"GIC Re General Insurance Corporation of India Q2 FY20 Earnings Conference Call"

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MR. SHASHIKANT MORE – GENERAL MANAGER
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Moderator: Good day ladies & gentlemen and welcome to the Q2 FY20 earnings conference call of GIC Re - General Insurance Corporation of India.

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 conference, please signal an operator by pressing '*' and then '0' on your touch-tone telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to the management of GIC Re. Thank you, and over to you.

Reena Bhatnagar: Good afternoon everyone. I am Reena Bhatnagar – General Manager & Joint In-charge currently along with Mrs Sashikala. I will give you a brief introduction about our half yearly results.

Against the backdrop of severe claims worldwide during the year 2019-20, higher agricultural claims and also flood claims in various parts of India in the quarter ended 30th of September, and there is underwriting loss to the corporation. However, going forward, the trend of claims experience is expected to be better for the rest of the financial year 2019-20.

These are some of the highlights of our performance: The growth in gross premium income of the company was 11.6% with a premium of INR 30,272.33 Crore for the half year ended 30th of September 2019 as against INR 27,117.40 Crore in the corresponding period of last year. The net commission percentage on net premium has improved to 14% as against 15.3% of the corresponding period last year. The investment income is INR 3197.01 Crore for H1 as compared to 3281.27 Crore for last year. The net worth of the company without fair value change account is INR 20,419.69 Crore as on 30th of September as against 21,297.78 Crore for the corresponding period last year.

The company recorded a loss before tax of INR 481.13 Crore in the half year as against profit before tax of INR 1199.64 Crore in the corresponding period of the previous year. The reduction in profit is on account of provisioning of IL&FS in Q1, DHFL, and reduction in other income such as exchange gains and provision for increase in agricultural losses as also CAT losses all over the globe and in India. The underwriting loss inclusive of exchange gain is INR 3154.28 Crore in H1 as against the underwriting loss of INR 2098.19 Crore in the previous year.

As mentioned earlier, the hurricane activity during the 2nd quarter of this financial year put pressure on our results though typically the premium will be earned in the 2nd half of the year. Therefore, Q3 and Q4 are expected to show better results. Loss after tax for H1 is INR 486.86 Crore compared to profit after tax of INR 1285.27 Crore in the corresponding period previous year. There is a marginal increase in the combined ratio this year at 111.30% as compared to 110.30% for the corresponding period previous year. The adjusted combined ratio is 102.56% for the half year as compared to 100.64% for the corresponding period last year. The solvency ratio is 1.60 as on 30th of September 2019 which is above the minimum required solvency of

1.50. The total assets increased by 6.94% from 1,17,895.37 Crore as on 30th of September last year to 1,26,080.50 Crore as on 30th of September this year.

Now, I will request my counterpart Mrs. Sashikala to say something.

M. Sashikala: After 2 years of record catastrophe globally in 2017 and 2018, the reinsurance market has shown significant signs of hardening of rates during the last few months. Of course, it is too early now to see the effect in our revenue and balance sheet as of now, but our expectation is, this will be fully reflected in GIC Re financials in the next 4 to 8 quarters. If you see, the year 2019 has also shown some significant catastrophe activity globally further giving impetus to the rate hardening.

The other driver is our domestic business. The general insurance business in India continues to grow at a healthy rate. Penetration remains very low at under 1% and we see this as an area of great opportunity. You would have seen the PMFBY crop insurance which is the 3rd largest line of non-life insurance business after motor and health insurance. We are seeing that GIC Re can be expected to benefit from emerging opportunities in this space.

The reinsurance space in the Indian market is a very exciting place to be in right now. GIC Re maintains a very diversified risk portfolio that includes property, motor, agriculture, marine, etc., and reinsurance premiums are expected to touch around INR 70,000 Crore by 2022. So, GIC Re's dominance of the Indian market stems from a long-term and broad-based relationship with the Indian market. And we are continuing to be supported by the obligatory sessions and order of reference. Its strength lies in its geographical and business diversification. We write in over 166 countries. We maintain our long-term relationships, prudent risk selection, and effective exposure management that give us a big heads-up. Its investment portfolio is also well diversified with effective asset-liability management. And quite importantly for business that runs on human talent, GIC Re has the right talent pool with a low attrition rate.

Given this, we would like to invite any views or clarifications or any questions that you have, we would be happy to field them now.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. The first question is from the line of Sanjay Shah from Alphaline Wealth Advisors. Please go ahead.

Sanjay Shah: Madam, I would like to understand from you how our business works actually, because we have been seeing that our combined ratio is moving higher and our aspiration of coming down to 90-95 level doesn't seem so in the near future. Can you elaborate on that? Because we have been seeing this quarter, we have bloated around INR 2500 Crore which is massive loss on underwriting side. I think our actuaries must have taken care of this. This is what always we understand about it. Can you elaborate on that?

M. Sashikala: The reinsurance business is quite cyclical. The combined ratio last September was 110% in the half year. This is the season up to November where all the claims come in because of the hurricane season. So, we need not overly worry about the losses that we are provisioning for now, and it is the 2nd half of the year where the premium flows in for which claims have already come. So, there are flows of premium coming in and by year end, the combined ratios do improve. And this year, our focus has been on trying to bring it under 100. We are reasonably focused on this. Just as I was explaining to you at the beginning at the introduction stage that there has been a lot of hardening of rates and maybe it is too early in the 2nd quarter now to see the effects, but definitely in the next 4 to 8 quarters, we will see the benefits of the hardening of it because of the catastrophe losses.

Sanjay Shah: That's good, but ma'am, correct me if my understanding is wrong, our claim comes more from fire side and agriculture side and our business is also growing on that vertical. Can you explain that ma'am?

M. Sashikala: A major part of our portfolio is property and we are doing it globally also and even within India, we have seen quite a lot of catastrophe losses of recent, isn't it? As I explained to you, the rates are hardening. As the reinsurance rates harden, we will see these effects. We will stand to benefit by the hardening of rates. This year, we have passed endorsements to increase the premium for the rate occupancies and we have hardly seen one quarter of those higher rates as of now. So, it is only in the coming quarters that we will actually see the business being ceded at those rates. You are seeing the point, isn't it? So, it is the fire business which will begin to see the benefits of these hardening of rates.

Sanjay Shah: Ma'am, can you tell us something about our investment portfolio? How it is working? Any stress left behind?

Shashikant More: Our investment portfolio is working quite well. It has been growing and this year also, we took advantage of positive impact we had post finance minister's announcements and that is why our investment profit was INR 3061 Crore. It is doing well and with the market being stable now and rather on the positive side, in fact our investment portfolio is improving only, has been growing only.

Sanjay Shah: How much is in debt and equity? Ratio?

Shashikant More: Book-value basis, equity is on the lower side, 20%, but on the market-value basis, it is around 40% to 45% or so. And the rest, major is, then, debt portfolio.

M. Sashikala: Government bonds.

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

Avinash Singh: I have 3 questions. Firstly, if I look at the sort of performance that has been poor in this 1st half, I am more worried. Of course, I understand the overseas business had the impact of hurricane and typhoon, but I am more worried because a large part of losses are coming out of crop and health. Now, crop, of course, you are the large capacity provider in the Indian crop insurance and on the health side, a large part of it is a mandatory session. Now, the worry here is that both the segments, this year again, there has been a sort of a strong growth by the public sector primary insurer. Now, it seems that okay their poor underwriting or like the underpricing is getting passed on you and that is acting as a burden on your underwriting. How do you see you will be able to tackle this issue? The cyclicality in that property insurance market is something that one can understand that the cycle may play 3-4-5 years but here it is something that is a structural challenge, i.e., the poor underwriting with the primary insurer and it seems that it is hurting badly in the crop and the health line. That's the question No.1.

My second question is that if you can help us with domestic and overseas combined with your breakup for the 1st half and for the 2nd quarter.

And thirdly, coming on the solvency, now, solvency has gone. Of course, I believe that it has dropped to 160 particularly because of the crop taking higher now. How do you see this solvency evolving over the year? How are you going to manage it? Is after dividend or payout or something else or capital it?

Satyajit Tripathy: We will take up the crop issue first. If we compare the overall weighted average price of crop insurance premium this year compared to the previous year, there is a rise in crop insurance premium by 16.2% over last year. Firstly, it would be wrong to say that pricing is not correct. Yes, pricing is not precise to the extent it should be, but we are gradually growing towards that. Business in crop is divided in the ratio of around 45% for the PSU companies and around 50% to 55% for the private companies. When we see to the pricing of each side, whether it is PSU or the private, more or less all of them are almost on the same page as far as pricing is concerned. Pricing has improved also. The additional losses which we are seeing in crop this year is primarily arising out of the less reporting of crop losses for the previous Rabi season plus additional provision which we have done this year for the ongoing kharif season. If you have seen the kharif season's base year as far as cyclone is concerned, it has been very, very different from earlier years and this has allowed us to give further provisioning in our crop book plus additional claims have come from the previous year's Rabi season. In the Rabi season, 2 major states have reported more losses for which it has already now been reported by the companies and claims have already been paid. Crop provisioning for us at this point of time is very, very conservative and it is very much on the higher side and we think going ahead, in another 2 quarters, these things will stabilize for crop.

Avinash Singh: Health segment, that is again another big concern. In health, there is no reason why you should be operating at such losses because you have issue of pricing.

Devesh Srivastava: Talking about the claims, there are two of them. One is that they had given a big support to the Pradhan Mantri Jan Arogya Yojana for a particular state. This was after the prime minister's announcement last year in September inaugurating the scheme. We had gone ahead and given our support for one year. That came to an end in September this year and the last quarter saw quite a few losses being booked. In a rush to finish it off, lots of losses that would have otherwise been spread over the year were booked in this quarter. That was one reason. The other one was that we had given a proportional support to one of our parents who is a standalone health insurance company. That proportional arrangement also came to an end, they did not renew it, and there was this portfolio withdrawal. That led to the claim ratios rising.

Avinash Singh: How do you see the health insurance on the writing performance going forward? Because that will be more cause of a worry. With crop and with fire, one can understand the cyclicality in the pricing or losses. But health is more of structural. You can have one of a spike but there is no reason why health should be such a loss-making line. How do you see this outlook? Because the growth is also very, very strong in terms of premium and if the growth is coming with a poor underwriting, that is going to put a strain on your performance.

Devesh Srivastava: Again, the health portfolio is largely an obligatory bit because the obligatory premiums flow to our book, and since health is growing in the Indian market, commensurate with the growth, there, we are getting premiums on the obligatory front here. But how we intend to compensate for that, because that claim ratio is not what you would really want but are saddled with nonetheless. So, what you would really want is to offset it with other underwritings that we do. Therefore, we have done a few capital gearing treaties. We are also looking at this Pradhan Mantri Jan Arogya Yojana in states as they are tendering and going ahead with the insurance thing and the price is correct, we are going ahead and supporting them in a big way. That is how we intend to balance our portfolio.

Avinash Singh: You do not see much of a challenge? Because this is the obligatory line, you are rightly saying, and I would say that, again, let me single out, but the behavior of particularly the public sector in the sense of an employer or group corporate health, the pricing policy is far from being appropriate. How do you intend to correct that? Because unless that corrects, you will keep making losses on the obligatory line.

Devesh Srivastava: Avinash, you will be quite pleased to hear that, yes, the retail health while it has done extremely well, the problem essentially lies in the group health schemes that the public sectors specially offer. Now, with the public sectors also under a lot of strain, they have now stopped competing as much with each other for the group health portfolio and the rates are rising. That is the trend that we are witnessing in the market and that will translate into our obligatory sessions as well. So, going forward, it should be much better than what we have seen in the past.

Avinash Singh: My questions on solvency ratio and the combined ratio domestic & overseas breakup?

M. Sashikala: The combined ratio of domestic is at 108% and combined ratio of foreign is 125.

Avinash Singh: It is for the quarter or for the 1st half?

M. Sashikala: As of the 1st half.

Avinash Singh: Now, this brings, Madam, another question that despite rising catastrophe over the last 3 years, due to the abundance of capital in the global reinsurance market, the prices have been far from being adequate. Now, in that environment, why would you continue to write because your overseas combined ratio has been really adverse over the last 2-3 years. Again, how are you going to address this part? Of course, there is a cyclicality in rate and there is a pretty long cycle, but if your overseas business also continues to make losses and then of course your investment income is not able to compensate just the way domestic does, what is your strategy on this overseas piece of business?

Devesh Srivastava: We have had losses year on year for the last 3 years which is unprecedented and after almost 17-18 years, we are seeing the market hardening. Because the capacity has shrunk, the ILS capacity that was the alternative capacity that was available in the market is also on the wane now. Therefore, this is the time when we are actually seeing the markets harden. Since most of the international market renews in January, the final terms are now coming in now because people want to wrap up their entire treaty renewals early. So, we are seeing these initial trends and they are very heartwarming. The prices have gone up, they are hardening by a significant percentage and there is no alternative capacity available. So, the cedants can't go to alternative markets like they had been going in the past because the capacity has ceased to exist. Given this backdrop, it is time for reinsurers to offer the traditional products that they have been doing all these years and make good the losses that they had suffered in the last 3 years. So, it is actually a culmination of 3 years of continuous waxing of the industry that has led to this hardening.

M. Sashikala: And the effect of this we will begin to see in the next 4 to 8 quarters because these things are renewed only in January, those rate hardening benefits, and heartwarming benefits will come in the next 4 to 8 quarters.

Avinash Singh: And to contrast, you will beat this versus the global players if I use the data. Again, without naming, the large global reinsurers they have seen their combined ratio anywhere in the range of 105% in this year versus yours is at 125%. Now, that also brings another question that…. Okay, I understand that the market has because of the large losses been bad but your case seems to be far from where the global players are. So, what is that it is distinguishing you? Even the previous year, there was a case. Of course, the global insurers also have been reporting 100% plus but in your case, there is a kind of a 10% gap. If that gap is going to sustain, it will make you a sort of not that competitive. So, how do you see that your performance is going to converge with your global peers in that international market?

Devesh Srivastava: When you compare the global players, almost all of them have a sizable life portfolio as well. In GIC, we are, of course, doing life as well, but life is a very, very small insignificant portion of our book. Barely 1% of our total book is life insurance. So, that balancing act is something that we do not have. The second bit is that all these players also are in the direct market. They are having direct insurance companies under them who write on their behalf whereas GIC, again, doesn't have this diversity available to it. We are a pure reinsurer.

Avinash Singh: But 105 and 125, I quoted, was on a like-to-like basis. I was just quoting their reinsurance P&C combined ratio versus your P&C reinsurance combined ratio. There is a huge gap even in this environment. What is underlying this gap and how do you see that you can narrow this gap?

Devesh Srivastava: Avinash, one thing is that places where we have exposures, which is U.S. and Japan, both have had major losses because of the CAT events that they suffered. That has hit us hard but then again, these are also the places where the rate change is the maximum and we intend to recoup these losses very, very fast. Because the Japanese market is not the best market in the world to work in. It is unfortunate that it has been hit by these CAT events year on year.

M. Sashikala: There is just one more point. As we were explaining, this 105% of the global reinsurers if you pair off the life portfolio, it will be a different figure. That is what he was trying to drive.

Avinash Singh: No Madam, I was just looking at their P&C only, I mean non-life only. Most of them are closer to 105%. Of course, the regional concentration could be one explanation that you have.

Now, on solvency and capital management if you can just help me.

M. Sashikala: Last year, solvency was 1.73 in the half year. Solvency, of course, is nothing but a function of the liabilities, i.e., the provision and the assets; you will be very well aware. It is the 1st half year up to November where we get in all the claims, we provision for the claims. And what happens is, the Rabi premium and the foreign renewals come by 1st January and that sort of sets off. It eases the solvency. Last year also, we started off with 1.73 and we ended by 2.06 by March. So, that should be the same trend. We are not very far off the mark.

Moderator: The next question is from the line of Madhukar Laddha from HDFC Securities. Please go ahead.

Madhukar Laddha: I wanted to understand this sharp drop in commissions ratio. Year over year, commissions have declined about 1200 basis points. Why has that happened?

M. Sashikala: This is to incentivize. If we need to have a control over our combined ratio….

Reena Bhatnagar: It has come down actually.

Madhukar Laddha: That's why I am asking why has that come down? On what line of business or what has changed?

M. Sashikala: Despite higher loss ratios, if we have been able to manage a combined ratio of 111, that is because we want to incentivize better performance. There are significant drops in agri which is our major portfolio and fire has remained more or less the same. All other departments' LOBs we have been able to bring down the commission rates.

Madhukar Laddha: So, you are saying that except for agri and fire, other departments you have reduced the commission rate.

M. Sashikala: I am saying agri, yes.

Satyajit Tripathy: Agri actually we have reduced the commissions which were close to the range of around 11% to 12% earlier to the range of around 3% to 4%. Since this is one of the major lines of business for GIC, in the overall context, the reduction in commission is clearly seen that because of this reduction only.

Madhukar Laddha: Can you also help me with the gross NPA and net NPA absolute numbers?

Satyajit Tripathy: For the half yearly ending 30th of September 2019, we have a gross NPA of around INR 1294 Crore of which INR 1161 Crore were fully provided for. So, the gross NPA percentage to the gross loan assets is currently 3.41. Net NPA stands at around INR 132 Crore. The net NPA percentage is 0.36%. We have almost fully provided for the NPAs that we have in our books right now.

Madhukar Laddha: Ma'am, can you also give what is the combined ratio of domestic versus foreign for 2Q FY20?

M. Sashikala: It is 108% for domestic and 125% for foreign.

Madhukar Laddha: You said that was for the 1st half, I just wanted for the 2nd quarter of this year.

M. Sashikala: I may not have that readily available. We will provide that information afterwards.

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

Ajx Henry: Ma'am, my question is, again, a continuation of the other caller's question. Crop risk, is the whole pool getting worse off? What has been your observation and that 16% growth that will justify the pool's risk?

Satyajit Tripathy: It is quite early to say that whether crop has actually in the overall context has deteriorated or not. In the PMFBY context if we see, for the first 3 years, we had a gross loss ratio which is below 100. In fact, in the first year, the gross loss was close to 80% only. The issue this year is a very typical weather pattern which has created a number of cyclones on various coasts in India. We did not have cyclones on the western coast to this extent earlier which has actually hit us badly this year. I would not say badly but the cyclone has been bad this year on the western coast and most of the exposures since they are on the western side of the country, the provisions that needed to be taken have already been taken by us. And pricing, as you know, agriculture being such a volatile line of business, it cannot be very precise at the beginning of the scheme. It may become precise if you continue with the same drill for another 4-5 years, then only we will know cluster-wise what should be the pricing. But yes, pricing is improving for all companies and we are seeing those results actually flowing into the balance sheet and we are pretty sure that the PMFBY in its current state should be better serving the people for whom it is aimed at.

Ajax Henry: My next question is, I had a doubt with ma'am earlier telling me that we have been provisioning for crop before the premiums have been flowing in. Normally, crops, we take the payments and then provide for it or we are doing it the other way round?

M. Sashikala: What I was mentioning was there is a flow of premium in the latter half of the year.

Ajax Henry: So, for that risk, we have already provided for or the probable risk is going to come in the future as well?

M. Sashikala: We will provide it once it is earned.

Ajax Henry: Ma'am, I am just trying to understand if the provisions we have made already, it is for the risk we have earned for this quarter or does it have any linkage with the premium flow which is expected to come in the future?

Management: No, it is not based on the expected premium. It depends on what has been spent still now.

Ajax Henry: Sir, do we have any future plans of writing Gramin Arogya Yojana again, the health side of it?

Management: We have been looking at the PMJAY with a great deal of interest and wherever the price is right because states have to **(Inaudible) 35.47** the insurance company respond. So, when the insurance company gives a good price and it comes to us for reinsurance, we are very happy to go ahead and support.

Ajax Henry: Ma'am, we have a target of bringing the combined ratio below 100 for the year. So, which product lines are expected to get better with respect to the loss ratio?

M. Sashikala: We are expecting property to get better. Crop also will get better. Health also we are expecting because we are seeing better pricing norms adopted by the PSUs. Because of the stress that they have been going through, automatically the pricing is getting better. Motor, as it is, is doing well. So, all the major portfolios should help us.

Ajx Henry: Just one final question, a data-keeping question. The operating expenses, particularly employee remuneration has gone up. Do we see this repeating?

M. Sashikala: That is only a timing difference. If you would have seen in the papers, certain section of the employees were afforded a second option for pension. The cutoff date was 31st October the entire fund will move from the PF fund to the pension fund in the 3rd quarter because of the option date, whereas we made a provision in September. So, 3rd quarter, that will get released. So, that's not a major concern.

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

Mr. Rajamani: (1) In terms of the split for health, how much of it is obligatory, government, group, and retail?

(2) If you can just provide some color on the loss ratio by segment, say, for the major lines like motor, health, crop, and the others for the 1st half and for the 2nd quarter, that would be helpful.

Management: First to cover health for you, almost 80% to 85% of the health's premium that we write here in GIC is composed of the obligatory premium that we get from the companies. And as regard to the split between group and individual that we get from the companies, that split I am not able to tell you right now, but I can come back to you on this.

M. Sashikala: And you were asking about the combined ratios, right?

M. R. Rajamani: The loss ratios or combined ratios also by segments.

M. Sashikala: Loss ratios if you see, fire is 90, motor is 88, health is 103, and agri is 100.

M. R. Rajamani: This is for the 1H, ma'am?

M. Sashikala: Yes.

M. R. Rajamani: And can you provide for the 2nd quarter?

M. Sashikala: I will get back to you. I have to get the other domestic-foreign breakup also.

M. R. Rajamani: Ma'am, can you just provide it for the same period last year? This 1H FY20 and 1H FY19?

Management: For fire, it was 102, motor it was 94, and agri it was 93. These are the loss ratios for 30th of September 2018.

M. R. Rajamani: And for health, sir?

Management: For health, it was 86.

Moderator: The next question is from the line of M. W. Kim from JP Morgan. Please go ahead.

M. W. Kim: I just want to ask one question about enterprise risk management. When I actually look at the overall underwriting performance, my observation is actually relatively higher underwriting volatility might be due to relatively lower excess of loss point in underwriting or perhaps the company doesn't have enough additional coverage related to the catastrophic event. Do you have any plans to change your reinsurance scheme with a higher excess of loss point? In case even the underwriting seems to be worsening, a lot of the losses might be managed under the actable level. Then, we probably do not see such a high combined ratio on a quarterly basis. That is my question.

An additional question is about your overseas underwriting. When the company does the underwriting overseas, it does want to check whether the risk fully retains on the company's balance sheet or the companies actually transfer a certain portion of the overseas risk **(Inaudible) 42:11**.

Reena Bhatnagar: By and large, the writings are across the board. We don't necessarily focus only on the top line but we are generally guided by the actuarial pricing. And our portfolios are also retroceded and well protected.

M. W. Kim: How about this excess of loss point on your underwriting because if we actually look at the underwriting, a large part of the underwriting is mainly based on the domestic part. When you actually look at the risk diversification perspective, one country risk seems to be too high. So, perhaps adding more risk layer to minimize this underwriting volatility might be useful. I am just wondering if you have any chance to change your overall scheme under reinsurance to get more higher excess of loss cover going forward.

Reena Bhatnagar: The protection purchase is generally dictated by the market dynamics. So, it is not always wise to go too low given the economies of purchase, but we have an umbrella protection which will definitely protect the balance sheet in a worst-case scenario.

Moderator: We will take the next question from the line of Madhukar Laddha from HDFC Securities. Please go ahead.

Madhukar Laddha: It seems that you booked a lot of profits from the equity book and that's what has boosted your investment income for this quarter. Am I right in saying that or is there something else?

Management: We would say that we have consistent policy about equity sell and purchases both. Whenever the opportunity was there, we took that opportunity post-election results and post announcement of income tax rate benefits were given to corporates. On those 2 occasions, we booked maximum. But it is consistent, it is not sudden. So, we have say INR 978 Crore coming from equity side out of this INR 3000 crore and the same compares well with last year also. Last year, in fact, it was more than that. This time, equity has contributed a little less.

M. Sashikala: And considering only one week the markets were really in a position where you could make some money in the entire quarter.

Management: Entire quarter itself to place in the post-Finance Minister's positive intervention and that time only. Otherwise, it would have been still less. Equity is all about opportunities. When the market presents the opportunity, you have to encash that and we have that consistent policy. Post election results also and post these declarations also, we made a profit out of it. That INR 978 Crore if you see last year, it was even more than that.

Madhukar Laddha: Can you give the number for last year?

Management: It was around INR 200 or 300 Crore more than this year.

Madhukar Laddha: Can you probably provide some more color on the exposures to stressed groups or perceived stressed NBFCs in your balance sheet?

Management: We have some exposure to the ADAG group in the form of Reliance Capital. That is to the tune of around INR 290 Crore plus around INR 65 Crore would be in the Reliance Home Finance. Apart from these, we don't have at present any assets which we consider as stressed. What has already been stressed, that has been taken care of through provision.

Madhukar Laddha: So, this would be part of your GNPA and also provided for that?

Management: We haven't yet started providing for the ADAG group of companies. There has been no occasion. As and when it arises, it will follow through the same process which RBI allows.

Madhukar Laddha: This is not even accounted for in the gross NPA number, INR 1294 Crore. Is this part of that?

Management: No, it is not part of that.

Madhukar Laddha: Any exposure to Indiabulls group?

Management: We have Indiabulls exposure.

Madhukar Laddha: Can you quantify that?

Management: It would be close to around INR 500 Crore.

Moderator: The next question is from the line of Ashwin Agarwal from Akash Ganga Investments. Please go ahead.

Ashwin Agarwal: Ma'am, I just want to ask how reasonably confident are you about this guidance about combined ratio maintaining below 100 this financial year?

M. Sashikala: It has always been our endeavor to achieve that. And as we have just explained to you, market takes care of it. When there has been continuous 3 years of catastrophic losses, there has been a withdrawal of capacity which has automatically hardened the rates. So, we are looking forward to the next 4 to 8 quarters.

Ashwin Agarwal: Madam, can you tell us what would be the target of combined ratio for coming years? FY21 and FY22 maybe?

M. Sashikala: As I said, we will strive to bring it under 100 and it is a good thing we need to do this because in the regime of Ind-AS, it will be mark-to-market. So, we need to do it.

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

Sanket Godha: I just wanted to understand this hurricane related-wise, if you can quantify rupees Crore, how much was the incurred claims because of the hurricane and because of the domestic flood. And also wanted to understand whether the floods which happened in India were classified as a single event or it was classified as multiple events and therefore hit was much higher than expected?

Reena Bhatnagar: Domestic, there have been 2 flood events in Q1 and Q2. On GIC's net, it is INR 250 Crore each. So, together it is INR 500 Crore.

Sanket Godha: So, you mean to say that INR 250 Crore of cyclone Fani was in Q1 and INR 250 Crore is in the current quarter for the floods which happened across in this current monsoon, right?

Reena Bhatnagar: It's Q1 and Q2, 250 each.

Sanket Godha: And what was it with respect to hurricane? Amount? Rupees Crore?

Devesh Srivastava: For the hurricanes, there were two of them as have been stated earlier. One hit the U.S. coast, hurricane Dorian, and the other one hit Japan, the Faxai. For Dorian, we have provided INR 180 Crore and for Faxai, the figures are still to come in, but we are looking at about INR 100 Crore.

Sanket Godha: Our actual cover for the CAT events in the global event, if I am not wrong, starts at USD 1 million. If I convert it into rupees, it is closer to INR 105 Crore. You are saying that Dorian-related losses is closer to 180 Crore. This includes the reinstatement premium also or is this just the gross loss?

Management: It works both ways. When we pay out a claim or an excess-of-loss treaty, that claim will also be paying us back the reinstatement premium. The same thing is applicable to us also for our protection. So, when we pay or get a recovery, we have to pay the reinstatement premium. So, that evens out largely. But since our protection is also in place, this INR 180 Crore is what we are looking at a figure that would hit us on our net.

Sanket Godha: What I am trying to say is, this has been not paid out yet. The provisions have been made for these floods and the hurricanes in U.S. and Japan. Do you see that there could be an adverse impact or a positive impact going ahead because of the reserve release basically?

Management: What happens in a hurricane? The entire area is devastated. Even to reach that place and then to segregate one property from the other becomes an enormous task for a surveyor. So, these are estimates that come to you as a worst-case scenario based on your writings and what your exposures are on a prudent basis. So, the market gives you a loss. The market says that the loss is let's say about $10 billion. That is for the entire market. Then you work backwards and start looking at what treaties have you written, where are your exposures, and then what is your share. On that basis, you come to some conclusion, which is an approximate figure which moves. It cannot be a constant one. But then this figure takes time to come in because the hurricane actually that area gets devastated in its entirety. You can't make out whether there was anything there or there was nothing there.

Sanket Godha: The reason why I am asking this question is because in one of the quarters in previous year, we needed to provide more against what we had expected. That's the reason I am asking whether we can expect a number that could be a little higher or lower than what you have provided in the quarter.

Management: Coming back to that, catastrophes do strike us. What happens is the actuaries come in and they come up with a figure that is pretty stable, it'll not be correct to the last cent or the last dollar but they are pretty close to what will be the loss that is expected because this is an actuarial calculation based on their inputs and their looking at the loss analysis because the market declares loss figures that I will say.

Sanket Godha: Ma'am, with respect to the domestic business, INR 250 Crore is the net loss. What could be the gross loss number for us?

M. Sashikala: Gross loss is around 700 to 800.

Sanket Godha: For the half year, right?

M. Sashikala: Yes.

Sanket Godha: Just one question on the provisionings what you made around INR 125 Crore in the current quarter. Is it entirely against Dewan exposure of around INR 200 Crore for us?

Management: For Dewan, we have provided around INR 65 Crore fully for the unsecured amount, and for the rest of the INR 140 Crore of secured amount, we have provided 15% as per the RBI guidelines. We have provided significantly higher for the holdings that we had in Amtek Auto earlier. That also, we have scaled up and we have provided close to around INR 47 Crore. So, this 80 and 47 Crore is close to 121 Crore. That is the additional NPA for this quarter.

Sanket Godha: Can you break down the investment income into capital gains and regular investment book income for the quarter or for the half?

Management: Actually, profit on sale of equity is close to INR 1000 Crore and the rest INR 2000 Crore is from different, different segments actually. So, it is 3061 Crore.

Moderator: The next question is from the line of Neeraj Toshniwal from Emkay Global. Please go ahead.

Neeraj Toshniwal: Looking at your exposure and kind of a clean image you have in the international market and aspiration of increasing the share of international market, we don't have a direct selling agent. What is the strategy you are following in terms of growing the international pie and containing claims as well? Because I think you told that one of the reasons is that the region exposure is higher vis-a-vis other players and you had higher claims. Some light on that?

M. Sashikala: As I gather, you are asking how we are going to contain the loss ratio, right?

Neeraj Toshniwal: Typically for the international market. Because it is way higher than your global peers are currently having it because you don't have a direct selling agent also.

Moderator: We would request if you could just speak a bit slower so that we can break up your question and answer you accordingly.

Neeraj Toshniwal: On the international market only, if you can just give some color.

M. Sashikala: On the foreign market, as Devesh was explaining, the rates are hardening. Because last 3 years we have had continuous catastrophe….

Neeraj Toshniwal: That part is understood. Vis-a-vis your global peers is what I wanted to understand. Why such a big difference?

M. Sashikala: We have explained that the global peers they do a mixture of both non-life and life.

Neeraj Toshniwal: No, only on the non-life part.

M. Sashikala: And that is direct insurance.

Neeraj Toshniwal: Yes, that's what I am saying. You don't have direct insurers. Now, if we increase our pie of international market, how is the strategy going to work going forward?

M. Sashikala: If you just see our incurred claims ratios as well as our combined ratios, it is a trend that half year invariably will be at this rate. Last year also, it was 110. We are at 111 now at the half year mark. Because of the cycle, up to November, you have all the claims coming in and then the season for the 2nd half is where all the premiums also come in. So, it sort of evens off and we are expecting that it should be along the same lines as last year if not better because we are expecting additional premium on account of hardening of rates both globally as well as translated into the Indian markets. And if you remember, we have passed some endorsements on 8 occupancies and we have seen sessions of only 1 quarter so far on those higher rates and the next 2 quarters, we should be able to see the remaining of the premium cessions coming in. As far as global hardening of rates, it will trickle in over the next 4 to 8 quarters.

Neeraj Toshniwal: On the tax side, I think we have moved to this new tax regime, 25.7%?

M. Sashikala: We are evaluating that. In a couple of days, we should be taking a call on that.

Neeraj Toshniwal: For this quarter, definitely it was a loss. So, we have taken a higher….

M. Sashikala: That we need to evaluate what is the MAT credit available and then take a call.

Moderator: As there are no further questions from the participants, I would now like to hand the floor back to the management for closing comments. Over to you.

M. Sashikala: Thank you very much for all the interest shown, and we hope to interact with you quarter after quarter. Thank you for the interest shown in our portfolio and we are looking forward to better premium rates as the reinsurers have suffered quite a bit over the last 3 years and this is the time for reaping the benefits of the hardening rates, and definitely things should help us achieve our goal of keeping our combined ratio well within 100.

Reena Bhatnagar: Thank you everyone.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of GIC Re - General Insurance Corporation of India, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.