New India Assurance Company Limited
Conference Call on Financial results for 2018
May 14, 2018

Moderator: Good morning, ladies and gentlemen. I am Aniket, the moderator for this conference. Welcome to the Conference call of the New India Assurance Company Limited arranged by Concept Investor Relations, to discuss its Financial Year 2018 results. We have with us today Mr. G Srinivasan – Chairman and Managing Director, and Ms. S.N. Rajeswari – Chief Financial Officer. At this moment all participants are in the listen-only mode. Later we will conduct a question and answer session at that time if you have a question, please press '*' and '1' on your telephone keypad. Please note that this conference is recorded. I would now like to hand the flow over to Mr. G Srinivasan. Thank you and over to you, sir.

G. Srinivasan: Thank you very much. Ladies and Gentlemen first of all good morning to every one of you. Extremely grateful to you for taking your time off and being on this conference call.

Friends 2017-18 has been a very good year for New India Assurance. We made a profit after tax of Rs 2,201 crore as against the previous year of Rs 1,008 crore. An increase of almost 118.35%. The operating performance improved substantially, which was the reason for the improvement in the profit after tax. The combined ratio dropped almost 8% from 118.72% to 111.20%. The adjusted combined ratio dropped by 8% to 95% from 103%. The reason for the improvement in the combined ratio was improvement in the incurred claim ratio substantially almost 5.5% and management expense ratio of almost 3.5%.

The incurred claims ratio was 85.66% as against 91.26% in the earlier year. The expense of management which New India has the lowest expense ratio in the market of 16.84 % as against 20.34 % in the previous year. The commission ratio went up by more than 1.5% largely because of the increase in the remuneration of the intermediaries due to the regulations of the IRDA. The gross written premium of the company grew by about 15.5%, reached Rs 26,534 crore. The Indian gross direct premium grew by 19% to reach Rs 22,717 crore. So, the Indian business which is the major growth driver for the company, we did exceedingly well, keeping in line with the growth in the market.

The net worth of the company including fair value increased to Rs 38,301 crore. As against Rs 35,342 crore in the earlier year. The investments under management rose to Rs 64,819 crore as against Rs 59,695 crore. The underwriting loss of the company came down substantially almost by 30% to Rs 2,525 crore. The investment income of the company grew by about 14.5% to Rs 5,165 crore. The company made an operating profit of Rs 1,003 crore as against loss of Rs 557 crore in the earlier year. The solvency of the company is a very strong one 2.58 against 2.17 of the earlier year. The Board of Directors have decided to recommend a final dividend of 100% which is pre-bonus. Making a total of 175% for the whole year including an interim dividend of 75%. The company's Board of Directors also decided to recommend a bonus issue of 1:1. I have not really talked about Q4 results consciously because, the last quarter of the last year, 2016-2017, we made an accounting change to recognize reserve for unexpired risk. Earlier we were doing by the normal method of 50%. Whereas we have now moved to 1/365 method which is more scientific. This is also a method recommended by the regulator, as we have put in place necessary software to do it. So, we made this accounting change. As a result, there was a reduction in the reserve for unexpired risk of about Rs 533 crore in the last quarter. That is why Q4 numbers are not comparable. That is why I focused on the entire year result. If you remember even in the DRHP we had restated our accounts because of this accounting change.

.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dhaval Gada from Sundaram Mutual Funds please go ahead.

Dhaval Gada: Hi Sir, just 3 questions. Firstly, on the accounting change that you mentioned, I believe that was done at the time of IPO and it's not in the fourth quarter of FY18. Is that understanding correct?

G. Srinivasan: Yes, it was done in the last quarter of last Financial year. That is 2016-17, much before the IPO.

Dhaval Gada: Okay. The second is, any specific reason why we do not share the Reserving Triangle?

G. Srinivasan: See the only reason is you know, we have some international operations as well. And you know, the actuaries in respect to territories calculate the IBNR for each of the foreign operations. So, we really could not combine both and come with a reserving triangle. That is why we shared the Indian Reserving triangle which is a major part of the business, to the analysts to investors who so ever needs it. That's the reason why we had not put it in the disclosure statement.

Dhaval Gada: Have we done It for the FY18?

G. Srinivasan: We have done it and we continue to be a very prudently reserved company, and we see reserving to be much better than the actual claims.

Dhaval Gada: Sorry sir, what I had was, have we shared the reserving triangle for the FY 18 period. Is it part of the disclosure?

G. Srinivasan: It is not part of the disclosure as we mentioned. But we have the Indian Triangle which can always be shared.

Dhaval Gada: Could you share the prior year, as the ultimate loss ratios change for the prior year, if there is either a reserve release or addition. I just wanted to know in the current financial year and in the current Q4 FY18, have we made any addition or reduction to the prior year to remove the prior year adjustments made in the quarter and the financial year?

G. Srinivasan: See actually, the reserves have gone up, by almost Rs 1,000 crore in actual numbers. The IBNR has gone up. The change which I mentioned in the internal accounting was in the URR not in the IBNR. It is in the reserve for unexpired risks.

Dhaval Gada: So, in this quarter, we have added Rs 1,000 crore of IBNR, is that what you are highlighting?

G. Srinivasan: I am saying the whole year.

Dhaval Gada: And for the quarter sir?

G. Srinivasan: See what we did was, you know, we do the actuarial valuation at the end of the year. And that was the requirement of the regulator also. Only from the current year, we have been doing every quarter. So, we basically make provisions based on the trends indicated by the actuary in the previous year. So, this is now based on the actuarial valuations at the end of the year.

Dhaval Gada: So large part of it is done in the fourth quarter only.

G. Srinivasan: No. It has been done during the year, but what I am saying is, exact numbers have been frozen at the end of the year. ‘

Dhaval Gada: Okay Got it. In the last call also, you mentioned that the industry will benefit to some extent because of the MISP guideline. Any progress or any update on that front. Are we seeing pricing being rational and could you talk a little bit about the benefits and or otherwise?

G. Srinivasan: See MISP has basically 2 important benefits. One is, it brings down the expenses for the company. Earlier we were incurring lot of outsourcing expenses. Today the regulator fixed whatever the payout to the dealers as part of the MISP guidelines. So, there is a saving in terms of the payout to the motor dealers. The second benefit is, control on claims, which the regulator put it in the guidelines. The full benefit of it has still to be realized, but we are seeing some improvements in terms of our ability to control claims and also the regulators insistence that dealers should not have too much say on the claims. So, the benefits of that are still coming. So, to conclude what I can say is, we have realized some benefits, but some more benefits are to be realized in course of the current year.

Dhaval Gada: And the Motor OD claims ratio improvement that we have seen in FY18 over FY17, how much would you attribute to underlying claims improvement, or any price increase? And how much is because of the MISP, if you could sort of broadly quantify.

G. Srinivasan: See MISP came only towards the end of the year. It came only by November. The motor OD loss ratio has dropped almost by about 8%. I would probably put not more than 1% to the MISP, because it's too early days.

Moderator: The next question is from the line of Hitesh Gulati from Haitong Securities, please go ahead.

Hitesh Gulati: My question is regarding the combined ratio for the health business. So is this understanding correct that in Q4 FY18 the combined ratio for the health business has actually increased. Is that correct sir?

G. Srinivasan: There is a marginal increase in the health loss ratio in Q4. Largely because of 2 reasons. One was, health insurance policy we have for the government which have produced some higher losses, which of course we have re-priced substantially now and also we have done reinsurance of that. And also, a personal accident policy, we have with one of the state governments, have produced slightly higher results. So, there is a very little increase, but it's marginal. That's that I would say.

Hitesh Gulati: Okay. On the group health part, we have overall would have seen an improvement right, for the full year ratio.

G. Srinivasan: Yes. The group health loss ratio for the whole year has come down from 125% to 110%. And price corrections are still on. The full benefits of price correction have still not been realized. And we expect this loss ratio to come down to around 100% by end of year 2018-19.

Hitesh Gulati: Sir on the retail part, what could the numbers be?

G. Srinivasan: On the retail side the loss ratio has come down from 85% to about 78%. So, there is 7% drop in the retail loss ratio. And again, you know, we did the price correction in the middle of last year. So, some part of it has been shown in the year 2017-18, but balance benefit of the price increase will be shown in 2018-19.

Hitesh Gulati: Sir we did not see anything disturbing on the crop side right. There wasn't a major catastrophic event or loss-making event on the crop, is that correct.

G. Srinivasan: We are reasonably fortunate. Our crop loss ratio was around 92%. We had some states where there were no losses. We still have one state where there are losses, which is why it is 92%

otherwise it would have been much lower. That way we were fortunate to have a better loss ratio compared to the market.

Moderator: Thank you. The next question is from the line of Anand Dolani, please go ahead.

Anand Dolani: Sir my first question is on crop insurance. Before we have seen significant losses in crop insurance as compared to Q3. And in our notes, you have mentioned that there is no actual yield data available, and provision for outstanding case has been made based on IBNR. So, is this an elaborate like, are we provisioning 100% and is there any scope for reversal yield data, some sense?

G. Srinivasan: Sir actually you know what typically happens is, government gives the yield data, and based on that we work out the claim experience. Normally, when the claims experience is good, we find more delays on part of the government in giving the yield data. So there have been some states where the yield data even for Kharif are not available for example, Gujarat which had a good year in terms of yield and monsoon. But we have received yield data from Uttar Pradesh, which is one of the states we had covered. But we typically are able to estimate, whether there is a good yield or whether there is not so good yield, whether it's a bad yield based on the monsoon details and also the feedback we get from the crop cutting experiments which our people also accompany. So, we are able to get a reasonably good estimate of what is likely to be a loss ratio, based on that we provide for it. And I would also like to mention that, in this business the net premium on our books is relatively small, because we almost reinsure 80% of that. The results of this business normally do not have a major impact on our results.

Anand Dolani: But sir, if I see quarter on quarter thing showing it's quite huge. So, is it due to any accounting policy related to crop insurance?

G. Srinivasan: In case of crop we do take into account the information we get from the field about the loss ratio and also some development could happen on the previous estimates. So, in terms of the actual numbers, it is not really big, though the percentage per se has gone up, as compared to Q3 the loss ratio has gone up. But in terms of the actual numbers, it is not really much. It's largely because of the full information which become available to us. Both on the Kharif and the estimate on the Rabi crop, which we have covered in one state, State of Tamil Nadu, which this year also tends to be relatively bad. So that is the reason why you see an increase in the Q4 numbers.

Anand Dolani: And lastly sir, again on crop insurance, given the experience this year, pricing wise, do you think there will be some tightening or there will be loosening of the prices underwriting premiums for crop insurance, given the industry wide experience of FY18 Kharif and Rabi crops?

G. Srinivasan: Basically, the pricing is done through an Actuarial estimate, based on the last 10 years yield experience. So, if the experience is bad, this year then it tends to increase the actuarial price.

So, there will be a natural increase in those states where the claims experience has been adverse. Those states where the claims experience has been good, there could be a positive impact on the rate. So, there is a natural way of adjusting the rate based on the claims experience.

Moderator: Thank you. The next question is from the line of Utsav Gogirwar from Investec Capital, please go ahead.

Utsav Gogirwar: If you look at the health insurance business, underwriting profits, we have seen increase in underwriting loss. Just want to understand, we have increased the price of health premium in November I believe. And despite that we are seeing losses. Already you mentioned that it is because of the government schemes, is there any other reason behind this?

G. Srinivasan: Sir, actually if you look at the health loss ratio, on the restated numbers last year, it was 114%. It has come down to 103%. So, there is 11% improvement in the overall health loss ratio. There is an improvement both in the group health loss ratio, as well in the retail health loss ratio. On the retail space, we had increased the prices in the middle of the year. So, part of the benefits has been seen. Part of the benefits will be seen in 2018-19. Same is the case in group health. We have corrected the prices, we have also walked away from some accounts where we were not able to get the right price. And part of the benefit has been seen, that is why their group health loss ratio has come down from 125% to 110%. I expect this to come down to 100% by the end of the year. In case of government health, it was one major scheme which we wrote, which had higher losses, last year. We have corrected that price. So, we will see improvement in the government loss health ratio also. So, we have shown 11% drop in the health loss ratio, and we expect this to come down to around 95% by 2018-19.

Utsav Gogirwar: Sir, second question is, can you just help me with the diagrams for FY19, especially on where the growth we are targeting and the combined ratio?

G. Srinivasan: Sir, I can only say that I don't want to give you exact numbers in terms of growth. We will grow in line with the market. We will maintain our, market position. Which is what we have done, which is what we guided for the year 2017-18 also, we have done that, we have maintained our market position. Even though there is lot of competition. In terms of combined ratio, I have already given this. We said that we will reach 110%. We were at 111%. There was one reason for the slight increase in the combine ratio which was the improvement or increase in the gratuity numbers. Payment of gratuity act came just 2 days before the close of the financial year. So, we had to make additional provision about Rs 325 crore but we went for amortization over a period of 5 years, taking approval of the regulator. So there is an impact of around Rs 70 crore in the gratuity provision. If you exclude that, out combined ratio would have been around 110.75% which is in line with what we had achieved in Q3 as well. So, our target is to reach 105% by 2018-19. We have almost reduced 8%. We are now targeting a 5% drop and we are confident of achieving that.

Moderator: Thank you. The next question is from the line of Anirudh Agarwal from AAA investments, please go ahead.

Anirudh Agarwal: My first question was again on the crop business. How many states are we underwriting crop business in currently?

G. Srinivasan: We actually underwrite in Gujarat, Rajasthan, Uttar Pradesh, and Tamil Nadu. So, we as you know, our presence in crop is very moderate. Only about 7% of our business in crop. And this is something we always explain many times. And we also do a large amount of reinsurance. 80% is reinsured. So that's how we manage the crop portfolio.

Anirudh Agarwal: Sir the question was actually, our loss ratio is 92% but for the market as a whole it would be substantially more right, would that understanding be correct?

G. Srinivasan: Sir, I wouldn't be able to give you a number for the market. It's not correct for me because I don't have number from all. So, it's not correct for me to give a number for the market.

Anirudh Agarwal: And on reinsurance rate hike, so have we seen a good growth or hike in reinsurance in crop and health? Or can you give us some idea?

G. Srinivasan: I mean, as far as the current reinsurance season is concerned, 1st April renewal, we have seen, generally maintenance of the earlier rates, flat rates, as far as reinsurance rates are concerned, because of the size of our business long relationship, and also the experience, the improvements in various portfolios, reinsurance has been same. Rates also depend on the particular customers experience and relationship. In terms of crop, the commission rates have dropped for the markets, so there is slight reduction in the commission rates, that is one change that has happened in the current financial year.

Anirudh Agarwal: Okay. But in terms of health and motor third party, we have largely maintained our rates okay. And finally, one broad question. So, in terms of technology, how do we think that plays on both the customer acquisition as well as under writing? So where do we think technology and digital is really going to help us going forward.

G. Srinivasan: We are fairly strong in technology. We have a core insurance solution, which has been continuously upgraded, both hardware and software. And it's actually helping us to show a very good operating expense ratio. Our management expense ratio is relatively small because we are able to do more business, issue about 2.8 crore policies, with lesser number of employees, with lesser cost largely because of the technology. On the digital side, about 15% of our policies are issued through online methods, and that number is also increasing so we are focusing in term of tying up with various brokers and web aggregators, empowering our agents. Today about 20,000 of our 80,000 agents use digital portals to issue policies, through our micro offices, we have about 1,400 micro offices, in tier 2, tier3, tier 4 cities. They use technology to issue policy. So, we are using technology in a very big way to acquire business. In terms of underwriting, we do a lot of data analytics, as a company which is almost 100 years old. We have lot of data, lot of information. So, we arrive at the burning cost rates in fire, we arrive at claims experience in motors across territories, across dealers, to identify what is good and what is bad business. In health also, we identify certain trends to do better underwriting. So, we use data analytics to improve the quality of underwriting in the organization.

Anirudh Agarwal: And would it be fair to say that as an industry as a whole over the next 3 years we could see a good increase, improvement in the combined ratio, given all the insurers focus on underwriting.

G. Srinivasan: Yes, you are absolutely right. There is lot of focus on improving the bottom line of the company because the industry is growing. There is lot of growth which is happening. So, growth naturally needs more capital. So, when one looks for capital naturally focus on bottom line becomes very important. So, we are seeing this in a big way in the industry, that most of the players are focused on the bottom line as well. So, you will see improvement in the combined ratios for the industry, directionally in the next few years.

Moderator: Thank you. The next question from the line of Abhijeet S from Kotak Securities, please go ahead.

Abhijeet S: Good morning sir. Again, on crop, can you share what was the Q-o-Q movement in loss ratio; fourth quarter vs third Quarter. And fourth quarter last year?

G. Srinivasan: See I can give you third quarter versus fourth quarter of the current year. 65% moved to 92% in the fourth quarter, largely because of one state, State of Tamil Nadu. Which again though not as bad as last year, but still not as good. So, we expect higher losses in the Rabi crop. That is why we have made additional provisions for that state. That is the improvement in the increase in the crop loss ratio during the year. Last year our over- all loss ratio in crop was again in 90s, say 93%. It just maintained the similar position of the last year.

Abhijeet S: When I look at the disclosures on the technical reserves for crop, there is a decline vs last quarter. So, what explains that?

G. Srinivasan: That is largely because we had to rework our reinsurance numbers and also rework the cost we paid for the excess of loss programs based on the actual acreage and other details. Actual premiums which were procured by the company. So there has been a small change in the net premium of crop insurance.

Abhijeet S: Sir but I am looking at the technical liabilities.

G. Srinivasan: Sir have you taken the revised version. Because there were some mistakes so we had refiled our statement. So, the technical liabilities did not include the reserve for unexpired risk by mistake. We had corrected that and refiled yesterday night.

Abhijeet S: Okay, so I am carrying the older one. Okay.

Moderator: The next question is from the line of Dinesh Balachandran from SBI Mutual Funds, please go ahead.

Dinesh Balachandran: Good morning, I just had a question in the combined ratio expectation that you mentioned for FY19. You said that we can expect roughly 5% improvement for FY19. I wanted a little bit more detail, as in terms of which segment do we expect to see the improvement from?

G. Srinivasan: Actually, we expect improvement in Health and Motor. So, these are 2 major portfolios where there is potential for improvement in the loss ratios. So, I expect health loss ratio to come down and also the motor, especially own damage loss ratio to come down. So, these are 2 segments where I expect improvement. Basically, large portfolios which will impact the overall combined ratio.

Dinesh Balachandran: Sir when I look at the motor OD component of claims ratio, there we have already seen a significant improvement from last year right. Where when I look at the FY18 numbers when I compare to FY17. That's been a roughly 9% drop. And now when I look at the competitive intensity, in terms of new players wanting to sort of make more inroads, Motor OD normally tends to be segment that they can target in the easiest manner. I am just wondering; can we really sort of see non-trivial improvement given in FY19 in Motor OD.

G. Srinivasan: Sir at least 6% to 7% improvement in the OD loss ratio is possible. Because I expect 65% to 67% as a loss ratio where we can compete well in the market. So, we have identified certain reasons for that. And we are working on it. We certainly expect that this improvement is feasible during the current year.

Dinesh Balachandran: I see. And on the Motor TP side what's your expectation sir?

G. Srinivasan: Sir the motor TP side of course this year the price increase is around 8%. It's not as high as last year. But I am basically waiting for the motor vehicles act to be passed. Which the minister has promised to happen in the next monsoon session. That would give us a lot of improvement. So I am basically betting myself on the passing of the motor vehicles act. Otherwise, you know the loss ratio would probably be around the same level as we have at this point of time.

Dinesh Balachandran: Just one final question sir. In terms of ROE target. This year we ended with a ROE of roughly 16%. So what's the expectation that we have going forward.

G. Srinivasan: Actually, this year the RoE came down because we raised more capital. Because of the general insurance business maximization act, we had to go for the IPO . ROE should touch 20% by 2018-19.

Dinesh Balachandran: Okay, that's a fair expectation for the next year. Okay.

Moderator: Thank you. The next question is from the line of Ravi Mehta from Deep Financial.

Ravi Mehta: One question was that, you highlighted that the commission and brokerage expenses are going up because of some guidelines. So where can we see a steady state? Because it has been increasing continuously since many quarters.

G. Srinivasan: Sir actually 2 things happened during the year. One is, regulator changed the intermediary regulation on 1st April for the whole market and brought in a concept of reward for agents and brokers. So that is why you are seeing an increase on a quarter to quarter basis. The second thing which happened was, Motor Insurance Service Provider regulation. Since 1st November, what was earlier paid as an outsourcing expense, now is passed on to the commission. So, my expectation is the commission would stabilize at around 8.5%. And it has already seen the upside. There is no possibility for it to go any further. It will stabilize at around 8.5%.

Ravi Mehta: That's on the gross or the net return.

G. Srinivasan: I am saying the Net return sir.

Moderator: Thank you. The next question is from the line of Sandeep Bed from Quest Investment, please go ahead.

Sandeep Bed: My first question is on net premium earned, that has come down compared to last quarter of FY17. What is the reason for that?

G. Srinivasan: Actually, you know, this is a result of change in the accounting policy of reserve for unexpired Risk. Before last year, we were doing 50% basis, then towards the end of the last year in the fourth quarter, we moved to 1/365, there was a change of almost Rs 533 crore in the reserve for unexpired risks. So, which is why you are seeing quarter to quarter there is a drop in the net earned premium. Probably the annual premium would give you a better picture on the net earned premium sir. There is definitely a good growth on the Net earned premium. That's the reason for the quarter to quarter change.

Sandeep Bed: Sir, given that in Q4 FY17, we changed the policy to 1/365 days, and this quarter also we have the same policy, so are these two numbers not comparable.

G. Srinivasan: Because, when we make the change, we get the benefits of earlier quarter also in the fourth quarter. So, this year it's only this quarter. So that is why they are not comparable.

Sandeep Bed: Got it. Secondly when I look at income in shareholders account. Income from investments have come down which I can understand because markets were not great in Q4 and maybe you would have booked less income in that quarter. But other income has come down by more than Rs 100 crore. What results in a decline in the other income?

G. Srinivasan: We have the income tax refunds. When we get refunds we get quite a bit of interest on them. So, the previous year we had big refunds coming from income tax department and interest which were accounted as part of the other income. This year it was relatively less, that is why you are seeing that difference.

Moderator: Mr. Sandeep Bed, may we request you that you return to the question que for follow up questions, as we have several participants waiting for their turn. The next question from the line of Dhaval Gada from Sundaram Mutual Funds, please go ahead.

Dhaval Gada: Just 2 questions. First, could you talk about the Rs 1,000 crore additions that you did to the reserves during the current financial year, how much broadly came from Motor TP and the second question was, the Motor OD improvement for the current financial year, have you seen any rate increases in any segment. And you mentioned that you want to take to down to 65%. What is the sort of rate increase that you are building in, or it's just the experience and mix that will drive the improvement in FY19? Those were the 2 questions. Thanks

G. Srinivasan: Sir major part of the increase in IBNR largely comes from Motor Third Party. So, I won't be able to give you how much exact number which came from Motor Third Party. But I can tell you that most of the increase in IBNR is from Motor TP. The second question on Motor Own Damage, how we will reduce it, I am not talking of price increase as a method of correction sir. In case of Motor OD, you know there are, we have lot of business with Motor dealers, with OEMs, so what we are doing is, we are doing a risk analysis of various dealers, looking at the claims experience. Those dealers whose experiences are not good, we are moving away from those dealers. That's the kind of risk selection we are doing in case of Motor OD business. There is one more thing we are doing that is product called **Nil depreciation** policy which has caused a spurt in the motor own damage loss ratio. We are also making lot of correction pulling back on this product and the benefit of that will also help us to bring down the motor OD loss ratio.

Moderator: Thank you. The next question is from the line of Harish Khandwala from Khandwala Securities Limited, please go ahead.

Harish Khandwala: Good morning. My question is what the total investment portfolio is, if you could give us some idea on the equity and the debt and what is the yield?

G. Srinivasan: Out total investment is close to Rs 65,000 crore assets under management, and on a market value basis about 50% would be equity, 50% would be non-equity, though on a cost basis only 18% is equity remaining 82% is non-equity. In terms of yield on a market value basis we are still around 8% on the total investments, though on a book value basis it goes up. Because you know, profit on sale of investments is calculated on book value then it goes to around 15% but on a market value basis its around 8% sir.

Harish Khandwala: This diminution in the value which is Rs 112 crore has been made, that's only into the debt market or equity and debt both?

G. Srinivasan: Sir can you repeat again Sir?

Harish Khandwala: Yes. It shows that the diminution is the value Rs 112 crore.

G. Srinivasan: Sir it's only Rs 11 crore. And its equity sir. Every year based on our accounting policy you know we do some write offs based on the performance of the stock. And also, some unlisted shares also get written off. Every year we have a small write off. So, we have well laid down accounting policy, based on that we do this.

Harish Khandwala: One more question. It is mentioned in the presentation that 80cc will impact on your profitability. So, can you just list the numbers that how much will it has impact on profitability, in terms of other income?

G. Srinivasan: Actually, long term capital gain tax came at a time when the market was at its peak. It is only for the future increases so we don't expect any significant impact on us when we realize profits, because the market was at its best when this provision was introduced. And there is a grand fathering provision. So, we don't expect any significant impact on us.

Harish Khandwala: Does the management have any said policy on the distribution of dividend from the total profitability for next 2 to 3 years.

G. Srinivasan: Sir actually there is a dividend policy and there of course the board has the authority to recommend dividend, but we say at least 30% of the profit would be distributed as dividend. IF you see this year we have almost distributed 33 and odd percent as dividend.

Moderator: Thank you. The next question is a follow-up from the line of Anand Dolani from Samkeeksha Capital, please go ahead.

Anand Dolani: You mentioned the combined ratio guidance of 105% for FY19, just wanted to understand, is this based on the assumption that the motor vehicle amendment act pass, or if the motor vehicle amendment passes, we will see a lower combined ratio. Is it based on that?

G. Srinivasan: Actually, you know, as I explained, I have not even factored in any improvement in the motor third party improvement in the motor third party loss ratio to arrive at 105%. It was largely come from health and Motor own damage portfolios. By various steps we are putting in place, both underwriting and claims management steps.

Anand Dolani: In case of crop, since its relatively longer tail business, do you see for our FY18 experience, do we need to make any additional reserves, if there are experience from remaining states, and UP Rabi if it doesn't come out well. And what could be the upper limit for any such reserve needed?

G. Srinivasan: Sir Crop is essentially a short-term business. The only thing is you know it just coincides with that financial year end, because the Rabi crop almost goes up to March, and that's the situation. So, it is not a long tail business. We will quickly know. And typically, we get lot of information, because we periodically monitor the crop situation, in the states we provide the crop insurance coverage, through various crop cutting experiments, through our own agencies, though our own people. So, we have a fair idea of what is the loss experience. So, I do not expect any adverse development on the crop of what they have written in the current year.

Anand Dolani: Okay. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Avinash Singh from SBI Capital Security, please go ahead.

Avinash Singh: Hi, 2 questions. First on your IBNR that you say is about Rs 1,000 crore. Now if I look at it as a percentage of your net earned premium this year, this is roughly close to 5% impact on your combined reserve losses you have for this year. That means that unless we are expecting this sort of a previous year to continue, we are already at 106% combined ratio, and you are still saying 105% for next year. Is it that you are still building in some sort of a reserve strengthen to continue for the coming years? That is my question number one. And second, related to the same. When typically for every percentage movement in combined ratio, your ROE is improved by approximately 1%. So, if 111 to 105%, that typically means that ROE will go to 22% to 23%, but still on combined you are saying 105 and on ROE you are saying 20%. So, is there some sort of disconnect? And thirdly, your revaluation reserve, the fair value gain has reduced a bit y-o-y. I am not looking at just Q4, because Q4 markets were bad. Given that these are mostly equity gains, but it has come down from FY17 to FY18 where market for the full year has gone up and you have typically good investments. So, what explains this slight fall? Thank you.

G. Srinivasan: Sir the first question on the IBNR, basically you know we tend to be conservative, we tend to be prudent, so you will certainly see our provisioning always to be higher than the actual claims. There are always reserve releases on a year on basis, which has been a consistent trend of the company for many years. So that is something we are comfortable with. We will continue with that. On the second question, about 6% drop in the combined ratio, you know when I give an estimate I need to be a little conservative., I mean you would be able to understand what exactly would happen, but then somebody from the management side I need to give a very conservative estimation, so that you know I don't go wrong. SO that's the reason. If it is more than 20 I am equally happy about it. On the third question on fair value, as on 31st March 2018, and certainly this is based on the prices as on that date. And it also depends on the composition of our shares so that is the reason why you are seeing some drop in the fair value of the equity.

Moderator: The next question is from the line of Rishi Jhunjhunwala from IIFL, please go ahead.

Rishi Jhunjhunwala: Sir one question on your though process around crop business. If your provisioning is prudent and conservative, then fairly you are doing relatively better than some of the peers even in the private space. But your exposure to the overall crop as a percentage of overall business is not as high. Just wondering, would you really think about increasing exposure to crop, probably at the expense of you know, areas like, corporate health which is structurally been a loss-making business with high competitive pricing pressures. And even not coming from health but even otherwise I guess your insolvency ratios are pretty healthy.

G. Srinivasan: Actually, you know, crop is one business where we have a very stable position. We will be doing about 7% to 8% of our total business from crop. And it will be done on a very selective basis, spread across the country and also at the right prices, because it's based on a tender. So, I think this strategy is an independent strategy. Whereas coming to group health, yes certainly that's the business where we have virtually in actual terms we have de grown, because we have walked away from quite a few accounts where we didn't get the right price. We are correcting the prices, so that strategy will continue. And one more thing I just want to say is that group health is also partially not a standalone business. It also comes with a lot of other businesses, so we have to take those calls, in those accounts where there is an overall profitability if we have to continue to do group health we cannot say no to it. So, it's a combination of factors which decide our strategy. Substituting group health with crop may not be a practical way. Each one will have to be looked at independently sir.

Rishi Jhunjhunwala: Okay. And secondly on the Motor TP, where do you think the current rates as prescribed by the IRDA are vs what the ideal TP rate should be which basically makes this business more profitable vs what it has been in the past.

G. Srinivasan: Sir, this year the price increase is around 8%, of course it's much below the expectations of the insurance industry. We thought at least 15% increase would have been given. That's largely because of the numbers IRDA is saying based on the experience of the industry. So, this is the gap we are seeing. About you know I would say the price around 7% to 8% gap in the pricing. The motor vehicles act, which we are just waiting for the parliament to function, and then it will get passed because it has the general unanimity of all the stake holders. If that happens there is going to be a structural improvement in the motor third party portfolio, then there could be more improvement in the loss ratio.

Rishi Jhunjhunwala: Great, and just one quickly. What is your average health insurance for say family floaters in terms of sum assured? I am just asking this, because we just wanted to get some sense in terms of what the government is proposing in terms of Ayushman Bharat members having Rs 5 lakh rupees per annum, for a family, there we are currently, you know already for those kinds of schemes?

G. Srinivasan: Actually, you know both the schemes are not comparable. One is an individual health scheme. And the other one is a mass health scheme. And you know, your individual health scheme also depends on what is the age of the person and what is the sum insured. So, these are 2 important factors, on which premium is decided, normally as a person is younger, in our case prices are lower we are extremely competitive. As somebody ages you know, our premiums are higher, we are not very competitive. This is as far as individual health premium is concerned. But mass scheme like the Ayushman Bharat which government is proposing, there you know there they cover a huge population 50 crore people. So there the large numbers tend to operate and also, they have fixed packages which has generally lower because of the size and many of them are in rural and semi urban areas. So, they cannot compare but we will certainly evaluate when those tenders come. It also changes from one state to another state, because experience is not uniform across all the states and we will certainly share the right price to ensure that it is viable for us.

Moderator: Thank you. The next question is from the line of Anirudh Agarwal from AAA investments, please go ahead.

Anirudh Agarwal: The question is actually on reinsurance. So, what is the kind of competition you seeing in reinsurance in terms of premiums that we need to pay up. And also going forward any comments on the right of first refusal that has been offered to the domestic reinsurance?

G. Srinivasan: Sir, in terms of competition, see there are large number of foreign branches in India over now the second year of operation so, there is option available and GIC is a large player, with whom we have long relationship and comfort. So typically, you know the market depends on the global trend. So, we have seemed to say the market has been by and large similar to what it was in the earlier year. And also, because we have had better result. So that's how I would look at it. And we also have international reinsurers who can give us support, if the Indian market is finding it difficult. So that way we have various options available. In terms of the right of first refusal, it is not exactly right of first refusal, it is just a policy where we should not bypass the Indian reinsurer. So that is how it has to be looked at and I mean fortunately you know because of our long relationship we do get very good rates even from the Indian reinsurers like GIC and other branches who are located here. So that has not been a major concern for us.

Rishi Jhunjhunwala: Sir just following up on that, so by showing the slip to GIC we mean that they do retain the option to underwrite that business if they wish. Is that correct?

G. Srinivasan: Sir what typically we do get rates from various markets, also international reinsurers and also GIC. And GIC also looks at the various features and takes a call. So that is what I am saying. So, we do not lose anything. Even if we place business with GIC or other Indian reinsurers.

Rishi Jhunjhunwala: And the last question in term of the market growth I think you mentioned that the market could grow 8 times by 2030, so which segments you think will contribute to that and what exactly is leading to the sustainable growth in the whole industry.

G. Srinivasan: Sir, India is a highly underpenetrated market, so there is lot of growth especially in the retail lines of business. 65% of our business comes from retail segments, we clearly see that there is lot of insurance awareness happening, the disposable incomes are growing up, so people are now seeing insurance as a necessity. Not as a luxury. Products like retail health insurance, retail motor insurance, home owner's insurance, personal accident insurance, these are lines which are largely underpenetrated at this point of time, and they are going to see a substantial improvement in the coming years. That is why we are very upbeat about the growth prospects of the General Insurance Industry.

Moderator: Thank you. We take the last question from the line of Neeraj Toshniwal from Emkay Global, please go ahead.

Neeraj Toshniwal: Sir wanted to understand with the increase in the crop claim experience, how would you be seeing your selective underwriting policy in terms of crop insurance

G. Srinivasan: We have been extremely selective when it comes to crop insurance and have a very stable policy on crop insurance. And we are also kind of distributed across the country. We also ensured that we charged the right rates. So, this is the policy we follow. And even as you see now, we have underwritten in four corners of the country, which gives us little bit of spread and of course, doing an adequate amount of re insurance is also been one of the strategies we follow in managing this portfolio.

Neeraj Toshniwal: Okay. And what kind of, from a high base obviously now the growth has started to normalize a bit. So where do you see the growth rate continuing in terms of crop and other segments?

G. Srinivasan: Overall growth the market, specially the Indian market would grow at about 18% on a year to year basis. In terms of crop, I expect a growth of 15% to 20% annually.

Neeraj Toshniwal: And in terms of reinsurance, are we seeing increasing reinsurance rates for the crop because of the increasing claims?

G. Srinivasan: Sir in case of crop, you know the reinsurer typically follows the rates given by the direct insurer, which is actuarially determined and it varies from state to state based on the experience over the last 10 years. But the reinsurance commissions have come down on crop insurance, in the current year compared to the previous year.

Neeraj Toshniwal: Okay. And the rates have been fairly stable or have they actually increased.

G. Srinivasan: Rates vary according to the state, based on the experience if the previous year, had some higher claims, this year the rates would be high. So that how it would be. If the previous year there are no claims, then the rates should come down. Its determined-on updates on a 10-year data by the actuarial.

Neeraj Toshniwal: Okay and last question, motor TP with only 8% increase this year, what kind of loss experience we are actually factoring because of the lower pricing increases this year?

G. Srinivasan: In terms of the price increase, what the regulator has done is, based on a formula. So according to that, claims experience should be same. There shouldn't be any change. But I expected motor vehicles act, which is going to be passed in the monsoon session to be against changes that would help us to bring down the loss ratio to make this portfolio more viable.

Moderator: Thank you. I would like to hand over the call to the management for their closing comments. Over to you sir.

G. Srinivasan: My dear friends, I am extremely grateful to you for being with me during this conference call. Can assure you that New India Assurance is poised for better performance, better growth, better operating results, and better profitability. We are just entering our 100th year. So (1:00:00) 100th year would start on July 23rd. And New India has been an institution, not only a market leader which is really given lot of new things to the Indian general insurance. As the market leaders we will continue to thrive this market in the coming years. New India as a market leader has a great brand and will leverage the growth in the market for better performance in the coming years. Thank you very much for your support and your patience.

Moderator: Thank you. On behalf of New India Assurance company Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

- **Ends** -

This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.