

FY2020 Earnings Call Script

Bhargav Dasgupta: Good evening everybody. I welcome you to the earnings conference call of ICICI Lombard General Insurance Company Limited for Q4 FY2020 and FY2020. I would like to give you a brief overview of the recent developments in the industry and our responses to them, post which our CFO, Mr. Gopal Balachandran will share the financial performance of the Company.

As we speak today, we are operating in unprecedented times. The Covid-19 pandemic has disrupted every aspect of our life. At the last count, Covid-19 virus had affected over 210 countries across the globe. As far as India is concerned, timely measures taken by the State such as the country wide lockdown to break the transmission chain, calibration of trade & commerce activities, social distancing norms, etc. have helped limit the contagion. At the same time, this would lead to significant economic impact, the extent of which is not exactly quantifiable at this stage.

At ICICI Lombard, we have re-organised ourselves to service our customers and support our channel partners while ensuring the safety and well-being of our employees. We have been able to achieve this, thanks to the technology journey that we have traversed over a decade. Today, our customers can experience the entire insurance process - from purchase to policy servicing to claim intimation to renewal - in the digital mode. Right at the purchase stage, we offer multiple options for transacting through web, mobile, apps etc. Today, over 96.5% policies issued by us are in paperless form. With regard to claim settlement, we offer multiple digital solutions for quick processing. A case in point is InstaSpect for motor own damage claims. This feature available on our mobile app, does away with the need to physically survey the damaged vehicle, allowing real time claim assessment and approval. Since its inception, in 2017, we have approved more than 6.5 lakh claims instantly using InstaSpect. During the lockdown, we managed to conduct damage assessment of 100% cases using InstaSpect. On the health insurance front, we introduced an AI enabled claim settlement engine to authorize some of the health claims. During the lockdown in April, 31% of all health claims were authorized using AI.

For policy servicing and query resolution, we are encouraging our customers to make use of our digital solutions amid the lockdown. We have experienced that more than 50% customers calling the call center, prefer to opt for our digital platforms when given the option to do so. We are heartened by the response to the same. As we look ahead, we will continue to promote our digital services, available 24x7 to our customers.

Going beyond customer support, we have been pursuing ways to truly address customer needs in these challenging times. We introduced a dedicated product, Covid-19 Protection Cover, that provides 100% of the sum insured on the first diagnosis of the virus. We have offered this relevant proposition across channels, including entering into tie-ups up with entities such as Flipkart, Bharat Pe to reach their customer base.

Amidst the lockdown, obtaining medical advice is a big challenge. Harnessing our health ecosystem and technological prowess, we have introduced a 'tele-consult' feature in our mobile app, ILTakeCare. Within 4 months since its launch in January 2020, we have seen a surge in the utilization of this facility. The app, that was first introduced to corporate customers, witnessed an increase of more than 50% during the lockdown, among this base. Further, the app is being rolled out to our entire retail customer base. It will enable us to expand our scope of wellness and other value-added offerings to customers, going beyond addressing their insurance purchase, claim intimation and query servicing needs.

Engaging with customers beyond business is critical in these times. We introduced several initiatives including online webinars to help customers stay positive, cyber safe and engaged. Each of these sessions witnessed participation of over 4,000 customers. Further, for corporate customers, we conducted focused sessions involving eminent professionals from the healthcare space and our senior members to discuss on relevant risk and insurance aspects. We reached out to more than 3,500 corporate & SME clients in the process.

Turning to our channel partners, as you know our diverse distribution set-up forms a key component of our competitive strength. Over the years, we have deployed tech solutions to equip our channel partners with the right tools to conduct business and service their customers.

In these trying times, ensuring customer retention becomes an important growth lever for our channel partners. To help in their retention efforts, we have deployed the latest technological tools, for instance, Robo calling and CRM tools for motor dealer partners. We have also activated our remote work-from-home Call center for this purpose. Further, we have encouraged increased usage of digital tools like MyRA and iPartner for sourcing and servicing customers. While many of our partners were already using these tools, some of them required handholding. We have conducted training programs for these partners to familiarize them with these tools and guide them on other challenges being faced amid the lockdown. More than 4,500 channel partners have gained from our online webinars, conducted by our senior leaders.

April & May are the months when we run a focused campaign called 'Udaan' for the SME segment. This year, despite the constraints, we have launched this initiative through our multiple digital platforms, positioning it as 'Digital Udaan'. This approach has yielded results, as we have witnessed 89% of business sourcing through our digital solutions during the lockdown.

Even as we work towards supporting our customers and channel partners, we have been ensuring the safety and well-being of our employees. In fact, we had taken steps on this front in early March, much before the lockdown. At our key office set-ups, we had introduced social distancing norms, use of sanitizers and deployed screening equipment to monitor employee health. As we moved to a complete work from home scenario post the nationwide lockdown, our technology solutions and remotely deployable IT infrastructure have helped us maintain service continuity. Today, our employees have the right tools to operate and collaborate with colleagues across more than 250 branch offices and Virtual Office locations. Further, we have been engaging with our employees in multiple ways. During this time, we accelerated our efforts towards upskilling our employees by leveraging technology platforms. In this regard, we introduced e-learning programs, self-consumption videos & scheduling live training events. Over 3,200 learning hours were consumed through e-learning modules. Further, our employees were given access to 987 videos with 150+ hours of learning content on our video portal, K-point. For those requiring special assistance, we have scaled up our internal platforms such as 'Santulan' which provides online counselling. While ensuring the well-being and productivity of our employees, given the unprecedented scenario, the managing committee has decided to forego 50% of its annual bonus of FY2020 and salary increment for FY2021 in order to contain the expense of management.

At ICICI Lombard, we are committed to support the efforts of policymakers and the society in containing the impact of the pandemic. As part of our Corporate Social Responsibility commitment, we have contributed to ICICI Group's support of ₹ 1 billion towards initiatives aimed at curtailing Covid-19 impact. This includes contribution of ₹ 50 million to PM CARES Fund by our company as well as voluntary salary donation by our employees with contributions ranging upto one month salary donation as well, amounting to ₹ 12 million. Further, we have introduced free

Covid-19 testing for the underprivileged sections of the society. For this, we have partnered with reputed diagnostic brands. In addition, we have provided Personal Protection Equipment or PPE to the medical staff treating Covid-19 patients at certain government hospitals in high impact cities like Mumbai.

Amid our efforts, the Authority has been forthcoming and has announced several measures for the benefit of policy holders and to ensure smooth operations of insurers. This includes directing insurers to simplify claim procedures, ensuring claim authorization within two hours etc. It has also ensured a swift response to product approvals, enabling insurers like us, to introduce dedicated Covid-19 solutions in time. Further, the Authority has been instrumental in ensuring that insurance is classified as an essential service.

I would also like to touch upon a few specific announcements by the Regulator. The Authority had notified on March 27, 2020, that insurance companies shall continue to charge the prevailing rates for Motor Third-Party Liability Insurance Cover from April 1, 2020 onwards until further order is issued. This will impact the industry loss ratio adversely for the current year.

Further, on April 16, 2020, the Authority announced further relaxation for payment of premium on renewals for Motor Third Party and Health insurance policies till May 15, 2020. For the industry, this could lead to short term impact on premium growth as customers may choose to renew at a later date. Additionally, subdued auto sales in the last few quarters, followed by temporary shutting of OEMs are expected to impact new business sourcing. It would thus be a challenge for the motor insurance segment to maintain the desired growth trajectory in FY2021.

Pursuant to regulatory guidelines on prudent management of financial resources, the Board of Directors have not recommended final dividend for FY2020. In this scenario, the interim dividend declared by the company will become the final dividend for FY2020.

It is important for you to note that despite the current meltdown, we have demonstrated a strong Solvency position of 2.17x as at March 31, 2020. Our solvency ratio continues to be well above regulatory minimum of 1.5x.

Let me now apprise you of the industry performance in the recently concluded fiscal year. The General Insurance Industry registered a growth of 11.7% in FY2020 over FY2019 with the industry GDPI moving up to ₹ 1,893.02 billion in FY2020 from ₹ 1,694.48 billion in FY2019 as per GI Council report. Excluding the crop segment, this growth would be at 10.7%. The overall growth and growth excluding crop segment was 1.7% and 4.3% respectively in Q4 FY2020 as compared to Q4 FY2019.

The combined ratio of the Industry was 112.6% in 9M FY2020 as compared to 113.0% . Further, the overall combined ratio of the private multi-line general insurers was 106.5% in 9M FY2020 as compared to 103.4% in 9M FY2019. These numbers are based on available public disclosure information published on the respective company website (excluding National, United, Reliance Health & Aditya Birla).

Coming to the outlook for the year ahead, it is extremely difficult to gauge the exact economic damage and consequent impact on our industry at this point. As such, giving any guidance at this stage could be misleading. Having said that, I would like to share our current view of how different segments could behave in the near term.

As far as commercial lines are concerned, given the increase in rates for some of the occupancies, we expect the fire portfolio to grow reasonably well. However, Marine & Engineering segments may witness de-growth due to reduced transit of consignments & delay in project commencements. We have also witnessed policy extension & installments due to working capital related constraints. Group Health penetration should increase given the overarching health concerns and Ministry of Home Affairs directive on workers. We expect rural segment to witness faster turnaround post lockdown. As the lockdown is lifted, idle plants and stalled construction projects may lead to start-up risk on resumption. We expect Event insurance, Credit & Liability insurance segment may see increased claims. Demand for pandemic risk cover should rise, as it is currently not a prevailing cover in India.

As far as retail lines are concerned, motor portfolio growth would get impacted due to subdued growth in new vehicles sales, further influenced by zero hike in TP premium rates, till further intimation from the authority. We expect lower impact on Agency and POS based channels due to higher focus on renewal portfolio. While we are currently experiencing lower claims incidence in motor portfolio, there could be surge in claims once the lockdown is lifted. Further with regard to retail health indemnity portfolio, we expect subdued growth in Q1 FY2021. In particular, we expect health agency should grow during this period given our efforts to build this network over the last few years. Talking about the health benefit portfolio, we expect muted disbursement in Banking, NBFC & HFC sector, which may have an impact on growth of this segment. Travel segment demand would be most adversely impacted. On the other hand, we expect the SME channel to continue exhibiting higher growth, given its move to digital adoption.

Amidst the current challenging operating environment, we continue to reorient our business model as the event unfolds. Even through this unprecedented situation, the fundamentals of our company remain strong. We are also preparing to unlock underlying opportunities that this event has provided to us. Our focus will continue to be on creating value for all our stakeholders through prudent risk selection, harnessing technology and pursuing sustained profitability the long term.

In spite of the immediate challenge, we remain confident that the long-term prospects for the industry remains robust and in fact may become even stronger in certain segments. Our effort would be to disproportionately benefit from any long-term positives that may emerge for the industry.

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

Gopal Balachandran: Thank you Bhargav and good evening everyone. I will now give you a brief overview on the financial performance of the Company for the quarter and the year ended March 31, 2020. 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 ₹ 133.13 billion in FY2020 as compared to ₹ 144.88 billion in FY2019, a de-growth of 8.1%. Excluding the crop segment, our GDPI increased to ₹ 133.02 billion in FY2020 as compared to ₹ 120.36 billion in FY2019, registering a growth of 10.5%. This was in line with the industry growth. Excluding crop segment, the GDPI growth was 2.9% in Q4 FY2020 over Q4 FY2019 as compared to industry growth of 4.3% for the same period.

Our GDPI growth was primarily driven by our focus on preferred segments such as Fire, Health, Motor, Marine and Liability. Consequent to the increase in minimum prescribed rates for certain

occupancies under fire segments, this segment registered a healthy GDPI growth of 42.9% in FY2020, thereby aiding the GDPI growth of our property & casualty segment. As indicated in our results presentation, the overall property and casualty segment grew by 20.4% in FY2020 over FY2019.

On the Retail side of business, SME & Agency channel and Health indemnity continued to grow faster & remain our areas of focus.

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 individual agents (including POS) were 47,548 as on March 31, 2020 as against 35,729 as on March 31, 2019.

The long-term motor penetration for Private Cars increased to 19.0% for the period ended March 31, 2020 from 3.6% for the period ended March 31, 2019 and for Two Wheelers, it stood at 15.8% for the period ended March 31, 2020 from 28.8% for the period ended March 31, 2019. The advance premium was ₹ 30.25 billion as at March 31, 2020 from ₹ 13.24 billion as at March 31, 2019.

Combined ratio¹ stood at 100.4% in FY2020 as compared to 98.8% in FY2019 primarily on account of long-term motor policies, change in product mix and losses from catastrophic events. Combined ratio¹ stood at 100.1% in Q4 FY2020 as compared to 99.0% in Q4 FY2019.

Our investment assets rose to ₹ 263.27 billion at March 31, 2020 as compared to ₹ 248.45 billion at December 31, 2019. Our investment leverage (net of borrowings) was 4.21x at March 31, 2020 as compared to 4.16x at December 31, 2019. Investment income increased to ₹ 18.47 billion in FY2020 as compared to ₹ 17.55 billion in FY2019. On a quarterly basis, investment income decreased to ₹ 4.06 billion in Q4 FY2020 as compared to ₹ 4.14 billion in Q4 FY2019. Investment income of Q4 FY2020 & FY2020 included impairment on equity investment assets of ₹ 1.20 billion as per its policy consequent to market volatility at the end of the year resulting from uncertainties and impact of Covid-19 event. Our capital gains (including the impairment on equity investment assets) was lower at ₹ 1.99 billion in FY2020 as compared to ₹ 4.25 billion in FY2019. Capital gains (including the impairment on equity investment assets) in Q4 FY2020 was at ₹ (0.25) billion as compared to ₹ 0.56 billion in Q4 FY2019.

As a company, we have always exhibited tighter internal exposure norms as against regulatory limits. On the fixed income side, we continue to focus on safety, liquidity and returns in that order of priority, given that we do have large fixed income portfolio including government securities. Accordingly, we have invested a high proportion i.e. 81.7% of Debt portfolio in sovereign or AAA and above rated securities. Further, we have focused on the quality of portfolio, on this front, we have zero exposure of our fixed income portfolio in securities rated below AA⁺. We do not have a single instance of delayed interest or default over last 19 years. We will continue to adopt a disciplined approach in terms of the investment that we make.

Our Profit before tax (PBT) grew by 6.2% to ₹ 16.97 billion in FY2020 as compared to ₹ 15.98 billion in FY2019 whereas PBT grew by 7.3% to ₹ 3.71 billion in Q4 FY2020 as compared to ₹ 3.45 billion in Q4 FY2019.

¹ Basis IRDAI circular dated May 20, 2019 Combined Ratio has been revised from 98.0% in Q4 FY2019 and 98.5% in FY2019.

As stated in the previous quarter's earnings call, the Company has elected to exercise the option of lower income tax rate. The effective tax rate was 29.7% in FY2020 and 23.9% in Q4 FY2020.

Consequently, Profit after tax (PAT) grew by 13.8% to ₹ 11.94 billion in FY2020 as compared to ₹ 10.49 billion in FY2019 whereas PAT grew by 23.8% to ₹ 2.82 billion in Q4 FY2020 as compared to ₹ 2.28 billion in Q4 FY2019.

Return on Average Equity i.e. ROAE, was 20.8% in FY2020 as compared to 21.3% in FY2019. The ROAE for Q4 FY2020 was 18.8% as compared to 17.5% in Q4 FY2019.

Solvency ratio was 2.17x at March 31, 2020 as against 2.18x at December 31, 2019, continued to be higher than the minimum regulatory requirement of 1.50x.

Closing Remarks

As we conclude our address, I would like to summarize that we ended Q4 FY2020 & FY2020 with a diversified product portfolio and healthy financials. The Company continues to focus on prudent underwriting while improving its competitive positioning. Further, we remain focused on enhancing our digital capabilities and drive the agenda of sustainable growth.

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

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