"General Insurance Corporation of India Q1 FY '21 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the General Insurance Corporation of India Q1 FY '21 Earnings Conference Call. As a reminder, all participants' 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 call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sarda from Christensen IR. Thank you and over to you, Sir.

Binay Sarda: Thanks, Raymond. Good Evening to all the participants on the call and thanks for joining this Q1 FY '20-21 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 uncertainties and other factors. It must be viewed in conjunction with our businesses that would cause future result 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, Chairman-cum-Managing Director and other top members of the Management. We will be starting the call with a brief overview of the quarter gone by which will be followed by Q&A session. With that said, I will now hand over the call to Mr. Devesh Srivastava. Over to you, Sir.

Devesh Srivastava: Thank you, Mr. Sarda. Good Afternoon everyone, I would like to announce the financial performance of the Corporation for the quarter ended June 30, 2020. The external environment continued to be challenging owing to the COVID-19 pandemic and has impacted our performance during the quarter. However, we are witnessing an improvement albeit gradual and expect the trend to continue in the coming quarters. This is clearly a result of the corrections that we have set in motion and are witnessing a positive movement in the right direction. We will now take you through some of the highlights of our financial performance for the quarter ended June 30th. The gross premium income of the company was Rs. 15,881 Crore for Q1 FY '21 as compared to Rs. 20,813 Crore for Q1 FY '20. The investment income was Rs. 1142 Crore for Q1 FY '21 as compared to Rs. 1,401 crore in the corresponding quarter of the previous year. Incurred claims ratio increased from 87% in Q1 FY '20 to 94% in Q1 FY '21, but improved as compared to 97% in the Financial Year 2019-20. Our combined ratio increased to 112% for Q1 FY '21 as compared to 102% for Q1 FY '20, however, even this improved as compared to the Financial Year 2019-20 during which it stood at 114%. The adjusted combined ratio by taking into consideration the policyholders investment income, works out to 105% for Q1 FY '21 as compared to 97% in Q1 FY '20 and 102% in FY '20.

The Corporation recorded a loss before tax of Rs. 811 Crore in the quarter ended 30-6-2020 as against a profit before tax of Rs. 138 Crore in the quarter ended 30-6-2019 and against the profit before tax of Rs. 108 Crore in Q1 FY '20. There was a net loss of Rs. 557 Crore in Q1 FY '21.

The reduction in profit is attributable to high underwriting loss and reduction in investment income. Solvency stood at 1.52 as on June 30, 2020, which is above the minimum required solvency ratio of 1.5 as stipulated by the regulator. Net worth of the company without fair value change account was recorded at Rs 19,714 Crore on 30-6-2020 as against Rs 22,443 Crore on 30-6-2019. Net worth of the company including fair value change account was recorded at Rs 39,071 Crore on 30-6-2020 as against Rs52,181 Crore on 30-6-2019. As you would have seen, there was a reduction in premium income and that underwriting losses increased in the quarter, which impacted the performance. We are hopeful of things normalizing in the coming quarters and it will be our constant endeavour to bring down the combined ratio and improve the performance at the underwriting level. I think all other details have already been shared with you. On the premium breakup, the domestic premium for Q1 FY '21 is Rs11,897 Crore and the international is Rs. 3983 Crore. The percentage split is domestic 75% and international 25%. There is a degrowth in the domestic premium by about 31% while the international book has grown by about 16%. We now invite questions from our interested parties. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Srinath V. from Bellwether. Please go ahead.

Srinath V.: I just want to understand the motor business, the largest private insurer reported very strong numbers for the motor business given that the TP business, most of the cars and commercial vehicles were off the road for one-and-a-half months that would have seen a significant savings in losses, but that does not seem to be showing up in GIC's numbers, so wanted to understand why we have not posted underwriting profits in the motor business?

Satyajit Tripathy: Good Evening, as you know the Quarter-1 results of the direct company will have a lag effect on the reinsurers books. The Quarter-1 accounts from many of the cedants we have received quite late at our end and all the figures if we would have accounted in the Quarter-1, what we have received around August and late August, our combined ratio in that has been below 100. The Quarter-1 results of motor is reflecting of the fact that it is on estimation basis and we have been conservative in our estimations that is why the results are showing 115 on combined ratio side. If the actual figures are taken into account which is reflected in the Quarter-2, the figure would be much less than 100. The second issue also in motor is that we have dominated the capital gearing treaties, which we are running in our books in the earlier years, many of them have been altered and some of the capital gearing treaties, the terms and conditions has been changed, these are reflected in our books. If you see the motor department in gross premium will be reflecting at something around Rs1400 to 1500 Crore, the actual amount should be much higher than that and will be reflected in our book in the second quarter.

Srinath V.: Got it, and the same question for domestic fire business also Sir, we have taken pricing across all occupancies, premium growth was also in fire reported by GI Council of India and in the last call we had made it very clear that the property casualty business does not cover pandemic payout, so want to understand why that business is not reporting underwriting profits?

Devesh Srivastava: Mr. Srinath, a, the point that Mr. Tripathy brought out also that for a reinsurer there will always be a lag effect in the sense these figures would be largely what the domestic companies put in at March 31st. Now having said that, we have our Appointed Actuary with us, Mr. Sateesh Bhat, who can just give you an overview and also about the losses in the property department.

Sateesh N. Bhat: Good Evening Mr. Srinath, in fact what you said is right, whatever premium increases that GIC has done in the last year, those have actually started showing results, but this time what happened is that we had to make provision for the two cyclones, that is, Amphan and Nisarga, in the domestic portfolio, so that is the reason why we are seeing for the same premium that is booked, we have made a higher provision for the Amphan and Nisarga, so that is the reason you are seeing higher, so we hope that with the beneficial effect of the incurred loss ratio due to the premium increase, we would be seeing a better picture in Q2.

Srinath V.: Got it, and the last question Sir, on the international property-casualty book that also in January we had taken a round of price hikes and there also we are continuing to see underwriting losses, so want to understand what is your view on the international property-casualty book?

Devesh Srivastava: Mr. Srinath, if I can just come in again for a moment before I give it to Mr. Hitesh Joshi for the international bit, Mr. Srinath, there is definitely an appreciable rise in the property portfolio premiums globally and that hardening effect is certainly there, but with the COVID that has struck, there is a question mark about the business and preferential payouts that may happen in the international book. Secondly, we also have some event insurances that have come our way like Wimbledon and sorts, so this is the broad picture but I will now request Mr. Hitesh Joshi to chip in here please.

Hitesh Joshi: Mr. Srinath, the thing is there are not really any newsworthy of events across the globe, but there are certainly say low-intensity events across the world particularly in US and flood in China, so there is a provisioning for that and apart from that as our CMD Sir said, there is a COVID reserve which is contributing to something like 20% of the earned premium, about 15% to 20% of the earned premium is contributed by the COVID precautionary loss reserve and additionally there is significant reserve strengthening on the international side, so I would say that I think foreign property will mimic the domestic property as Mr. Bhat said, we hope that things should be better in Q2.

Srinath V.: Okay, just a follow up there, in the foreign property casualty book, want to understand that does a pandemic get covered because last time we had the conversation largely parts of America it was not covered, but in Europe there was some litigation that was bound to happen, so any broad update on since you have provide 20% of earned premium, does that indicate that some of these legal battles have been won and there would be large payouts being made for loss of profit for the lockdown phase?

Hitesh Joshi: The legal scenario is still evolving, but as far as US is concerned, almost all the judgments have come in favour of the insurance companies, so whatever reserves are being maintained are essentially precautionary reserves, but on the Europe side, the situation seems to be more uncertain. Of course, since the legal changes which are proposed in the US are getting backed by the legislative action, the situation remains fluid, so right now there is no clear, any major verdict or any trend of verdict; almost all the litigation is essentially in pipeline. There are maybe just two or three kind of judgments which have come in and they have largely come in favor of insurance companies rather than the claimants or insurers, so I think probably we need to wait for a quarter or two; maybe in the next quarter we will have the result of litigation and probably the following quarter, I think it will go for appellate round because it will not be an easy, one way conclusion and again the pattern may not be uniform across the world, there will be diversity in maybe Europe and US and within US again, there will be diversity in terms of the court judgments because each of the US States has its own legal framework.

Moderator: Thank you. The next question is from the line of Deepika Mundra from JP Morgan. Please go ahead.

Deepika Mundra: Good Evening and thanks for the opportunity, just a couple of questions, so firstly I wanted to like you saw in fire since the beginning of the year, are there any other P&C lines where you are seeing hardening of rates particularly post-COVID? Secondly, solvency is nearly near the minimum requirement, are you expecting basically for that underwriting like you said the benefit is expected to be booked with a lag, so are you expecting no capital raise or any effort to basically boost solvency?

Devesh Srivastava: Madam, I think you had asked this question about this capital thing in our last meeting as well from what I recall, the answer still remains that Madam, we really do not need capital, we are holding sufficient capital. The solvency is at 1.52 because, Madam, if you see the way the regulator prescribes the way you have to calculate your solvency it has a three-year effect, so you have to take into consideration your claims for the last three years and then average it out, it is not a very difficult calculation, but it is not something that is one line answer that I can give you that this is what has happened, but the basic point remains: that is a number of three years taken into consideration, so obviously this solvency will flow in more slowly than what you would expect to see in a quarter-on-quarter increase or decrease. Secondly, also the fact that since the markets were down, it was not very correct for us to realize our fair value by selling, you do not obviously want to sell your family silver when your markets are down, so in any case we were above the solvency requirement of the regulator and that is about it, Madam. We have of course a full plan for our solvency going ahead where we would like to be in the long term, but this is quite sufficient for us to meet our requirements of the regulator for the moment, and I think as we had mentioned earlier also, if you take our fair value into account which is what is done globally, then our solvency is far higher, it is almost 2.5+.

Deepika Mundra: Got it, could you comment about the rate cycle in other P&C lines?

Devesh Srivastava: Madam, if you take it of course in property everyone knows what GIC has done, and therefore, we have been holding the market rates up. If you see other lines which is the big chunk of our portfolio, which is agriculture, I will request Mr. Tripathy to come in but there has been an appreciable rise in that line of business as well.

Satyajit Tripathy: The Agri business, if you look into on a specific line of business kind of vertical, the specific line has a combined ratio close to 95. This has been achieved, it is very judicious selection of what business we are doing with each cedant and what capacity we would like to give to the market. Our capacity for the Agri market has reduced considerably and from the earlier 45% to 46% of the overall Indian market, we have come down to 29% plus 5% of the obligatory that is 34%, so the earlier years our gross written premium which was around Rs13,000 to 14,000 Crore, this year we have booked Rs6983 Crore in the first quarter, which is a 35% reduction from the corresponding period of last year which was Rs10,676 Crore. In addition to this, the crop business has seen reasonably rise in the tender prices all over the country and we have put effective loss caps on companies where results were not good and we have weeded out those business which were loss-making for us in the earlier years. On the back of envelope calculation, we can say that close to 16% to 18% rise in premium is seen in crop and as we have seen a reasonably good kharif season as of now, we are very hopeful that in the second quarter which is due to be closed by end of 30th, we will have a reasonably good resu lt for the Agri portfolio and the Agri portfolio being one of the largest and in fact it is the largest for our balance sheet. I think as long as the particular line does well and keeps on adding further cash to the balance sheet, we think we are very well poised to have better combined ratio as incurred claim ratio for the overall balance sheet, rates have increased and rates are good, rainfall is good though we cannot say that monsoon has fully ended by now. We are pretty well poised as far as Agri department is concerned.

Deepika Mundra: Okay, understood Sir, basically the increase in the combined ratio in this quarter largely seems to be a timing issue if I am not mistaken?

Devesh Srivastava: Madam, if you see the increase vis-a-vis Q1 of last year, then we are not having an Apple to Apple, you will appreciate that. There is a world of a difference, last year seems to be heaven compared to what we are undergoing right now, so the effective comparison essentially emerges when you look at where we were on March 31st this year vis-a-vis where we are now as on June 30th, so you do see that the combined has come down from 114+ then to about 112 now, so as I said also in my opening remarks we are moving in the right direction.

Satyajit Tripathy: I was exactly pointing to that fact that post-COVID and post-pandemic world, the business scenario is much different than what was expected earlier, so the earlier projections and the earlier guidance have taken a lot of changes plus we also have a rating downgrade, so the combined effect of everything in the balance sheet you have to write in that, and I think we have improved from what we have shown in the March quarter on the incurred claims side and on the combined ratio side also, so we believe from this point onwards there will be better results in the quarter ahead, that is my only submission.

Moderator: Thank you. The next question is from the line of Srinath V. from Bellwether. Please go ahead.

Srinath V.: Sir, the commission payouts of Rs2500 Crore has not contracted at the pace of the premiums, just wanted to understand, we have been giving sliding scale commissions for multiple of our products to kind of bring in pricing discipline and so on, so I was under the assumption that commission will actually kind of perform in line or better than premium growth, but given the degrowth, the commission line seems to be a bit sticky, so just wanted to understand what you make of that, Sir?

Devesh Srivastava: Mr. Srinath again for the commission bit since we were doing these capital gearing treaties which had a fixed percentage of profit for GIC at the end of the year, they had a substantial amount of commission payouts as well because the claims ratio were defined and in any case it could not have gone beyond 98-98.5 or whatever the treaty was, so these are those commissions that have also crept in. I could also request Mr. Tripathy to come in there.

Srinath V.: Sir, can you just explain this capital gearing treaty, I am a bit unfamiliar to this, Sir?

Satyajit Tripathy: Actually whenever we are doing capital gearing treaties, basically it is done in the line of motor and some part of it is also done in , health line of business whereas fixed margin is given to the reinsurer for doing the business, so that it does not produce a loss, so the margin of around 1.5 to 1.75% is what reinsurer gets and the claim is also within that 97% to 98% of the overall premium that you are receiving and there is a commission component also attached to it. This year, if you see line-wise, our commission, the major lines of business, Agri has reduced its commission significantly from the earlier year of this quarter where we have paid 779 Crore, we have paid 420 Crore. Similarly for health, from Rs793 Crore of commission last year first quarter, the net commission this year is 347 Crore. The commission has gone up in motor from Rs296.96 Crore to Rs497 Crore simply because of the fact that we had to fill in some of the capital gearing treaty on a clean-cut basis because of the regulatory directive that is given to that companies, so when you settle this on a sliding scale commission also, the commission is to be settled then and there, so this has got effect in the Quarter-1 when the renewals have happened from April 1st. Otherwise, the motor commission is again going to be substantially less from the second quarter onwards even slightly higher commissions for fire also, this have come because of the our attempt to get quality business on the international market and that has resulted in slightly higher, but the major lines of business, Agri, health, and other miscellaneous and such kind of business have actually reduced the commissions except for motor which is a one-off thing and fire which is because of the business which we are pursuing in the foreign markets.

Srinath V.: Sir, so internationally because we are going after the higher quality clientele, the commission payouts are higher, right?

Satyajit Tripathy: It is slightly higher, I mean when you chase better quality businesses and you also have to understand that rates have also increased overall in the domestic market also though we are not very much into that means from commission side. The commission increase in the fire side is specifically out of the business that we are pursuing.

Srinath V.: On motor, basically this would be a settlement of the commissions that were due to insurers in FY ’20 which you have done a kind of a one-time or a settlement as the treaty ended and the new treaty started, is my understanding correct?

Satyajit Tripathy: Because the capital gearing treaty had to be ended and it has to start with a different alternate risk transfer mechanism, so the earlier treaty had to be closed and new treaty had to be started, so the commission settlement also got settled along with that. Otherwise, it would have continued in the same treaty was there then the commission would have continued.

Srinath V.: So putting all this together it is likely that we will start showing profitability Sir by Q2 or Q3 given that a motor would also technically report a underwriting profit, property-casualty probably will report an underwriting profit and commissions would not be at an elevated level of Rs2500 Crore, so just wanted your view on that, Sir?

Satyajit Tripathy: While it is wrong to give a guidance at this point of time regarding Quarter-2, we are extremely hopeful that the steps that we have taken over the last two quarters at least have started to show results, so the major components of the reinsurance balance sheet on incurred claims, combined ratio and the combined ratios of individual life have started to show reasonably good progress based on the measures that we have taken, we are very hopeful that when the second quarter results are coming, we will be accounting for whatever Quarter-1 results that are there for the company would have been captured in our books and if there was any delay for the fourth quarter results which have been accounted for on estimation basis now will be an actual basis by Q2 and the results will remain far better than what it is, but it would be wrong to give a guidance that we will be reporting profit even in the second quarter, we are hopeful that we will be doing much better.

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

Sanketh Godha: Thanks for the opportunity, Sir, on the health business as we see it has declined 65 percentage and I believe it is largely because of the discontinuation of capital gearing treaty, so last year we did around Rs5600 Crore of business in health insurance business. Now, given we have done around Rs840 odd Crore, so we believe that this run rate will be maintained for next four quarters and probably we can see at least 50% decline in health portfolio in the current year because of discontinuation of capital gearing treaty, that is the first question? Second question just wanted to understand is that in the international business growth has been around 17 percentage, it will be great if you can bifurcate this growth into value that is price hike and the volume? The third question is, Sir said that they provided 13% to 20% as a COVID provisioning, so it would be great if you can quantify that number in absolute Rupees Crore, and finally on the investment book, just wanted to understand the investment income breakup into capital gains, dividend income and normal interest yields and the provisioning of 190 Crore which I see in the P&L if you can explain that number whether it is with respect to any bad investments or Reliance Capital exposure which was not provided fully till last year?

Devesh Srivastava: Health, I think we have stated earlier also that it is largely a book built on obligatory, so almost 85% to 90% of our book is the obligatory portfolio that we carry. Yes, there are those capital gearing or fixed margin treaties you can call it what you may which we have done away with so that is a big come down there, but health as I have said earlier that these are largely our March

31st figures of the direct market that comes to the reinsurer with a lag of a quarter, by March 31st COVID had just started creeping in. If you remember Prime Minister had also started the lockdown, by 31st we were just settling down into the COVID and the health portfolio in the quarter has done remarkably well if you see for the direct market because obviously, a lot of planned operations and sorts were pushed forward, people were not visiting hospitals, so the health portfolio has done well over and above the growth that it has shown, obviously an insurance sells on a fear factor and the fear factor for, thanks to COVID, it is worst right now, so I will just ask Suchita Madam, she heads the health portfolio to chip in after which she can give it to Mr. Hitesh Joshi for the foreign book and COVID provision that you spoke about and then finally, Mr. Tripathy again I guess because he will tell you about the provisions that we have done for the companies you mentioned.

Suchita: As CMD has said that there is a lag of one quarter for our health portfolio and also because of the regulatory problems that capital gearing has, we have quite a lot of business over there which would also reflect on 31st, however, even we have lost a little bit because some companies for the mass government scheme has moved to the trust model, so there will be a dip in health, but overall because of COVID and other health industry in general having bill to better for the other PSUs maybe it will not that much of a dip we will not see, there will be a slight dip compared to March 31, 2020, there will be a dip in '21 but not to that extent because this is most likely to go up the portfolio and also around 80 to 85 is obligatory, so we will see a hike in, a slight dip but not that larger in health.

Sanketh Godha: Madam, around Rs5600 Crore what we did last year, you are saying 80% to 85% of that business is obligatory in nature, only 15% to 20% of the business was related to capital gearing, right Madam?

Suchita: Yes.

Devesh Srivastava: It is not entirely capital gearing or fixed margin treaty or call it what you will, so the balance 15% also has the other treaties that we write in the market and includes our foreign book as well, because we do a bit of foreign health as well over and above couple of Government schemes that we have spoken about last time, so it is a combination of all of these, but as we have seen the figures given out by the General Insurance Council that the health has shown apart from property which showed a major increase of 35%-40% over previous year, health is also one of those good performers of 10% to 12% increase over the previous years and that as I said clearly is a fear factor because people are buying, corporate are buying it for their employees as well, so health is right now the flavor of the season really.

Hitesh Joshi: Again the foreign property that is fire book, we have COVID reserve of 175 Crore plus and you want bifurcation of the growth in premium in terms of the rate and non-rate probably, right?

Sanketh Godha: Right, because the international book grew very strongly at around 17 percentage compared to the environment, so just wanted to understand the breakup?

Hitesh Joshi: The growth of the Japanese market which show a significant hardening, the hardening can be put at 20% plus, bits of US, actually it is January hardening, we could put at 10% to 15%, which is getting booked in these accounts and then there is also effect of the exchange rate difference and a little bit of marginal growth, so it is all a combination. The hardening of the January, the international book essentially including Japan April renewals, exchange rate difference and the marginal growth.

Sanketh Godha: So it is largely because of the price hike then?

Hitesh Joshi: Yes, Japan and US showed a very significant hardening and that hardening is expected to continue well into 2021.

Shashikant More: Investment income, investment yield was 7.77 and in investment income we saw that portfolio by and large performs well only compared to last year, only in the part of sale of equity actually, the booking of profit was not there because market was also not that in good shape in first quarter, so that is why almost there was a dip in that particular segment, so as against last year Rs450 Crore we could actually book only Rs245 Crore, so that is why little bit of difference, but current quarter it is going good only and we hope that we will be not only achieving, we will be surpassing our last year's performance.

Sanketh Godha: Got it Sir, on that provisioning number of Rs190 Crore in the P&L, can you just tell me what it is related to?

Satyajit Tripathy: Provisioning of 190 Crore in P&L?

Sanketh Godha: Yes, because if you look at provisioning for doubtful debt, you broadly made Rs190 Crore of provisioning compared to Rs403 Crore what you made in Q1 FY '20, now that is largely related to IL&FS we remember that number, so in P&L I see a number of Rs190 Crore, so just wanted to understand what led to that increase in the provisioning number because we largely provided everything except for Reliance Capital and even to the extent I remember that number should not be more than 70-80 Crore even if you fully provided for it, so that 190 Crore was written on the higher side?

Satyajit Tripathy: If you look at the March 31, 2020, figures, our overall provisions were 1503.19 Crore and NPA which has gone up from March 31st to June 30th is Rs.45 Crore only, so from Rs1503 Crore of overall provisions that we had led in March, we have moved to Rs.1548 Crore in the June quarter. The P&L provisions what you are referring to will be having including this also, a lot of the other provisions which are basically taken as a 0.40 provision which is the standard provision that is made for all the fixed income assets, our fixed income book has actually increased significantly, so that is why the provisions could have hit the P&L on the provision side, but on the bad debt side, the provision actually has increased only Rs.45 Crore.

Sanketh Godha: Okay Sir, now Reliance Capital is fully provided Sir, after that….

Satyajit Tripathy: I will tell you Reliance Capital unsecured is fully provided and Reliance Capital secured is provided up to 25%, it was provided up to 15% in the March quarter, it is provided up to 25% in the Quarter-1. The overall secured bonds of Reliance Capital we are holding Rs270.52 Crore of which 25% has been provided, 75% remains to be provided in the next three quarters.

Sanketh Godha: You said Rs370 Crore, right, Sir?

Satyajit Tripathy: Rs270 Crore.

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

Ajox Henry: Thank you for the opportunity Sir, my question is a bit more basic, we got our ratings downgraded, so how does that impact our business either domestically or internationally?

Devesh Srivastava: Mr. Henry, yes the rating downgrade did happen and I think we had explained also that it had some ground which were not really correct because this is a COVID infested time and things were not really normal so to say, but having said that as you know that if you do not look at Quarter-1, if you see our book as on March 31st which gives an overall picture, our book of about Rs50,000 Crore is split 70:30 in the domestic and foreign sector. Now, in the domestic sector obviously, we are dominant player, we are the mover and shakers of the market so we have been with the domestic insurance sector for a long enough period for them to realize that the strength of the balance sheet of GIC Re remains rock solid, nothing much to worry about this, so domestic sector we are not looking at anything going wrong there, so that leaves 30% of our foreign book is what we have to bother about because especially when it comes to our foreign writings in the Western world, largely Europe and US, they are the ones who would want an A rated reinsurer or otherwise their own regulators put a solvency charge on them and they have to put in a higher capital if they have to have a B rated reinsurer on their books, but it had happened and obviously we have taken a slew of steps to ensure that this 30% of the book does not go out and remains with GIC, because it gives us the diversification that a reinsurer requires being a very cross-border trade, so we are working on it. We do not see much of a dent coming in, we have for the moment tried to stem the tide and we have held onto our ground. We have lost very minimally especially the ones where they had to put it an extra charge and in these times when money is difficult to get by, there were a few cases in US and Europe which said it would not continue and they had to move out, but there were many, many more number of people who said that they would continue with GIC nonetheless, which of course is a very heartwarming feature for us and also shows the good reputation that GIC has earned over the four decades almost five now that we have been in the market, so to answer your question in a nutshell not really something that we think is going to be upsetting our applecart.

Moderator: Thank you. The next question is from the line of Akshay Jogani from White Oak Capital Management. Please go ahead.

Akshay Jogani: Sir, there has been multiple references to capital gearing treaties and their discontinuation in sometime last quarter, just could you help us explain what the economics was there in the business and how they sort of get changed because of change in treaty and also like how does the business sort of get impacted because of a change in treaty, you expect that a change in treaty would probably to some change in economics, but the business would not get impacted materially, if you could throw some light with a very simple example that would be very helpful, I know you spent some time explaining, but it was not very clear.

Devesh Srivastava: Call it by the normal name that the world recognizes it which is fixed margin treaty and what is a fixed margin treaty, as the name itself signifies that the reinsurer which is like let us say GIC and company, we have entered into a treaty, this fixed margin treaty will ensure that at the end of the treaty period, you get a fixed margin which is defined and which is defined at let us say 1% for the sake of simplicity, so claim ratio and a commission ratio put together will never exceed 99. If I am to make it 1% profit because that is the fixed margin that we have agreed to between company A and GIC at the beginning of the treaty period, so that is the fixed margin treaty that we are talking about. Now, your next question what has changed over the previous year to this year is that the regulator came up with a circular saying that this fixed margin treaties are not the desirable thing to do because there is no risk transfer which is of course as the name itself signifies that since it is a fixed margin, the reinsurer will always get a 1% and that is how it is, so what we have done this time is to now whoever wanted a treaty nonetheless, we have given it a risk transfer mechanism also, so it is no more a fixed margin treaty, it just does not ensure that GIC gets 1%. To pick the same example, we could also be losing if the claims get higher than what is stipulated then there will be a payout from GIC rather than that 1% coming into our kitty, so does that explain, Akshay?

Akshay Jogani: Yes, but I want to extend a little ahead and understand that if your margin was say fixed 1% right, then how does it sort of work for a return on capital or a return on equity point of view or worked in the past because for every Rs. 100, you only made Rs. 1, but for writing Rs. 100, how much did you sort of keep as capital for blended or that particular line of business?

Devesh Srivastava: There would be a lot of other things that would be associated with it, so it is not as simple as we have stated it, obviously there would be a float also, you would get some money as well you can churn it in the stock market as well, so loads of things that go into it which is what - that 1% is something that I just give you as an example, it certainly is not 1%.

Akshay Jogani: Sure, the reason regulators said sort of that this is not okay is because risk transfer was not happening, so how is the global market like on this front, are these things allowed in the global market?

Devesh Srivastava: Akshay, you will be surprised as to what the global market really does, I mean I think in the global market scenario, it ceases to be reinsurance which is all financial instruments, when you talk about ILS and these funds and all, they look at only as a financial instrument, the complexion changes entirely.

Akshay Jogani: Sure, fair enough, Sir but as a result of this, are the companies now not looking to reinsure, so why this change has impact on the business you can write?

Devesh Srivastava: Now, when you write a business that has risk transfer as part of the entire treaty, then it is no more a fixed margin treaty, then it goes into the normal business, so you are for it and you treat it like any other treaty, you will have unexpired risk reserves and all that, so that comes into the normal stream, then there is no difference between any other treaty we write.

Moderator: Thank you. The next question is from the line of Urmila Bohra from Yes Securities. Please go ahead.

Urmila Bohra: Thank you for the opportunity, Sir we have taken price hike recently for the fire business, so can you please throw some light if we are expecting further price hike in the near-term for fire business?

Devesh Srivastava: Madam, it was not really a price hike, you could call it a price correction really because what GIC simply did was that for the treaties that we are writing and we are leading in the Indian market, the burn cost has given out by IIB which is a body of the regulator, those burn costs will be the minimum at which you can cede it to our treaty, so it is just that, Madam, and these are again data dependent and that data is coming in from IIB, the regulatory bodies are repository for data there.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the Management team for closing comments.

Satyajit Tripathy: We take this opportunity to thank all the participants who have raised their questions to get clarification from the management. I can assure you on behalf of GIC that the course correction is truly on its way and we are set on a slightly longer duration of achieving what we have promised earlier when our Chairman took over two quarters back. Internationally, the reinsurance market has hardened in many of the areas and GIC despite having a rating downgrade also continues to enjoy significant leverage with all its business partners across the world. In the domestic market, we will continue to dominate the market in the sense that the business that is available on the domestic market will be first coming to GIC. There is increasing cat event that is being seen globally, we are working on carefully modeled practices at our end and we assure you that going ahead the results will only be showing improvement from here onwards and thank you for your interest in GIC. We look forward to interacting with you on continuous basis in the second quarter also. Thanks again.

Moderator: Thank you very much. On behalf of General Insurance Corporation of India, that concludes this conference. Thank you for joining us, Ladies and Gentlemen, you may now disconnect your lines.