ICICI Lombard General Insurance Company Limited

Q3 & 9M FY2021 Earnings Conference Call
January 19, 2021

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Q3 FY2021 & 9M FY2021 Earnings Call Script

Bhargav Dasgupta: Good evening to each one of you. Thank you for joining the earnings conference Call of ICICI Lombard General Insurance Company Limited for Q3 FY2021 & 9M FY2021. Hope you and your colleagues are safe and healthy.

I will give you a brief overview of the industry trends and developments that we have witnessed in the last few months. Post this, our CFO, Mr. Gopal Balachandran will share the 'Financial Performance of the Company' for the quarter and nine months ended December 31, 2020.

The growth recovery seen in the economy since the second quarter of FY2021 picked up in this quarter. The high frequency indicators like automobile sales, railway freight traffic, growth in non-oil and non-gold imports seen during the third quarter shows 'hopeful' signs of a sharper recovery than anticipated. In fact, some of the worst hit sectors such as the hospitality and travel have also seen some pick up in the third quarter. The introduction of the vaccination, is expected to further catalyse economic activity which can provide tailwinds for India's economic growth.

The general insurance industry has been safe harbor even through the times of uncertainty, with the gross direct premium income back in the black. Segments such as the motor insurance saw encouraging performance during the quarter, driven by growing need for personal mobility and spill over demand from festive season. The pent up demand for health insurance seen in the first half have shown some signs of tapering. As far as commercial lines are concerned, the fire segment continued to show robust growth, aided by the rate hike that came into force on January 1, 2020, while Marine and Engineering lines witnessed some pick up with the resumption of economic activity. With the current macro and micro indicators coming into play we remain confident that the GI industry is set to outperform in terms of growth.

Speaking of the performance, as per disclosure on the website of IRDAI, the General Insurance industry registered a growth of 2.5% in 9M FY2021 over 9M FY2020 with the industry GDPI moving up to ₹ 1456.79 billion in 9M FY2021 from ₹ 1420.85 billion in 9M FY2020.

The combined ratio of the Industry was 105.2% in H1 FY2021 as compared to 115.7% in H1 FY2020 based on available information from public disclosure, excluding one company, which has not disclosed its numbers for Q2 FY2021 as yet. Further, the overall combined ratio of the private multi-line general insurers was 103.0% in H1 FY2021 as compared to 107.2% in H1 FY2020.

Since our H2 FY2021 results call, we have witnessed new regulatory announcements that are focused on policyholders' benefit including the exposure draft with Standard terms & conditions - issued by the Authority in order to make available 'standard' travel insurance, personal accident and named indemnity based Vector Borne products with 'common coverage' and 'policy wordings' across the industry.

The Authority also issued guidelines on certain standard products that shall be mandatorily offered by general insurers carrying out Fire and allied perils insurance business w.e.f. April 1, 2021. The standard products include- Bharat Griha Raksha meant for home building and home content, Bharat Sookhshma Udyam Surakhsha meant for enterprise with total value at risk upto ₹5 crores, Bharat Lagu Udyam Suraksha meant for enterprise with total value of risk from ₹ 5 crores to ₹ 25 crores.

The Authority had issued an exposure draft on withdrawal of existing long-term credit linked group insurance products under health insurance business w.e.f January 1, 2021. The industry through the GI council has represented to the Authority.

Let me now turn to the claims behaviour observed in the recent quarters. With the economic activity normalising motor OD claim frequency has reached previous levels. In case of health, overall claim frequency has almost reached pre covid levels. For the industry, Covid claims reported as on December 31, 2020 were ~7.68 lacs of which ~ 39 thousand Covid claims were reported with IL. However the new Covid cases reported in the month of December has seen slight moderation.

The recent pandemic provided us an opportunity to foster and accelerate innovation, deliver improved customer service, upskilling and reskilling of our employees. Over 97.5% policies issued by us in the nine months ended December 2020 are in paperless form. Under SME segment close to 91% of business sourcing were through these digital solutions. During the quarter we also launched a 'website' dedicated for our Small & Medium businesses. The new platform will serve as a one-stop-solution for SME owners to buy or renew insurance products, endorse their insurance policies, and register claims.

In our previous call we also shared about our new technologies enablement, including Artificial Intelligence (AI) and Machine Learning (ML), that help in policy issuance, claims, fraud control and servicing. Our automated AI solution, auto approved close to 66.0% motor break-in self-inspections in December 2020 up from 40.6% in March 2020. On the health insurance front, under group health policies 63.1% fresh Cashless requests were authorised by an AI/ML enabled engine for December 2020 as compared to 31.0% in March 2020.

Our mobile app, ILTakeCare, has crossed 3.44 lakh downloads, enabling more and more customers to avail our insurance and wellness solutions. We continue to add digital capabilities in servicing including the process of endorsements. Since its launch last year, 73% of all Group health premium bearing endorsements are now done digitally, reducing processing time from weeks to minutes and 45% of our motor policy endorsements from agency channel are processed real-time using our digital solution.

We introduced a revised HR policy wherein employees can work from anywhere even post the pandemic, while ensuring work environment we create is comfortable and secure.

Through this unprecedented year our laser sharp focus has been on enhancing customer experience, new product offerings, creating workplace transformation, thereby adding value for our stakeholders. We are continually focused on evolving our strategies to further consolidate our position in general insurance segment while retaining our mission of creating long-term value for our stakeholders through prudent risk selection and sustained profitability.

I will now request Gopal to take you through the financial numbers for the recently concluded quarter.

Gopal Balachandran: Thanks Bhargav and good evening to each one of you. I will now give you a brief overview of the financial performance of the Company for Q3 FY2021 & 9M FY2021. We have put up the 'Results Presentation' on our website. You can access it as we walk you through the performance numbers.

Gross Direct Premium Income (GDPI) of the Company stood at ₹ 105.25 billion in 9M FY2021 as compared to ₹ 101.32 billion in 9M FY2020, a growth of 3.9%, compared to industry growth of 2.5%. On a quarterly basis, the GDPI grew in Q3 FY2021 by 9.2% over Q3 FY2020 compared to industry growth of 4.9%.

Our focus on preferred segments primarily drove our GDPI growth. Consequent to the increase in minimum prescribed rates for certain occupancies under fire segment, this portfolio registered a robust GDPI growth of 44.8% in 9M FY2021, thereby catalyzing the GDPI growth of our property & casualty segment. Going forward the growth in this segment is expected to normalize. As indicated in our results presentation, the overall property and casualty segment grew by 22.0% for 9M FY2021 over 9M FY2020.

On the retail side of business, Motor segment was back in the black registering a growth of 2.1% in 9M FY2021. Individual health indemnity business grew by 25.7% for 9M FY2021.

To harness the potential of these segments, we have been expanding our distribution network to increase penetration in tier 3 and tier 4 cities. Our agents (including Point of sale or POS) increased to 55,615 as on December 31, 2020, from 52,785 as on September 30, 2020.

The advance premium was ₹ 31.97 billion as at December 31, 2020, from ₹ 31.60 billion as of September 30, 2020.

Insofar as the progress in relation to the Scheme of Arrangement (Scheme), with Bharti AXA is concerned, we have filed the application with NCLT and NCLT has directed to convene a meeting of shareholders to consider and approve the scheme of arrangement on February 23, 2021. The expenses incurred of ~₹ 0.36 billion have been absorbed in the P&L during 9M FY2021.

Our Combined ratio stood at 99.1% in 9M FY2021 compared to 100.5% in 9M FY2020, despite the cyclone and flood losses. Excluding the impact of cyclone and flood losses, the combined ratio stood at 97.7% in 9M FY2021 as against 99.5% in 9M FY2020. Combined ratio stood at 97.9% in Q3 FY2021 compared to 98.7% in Q3 FY2020. Excluding the impact of cyclone and flood losses the combined ratio stood at 96.6% in Q3 FY2021 as against 98.7% in Q3 FY2020.

Our Investment assets rose to ₹ 298.92 billion at December 31, 2020 as compared to ₹ 291.62 billion at September 30, 2020. Our Investment leverage (net of borrowings) was 4.05x at December 31, 2020 as compared to 4.13x at September 30, 2020. Investment income increased to ₹ 16.59 billion in 9M FY2021 as compared to ₹ 14.41 billion in 9M FY2020. On a quarterly basis, investment income increased to ₹ 5.68 billion in Q3 FY2021 as compared to ₹ 4.27 billion in Q3 FY2020. Our Capital gains was at ₹ 2.92 billion in 9M FY2021 as compared to ₹ 2.24 billion in 9M FY2020. Capital gains in Q3 FY2021 was at ₹ 1.08 billion as compared to ₹ 0.17 billion in Q3 FY2020.

Our Profit before tax (PBT) grew by 13.4% to ₹ 15.04 billion in 9M FY2021 as compared to ₹ 13.26 billion in 9M FY2020 whereas PBT grew by 7.3% to ₹ 4.18 billion in Q3 FY2021 as compared to ₹ 3.90 billion in Q3 FY2020. This includes upfront expensing of acquisition cost relative to the growth of 9.2% in GDPI for Q3 FY2021 whereas, the full benefit of earned premium will be realized over the policy period.

Consequently, Profit after tax (PAT) grew by 23.6% to ₹ 11.27 billion in 9M FY2021 as compared to ₹ 9.12 billion in 9M FY2020 primarily due to lower effective tax rate of 25.0%. PAT grew by 6.6% to ₹ 3.14 billion in Q3 FY2021 as compared to ₹ 2.94 billion in Q3 FY2020.

Return on Average Equity i.e. ROAE was 22.4% in 9M FY2021 as compared to 21.8 % in 9M FY2020. The ROAE for Q3 FY2021 was 17.6% as compared to 20.3% in Q3 FY2020. This includes upfront expensing of acquisition cost relative to the growth of 9.2% in GDPI for Q3 FY2021 whereas, the full benefit of earned premium will be realized over the policy period.

Solvency ratio was 2.76x at December 31, 2020, as against 2.74x at September 30, 2020, continued to be higher than the minimum regulatory requirement of 1.50x.

Closing Remarks

As I conclude, I would like to reiterate that we ended Q3 FY2021 & 9M FY2021 with healthy financials. Our competitive strengths which contribute to sustainability and positions us well for future growth includes consistency in market leadership, diversified product mix with multi-channel distribution network, excellence in customer service and technology, robust risk selection and strong investment returns on diversified portfolio. Through our business performance we always endeavour to create long term sustainable value for all our stakeholders.

I would like to thank you for attending our earnings conference call & we would be happy to take questions that you may have.

Ends

Safe harbor:

Except for the historical information contained herein, statements in this release which contain words or phrases such as 'will' ,'would' , ‘indicating’ , ‘expected to’ etc., and similar expressions or variations of such expressions may constitute 'forward-looking statements'. These forward looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. These risks and uncertainties include, but are not limited to our ability to successfully implement our strategy, our growth and expansion in business, the impact of any acquisitions, technological implementation and changes, the actual growth in demand for insurance products and services, investment income, cash flow projections, our exposure to market risks, policies and actions of regulatory authorities; impact of competition; the impact of changes in capital, solvency or accounting standards, tax and other legislations and regulations in the jurisdictions as well as other risks detailed in the reports filed by ICICI Bank Limited, our holding company, with the United States Securities and Exchange Commission. ICICI Bank and we undertake no obligation to update forward-looking statements to reflect events or circumstances after the date there.

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