ICICI Lombard General Insurance Company Limited

Q4 & FY2021 Earnings Conference Call

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Management:

MR. BHARGAV DASGUPTA – MANAGING DIRECTOR & CEO

MR. GOPAL BALACHANDRAN – CHIEF FINANCIAL OFFICER & CHIEF RISK OFFICER

MR. SANJEEV MANTRI – EXECUTIVE DIRECTOR - RETAIL

MR. ALOK AGARWAL – EXECUTIVE DIRECTOR - WHOLESALE

Moderator: Good evening, ladies and gentlemen. A very warm welcome to the ICICI Lombard General Insurance Company Limited Q4 FY2021 earnings conference call. From the senior management we have with us today, Mr. Bhargav Dasgupta - MD & CEO of the company, Mr. Gopal Balachandran - CFO & CRO, Mr. Sanjeev Mantri - Executive Director Retail and Mr. Alok Agarwal - Executive Director Wholesale. 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Bhargav Dasgupta, MD and CEO, ICICI Lombard General Insurance Limited. Thank you and over to you, sir.

Bhargav Dasgupta: Thank you Janet, and good evening to each one of you. Thank you for joining the earnings conference call of ICICI Lombard for Q4 of FY2021 and the full year of 2021. We hope you and all your colleagues are safe and healthy.

So, what I will do is, I will give you a brief overview of the industry trends and developments that we have witnessed during the last few months. Post this, our CFO, Mr. Gopal Balachandran will share the financial performance of the company for the quarter and the financial year ended FY2021. As we speak, we are going through the second wave of the pandemic and as a nation we are gearing up to overcome the burgeoning effects of the same. Till this wave which I would say started sometime in February 2021 the Indian economy was displaying an upward momentum in economic activity which was reflected in improved GST collections, strong manufacturing PMIs, uptick in auto sales and growth in imports. This was fueled by the growth focused Union Budget of FY2022 whose aim was to put the economy back on the high growth trajectory. A record agriculture production had kept the rural demand buoyant and resilient. As economic activity picked up and vaccination program ramped up, the urban demand also started to pick up. However, given the current surge in Covid cases and the imposition of partial lockdown in certain areas, there is an increased uncertainty in the outlook for the economy. For now, the exact impact of the second wave cannot be ascertained with confidence and we continue to keep a close watch as events unfold.

Turning to the industry performance for the last year, the industry growth has seen normalization after the initial dip, with the gross domestic premium income back in the black in H2 of last year. During the quarter gone by, segments such as motor insurance saw steady sales from the new motor vehicle sales due to the need for personal mobility. However, recent lockdown in some parts of the country has adversely impacted new motor vehicle sales. The health insurance premium continued to show reasonable growth for the industry. As far as commercial lines are concerned, the growth in the fire segment was elevated for the first three quarters and then tapered in the last quarter due to the base impact. Marine and Engineering lines witnessed some pickup with increased movement of goods on resumption of economic activity in the second half of FY2021. Overall, as per disclosure on the website of IRDAI, the general insurance industry registered a growth of 5.2% in FY2021 over the last year with the Industry GDPI moving up to ₹ 1,987 billion in FY2021 from ₹ 1,889 billion in FY2020. The combined ratio for the industry was 110.4% in the 9M FY2021 as compared to 117.9% in 9M FY2020 based on available information from public disclosures. Further the overall combined ratio for private multi-line general insurance was 104.6% in the 9M FY2021 as compared to 106.5% in the 9M FY2020.

I would like to now touch upon some of the specific policy announcements that we believe are important that came during the quarter. One, the authority decided to withdraw the circular on prudent management of financial resources in the context of Covid-19 pandemic. The company paid an interim dividend of, ₹ 4.00 per share during the year. The Board of Directors of the company has proposed a final dividend of ₹ 4.00 per share for FY2021 in today's board meeting. The payment is subject to the approval of the shareholders in the ensuing AGM of the company. The overall dividend for FY2021 including the proposed final dividend is ₹8.00 per share. The second big event has been that the Union Budget of FY2022, the government announced increase in FDI limit for the insurance sector from 49% to 74%. Though we see this as a big positive in the long-term it may provide incremental capital to small players and thus marginally increase the competitive intensity in the short term. The third development on the policy front is that the authority, the IRDAI is yet to issue a revision in the prevailing rates for motor third party liability insurance cover. Even though last year also we did not get an increase. Further we have also seen some recent judgments by the courts which would result in an increase the average claim size of these claims and for that, we have reassessed our motor TP outstanding book in line with these recent judgments and accordingly strengthened reserves appropriately. No change in rates coupled with recent court judgements may have an adverse impact on the loss ratios going forward.

The recent Covid-19 crisis looking ahead also highlights how critical it is when it comes to health to offer not only a comprehensive coverage but also innovative solutions that is beyond the conventional insurance. This is precisely what we have tried to do with the development of the ILTakeCare app. We believe that the ILTakeCare app will be a game changer in years to come in providing a complete holistic healthcare solution with innovation and customer satisfaction. We are pleased to announce that as on March 31, 2021, the app has crossed 500,000 downloads.

The digital platforms incubated by the company over the years continue to see enhanced adoption in recent times with over 97% of the policies issued by us in the financial year ended 2021 being in paperless form. Under the SME segment, close to 90% of the business source were through these digital solutions.

With regard to claim settlements 60.8% of our motor OD claims were serviced through live video streaming app InstaSpect in March 2021 up from 24.5% in March 2020. This feature as you would recollect, does away with the need for a physically surveying a damaged vehicle, allowing for real-time claim settlement and approval. Since its inception, the InstaSpect app has enabled over 1 million customers to get their vehicle damage claims approved instantly.

As indicated in the previous calls, our technologies including the AI and the ML solutions goes beyond policy issuance, covering claims, fraud control and servicing. Our automated AI solution auto approved close to 61.6% of the motor break-in inspections in March 2021 up from 40.6% in March 2020. On the health insurance front under group health policies 60.1% of the fresh cashless claims were authorized by an AI ML engine in March 2021 as compared to 31% in March 2020.

Overall, the year gone by has definitely not been less than a rollercoaster. The exact impact of the second wave and the economic recovery thereafter remains unpredictable. For us at ICICI Lombard a well-diversified portfolio mix positions us to uniquely take advantage over the trends that we are witnessing currently. The consistency and discipline in terms of underwriting profitable segments has led ICICI Lombard to become a differentiator in the GI space.

We have entered the fiscal 2022 with a strong capital position and strengthened reserves. We also look forward to our integration with Bharti AXA post all approvals and the synergies to start playing out towards the later half of this year and more so the next financial year. In the face of growing competition and economic uncertainties, we remain confident that given the strong leadership, talent, and our culture, because of these factors we believe that in the years ahead we will continue to drive our growth ahead of competition, especially in our preferred segments. We are also continuously focusing on evolving our strategies to further consolidate our position in the GI space while retaining our mission for 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 and the year.

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 Q4 FY2021 & FY2021. We have put up the results presentation on our website. You can access it as we walk you through the performance numbers.

The Gross Direct Premium income of the company stood at ₹ 140.03 billion in FY2021 as compared to ₹ 133.13 billion in FY2020, a growth of 5.2%. This was largely in line with the industry growth of 5.2%. On a quarterly basis the GDPI grew in Q4 FY2021 by 9.4% over Q4 FY2020 compared to the industry growth of 14.0%. Our focus on preferred segments primarily drove our GDPI growth. The fire segment, registered GDPI growth of 39.2% in FY2021, thereby catalyzing the GDPI growth of our property and casualty segment. The growth in this segment has normalized due to the base impact that Bhargav also spoke about. As indicated in our results presentation, the overall property and casualty segment grew by 23.5% for FY2021 over FY2020.

On the retail side of business, motor segment was back in the black registering a growth of 3.4% in FY2021. Individual health indemnity business grew by 22% for 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 59,545 as on March 31, 2021 from 55,615 as on December 31, 2020. The advance premium number was ₹32.06 billion as at March 31, 2021 up from ₹31.97 billion at December 31, 2020.

In so far as the progress in relation to the scheme of arrangement with Bharti AXA is concerned, we await the NCLT and IRDAI final approval in the matter. The expenses incurred of ₹0.41 billion have been absorbed in the P&L during FY2021.

Our combined ratio for FY2021 stood at 99.8% compared to 100.4% in a FY2020. Combined ratio for the Q4 FY2021 stood at 101.8% compared to 100.1% in Q4 FY2020. Our investment assets rose to ₹ 308.92 billion at March 31, 2021 as compared to ₹ 298.92 billion at December 31, 2020. Our investment leverage net of borrowings was 4.09x at March 31, 2021 as compared to 4.05x at December 31, 2020. Investment income increased to ₹ 21.96 billion for FY2021 as compared to ₹ 18.47 billion in FY2020. On a quarterly basis investment income increased to ₹ 5.37 billion in Q4 FY2021 as compared to ₹ 4.06 billion in Q4 FY2020. Our capital gains was at ₹ 3.59 billion for the full year FY2021 as compared to ₹ 1.99 billion in FY2020. Capital gains for Q4 FY2021 was at ₹ 0.66 billion as compared to ₹ 0.95 billion in Q4 2020.

Our Profit Before Tax grew by 15.1% to ₹ 19.54 billion in FY2021 as compared to the ₹ 16.97 billion in FY2020, whereas Profit Before Tax grew by 21.4% to ₹ 4.50 billion in Q4 FY21 as compared to ₹ 3.71 billion in Q4 FY2020. Consequently, Profit Before Tax grew by 23.4% to ₹ 14.73 billion in FY2021 as compared to ₹ 11.94 billion in FY2020 primarily due to lower effective tax rate. PAT grew by 22.6% to ₹ 3.46 billion in Q4 FY2021 as compared to ₹ 2.82 billion in Q4 FY2020. ROAE was 21.7% in FY2021 as compared to 20.8% in FY2020.

The ROAE was 18.8% for both the Q4 FY2021 and Q4 FY2020. Solvency ratio was at 2.90x at March 31, 2021 as against 2.76x at December 31, 2020, continued to be higher than the regulatory minimum requirement of 1.5x.

As I conclude, I would like to reiterate that we ended both Q4 FY2021 and FY2021 with healthy financials. We continue to stay focused on profitable growth and sustainable value creation. Our strategy continues to revolve around those five pillars of consistency in market leadership, diversified product-mix with multi-channel distribution network, excellence in claims service and technology, robust risk selection and strong investment returns on a diversified portfolio. Through our business performance, we have always endeavored to create long-term sustainable value for all our stakeholders.

I would like to thank you all for attending this earnings conference call and we will be happy to take any specific questions that each one of you may have. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of from Arav Sangai from VT Capital.

Arav Sangai: I have three questions. My first question is upon the growth outlook, as you mentioned that the second wave the risk is difficult to quantify, but in the past year also we have seen that some players faced more losses compared to some better players. So, do you think going ahead there are some pockets of consolidation where we can grow better than the industry and what are the areas where you are focusing on especially in FY22 given like our property was very robust in FY21, areas you are focusing on FY22, that is my first question. Second question I wanted to ask is that, in the ground level connect, I am getting the sense that there are lot of standard products which are coming, and private insurers are not that keen on selling it because obviously of pricing concerns. So, do you think there is risk of the regulators imposing some kinds of quota on these products just in order to increase their distribution. And third is has there been any updates on the health benefit portfolio?

Bhargav Dasgupta: Let me go reverse, the third question first. In terms of the update on the health benefit, I guess, what you mean is the decision of the bank to stop distributing that product for us. As of now, they have not changed their decision so we are in the same situation. For the two quarters we have not had that business come to us and as of now that is continuing, though we are continuously engaging with the bank so as and when we get a confirmation from the bank that they want to restart we will obviously communicate. In terms of the second question on standard products. We have said this many times, we believe some of the standard products are good for the industry, particularly the Arogya Sanjeevani the health product which can actually open up a segment of market and give them a comfort that this is standard terms and conditions so hopefully the dissonance and the distrust of not having understood the terms and conditions will reduce. It could also actually open up opportunity in that segment which was below the usual target segment of most of the private sector. So, we as a company are definitely continuing to focus on building that segment and the way we have done it is we have segmented the market through many factors and looked at where even at that lower price, that product, because the terms and conditions are also slightly different from our normal core CHI product. So, we looked at segments where that becomes viable for us in terms of opening a new market in a sustainable manner. So, it is not as if all standard products are not useful in terms of growing the market. The second point there is in terms of quota, at least all conversations till now we have not got that sense. We think that the risk is low, but in these matters you never know. But hence what we tried to do is pick up, as I said in that particular broad segments where it makes sense, and we want to kind of focus on that. Coming back to your first question on what we will do and what will happen, you are absolutely right. So, one of the approaches that we have taken in the year gone by clearly the focus was in terms of gaining market share in certain key segments. For example, fire the prices went up, we significantly increased market share as Gopal also explained. This year there will be a base effect on the pricing. However, the pricing is reasonably adequate if you do a proper job of underwriting and risk selection. So, we will continue to focus on P&C lines of business, large in the corporate and SME segment as we have been doing for the last couple of years so that strategy continues. In terms of motor, we again outperformed the market. If you see our mix, the mix has also changed a little bit in favor of CV. Certain CV segments, we have been talking about it every quarter for the last may be 5-6 quarters that we are identifying certain segments and that is something that we have done. And we will continue to grow the motor book. May not be exactly in the same segment and same channels. We may recalibrate, but the effort will be in terms of continuing to gain market share. In health, yes, the benefit part with the bank has come down, and that has affected our overall growth in that category. But equally we have added a lot more other bancassurance distribution partners, plus traditionally we were very strong in NBFCs and HFCs, which actually suffered since the day of the IL&FS crisis. And that we are hoping, in fact in Q4 FY2021 started building up and we are hoping that it will build out going ahead and that is our segment that we will focus on. It may not replace the loss of business that we have seen because of the bank, because the volume there was much higher, but it will start replacing a part of that loss.

Moderator: The next question is from the line of Ajox Frederick from B&K Securities.

Ajox Frederick: My first question is with respect to the target business lines you were mentioning. I assume that you have produced certain pockets in motor OD whereas you are not finding it lucrative on the margin side probably the down trend which has gone up. From current standpoint, do you think the same scenario could play out in health as well given that the current scenario could be slightly difficult to garner profits and competitive intensity might go up. I am just trying to relate your philosophy in motor to this. That is my first question.

Bhargav Dasgupta: Rather than looking at just a quarter-on-quarter basis, if you look at historically from the time that we saw de-tariffication in 2008, this has been the constant experience. There are times when certain product lines get very hyper-competitive, people make in our opinion a bit of mistake in terms of getting over aggressive, burn their fingers and then step back and that is how we have to recalibrate our business. So, there are times when we increase business in a certain segment and there are times we focus on some other segment. And the entire attempt over these, let's say the 12-13 years from 2008 has been to build a sustainable business on a long-term perspective and that is what we have been able to achieve and I do not see a big change in that. At the end of the day, maybe for a short while, because of maybe the Covid claims or maybe because of what people perceived was some benefit in the first half last year, people may have been a bit more aggressive in the motor OD segment where we felt and if you remember in our Q3 call, we had said that we may want to calibrate a bit because of the aggression that we are seeing and people were pricing maybe based on the past experience rather than the future experience and we have done that. So, there could be some maybe a quarter or two of such experiences, but over a long term we remain reasonably confident that this is a typical cyclical experience that we have seen, and we will gain back. Coming back to the last point in terms of more immediate impact, last year because of Covid we saw two things happened. We saw elevated Covid claims which came through maybe in Q2 and Q3 with a bit of a lag, but we saw a dip in the motor claims, and we saw a dip in the non-COVID claims. Whether exactly same picture will play through this year, we do not know, but early signs, for example if you see the non-Covid claims of health for example, it has remained elevated, unlike Q1 of the year gone by & in Q4 the non-Covid claims have remained elevated. Will it drop? I think the early sign is that I think that it will drop. Will it drop to the same extent as Q1 of last year? We do not think so it will drop, but this is our belief and the same thing will happen for motor. I think the claims will drop a bit, may not be to the extent that we saw in Q1, but it will drop a bit. Again, very difficult to anticipate the extent that is why we keep saying that you have to be very close to the ground and take very frequent calibration of your business approach based on what you are seeing on the ground and that is what I think over the years we have tried to be good at and that is what we continue to do.

Ajox Frederick: My second question is again on the health. What portion of the total health has been new business in FY 2021? The reason I am asking is this, usually the second year and third years claims, based on this business which you have got in FY 2021, that would have been usually better, but now that the second wave has come in and the uncertainties are out there, so what is your sense, because we have written decent chunk of health business last year. So how we think that this would pan out probably in FY22 and FY23?

Bhargav Dasgupta: I will ask Gopal to answer this, give you the numbers in terms of new. But the principle that I explained in terms of what happened, so there are two pieces, the health benefit and the health indemnity. The benefit piece has got nothing to do with Covid, it is a specific named disease and so there is no Covid impact because of that there is no change. Though as I have explained earlier, the fact that we have reduced the benefit business in the bank channel, that anyway has had an impact in Q3 of this year and Q4 of this year, that will continue for two more quarters if the bank does not restart. But the question I guess is more relevant for the indemnity book. And as I was explaining, this year for example, we have seen a 7%-8% increase in loss ratios in the indemnity book because of Covid. The non-Covid reduction versus Covid increase, we have seen an increase. Whether the same picture will happen next year, we do not know, we think it may be a bit more, but we will still see some benefit of non-Covid is our estimate. But in terms of mix of new and old, I will just ask Gopal to give you the numbers.

Gopal Balachandran: Ajox, effectively as you would have seen on the results presentation, the overall indemnity book for us full year grew at about 22%, vis-à-vis let’s say 16% that we had seen for the last year. Within that if you look at the new retail indemnity book for the full year grew at almost a similar number at about 21%. Even the renewal book for us for the full year grew at almost about 22%. To that extent, the growth what we have seen has been through a combination of businesses that we have been sourcing on an incremental basis with respect to the new acquisition of customers. And equally, increasingly we are also being able to retain a higher proportion of customers on the health side. So effectively at this point of time, it is broadly kind of balanced between the two.

Ajox Frederick: One data keeping question on Covid, you have given this number earlier, like what are the number of cases and what has been the payout probably in the fourth quarter? Till 9 months it was ₹ 294 crore.

Gopal Balachandran: So, if you look at for nine months, we had spoken about a number of about ₹ 2.94 billion, that number for the full year in terms of the number of claims that has been intimated to us is almost close to 50,000 claims for the full year that we have seen and the amount of intimations that we have seen is about ₹ 3.76 billion.

Moderator: The next question is from the line of Nidhesh Jain from Investec.

Nidhesh Jain: Two questions, first what is our strategy on the indemnity segment? If you look at the sector, sector is growing at almost 30%-35%, but our growth is slightly lower than the sector especially this year where the sector has seen significantly higher growth. So, are we consciously curtailing growth given the COVID environment or what is our strategy to gain market share there, that is the first question. Second is, we can see that there are 2-3 headwinds that the company is going through, one is that ICICI Bank has decided not to sell credit health policies. There has been a bit of increase in motor TP inflation rate and the next year we will be merging ourselves with Bharti AXA. So, for the combined entity what is the range of ROE expectation that the management has from a medium-term perspective.

Bhargav Dasgupta: So, in terms of health the strategy clearly is that we want to grow the business definitely faster than the market. And if you see the focus where we added distribution was on health agency, which is where typically the standalone companies derive a lot of benefit from. And if you look at the agency channel sourced business it is actually much faster than the industry numbers. The number is a bit muted, because we also sell with the bank some attachment of the indemnity , that also has come down which had some impact on the business. The strategy that we have kind of set down for ourselves is that the whole approach is change the way we think of providing healthcare to our customers, not just health claims. So, I talked about ILTakeCare app. The whole thought process there is a greater engagement for the entire journey of a customer with us, starting with wellness, starting with some health benefits that we give and then adding the OPD, home health care, the tele consulting, the virtual video consulting, etc. So, the entire approach is look at the entire journey of a customer and provide all of that which is bit different from the market, which is purely an IPD kind of product. But the bigger and important piece is also distribution and that increase in distribution is a key. You may have a good product or a good solution or a service, but distribution is a key where we are kind of investing. That is why I said, the area that we are investing in terms of health agency that is actually done even better than the numbers that we talked about in terms of aggregate numbers. Gopal, anything that I have missed that you want to add.

Gopal Balachandran: No, I think you have covered it well Bhargav.

Bhargav Dasgupta: The other point in terms of the headwinds, you are absolutely right. There are a couple of these headwinds. And we are looking at what will happen once the integration is done. What we can share with you at this point in time and once the approval comes in, we will probably be in a better position to tell you the full picture. But the way we are seeing it is that the integration is going well, honestly ahead of what we had originally anticipated. So, we will save couple of months' time is what our hope at this stage of the approvals. Both teams have done a lot of work in terms of preparing for the integration, whatever we are allowed to do till all approvals come in. And I think we are quite happy with the way things have been progressing. Our sense is that in the initial year maybe there will be some impact because as you know the combined ratio of Bharti AXA is much higher, but we clearly see the opportunities in terms of synergies, whatever we had assumed at the time of the transaction, we are probably a bit more optimistic on crossing those numbers in due course, may not happen this year, but the year later that will be a positive.

Nidhesh Jain: Any ROE range that you would like to state at this point in time?

Bhargav Dasgupta: We will try to continue to deliver around 20% ROE. Look, one of the things that we are also still hopeful is that this TP price increase that we have not got in the month of April 2021 we are still hopeful that will come during the year, we are hoping that will come by June 2021. If that comes then I think we will be able to deliver our consistent ROE, the objective that we have set. Even otherwise that is the attempt that we will make. The headwinds definitely have had an impact in terms of the ease with which we could have done but that will remain the endeavor for us to continue to deliver ROEs around 20%.

Moderator: The next question is from the line of Udit Kariwala from Ambit Capital.

Udit Kariwala: I have two questions. First, in terms of the Covid the second wave coming in, last year IRDAI had asked all insurers to come up with a Covid insurance policy and Lombard would have also participated in that, or you would have also underwritten those policies. Now having written those policies in FY21, given the kind of cases we are seeing at this point, do you see a broad, I know it is difficult to say where the cases will go, but even if similar kind of cases would have to come as last year the payouts this year would be materially higher given those policies, that is one. And is there any provisioning are you carrying at this point? And the second question is, if you could give some sense, on the competitive intensity on the motor segment both OD and TP, these are two of my questions. Thank you.

Bhargav Dasgupta: In terms of the Covid policies, if you recollect, we had actually launched a Covid benefit product even before the regulator asked all of us to do it because at that point in time if you remember it was a small sum insured Covid benefit policy that was launched simply because we felt at that point in time it was important for the market because this was probably a segment who would not have any insurance. Honestly speaking at that point in time, when we designed that product, we had not anticipated the number of claims that India had by the end of the first wave. So, that product itself gave us some amount of losses last year. That obviously will not be repeated this year because it was not a compulsion, we had launched a product that we did. In terms of the overall loss ratios for health, honestly very difficult to say with confidence where it will go. As I was trying to explain earlier that last time, we saw non-Covid claims come down, while Covid claims come up, in aggregate we still had a negative impact on the health portfolio. But on the motor portfolio we benefited last year. Will this same picture play out this year? Maybe, maybe not. Because our sense is that the benefit that we saw in the motor portfolio we may not see to the same extent this year because it will not be the same kind of lockdown that we saw in April 2020 and May 2020 last year. But will the frequencies drop? We believe the frequencies will drop. Similarly non-Covid claims, till Q4 we did not see much of a drop till now, but early signs we are seeing non-Covid health claims, that is again dropping. Will it drop to the same level as last year? Again unlikely. Hence, we still do not think that it will completely be a blowout. We are also seeing the average claim size drop this time compared to last time. As an industry and we as a company have also done a lot of work in terms of preparedness. So, we are better prepared to deal with this. So, on balance we will have to watch for all of these three moving parts to figure out, to see how it plays out.

Udit Kariwala: On the provisioning part on that similar question? Sorry, just one thing, on the ICICI benefit policy because we are on the health topic, if there is any renewal premium what happens to that? How is bank catering to that?

Bhargav Dasgupta: So, these are typically five-year policies that we used to write and on renewal very little used to happen because most people, these are linked to the mortgage book so the mortgage if you see the average duration of mortgage books is also about 7-8 years. So, a lot of people would not renew. We also did not have a focused approach to renew those books but we have built that capability including digital capabilities and if a customer comes, we will definitely renew those policies. So we will renew that, but it may not be a very large number. Going back to your question on reserves, yes, as usual we have been a bit conservative, but I will ask Gopal to talk about what we have done.

Gopal Balachandran: Udit, the approach to reserving is something that we have been talking through the year. For example, in the initial quarters as you would have been hearing us say that even during times when we had seen relatively lower incidences of claims, obviously we had anticipated that there could be a possibility of an increase in claims in the subsequent quarters and that is the reason we continued with a loss reserve which is actually higher than what the reality would be which actually helped us to some extent when you look at the subsequent development of claims that we have seen in the context of health claims. I think a similar approach is what we have followed even during this current Covid surge that we are seeing on the second wave. We have been obviously monitoring the trends on the ground in terms of what is the increased number of intimations. And basis the current development, we believe, at least for the losses that would have happened until March 2021, we have kind of adequately reserved for. And the approach to reserving from an IBNR's perspective will still continue to remain even as we get into FY22. So, the only point is I think what Bhargav mentioned about, in the first wave we did see a reduction in non-Covid health claims at the time when there was a peak surge in Covid cases. On this point in the second surge so far, I think while April is early trends, I think we will have to see how that development of non-Covid cases continue. But the approach to reserving will pretty much remain the same as what we have done even in the earlier first wave.

Udit Kariwala: And some competitive intensity in the motor segment?

Bhargav Dasgupta: Yes, so that was the other part. So, this is something that again we talked about in Q3 earnings call and that has continued. So, we were saying if you remember that even last year before the first wave of Covid we were saying that the Motor OD rates are completely out of sync with what it needs to be so we needed a price increase. Obviously because of Covid the frequencies dropped, so we did not need it. And we started saying, by Q4 this year we need a price increase. So, if you see our Q4 numbers we have turned a bit more cautious on the motor side, particularly in private cars simply because we believe the Motor OD segment is under stress. So what we are doing as a company we have been pushing for a more sustainable pricing, focusing on where we tighter underwriting. We do not believe that the market can sustain at these levels and we are trying to push in terms of bringing in some more sensibility to the pricing. So, the competitive intensity definitely is very elevated particularly in private cars in our estimate and so, we are pushing in terms of some price increases wherever feasible and some more tighter underwriting.

Udit Kariwala: And focus on CV would continue like you had mentioned that you would like to ramp up?

Bhargav Dasgupta: Our CV as a mix if you see has increased from roughly about 14% to about 16%. So, compared to the industry mix where CV will be more than 40%, I do not have the full year's number because all numbers have not come out, but would be maybe about 40%-45%. We are much lower in terms of the category, but within that the segments that we have identified, I think, the calls we believe have been right. And we are continuing to focus on those segments and grow that segment in a calibrated manner. We are obviously not going to go back to those kinds of market share.

Moderator: The next question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: Most of my questions are answered. Just wanted a book keeping question. If you can tell me the exact loss ratio for the different segments of health, like corporate was 93% in FY 2020 and retail indemnity was at 63%. So, can you tell me the equivalent for that for FY 2021? My second question, **m**aybe it is a basic question, but

I was just trying to see that you guys have talked about strengthening of the URR which is basically the net earned premium minus net written premium. But didn't you guys take a bigger change in that in CV we well? It is lesser for 4Q, right?

Gopal Balachandran: I will answer the first question first. In terms of the loss ratios, I am right now giving you full year's numbers. If you see just the health book, the aggregate loss ratios for last year was about 83.6%. The current year loss ratio is at 89.6%. And within that the employer employee or let's say the group health portfolio is something which has seen a loss ratio last year at about 91.1%, this year at about 93.4%. And on the retail indemnity segment, the loss ratio last year was about 70% and this year the loss ratio is at 81.7%. And to your second point in terms of strengthening of reserves, that is exactly what we spoke about. When we kind of looked at relatively lower incidences of claims, even at that point of time, I think anticipating that there will be actually an increase in incidents of claims in the subsequent periods, we continued to carry a conservative approach to providing for loss reserves and on that basis, we had carried for claims which were higher than let's say what the actual reflection was. And on the similar lines, I think across lines of businesses we keep looking at what is the portfolio development that we see with respect to development of losses. And on that basis, we continue to provide for appropriate losses or IBNR as is required in respect of the respective lines of businesses.

Shreya Shivani: If you can answer one last question since we are talking about the commercial vehicles and how you guys have maintained your cautious stand over there. Is it still around 15% of your motor book? As in like in the nine months, commercial was at 15% and two-wheelers were 27%.

Gopal Balachandran: If you look at full year, the last year full year the number on the commercial vehicle was roughly about 15%. That number if you see for the current year is about 16% of the overall motor book.

Shreya Shivani: And two-wheelers was at 29% last year.

Gopal Balachandran: Two-wheeler is almost maintained at similar levels, slights lower, it is about 27%-28%.

Moderator: The next question is from the line of Rishi Jhunjhunwala from IIFL.

Rishi Jhunjhunwala: Just one question on excess expense of management charge that we have taken from shareholders to policy holders accounts. And this time around there has been a bigger charge on motor. I think last year we had health retail as well. Just wanted to understand potential repercussions in case this remains persistent given that it has been second year that this has happened. And also, just wanted to understand what is the reason and how could we remediate it.

Bhargav Dasgupta: Rishi, if you look at so far as the requirement of regulation on the expense of management is concerned, the regulator requires us to be compliant at an aggregate level as a company. And we are in compliance with those limits on expense of management as is laid down by the regulator. So, hence since so far as compliance is concerned, I think we are in absolute compliance towards the requirement of regulation is. Having said that, I think what the regulator had also put out as a part of the regulation is they divided the overall businesses into multiple sub-segments and they have also given limits on what could be the allowable spends in so far as those individual sublines is concerned. And on that when you look at the numbers for the full year, you are right, in certain lines of businesses the actual expense of management relative to what the allowable expense are, we are in excess of those limits. And in accordance with the requirement regulator expects us to reflect those amounts which are in excess of those limits as a part of the profit and loss statements that we are giving and that is exactly what we have done in so far as any of those excess is concerned. And the third point is obviously at the end of the day while our attempt will be to try and allocate as much of expenses that is possible to directly associate with a particular product, but equally there is always an element of cost which tends to get allocated between different segments. And hence that extra will also have an element of allocation which will have a play in so far as determination of ultimate amounts are concerned. And finally, I think there are certain lines of businesses or let's say there are certain costs which largely are of fixed nature and to the extent if you see some of those lines not necessarily exhibiting revenues as much as what we would have expected, then obviously even those fixed costs will automatically get reallocated to the other lines of businesses. So, hence I think it is a factor of all of those, but to answer your point in so far as compliance to the limits on expense of management is concerned, we are in compliance with the requirement of regulation.

Rishi Jhunjhunwala: Second question is on a health. So of course, this year we had an issue around policies sold by ICICI Bank. But if we really look at our overall health portfolio there is still a decline. You can correct me if I am wrong, the bank related portfolio is probably 5%-6% of overall GDPI on the health side. But we have seen about a 7% decline this year compared to industry growing at about 13%. It does not look like we have gone more cautious on the corporates. So, can you just break it down in terms of where growth has come, where it hasn't and what can we potentially do which could accelerate it faster than the initiatives that we are already taking given that we are in a phase where health insurance is got a catalyst in terms of this pandemic and potentially, we are losing some share on that.

Bhargav Dasgupta: This number has a PA and travel into it. Right Gopal?

Gopal Balachandran: That is correct.So, Rishi when you look at the numbers , let's say possibly from the results presentation the number that you are seeing of about ₹33.32 billion which was the overall health plus PA and travel put together going down to ₹ 30.21 billion, it has an element of personal accident and travel. And travel as we all know at this point of time, relative to what we had seen last year there has been a significant decline in the extent of travel. So, that number has obviously seen an impact. In fact, travel was almost about ₹1.35 billion in last year. That number this year is at about ₹ 0.52 billion. So, there is almost a ₹100 crore reduction that we have seen in the travel segment. And equally, I think on the personal accident side, we have seen a reduction in the numbers relative to what we had seen in the last year. Health on a standalone basis I think we have largely been able to see it at a flattish level. This is a combination of both the indemnity as well as the benefit component put together. And indemnity as we have kind of put out also on the presentation, the indemnity book has actually seen a reasonable growth of 22%. It is the health benefit segment which was largely a contribution of both the decision that we spoke about with respect to ICICI Bank focusing on their core building of the book. And at the same time, particularly in the initial first half, we had also seen the other distribution partnerships that we had. The level of disbursements that were seen even with respect to those franchises obviously the disbursements were not as much as what we would have seen in the previous period. So, hence the combination of all is what you are seeing when you look at the aggregate numbers in terms of the decline. But in terms of focus, I think as we explained, health indemnity continues to be an area of opportunity and that is an area where we are making continued investments. And even on the health benefit side, while it will take some time as what we explained, if at all we are to cover up for the shortfall of what ICICI Bank has been contributing, but some of the other distribution tie-ups given particularly since Quarter 3 and Quarter 4 onwards we have seen level of disbursements getting picked up in some of the other partnerships that we have, and those contributions have seen quite a reasonable growth in respect of the focus that we have. So hence, health as an area continues to be an area of opportunities the way we see it.

Rishi Jhunjhunwala: Thank you. just one last thing on third party loss ratios, if you can remind me, I am sorry if I am asking again, but this quarter the loss ratios have gone up because you have strengthened the provisions related to past claims or related to the claims that you have got policies that you have got this year?

Gopal Balachandran: So, as we explained Rishi, as we kind of put out as a part of our opening remarks, what we are seeing is there are court judgements. In fact, we have seen judgements coming in Quarter 4 as well where I think the extent of compensation that we have seen with respect of claims that is being awarded by courts to the claimants, we have clearly seen increasing trends of average claim sizes. And therefore, I think when we have looked at the possibility of the similar kind of average claim sizes going up even with respect to our outstanding book, we have looked at our existing book and seen that in the event if these judgements were to have an impact even with respect to the past book, we have reassessed those loss reserves and on that basis we have strengthened the reserves in Quarter 4 and that is the reason why you see actually the motor TP loss ratios for Quarter 4 reflecting higher number relative to what you would have seen in the previous quarters.

Bhargav Dasgupta: I was just adding to what Gopal said for Rishi, so Rishi if you look at our aggregate you will see from the overall triangles that we have disclosed, you will see the aggregate release this year will be a lower number than the aggregate release last year. You can look at the numbers that we give out. You can figure out the release that we had last year, and you will see aggregate release is less this year. We still have an aggregate release but the release is less. So, what Gopal is explaining is because there have been some recent Supreme Court judgements that has come in, which we believe can increase the claims in future. So, we have actually further adjusted some of the old book and hence the aggregate release is a bit less.

Moderator: The next question is from the line of Sanketh Godha from Spark Capital.

Sanketh Godha: On motor third party again, we just wanted to understand when you said the Supreme Court judgement, the average ticket size of the claims have gone up, so the increase in the severity, if you can quantify that number, means what is the compensation difference, what you have incorporated in your numbers and then that resulted into increase in the motor TP loss ratio substantially in 4th Quarter. And second thing just wanted to know with this adjustment and probably you might have answered, but just wanted to confirm it again, that you have already provided for the entire outstanding claims what you have on your books or this could be repeated going ahead also? So, we are going to look 80% plus kind of a loss ratio in motor TP business going ahead? That is my first question. I have a health one, maybe after you answer this, I will ask that one.

Bhargav Dasgupta: So, the second part Sanketh, the approach that we have always had is that whenever we reserve, we have what we call a margin for adverse deviation and that is our marginal safety really. And then as we go along the year as the data comes through, we keep on releasing from that year if it is releasable. There is no change in that approach. So, we would not take part of the increased provision.

So, the new event has come to the light because of this new judgement. So, we would not take only a little bit of that rather we have taken full amount of what we think is potentially going to hit us in future. Of course, this is a natural assumption, so we have taken the full hit. It is not a part hit. But in spite of that full hit that we have taken in this quarter, as I said, for the entire aggregate because we have releases from other parts, in motor TP we had to increase because of that reason. But across other lines, we have had releases. So, in aggregate net of that provision increase we have got a release again this year but to a lesser extent than last year.

Sanketh Godha: But what was the severity increase as per the new judgement?

Gopal Balachandran: Sanketh, in general what we have seen is obviously it is an estimation that we have made at this point of time, but the expectation is that we should possibly see an increase in severity of almost close to about 20% relative to whatever would have been the earlier average claim size. We are likely to see an increase in severity of around 20%.

Sanketh Godha: Why I am asking this question because we used to provide at an inflation rate of 12% to 14% so instead of coming at 12% to 14% it has come at 20%, so that is reason we increased the number, that is the right way to think it, right?

Gopal Balachandran: That is exactly the way we have done as Bhargav explained I think the approach to reserving is we obviously keep looking at loss development relative to the estimates that we have carried and, basis the incremental judgements that keep coming from Courts from time to time, I think we have looked at what is the loss estimates that we already carry vis-à-vis the expectations that we have. And the recent judgement that has come in Quarter 4 specifically has made us to relook at our existing book. And as of now, I think the expectation is that it should possibly result into an increase in the average claim size by almost about 20%.

Sanketh Godha: Sorry to harp on this point, but this adverse compensation was seen in death claims or it is seeing across death and injury and property damage?

Bhargav Dasgupta: It will be for the death claims and the small value death claims. For the large value death claims there may not be a big impact. They will be for the small, not for the injury cases but biggest impact will be in terms of the small value death claims.

Moderator: The next question is from the line of Santanu Chakraborty from Edelweiss.

Santanu Chakraborty: My questions are two fold actually. One is, a small clarification that relates to the expense account number which has been reallocated from insured expenses into other expenses. I just wanted to clarify that does not change your profit number in any way, right? That is just what the regulator would have allowed you to be booked as a direct expense for the business? Is that understanding right?

Gopal Balachandran: That understanding is right, Santanu. That is more a requirement of regulation. As I explained in certain sublines of businesses in case if you see your actual arrived expenses is higher than the allowable limit then the excess has to be separately reflected as a part of the P&L statement. But in the aggregate, the profitability numbers do not undergo any change.

Santanu Chakraborty: So, that also influences the optics of your combine ratio, doesn't it?

Gopal Balachandran: No, it does not impact the combined ratio because the way the regulators ask us to reflect this, if you see, expenses other than those related to insurance business as a part of the profit and loss statement. And correspondingly on the revenue side, in the revenue account, it is a part of your other income, the regular amount is being reflected. So, when we compute the combined ratio, the combined ratio already factors in for the expense of management that is a part of the operating expense number in the revenue account.

Santanu Chakraborty: Perfect. So, not only does it not impact the bottom line even the metric that you give out as a ratio, it is not impacted.

Gopal Balachandran: Absolutely.

Santanu Chakraborty: Now my second question. This relates to prices overall and perhaps more with regard to medical indemnity and a little bit in regard to motor OD. Now in medical indemnity, as you have been alluding to non-Covid claim offset in the current cycle may not be as much of a relief as it was last time because perhaps the lockdowns are less sporadic, people are perhaps a little less scared to go after other discretionary kind of expenditure. I understand all of that. But do you not see a set of circumstances where that may actually work out in your favor in terms of pricing? Let me phrase the question this way, if today if your pricing for your indemnity product across product classes was 5% lower, what would be your growth number be in terms of volume? How much higher could it be? Do you see that demand as elastic, or it is a function of your distribution structure? The reason I am asking this is because I personally have an expectation that those prices are going harden mainly because of certain events facing some of your competitors.

Bhargav Dasgupta: Santanu that is a great question. First part of the response is that I guess as you know and you have seen us, we plan for the worst and hope for the best. So, all of these are hypothesis. Honestly speaking, it is very difficult to say whether we will have the same impact on non-Covid claims or not. We are baking in an assumption that it won't be, just to be conservative, for two reasons, one is, last time maybe the elective surgeries were delayed, whether it will be delayed again this time or not, maybe it will not be. But one thing, do remember there are these other claims which are normal fever, etc. which again will disappear like last time. That will not be different than last time is our hypothesis. But we are being a bit cautious and expecting or anticipating the same picture as last year but whether it will be or not so, only time will tell. We are taking a slightly more conservative stand. Coming back to your question on elasticity, there is some amount of elasticity which is a short-term impact. What I mean by that is, when you do a repricing, and we had that impact even this year, when we repriced in January 2021. First couple of months, we had some reduction in sales because the entire channel the entire sales force everyone has to gear up to talk about a higher price. And what happens in indemnity insurance is that at least we as a company we generally do not take price increases every year. We took a price increase after quite a few years this time which is a strategy that we will change going ahead. But that is what we have done in the past which is that we took a price increase after quite a few years. So, the increase was relatively high for certain customers. So, when the increase is, let’s say 5%-7%, I do not think there is any impact at an individual level also but when the price increase is at say 30%-40% for individuals, then they may have some impact. And when you do these price corrections after 5-6 years and you have a slab-based pricing model in India, then for those cut-over age profiles their increment could be very high. So, there could be some elasticity for that, just those customers. But it is a short-term thing and then it kind of, I mean if you look at our mass numbers our health indemnity numbers have been very strong.

Santanu Chakraborty: The reason I am asking this question Bhargav is that I am expecting a hardening price environment overall. So, even if you participate there, I just want to understand what implication it could have?

Bhargav Dasgupta: I think that will happen because I think the multiline companies like us, we have some benefit in terms of set off because of the motor claims, but the standalone companies do not have any set off. And my sense is exactly what you are saying that there will be some need for price correction potentially for the industry.

Moderator: The next question is from the line of Hitesh Gulati from Haitong Securities.

Hitesh Gulati: What is the mix of new cars and old cars in the motor OD?

Gopal Balachandran: Overall mix is now 30-70.

Hitesh Gulati: Can you tell me what was the mix last year?

Bhargav Dasgupta: Last year it was 38-62,

Hitesh Gulati: This is the last question. What is the mix of indemnity and benefit right now? Benefit used to be 70 historically. Would that have come down?

Gopal Balachandran: Given that Hitesh we have seen the benefit segment significantly being impacted on account of the discussions that we had. I think at this point of time, the indemnity will actually contribute to almost 65% or so, the benefit will contribute the balance.

Bhargav Dasgupta: It is actually reversed in fact.

Moderator: The next question is from the line of Deepika Mundra from JP Morgan.

Deepika Mundra: I just wanted to understand your take on growth given the headwinds that you are seeing in motor TP as well as in health to a certain extent? Do you feel we are in for another year for slightly slower growth like we have had this past year as well?

Bhargav Dasgupta: So, that is a tough question. If you had asked me the question one month back, I would have been a lot more optimistic about the growth. We were very bullish about the growth coming in this year. Obviously when a second wave comes, it will have some impact vis-a-vis what we were anticipating even one month back. Our sense is that in spite of that this year will not be like last year of a single digit growth for the industry. Last year we had a 5.2% growth in the industry. Our sense is that this coming year in spite of this second wave of COVID we will go back to maybe between 12% to 15% growth for the industry. There is a bit of base effect. Again, that will help, and the base effect would have pulled the growth up more, but it may not because of this second wave is our sense. But honestly speaking, this is what we are anticipating it. As you know it depends on how things progress. We are making some hypothesis and we are saying this. We believe that particularly in Maharashtra probably we have reached the peak numbers and we will hopefully see a reduction. We are also hoping that at a national level we will see a peak by May and then we will see a reduction. But if we are wrong on that count, then obviously there could be some impact. But our going in hypothesis for next year it will be a low teen growth.

Deepika Mundra: Just a follow up on the motor TP price is the delay just procedural from the regulator or is there something else that we should read and go ahead in terms of not wanting to give a price hike given second wave again say similar to last year?

Bhargav Dasgupta: Difficult to second guess. Based on whatever conversations we are having; we believe that the Authority understands that there is a need for increase and hence we are hoping that it will happen. It is a matter of timing.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Bhargav Dasgupta for closing comments.

Bhargav Dasgupta: Again, thank you for joining. It is a Saturday evening. But more importantly all of you take care, stay safe and see you over the quarter. Thank you.

Moderator: On behalf of ICICI Lombard General Insurance Company Limited that concludes this conference. Thank you all for joining, you may now disconnect your lines.

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.