoon floods? So that Rs. 1,000 crores hit on loss ratio because of the CAT event is the right assessment? That is the only point I want to know.
- Devesh Srivastava:** Yes.
- Moderator:** Thank you. We take the next question from the line of Amey Vaidya from Akash Ganga Investment. Please go ahead.
- Amey Vaidya:** Sir, management is always focusing on achieving combined ratio below 100 but somehow, we are not able to do that. So, could you just help us understand what are we going to do about it and how can we look at this number for Q4 FY20 and FY21?
- Devesh Srivastava:** The whole journey starts you know that the trade of reinsurance has a lag. So, nothing can happen overnight. Now the idea is to go and start making profit in our operations which is the business that we are in, which is a business of reinsurance. So, till now our investment income have been feeling a south if I can use that word.
- But now we do realize all of us as a team here in GIC that we have to work towards the combined vision below 100. That journey has honestly started and there are a lot of factors that are helping us achieve our target that we have intended to go ahead and achieve.
- Now what are those factors you would ask. First, is of course the fire portfolio domestically where we have used our muscle to increase the premiums and the market has stood by solidly behind us. So, it is a very good situation, a very happy situation. The direct insurance company



markets have already recorded a premium of almost 47% to 48%. The rise in premium to that extent which will have a trickle down effect on the reinsurance as well.

So that was for the eight occupancies last year. We have taken it further on this year to have all the 292. The tariff gave you a total of 300 occupancies, 8 of the usual suspects we picked up last year and the balance 292 has been done now from the 1 January which is also holding on and we are seeing an appreciable rise in the prices of our fire portfolio. That is on the domestic front. Now we come to the international front. You have been seeing that internationally we have been making losses, but we are not the only one. Everybody the biggies and the big players and the others as well in the reinsurance space have been hit by these catastrophic events across the globe. Now because of all this obviously it is a demand supply sort of a situation. The capacity that was available in the market has dried up.

With that since there is not much of a capacity available, the rates have gone up. I mean purely a demand supply thing. We have seen appreciable hardening in the market. Now since most of the international treaties renew on the 1 January because in the west is largely a calendar driven year for them. The 1 January renewals saw appreciable rise in premium for us and 30% of our book is international.

So, depending on the territory that you are working in, you have seen a good rise in premiums there as well. With these factors, we intend to take it forward and work towards that paradigm shift in our thinking philosophy itself, that we have to start looking at only business that makes sense for us.

May be things giving up a bit of your topline in the process, we are prepared to do that. But we will try and turn the wheel around so that we make a profit at the end of the year.

Amey Vaidya: Can you tell us when can we see the benefit of this rate hardening? May be Q4 or may be Q1 in FY21?

Devesh Srivastava: I could not hear that exactly. If it means rate hardening of what would you want?

Amey Vaidya: You just mentioned that premiums have increased for this 292, I mean all 300 occupancies of Fire and internationally it is going to increase again, right, for your international portfolio. So when can we see the benefit of that?

Devesh Srivastava: So, we have as I said the reinsurance space will have some lag. By the 1 March because when they come in for that direct company. So direct companies will have a more immediate increase in their premiums which will be visible. For us it should be there by Q1 or Q2 in the next financial year.

Amey Vaidya: Q1 and Q2. And sir, so what would be the target combined ratio for Q4 FY20 and for FY21?



- Devesh Srivastava:** We do have a target broadly speaking of something below 100 but then we know that achieving it overnight in a trade like reinsurance is not possible. We had given ourselves a window of about 6 to 8 quarters by which we should be able to achieve this.
- Amey Vaidya:** And sir, another on solvency ratio. This solvency ratio is around 1.5 in current solvency ratio which is just a tad above statutory requirement. So sir, what are the levers that management has to increase it?
- Devesh Srivastava:** Solvency has gone down but that is a trend largely that we witnessed. The things in quarter 3 is when the hurricane season also pops in, we have had extended monsoons that you have seen in Maharashtra and central India and south. So, we have had a considerable outgo. Quarter 4 is when the premiums come in because our 1 January renewals take place which is a large chunk of our books.
- Now those premiums coupled with the fact that we are not expecting so many losses in quarter 4. The losses were already being taken care of in quarter 3 and even before a bit in quarter 2. So, these things should help our solvency, right? And even then, the trend normally is that in quarter 4 the solvency does rise.
- Moderator:** Thank you. Next question is from the line of Avinash Singh from SBICAP Securities. Please go ahead.
- Avinash Singh:** A few questions. First is on the commission. So, if we see over the year trend because I mean our domestic growth has been stronger and particularly in that crop, we have been reducing commissions and otherwise also domestic is a lot direct business so typically commission ratio is lower. However, I mean if you see overall commission rate, it is going up in so far 9M FY20 and it has not come down materially from it was in FY18. So that is the question on commission what is happening there?
- Second on pricing front particularly for Jan renewal if you can just help us understand out of your 30% of foreign book of what quantum was up for renewal then in for Jan? And on that front, I mean some of the larger peers there is a pricing just fewer price increase they have just sort of reported anywhere between 2% to 3% on a blended portfolio basis.
- So, if you can just think that okay what sort of a growth you have seen on Jan renewal and how much of that is coming because of your volume increase and how much is that from pricing? And thirdly, again repeated question on solvency. Given that at borderline I mean there could be some solvency and it would go up. But would you be looking to sort of booking increased capital gain of your investment to sort of maintain solvency? So, these are my three questions.
- Devesh Srivastava:** We will take your questions in the reverse order. So first about the solvency bit. Yes of course the investment is there. Mr. More is here who is our Chief Investment Officer. He will.
- Sashikant More:** We have huge fair value that we will capitalize. Should it be required in fourth quarter.

- Devesh Srivastava:** Then your second question?
- Avinash Singh:** On the pricing. What sort of a growth you have seen? What portion of your treaty was up for renewal and what kind of a price and volume growth you have seen in January renewal?
- Devesh Srivastava:** So, the Jan renewal depending on the territory we are working on and largely this was US and Europe driven. We have seen a rise of about 10% to 15% in the premium for the same exposures. That was a very heartening sign. It has been a good run for us. So, 1 January augurs well for the rest of the market because the trend will be what the way going forward with the rest of the international market as well.
- So that is how we have seen the premiums make a difference in the 01st of January renewals. And your first question about commissions. So, commissions we have been trying to lower our commission as far as possible you know crops we have done quite a bit of hard work and got the commissions down.
- Avinash Singh:** But where the commission is increasing I mean particularly if you are growing more in domestic side and you are reducing commission on agri. So where is the commission increasing or is that your retro cover is leading for you to get less commission? What is happening there because I mean given the crop is increasing and your domestic business is growing faster over the last one to two years, commission should have come down but it is not happening there?
- Devesh Srivastava:** Avinash, if you see the figures given to you the 15.5% of last year it has become 16.7% this year. So, it is not really an appreciable rise at all.
- Avinash Singh:** Yes, but mix is changing towards domestic and crop so I mean I will expect that it to decline?
- Devesh Srivastava:** It is not audible. Can you please repeat it again?
- Avinash Singh:** Yes, so I am saying that if I look over the last one or two years, I mean the growth in the domestic business has been higher where you have a significant portion in direct where you will have commission or no commission and not broker market.
- And also, crop has gone up a lot even this year. And in crop you have been reducing commission. So, I would expect on an overall portfolio there should be some sort of a downward trajectory on the commission, but it is going up?
- S Tripathy:** As and when you see commission rates, commission rates will not always remain on a particular, it will remain within a particular range. That it is going up or going down by 1% or 2% year-on-year will depend on what kind of business composition that we are writing, in which foreign territories and which areas we are writing will be actually writing whatever are the commission rates. It is not that we are writing at the same territory continuously for a particular line of business year after year.

There may be some shift from one territory to another from different lines of business also. So, depending on that commission we will be definitely varying 1% to 2% year-on-year. We do not consider it as a very significant delta to our overall expenses at this point of time since we have brought down on the major line of business of crop.

We have brought it down to close to 5% from the earlier 10% to 12%. We continue to believe that this will remain very much within control for our balance sheet on an overall basis.

Avinash Singh: And just quickly on the Jan renewal. So, what explain your experience a bit different? I mean you are saying clearly a very, very hard market whereas some of the peers the larger global peers who have released their sort of price experience. We are seeing just like 2% to 3% commission?

Avinash Singh: So on price increases what you are saying that you have seen this time sort of a hardening market whereas some of the larger European peers who have released that January renewal experience they are suggesting just 2% to 3% blended price increases. So, what explain the difference between your experience versus the larger peers? I mean is there any geography or any line specific difference there?

Devesh Srivastava: It is not that. See there are three aspects of the business that happens in the west. One is the direct insurance which especially in areas of US and Canada. We have seen a very major increase in rates. So, second is the reinsurance part where we have seen a sort of a rise but not as much we see in the direct one. And then when we come to the third aspect of it, it is a Retro business where again the prices have shot up very, very considerably.

In fact, in proportional business of Retro Insurance there was absolutely a dearth of capacity, there was hardly any capacity available. So, we are putting all that together and telling you direct business of course we do not do. But on the other two parts put together the increase that we have witnessed is around 10% to 15%. Depending upon the territory.

Avinash Singh: And just the number. Out of your 30% foreign business what proportion was up for renewal in Jan?

Devesh Srivastava: About 70% to 80% of our books would have renewed in January.

Moderator: Thank you. We take the next question from the line of Srinath from Bellwether Capital Please go ahead.

Srinath: So, I just wanted to find out in the fire segment we have taken price hikes in 292 occupancies post that are we witnessing any market share loss in this segment? Have we seen increase in competitive intensity from other overseas reinsurers in the domestic market?

Devesh Srivastava: Srinath, see as far as the domestic space goes, we are the very dominant player in this market obviously you know that. But there is no intent of letting go of where we stand. Obviously where we stand globally is also largely due to the dominance we have in the Indian market. These rates

that we increased is applicable to the treaties. Facultative of course is also there but that is not as much in volumes as treaties are. And all domestic treaties run from the 1 April to 31 March.

So, these rates were applicable to the treaties accepting 1 April 2018 going on 2019 going on for the 31 March 2020. So, in this period of course there will be no loss as such because the treaties are already signed, done and dusted in the 1 April last year. What we have to now look forward to is from the 1 April this year 2020 the treaty will renew. Obviously, we are working on a strategy to ensure that our dominance is clearly maintained.

Srinath: And what would be our fire combined ratio for the domestic market in Q3 and 9 months?

Devesh Srivastava: It is 112 for the domestic market.

Srinath: And since we reinsure part of our domestic business reciprocally, wanted to find out if there will be any benefits on the commissions we receive on these reinsurances on a sliding scale because once the loss ratios fall, would global reinsurance pay us higher commissions or commission inflows?

Devesh Srivastava: So, the sliding scale commission in fact is designed that way that if you show a better profit, better margins, you earn more commissions. That is exactly how our sliding scale is devised.

Srinath: I do understand that we provide a sliding scale for the domestic insurers that we deal with. But are we also on similar contracts when we reinsure our property casualty book overseas reciprocally?

Devesh Srivastava: Srinath, all our protections that GIC purchases is on an excess of loss basis. Then you do not have the concept of sliding scale commission. That happens only in proportional treaties.

Srinath: Okay, so we will be taking proportional treaties also, right for our domestic fire business?

Devesh Srivastava: No Srinath, we do not buy proportional treaties. We are on an excess of loss, that is a sign of a mature market. All mature reinsurers largely buy excess of loss reinsurer. We are in the same bracket.

Srinath: Okay, so whatever we originate all the property casualty business originated in India is on our book then we take an excess of loss on top of that?

Devesh Srivastava: Exactly, on the dot.

Srinath: And I wanted to understand if we are planning to use the IIB burn rates and re-price our health business also or which of the other businesses are you looking at next to re-price using IIB burn rates in the domestic market?

- Devesh Srivastava:** Srinath, you can only flex your muscles when you have them. We do have it in property segment, unfortunately for health and motor, the other two large segments for the Indian market, it is not re-insurance driven. Obviously if you buy a vehicle for Rs. 10 lakh or you take a health policy for Rs. 15 lakhs, you do not need reinsurance for that. So largely 85-90% of our health and motor book is obligatory that the cession we get on the Indian market is in an obligatory manner. So we do not have any muscle there, Srinath, we cannot do anything there.
- Srinath:** But outside the obligatory book, could we be repricing our health business?
- Devesh Srivastava:** We obviously look at all our health proposals on a case to case basis. That is important for us to do as a reinsurer where that we look at whether it is making sense to us, but 85%-90% of our book is obligatory as a whole. There is nothing much that we can about this book really.
- Srinath:** The previous questioner had asked, and you had answered that 70-80% of the renewals have already taken place on our overseas book. So on that 70-80% renewals, we have seen north of 10-15% premium hikes for this same risk? Is that a right way to understand it?
- Devesh Srivastava:** Yes, of course.
- Srinath:** So we have got a 10-15% premium hike for the same level of risk for roughly 70-80% of our overseas business, right?
- Devesh Srivastava:** But yes, you are talking about the fire book only okay.
- Srinath:** Yes, property casualty.
- Moderator:** Thank you. We take the next question from the line of Bhavesh Jain from GIC. Please go ahead.
- Bhavesh Jain:** Just wanted to understand are we done with IL&FS provisioning. There is a slight rise in the NPA, so what is the reason of that? And apart from that, there is a lot of question on the claim ratio on the domestic and international front. So why we do not get upfront, broken down in the results itself?
- Devesh Srivastava:** Thank you. Talking about ILFS, we have done 100% provisioning earlier. It is not in the December quarter, it has been already taken up in the September quarter and it has been fully provided for. The increase in NPA in this quarter, if you look from September, the September total gross NPA was around Rs 1295 crore which has gone up to Rs1660 crore this quarter. The increased provision has come from two accounts, that is DHFL and Reliance Capital where for the unsecured part of DHFL, 100% is provided and the secured part is provided to the extent of 57.5%. On Reliance Capital, the secured part is provided up to 15% and the unsecured part is provided up to 75%. So the impact of this additional provision beyond the regulatory guidelines has actually increased the gross NPA. However, the provision after taking the total provisions on all these NPAs, our net NPA at this point of time is 0.87. The gross NPA is 4.39 and the net NPA is 0.87 as on 31st December 2019.

- Bhavesh Jain:** Just another question like what I heard is your claim settlement ratio is like somewhere 140 for the fire business overseas and you took a 15% raise on the current renewal of the premiums. With that calculation in mind for the same risk, you are still going to be well below of your ratio of 140%. So, is 15% raised enough or you should have gone for more, so any color in that sense?
- Devesh Srivastava:** Basically, what happens is you cannot expect to get more than what the market is willing to give you, that is one. Number two, you do not expect so many events to take place in the ensuing year. So, I guess 15% should be good enough to take care of that portfolio.
- Moderator:** Thank you. The next question is from the line of Ajax Henry from B&K Securities. Please go ahead.
- Ajax Henry:** My question is on fire again. Are you seeing the underwriting losses almost doubling whereas premium went up by 50%, is it due to international exposure? What is the split in underwriting losses for domestic versus international?
- Devesh Srivastava:** So, the combined ratio for domestic was 112 this year and the international was high, that was at 143.
- Ajax Henry:** So that was primarily driving the underwriting losses higher, right. So 118,142 lakhs which we are seeing in underwriting losses that is predominantly because of the international fire portfolio?
- Devesh Srivastava:** Yes.
- Ajax Henry:** And my second question was with respect to Life. The premium actually went up by 30%. Was there a price increase attached to that or it is all new business?
- Devesh Srivastava:** Just want to know about the performance of Lloyd Syndicate?
- Ajax Henry:** Life insurance.
- Devesh Srivastava:** So obviously, they are based out of London and they function on calendar year basis. So their performance runs from 1st January to 31st December. Unlike us, they have finished their year and their figures have come in. The Syndicate has done very well. It clocked a combined of 97.5.
- Ajax Henry:** So like basis if the complete business being written outside the country or do we have a domestic coverage sir?
- Devesh Srivastava:** You are talking about life insurance, is it?
- Ajax Henry:** Yes.
- Devesh Srivastava:** Suchita ma'am, she is heading the Life Re Department. She will answer your question.



- Suchita Gupta:** Ratio, domestic share is around 98% and foreign portfolio is only about 2%. This is a very small portion and Life is to our net.
- Ajax Henry:** So my question was with respect to domestic life insurance price rise, the re-insurance rates hardening.
- Suchita Gupta:** Life business, now the reinsurance premium is hardening in the market. It had gone down to a considerable level, but right now we see all the foreign reinsurance who has been there like ours is only 26% of life in the Indian market. Major ones is big ones who have always been in this market and all the prices are increasing.
- Ajax Henry:** To what extent it is going up in the market, roughly?
- Suchita Gupta:** Exactly we do not know, but we know that some of the reinsurers are getting out of the life business they were in and the surprising thing is a little bit more than what it.
- Moderator:** Thank you. The next question is from the line of Madhukar Laddha from HDFC Securities. Please go ahead.
- Madhukar Laddha:** You mentioned on the agri excess of loss and you said that 14% is the loss that you can actually see in the numbers. Can you explain how that works exactly?
- Devesh Srivastava:** I will tell you how it works. The agri retro program actually starts as 80 percent excess 100 percent in the sense that beyond a gross loss of 100%, the retro recovery gets triggered, so if we have an all India gross loss ratio of around 105%, I will recover 5% from my retro partners. As long as it is up to 100%, GIC will retain it to its net, so when we say that up to 114% we are saying that up to 100% is GIC's net, then there is a retro cost which is paid to our retro partners plus there is a commission cost which will be paid to direct companies. All these things put together will be something around 114 to 114.5%. So anything beyond that is actually recoverable from all our retro partners. That is what we are going to say. If you make the structure starting from 100, then anything beyond 100% loss will be recovered.
- Madhukar Laddha:** That you mean is the combined ratio, so there the combined ratio will be 114-114.5?
- Devesh Srivastava:** See combined ratio factors in your expenses and commission expenses and all other cost that you pay. Gross loss is which is your loss in the market.
- Madhukar Laddha:** No, but the number that you said 114 or 114.5% that is combined ratio because that is the loss plus the commission and the retro cost?
- Devesh Srivastava:** And the retro cost, yes.
- Moderator:** Thank you. Next question is from the line of Dipen Mehta from Elixir Equities. Please go ahead.



Dipankar Mehta:

Sir, my question is also relating to the agriculture portfolio and as you said that you have made certain changes as far as the prior business is concerned, so what steps have you taken in regard to the agriculture business where also I think losses have significantly gone up and this industry or segment which has the high degree of volatility, so is that something that we have to live with, more importantly any corrective action you may have taken to curb the loss going forward?

Satyajit Tripathy:

In agri actually what happens, we don't decide on the pricing. The agri business in Indian market runs on a tender driven business where the direct company is actually putting and bid their various clusters and that is the price which actually flows into our kitty - where we actually price when they seek a stop loss cover for their premium. Whatever cover, that is the only one that is being priced and that is a significantly small amount compared to the overall quota share business that we have in agri. So in agri what we do, we actually have guidelines as to how the pricing is to be done. If the company is actually deviating from the guidelines that is given by us to our cedants, then we impose a loss corridor on the company in the sense that if they are beyond a 75% loss ratio of pricing, we will impose a loss corridor on them and that amount of loss, it will be directly to the net of the company. It will not be picked up by the reinsurer, that is one thing we do. We also have capped the overall loss for the companies at 250%, though the overall PMFBY loss can go up to 350%, beyond which the government will step in. GIC which restricts its book up to 250% and in case of weather-based programs, it is up to only 200%. So there are many other steps that we took, we also witnessed the crop cutting experiments along with the companies and we have imposed a condition of witnessing at least 30% crop cutting experiments by the companies. Some of the companies whose results have not been up to the mark, we had imposed at least 50% witnessing of the crop cutting experiments. Because of the steps that we have taken, the pricing of the Indian overall weighted average price has gone up close to 15% from the earlier years of around 12%, so for the year 2019-20, the all India weighted average price is close to 14.5 to 15% higher which is at least 13% higher than the earlier year price and we believe if this year the post monsoon rainfall had not happened, the year would have seen a bumper results for crop.

Moderator:

Thank you. We take the next question from the line of Vinod Rajamani from HSBC. Please go ahead.

Vinod Rajamani:

I have a number of questions. First is you commented that you have also pruned your portfolio, so can you give some color about that?

Devesh Srivastava:

Vinod, it is largely that when you embark on the journey of moving towards the combined of less than 100 per cent, you have to jettison some part of a premium that is not making sense to you. That is why we say that you have to lose topline to gain bottom. When the renewals have taken place, we have cut down on a lot of treaties or cut down lines and come out of treaties which were not making sense. So the pruning has begun in right earnest. In fact, if we take it forward to one of our branches Dubai which has managed I mean for almost 1-1/2 years now, we have been very constantly following up with the Dubai book which was not doing so well, results have begun to show and this year Dubai has actually turned around and given us a profit,



but obviously it is the cost of losing the topline and that topline was seen and that was not making sense to it. So almost 100 million down there, but then the branch has turned around.

Vinod Rajamani: Sir and few other questions, for this 9 month combined ratio, you said the foreign is 129.8 for the domestic, I didn't catch that number?

Devesh Srivastava: For domestic it is 111.

Vinod Rajamani: Also sir, you said fire in India is completely on XOL, so what rate does it get triggered at?

Devesh Srivastava: No, Vinod, the protection that we purchase as GIC that is on excess of loss basis. I mean any mature insurance or reinsurance company will buy their protection on an excess of loss basis.

Vinod Rajamani: So your coverage is on excess of loss?

Devesh Srivastava: Yes, GIC Re, the protection that we purchase is on excess of loss basis. Indian market itself, of course, has a fair mix of both, proportional and nonproportional.

Vinod Rajamani: Sir and impact of this dividend distribution tax, what impact is it likely to have on earnings?

Devesh Srivastava: The dividend distribution tax will kick in from April next year. As you know, the dividend distribution tax since it has been taken up from the company's balance sheet, it will come into the receiver's account and as the guidelines says it will be taxed at the rate the company or the individual is paying tax. So whatever rate we are paying, our corporate credit of tax that will be applicable.

Vinod Rajamani: Sir and just on this Nat Cat number, so Rs525 crores is on global events, Rs500 is on Fani and what are the other Nat Cat, I just wanted to get a sense what would be your combined excluding Nat Cat for 9 months?

Devesh Srivastava: It would be below 100. You talking about attrition losses, right?

Vinod Rajamani: Just talking about the combined excluding Nat Cat?

Devesh Srivastava: If you take out Nat Cat from our scheme of things, then the combined will fall rapidly below 100.

Vinod Rajamani: Can you give me the number sir, if it is okay?

Devesh Srivastava: For foreign, for example, it will be down by 25%. Is that okay Vinod, otherwise we can work out these figures and give it to you.

Moderator: Thank you. Next question is from the line of Tarun Advani, Individual Investor. Please go ahead.

- Tarun Advani:** Sorry, I joined the call late. Sir, on a guidance basis say from a year to 2-year perspective, what is the combined ratio that we are targeting in overall business?
- Devesh Srivastava:** Tarun, the idea should be to turn around for a combined of less than 100. That is what we are working on. So less than 100, the more than less as such further down from 100 the better it is but for partners, we are looking at something less than 100.
- Tarun Advani:** Sir on the road map that you must be internally working, is that less than 100 threshold, are we targeting to achieve say in the coming financial year or is it going to take more than that?
- Devesh Srivastava:** We have to set the road map for ourselves which we have and since in reinsurance, nothing happens overnight, we would be looking at between 6 to 8 quarters before this can be there.
- Moderator:** Thank you. The next question is from the line of Madhukar Ladha from HDFC Securities. Please go ahead.
- Madhukar Laddha:** Sir, just wanted to know your net NPA number, the absolute number?
- Devesh Srivastava:** The net NPA on absolute number as on 31st December is Rs316 crores.
- Moderator:** Thank you. The next question is from the line of Nishit Chawathe from Kotak Securities. Please go ahead.
- Nishit Chawathe:** Just one question from my side, your thoughts on solvency ratio at these levels and how should you really be thinking about?
- Devesh Srivastava:** As stated earlier, we are working on the solvency. The trend has always been that the fourth quarter has been better than the earlier quarter because the worst season is over, the hurricane season is over, the monsoon floods are over and such, we are of course working on it. Yes, we have a lot of fair values assets that we can always monetize to take our solvency up.
- Moderator:** Thank you. We take the next question from the line of Sanket Godha from Spark Capital. Please go ahead.
- Sanket Godha:** Just wanted to understand the tax rate which we would be adopting going ahead and so given the dividend getting taxed in the hand of the company, so will we be on MAT or we will move to 25.2% next year onwards?
- Devesh Srivastava:** We are still doing our assessment on both whether to go to MAT or to the 25.2%. I think for the current year, we will be going with MAT at this point of time and after one more year only we will assess and see whether the 25.2% revised corporate tax is better for us or not. At this point of time, we are continuing with MAT and DDT as I said earlier will be taxed at the corporate rate of tax that we are seeing in our hands.

- Sanket Godha:** So the MAT for us would be around 15% right?
- Devesh Srivastava:** Slightly more than that. It will range close to 20.
- Sanket Godha:** And just wanted to know from the full year perspective given we have made loss for the 9 months of around Rs 1500 odd crore, so do you think that for the full year we can make a profit given the crop business will do relatively better in the fourth quarter and also hope no CAT events happening, the chances of we reporting black or having profit for the full year, just wanted to get your assessment there?
- Devesh Srivastava:** It will be wrong for us to give a guidance for the fourth quarter right now because we will have the final crystallized figure for that quarter particularly from crop in another 15 to 20 days so that we will know where we are heading. Yes, we are all working towards to see that we have a much better result than what we had in the third quarter, but crop as you know it is wrong to emphasize at this point of time that crop will be better in March but yes, the rabi season as of now is doing very well and whenever we factor the rabi premium in the March quarter, we will have a much lesser claim on that amount of premium, so yes that portfolio is likely to look better. But on a quantitative basis, it will be wrong to give an exact guidance at this point of time.
- Sanket Godha:** And just finally one thing, on dividend payout strategy for the full year, given we won't make much amount, just wanted to understand whether we will be paying as a percentage of paid up capital or we can, because the solvency is closer to 150, we can say that we won't be paying any dividend for the current year.
- Devesh Srivastava:** Sanket, this is the government policy indicated by the government of India, so we have taken it up with the government of India saying that this is to be looked into and of course they are looking into it, but we haven't any feedback from the government yet.
- Sanket Godha:** But last year we paid 25% of paid up capital as dividend, so if everything remains status quo there is a bare minimum dividend we would be paying right?
- Devesh Srivastava:** Last time we paid it on the paid up capital with...
- Suchita Gupta:** We paid up more than 5% of our net worth, that was the dividend policy, 30% of profit or 5% of our net worth, so we have taken up to see whether we can or how much we can give the government and accordingly we will be giving. We will be giving dividend no doubt but definitely seeing our financial position the decision will be taken.
- Sanket Godha:** Ma'am that would be 5% of your paid up capital or 5% of your net worth?
- Suchita Gupta:** No, 30% of profit or 5% of net worth.
- Sanket Godha:** Not the paid up capital.

- Suchita Gupta:** No, net worth.
- Moderator:** Thank you. We take the last question from the line of Srinath from Bellwether Capital. Please go ahead.
- Srinath:** Sir I just wanted to understand if the loss corridors to the agri business have been triggered for FY20 and would be get adjusted in Q4 into our provisions or they would already be adjusted in the combined ratio that we have already reported?
- Devesh Srivastava:** No, it is not yet adjusted because when you have to adjust this as loss corridor you have to get the final statement of accounts from the cedant company as to what is their gross loss and companies have still not factored the rabi results into their books. Once they do it only, we will know at what gross loss percentage this stand. Then only we will be having an adjustment.
- Srinath:** So, the significant part of the Q4 provisions will be able to reconcile rabi the loss corridor and the sliding scale commissioned; everything would get done in the Q4?
- Satyajit Tripathy:** Absolutely around 12% of our gross return premium in agri is under loss corridor, so we stand to derive significant benefit out of it if the company sees those gross loss ratios.
- Srinath:** So just also wanted to find out we have an overseas motor book, could you help me understand what is the nature of this particular business and which countries are we doing? Is it a granular book or is it an excess of loss, just wanted to understand the feel of what is the overseas motor book?
- Satyajit Tripathy:** The overseas motor book actually at Head Office level also we write as a foreign inward, so one of the country is Turkey out of that and our foreign branches are also writing in foreign countries on the motor line of business. And yes, there are two components of it that is one is foreign inward written at HO another is written by our branches and these are normal motor policies which are written in those countries.
- Srinath:** Is it a profitable business for us?
- Satyajit Tripathy:** In a sense that there can be profit at certain times, there can be losses also. As of now, it is not a profitable business.
- Srinath:** So the combined ratio, the two largest overseas businesses would be a property casualty followed by motor. So I just wanted to find out 140% combined ratio, is it largely only being driven by property casualty or its motor also kind of having deep losses?
- Satyajit Tripathy:** No, it is largely by property and casualty, it is a major chunk of foreign business.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I will now like to hand the conference back to the management for closing comments.



Devesh Srivastava: Thank you very much for evening today and we will of course, we are striving very hard to make tomorrow better than today and this endeavor will continue. Thank you.

Moderator: Thank you. On behalf of General Insurance Corporation of India, we conclude today's conference. Thank you all for joining us. You may now disconnect your lines.