



**“Bajaj Finserv Limited
Q3 FY2022 Results Conference Call”**

January 21, 2021



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Bajaj Finserv Limited
January 21, 2021

Moderator: Ladies and gentlemen good day and welcome to the Bajaj Finserv Limited Q3 FY22 Results Conference Call hosted by JM Financial Limited. As a reminder, all participant 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 that this conference is being recorded. I now hand the conference over to Ms. Sameer Bhise from JM Financial Limited. Thank you and over to you Sir!

Sameer Bhise: Thank you Faizon. Good afternoon everyone and thank you for joining us for the Bajaj Finserv Q3 FY22 Results Conference Call. From the management team of Bajaj Finserv Limited, we have Mr. S Sreenivasan (CFO of Bajaj Finserv Limited), Mr. Tapan Singhel (CEO of Bajaj Allianz General Insurance Company), Mr. Tarun Chugh (CEO of Bajaj Allianz Life Insurance Company), Mr. Ramandeep Singh Sahni (CFO of Bajaj Allianz General Insurance) and Mr. Bharat Kalsi (CFO of Bajaj Allianz Life Insurance). Thank you for this opportunity given to us by Bajaj Finserv. I will now hand over to Mr. Sreenivasan to open the call. Over to you Sir!

S Sreenivasan: Good afternoon everyone. Welcome to the conference call to discuss the results of Bajaj Finserv Limited for Q3 of FY21-22.

Let me clear up some hygiene points first. As before, in this call, we will largely be concentrating on the consolidated results as well as the results of our insurance company through Bajaj Allianz General Insurance, BAGIC and Bajaj Allianz Life Insurance, BALIC and the material standalone results of our company BFS. Bajaj Finance (BFL) which is another major subsidiary of ours has already had its conference call. However, if there are any high-level questions on BFL, we would be glad to take that as well. We will not be taking any questions on the status of Allianz’s stake in our insurance companies. The status has remained the same as the end of the previous quarter and there is no change. Any statements that may look like forward looking statements are just estimates and do not constitute an assurance or indication of any future performance result.

A remark on Ind-AS - as required by regulation we have adopted Indian accounting standards from FY19. However, the insurance companies are not covered under Ind-AS. They have prepared Ind-AS financials only for the purpose of consolidation. Accordingly, for BAGIC and BALIC, standalone numbers reported below are based on non Ind-AS accounting standards or Indian GAAP as applicable to insurance companies. Our results, the press release accompanying the results, and our investor deck have been uploaded on our website yesterday evening.

Let me now give you an update on the performance for Q3 and 9M. Economic recovery gained further strength on the back of sustained drop in infections, rapid vaccinations and continued surge in mobility. Aggregate demand indicated sustained recovery across sectors, although supply bottlenecks impacted festive season sales of motor vehicles. Extended unseasonal monsoons did result in claims for general insurance sector.

Under these circumstances our businesses shifted focus to growth and continue to tightly monitor risk parameters. The company and its subsidiaries continued their initiatives for arranging vaccinations for employees and their families. We are also conducting periodic testing to reduce the risk the spread of infections. Apart from ensuring the well-being of its employees and their near and dear ones, this also ensures greater preparedness for the company and its businesses in the event of another wave.

Let me now touch upon each of our major businesses.

Let me start with BAGIC. Overall a decent quarter for BAGIC. For the quarter, degrowth of 13.2% in the headline numbers i.e. gross domestic premium income is on account of higher chunky businesses like crop and government held business during the previous year in the same quarter. Therefore, there was a base affect.

While BAGIC has been cautious in the group health segment given the uncertainty with respect to multiple COVID claims, it has underwritten the business wherever right pricing was available. Excluding these tender driven businesses, GDPI growth for the quarter is 6.1% as against the industry growth of 9.9%. During 9M FY22, excluding crop and government health, BAGIC GDPI growth was a tad under the industry growth of 11.6% at 10.2%.

BAGIC continues its approach to calibrated growth, that is, seeking to grow in preferred segments which are private cars, two wheelers, commercial lines and retail health, while remaining cautious yet opportunistic on group health. To give some more detail, ex crop and government growth of 6.1% in Q3 was driven by fire (15%), engineering (40%), marine (25%), liability (14%) and travel (227%). Overall, in all these lines, BAGIC has been able to grow faster than the market.

During the quarter, BAGIC's preferred segment of new private cars and two wheelers was impacted with slowdown in sales of motor OD policies. The commercial vehicle segment which was under strain to grow for much of FY21, however, continued to recover. Barring any significant impact of a third wave, we see it improving towards pre-pandemic levels in the coming quarters.

Overall, in the 9 months, BAGIC had a growth in motor insurance of 3.6%, which was in line with the industry growth of 3.7%. While it is expected that the auto industry will continue to face some supply side constraints in the near term, the performance in Q4 will also depend on what will be the impact on overall demand due to the third wave of COVID.

In commercial lines, with the aid of its strong bank assurance and agency channels, as well as underwriting and reinsurance capacity for covering large risks, BAGIC continued its strong performance across retail, commercial and industrial risk categories. Fire and marine segments continued their growth momentum. Engineering and liability lines have also shown strong growth, overcoming the slight slowing seen in the previous quarter.

Commercial lines continue to do better than industry with Q3 FY22 and 9M FY22 growth of 17.9% and 17.1% respectively as against the industry growth of 15.7% and 13.7%.

In respect of retail health, given the strong demand for Corona covered policies in the previous year, the base for retail health for Q3 FY22 and 9M was high. Despite this, BAGIC's Q3 FY22 retail health growth of 5.8% was more than the multiline insurers growth of 3.6%.

Overall, in 9M FY22 retail health growth of 7.5% is marginally more than the 6.5% growth of multiline insurers. While BAGIC continues to be cautious on group health, growth is driven at the right pricing for each relationship. Excluding government health schemes, BAGIC registered a strong growth in health of 20.3% and 20.9% in Q3 FY22 and 9M FY22 respectively.

Finally, to further strengthen its offerings, during the quarter BAGIC launched its Health Prime rider in collaboration with Bajaj Finserv Health, which is another subsidiary of ours. This offers customers unlimited teleconsultation, cashless OPD, diagnostics (pathology and radiology), and annual preventive health checkup.

On the claims front, the experience was generally better than the previous two quarters which were negatively impacted by higher health claims from the second wave of COVID. There was quarter on quarter reduction in COVID-19 claims, but severity of non-COVID health claims was still relatively higher compared to pre-COVID levels. Given that the extent of economic activity is not impacted as much as it did in the earlier waves, motor OD claims frequency and severity are back to pre-COVID levels. Moreover, heavy rains in Kerala, Uttarakhand and Tamil Nadu witnessed in this quarter had some negative impact on claims.

All these factors did impact results for the quarter, but notwithstanding these, combined ratio increased only marginally to 98.9% as against 96.1% in the Q3 of FY21. In a market which is intensively price competitive, this result, we believe, is encouraging.

Let me take a couple of minutes to explain the top-level drivers of the GI business. The impact of COVID and the lockdown on the GI business are unique. The main drivers of growth in GI business are capital formation including spending on automobiles, float generation and claims and expense control. About 48% of the GI industry is property in the current year (motor, fire, engineering and marine), about 38% is liability oriented (retail health, group health, travel, corporate liability and workman compensation), and about 11% is tender driven, with the rest (a small component) being miscellaneous which is difficult to classify.

COVID has affected new vehicle sales as well as new corporate investments in fixed capital. Thus, the property side has been affected, apart from the fact that existing assets depreciate annually. While overall property driven lines have maintained their contribution in the mix at 48%, motor's contribution has come down and other lines have seen improvement (BAGIC has performed better than the markets in these other lines).

The liability businesses have been stronger. Of this, health business has no float and must deliver over the medium term a good combined ratio. Due to COVID, health claims went up, thereby affecting the profitability of health business across the market. Tender driven businesses are volatile and crop business is exposed to large claims, which may happen once in a few years. While in Q3 of this year, the crop loss ratios did go up, overall, in 9M FY22 they are profitable for us. Historically low interest rates meant lower yields on investment book as well.

In these circumstances, BAGIC has focused on profitability and remained selective in growth while focusing on customer experience. BAGIC did indeed maintain its market position, improved efficiency, and enhanced customer experience with underwriting discipline in the difficult environment for the insurance business. BAGIC is cautiously optimistic on growth as it enters the last quarter of FY22 as the green shoots are visible.

Once auto sales and corporate investments pickup, and in the absence of pandemic related health claims, the prospect for FY23, we hope will be better. However, as growth returns, there could be some strain on reported profits as earned premiums may lag GWP growth for a couple of quarters. In summary it has been a balanced but soft quarter for BAGIC.

Coming to life insurance. Overall, the life insurance industry continues to deliver a solid growth driven by private players. During the quarter, while few private players saw slowdown in month on month growth during either October or November, BALIC continued on its month on month growth trajectory and reported an industry beating individual rated new business premium growth of 68% against the industry growth of 20%, and private sector growth of just 28%. In fact, in Q3 of FY22, BALIC was the fastest growing among life insurers among the top 10 players.

On a 9M basis, among the top 10 private players BALIC's individual rated new business growth of 58% was the second fastest against the industry growth of 20% and the private players growth of 30%. When compared to pre-pandemic levels by taking a two-year CAGR for Q3 IRNB, BALIC has delivered a CAGR of 38%, which is the highest in the industry.

On the product front, the annuity product launched by BALIC in Q4 FY21 continues to be well received in the market. During the quarter as well as in 9M FY22, 12% of the rated new business was from annuity segment.

In line with the industry, demand for retail protection continues to be sluggish on the back of successive price increases, and hence contributed 2.5% and 3.6% of the total product mix in Q3 FY22 and 9M FY22 respectively.

Despite the brief volatility seen in equity markets during the quarter, the risk appetite of the retail saver seems to be higher as evidenced by the strong demand for ULIPs. BALIC ULIP contribution to product mix was 43% in the quarter (i.e. Q3 FY22) versus 42% in Q3 of FY21.

Guaranteed Non-par savings contribution to the mix in IRNB terms dropped to 23% from 28% in Q3 FY21. While contribution to the mix has come down, in absolute terms non-par savings has grown by a solid 41% during the quarter. The annuity line of business is part of non-par savings, and post inclusion of annuity Non-Par Savings has seen growth in mix at 36% versus 28% in Q3 FY21, helping improve the overall NBV as well.

Participating or PAR segment contribution in the mix witnessed some reduction and stood at 19% versus 25% in Q3 FY21. But in absolute terms, the PAR segment has shown growth of 24% and 50% in Q3 FY22 and 9M FY22 respectively. While most lines (except retail term) have shown solid growth, the business mix changes reflects relative differences in growth and hence not a matter we are concerned about in the short term.

Group protection business continued to display strong growth of 66% from Rs.431 Crores in Q3 FY21 to Rs.717 Crores in Q3 FY22. Overall, group new business grew by 19% from Rs.1,084 Crores in Q3 FY21 to Rs.1,288 Crores in Q3 FY22. You may recall that group business was muted in 9M of FY21 as lending by banks and NBFCs had slowed down considerably.

During the quarter, growth was driven by all the main channels of BALIC, with Agency, Institutional Business and BALIC Direct growing at 44%, 102%, and 42% respectively. Renewals registered a strong growth of 18% during the quarter, and because of all these factors BALIC's GWP grew by 30% to Rs.4079 Crores in Q3 FY22.

One point I would like to highlight here is the strong year on year increase in persistency across all vintages. 13th month persistency increased by 3% to 81% while 61st month persistency increased by 5% to 46%. The efforts of the management to increase contactability, improve the quality of products, enhance digital offerings and focus on customer value over the last few years have been the key to delivering this increase.

On the claims front, COVID wave 2 impact had largely come down in Q3. Gradual month on month improvement in claims experience observed in Q2 continued and total claims in Q3 FY22 was actually lower than expected. On the retail side, BALIC has received around 550+ claims in the quarter pertaining to COVID-19 amounting to Rs.27 Crores on gross basis in Q3. BALIC has reserved for probable future COVID-19 claims on account of third wave and the reserves for the same stand at Rs.93 Crores (net of Re-insurance recovery) as of December 31, 2021.

The total impact of COVID claims and reserves in Q3 FY22 on policyholders PBT was (-) Rs.9 Crores as against (-) Rs.105 Crores in the previous quarter (Q2 FY22) and (-) Rs.335 Crores in Q1 of FY22.

Similar to the previous quarter, we have continued making quarterly disclosures of NBV. In addition to the NBV for the quarter, we have also indicated the NBV for the rolling 12 months ended December 31, 2021. Due to high variations in seasonality of business across quarters, I would advise investors to exercise caution while reading into Q3 NBV and margins. We had mentioned in our earlier call that quarterly NBVs and NBMs may not reflect the possible year end results. Investors may already be aware that since a significant portion of life insurance business usually comes in Q4, most of the fixed cost borne during the year gets absorbed in the last quarter of the year. Please note that the NBV on rolling 12 months basis does not indicate a forecast or expectation for FY22.

New business value, net of expense overruns, the key metric of profitability, increased by 89% from Rs.81 Crores in Q3 of last year to Rs.152 Crores in Q3 of this year. For the 12 months ended December 31, 2021 the NBV was Rs.533 Crores as against Rs.256 Crores for the 12 months ended December 31 2020 and Rs.361 Crores for the whole of FY 2021.

BALIC's PAT for Q3 FY22 was Rs.88 Crores against Rs.118 Crores in Q3 FY22; impacted mainly by higher newer business strain arising out of strong business growth. Overall, another very good quarter for BALIC.

Finally, both the insurance companies are financially among the most solvent - BALIC with 604% solvency and BAGIC with 333% solvency, and therefore are well poised to weather any external adversity.

All our businesses have further augmented their digital capabilities which, along with greater digital acceptance by the customers, should help overcome challenges and deliver a strong performance in the final quarter of this year and beyond. Both BAGIC and BALIC have seen an increase in the utilization of the digital properties by customers and intermediaries. Further details regarding their digital capability are covered in the investor deck uploaded on the website yesterday.

BFL has already had its investor call and we will only broadly touch upon BFL results. Q3 FY22 was an excellent quarter for BFL as the company delivered on all its long-term financial guidance metrics - AUM, profit growth, return on asset, return on equity as well as gross and net NPA. Continuing the growth seen in the number of new loans booked in Q2 FY22, the number of new loans booked had further increased to 7.44 million in Q3 as against 6.04 million in Q3 of the last year. This is almost in line with the pre-COVID times when 7.67 million loans were booked in Q3 of FY20.

The company's diversified business model has enabled it to record a strong AUM growth as seen from the total AUM standing at Rs.1,81,250 Crores as at December 31, 2021 as against Rs.1,43,550 Crores on December 31, 2020.

Debt management efficiencies across products improved in Q3 FY22 and BFL also added a further Rs.251 Crores to its management overlay provisions to cover the third and possible future waves of COVID. The total management overlay provision for losses stands at Rs.1,083 Crores as of December 31, 2021.

Overall, pre-provision profitability remains strong and adequate to cover expected losses. BFL has ended the quarter with a profit after tax of Rs.2,125 Crores which was 85% higher than Q3 FY21 PAT of Rs.1,146 Crores. Capital adequacy remains strong - including tier two capital it was 26.96% of which 24.44% was tier one.

Bajaj Housing Finance, a 100% mortgage subsidiary of BFL, continues to do well. AUM grew 39% to Rs.49,203 Crores from Rs.35,492 Crores in the Q3 of last year. Profit after tax grew by 87% to Rs.185 Crores in this quarter as against Rs.99 Crores in Q3 of FY21 on account of robust AUM growth, higher net interest income and better portfolio performance. Capital adequacy ratios stand at 19.37%.

Finally, the BFL board has approved an infusion of up to Rs.2,500 Crores in Bajaj Housing Finance and Rs.400 Crores in our security business (Bajaj Financial Securities) to support their capital needs for the next 24 months at least. In summary, we believe BFL is well positioned to navigate any temporary stress. I would request investors wanting to have more information to go through BFL investor's presentation and transcript of their conference call.

Coming to the consolidated results - total income is up 10% to Rs.17,620 Crores. Consolidated profit after tax saw a 3% decrease at Rs.1,256 Crores.

I must add on the consolidated profit after tax that under Ind-AS the insurance subsidiaries have chosen to hold a large part of their equity securities portfolio as fair value through profit and loss account. Therefore, unrealized mark-to-market gain or loss on investment post tax included in consolidated in profit was a loss of Rs.38 Crores in this quarter versus a gain of Rs.384 Crores for Q3 FY21. If you exclude the volatile impact of the MTM losses or gains which generally follow the trends in the equity market, the core profit after tax would have increased by 43% in Q3 FY22 and 20% in 9M FY22 respectively.

With the gradual reopening post second wave of COVID-19 and the third wave so far being not seen as damaging as the previous two waves, and steady economic recovery, we are cautiously optimistic. Even though we are facing the risk of a third wave, the future outlook remains positive.

Under these circumstances our businesses have shifted focus to regaining growth while continuing to manage risk. Backed by strong solvency well above the required capital supported by healthy liquidity, continued focus on risk and collection, digitized processes and improved cost structures, we believe we are in a strong position to maneuver through these difficult times.

Let me now open the floor for questions and answers. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Bharat Shah from ASK Investment Managers Limited. Please go ahead.

Bharat Shah: Behind what are apparently excellent results for the life insurance business and the continuing progress, are there any soft spots that you may want to identify or highlight? Similarly, behind apparently difficult quarter for the general insurance business, what are some of the good things that has happened or happening which numbers do not reveal?

S Sreenivasan: Bharat, good afternoon. Thank you to have your question. I will let Tarun first and then Tapan take the questions. Tarun, the question was are there any soft spots that a very good performance of Life Company does not reveal?

Tarun Chugh: Thanks Bharat, always deep and insightful questions from you. Yes, let me just talk about the spots where we could have been a little better. First, our term mix has dropped significantly because of the impact of the reinsurance regulations changing very often. It was causing a lot of customer pain hence we calibrated our entire approach and took a little of “wait and watch”

approach and focused on our underwriting and analytics platform. This was to be able to set our processes right and make it stronger before we took more term. So, versus the other companies, you will find that this is a strategy we used differently. But I think it is time well spent and we are feeling a lot stronger on the quality of lives that we are adding versus the general market. But yes, in terms of results, it will show that our term business is low. While overall the growth has been fantastic, on a 9-month basis the number of policies added could have been way better. The growth is not as high, largely because of average ticket size that has gone up. NOP growth, if I remember, was softer to about 6% to 7% in 9M FY22. I would have been happier if more growth would have come from NOPs and not only average ticket size. But having said that average ticket size also shows that BALIC is now kind of strongly on the journey which we envisaged three to five years back - of moving to more affluent base than the mass market. So that of course on one end seems to be good, but on the other end NOP growth could have been better. On the product mix, I would have been happier with maybe little bit more par and lesser ULIP. But that is I think the way it is given the addition of new channels that we have had. There was a good run towards ULIP plans in the last month of the quarter, so as a result it has helped increasing productivity, but at the same time it has been more than what we envisaged we will write. Good thing is that all this is at the behest of increasing topline. It is not that we have done less and within that product mix changed. So, I think it is no loss really, but we would have been happier if a lot of that came from the PAR plans as well. We are hence looking at our strategy in PAR plans. We already have a pretty strong presence in 18 states - we do have a good presence in states where PAR plans do well, and we will be focusing a lot more on that and training our teams on PAR plans. Largely these are the three things I can think of. Bharat Kalsi is there anything you feel we should add in this?

Bharat Kalsi: No, I think Tarun you covered all the relevant points.

Bharat Shah: Thank you Tarun for that explanation, it is very useful.

S Sreenivasan: Bharat, I must add one point to what Tarun said, is that we will be looking to further diversify our distribution especially on the institutional business side over the next two to three years. You have Bandhan, and Axis but some of the younger relationships – IDFC First, RBL, Karur Vysya, IPPB - they need to grow. So, a lot of this balancing act will happen over the next two to three years. So that volatility could remain depending on how the market behaves.

Bharat Shah: In general insurance, behind obviously a difficult environment in the quarter, is there anything good which is happening or being designed?

Tapan Singhel: Thank you Bharat. I think first and foremost the insurance industry follows two things – one the economic growth of the country, and second it also gets impacted by the losses which

happen. It is a direct impact, which is not in the future. New car sales have been down – we all know the chip story – which is a big component for general insurance. Second, COVID waves keeps on coming and the health claims keep moving on. Third, motor claims previously were down because of lockdowns, but this time there was not such intense lockdown, and after the lockdown opening up, the motor claims also went up. Fourth, there has been no hike in TP premium, which also contributes significantly. Overall growth for industry also has come down - from the high double digits it used to be earlier, right now it is just hovering around low double digits. But the way it is going, it will reach a single digit growth kind of position. Also, the loss ratios in the industry has moved up. If you look at the competitive base of the entire industry, you will see that for companies which were close to us, because of the loss their combined ratios overall have moved about 10% or so compared to the previous year. For us the movement in combined ratio will be 2% to 3%. In terms of overall growth, Bajaj Allianz would be at the level of the industry growth. So when the market is taking a beating in terms of loss ratios, the growth opportunity is getting restricted because of the different circumstances, I think BAGIC as a company has been still able to maintain its growth in the lines of business it wants to grow, as compared to the overall market. The combined ratio is also very comfortable in terms of still making underwriting profits in a market which is losing money considerably.

Having said that, the plus point would be that the awareness is getting created - I think people are now becoming aware about health insurance, which we hope is long-term. But a lot of time we have seen that the public memory is very short - when things get normal, I think these awareness levels also drop very significantly. Second good thing which is happening is in terms of digitalization. A lot of work is happening in terms of digital processes, in terms of making things simpler for customers, in terms of the data lake getting created, in terms of processes becoming much better for customers. So, customer experience has really moved up. Grievance ratios would be down - BAGIC continues to have one of the least grievance ratios in the industry. So, those works in terms of strengthening the infrastructure of the company, strengthening the distribution of the company, strengthening the servicing capability of the company, it is a good thing which has been happening. But the market isn't one quarter - if you look at the entire industry numbers, you will see this industry is going through a difficult time which would always happen. If the economic slowdowns are happening in terms of sale of vehicles, no projects coming up, if losses keep on happening because of pandemic, the industry can go through this kind of turmoil that is happening.

S. Sreenivasan:

Tapan do you want to highlight on health value add?

Tapan Singhel:

We believe that the issue in today's time is that customer looks for value. We have strongly believed that it is not that the customer always looks for the cheapest product which may not give a lot of value. In fact, a lot of questions I ask a lot of people is that how many of you

wear the cheapest shirt in the town, or eat the cheapest food, or go to the cheapest place in town. I am yet to find somebody who can give me an affirmative answer. Which means that the people pay for value and general insurance product is so transaction in nature. I think as a company we are very focused on providing value - from the very beginning we have been making huge efforts. The first and foremost effort was that we have this conviction, this drive and we have received awards for this as one of the best claim paying companies in the industry. So we are very obsessed about payment of claims - it has to be of the highest quality. Second, from very early on, we have been bringing a lot of value-added products for the customers. In motor, we were one of the first to bring in road-side assistance, which is great from a customer perspective. Or if you look at health, with our sister company, we have now come out with a product which is marvelous. It is a rider which we are giving on top of our health product. Looking at the rider and what does it offer - for a family floater (I am just talking highest range) so premium which is about Rs.2000 in a year you get tangible benefits of up to Rs.25000 including diagnostic charges being paid to you, doctor consultations, and you get unlimited tele-consultation. You get huge benefits in terms of OPD also being done seamlessly for you - now that also has been brought in with our main product as a rider. If you look at the value addition, we are giving from a customer perspective, lot of work is going on in the company. For a customer which comes to BAGIC, some of the value that they see is much beyond just transactional benefits. So this is always there - when you see a difficult time in industry, I think it is a very good time for you as a company to really make yourself much more stronger in terms to service to customer, in terms of value to customer. And that is what we are working on by the way.

Bharat Shah:

In terms of things that go into brand building, do you see the effort to communicate value is tougher now? The price everybody can see. Much like investment world, prices are tangible, but value has to be discerned. Therefore, when you communicate value proposition, if it is thought to be done through the distribution channels, probably it may get lost in the noisiness of the distribution channels. How exactly the sustained superior value equation in experience has been communicated and the brand perception is getting strengthened?

Tapan Singhel:

It is a very good question again. We do lot of surveys by independent bodies in terms of NPS scores, in terms of the brand positioning compared to market, or in terms of how the customer perceives us. You will be happy and proud to know that in the lines that we do our NPS scores be it the retail line we have had the highest NPS scores for a considerable long amount of time. Or if you look at brand recall, we have the highest brand recall in the market. If you talk to customers or talk to distributors in terms of what is the recall that they have, I think most of the surveys show that we are known as the best claim paying companies which offer a lot of value. We do a lot of dipstick check in terms of how it is building up. We communicate a lot through digital media, social media, and through distributors, and we come out with a lot

of things which the customers see as a huge value. Based on all reports that we checked on these parameters, we are way above the market.

Bharat Shah: One last question. In terms of the investment book, how much is the equity percentage in the life part of the business and how much it is in the general insurance part of the business? Policy and framework wise are the equity percentages different for each of the book?

S. Sreenivasan: In life, we are talking about the shareholder funds, since the policyholder funds are Asset Liability Management (ALM) matched and depend on the terms of the policy - so UL will be all policyholders' risk. In the Non-Par it is all guaranteed, so we do not hold much equity there. In the par we will have close to 20%. In the shareholder funds, we have 20% equity in the total shareholder fund, including the solvency capital and the excess capital. We are currently maybe close to that, about 18% or so. In the non-life side, our policy limit as of now is 10%. They have the opportunity to increase it as we go along, but as of now they are at about 8.5% or so. Raman are the numbers, right?

Ramandeep S.: Yes 8% for BAGIC is correct.

Bharat Shah: I suppose philosophically given the fact that general insurance is a shorter-term contract, equity has to be conceptually lower than for the life business?

S. Sreenivasan: That is right, because barring to some extent the motor third party liability, almost all other are short-tail businesses. So roughly our excess capital in general insurance is a little over 4,000 Crores, and we hold about 45% of that as equity. In the life business, I think it will be similar. Bharat in the shareholder fund what percentage of our excess capital would be in equity?

Bharat Kalsi: We have total shareholder fund of around 10,500 Crores and excess capital will be around 7,000 or so, but at the total level we have an equity exposure of 15%.

S. Sreenivasan: Okay, so that means we will have about 20-22% of the excess capital, right?

Bharat Kalsi: Yes 20-21%.

Bharat Shah: About 18.5% on the general insurance side?

S. Sreenivasan: That is right, of the excess capital or 10% of total capital. Capital is not required for solvency. Overall, 25% is the general limit for both under regulation of total investment assets.

Bharat Shah: Thank you.



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Moderator: Thank you. The next question is from the line of Manish Dhariwal from Fiducia Capital Advisors. Please go ahead.

Manish Dhariwal: Very good afternoon. My question is related to two verticals that is one on the health side and the second on the app that we have on the finance side. My understanding is that there are two apps on the finance side. One which is only selling Bajaj Finance products, and the second one is on the open architecture which is under Bajaj Finserv. I need some clarity on that.

S. Sreenivasan: Bajaj Finance is offering marketplace for their own customers and Finserv has an open architecture marketplace.

Manish Dhariwal: Are they two apps or there is one app?

S. Sreenivasan: They are two different companies. They have two apps, but at the backend the architecture will have a lot of commonality because Finserv Direct makes the IT platform for Bajaj Finance. For some of the marketplaces that are built, there will be a common backend, because the way we are developing Finserv Markets also as a Fintech company. We do not like to use the word Fintech, but I am just using it because at the backend it is a technology driven company. We have lot more software engineers working in that company, lot more youngsters, and they would have a platform. They will also develop platform for BFL as per their need, because they have investment in the open marketplace, which is limited, or they have different set of partners for GI or LI. The main difference between the two is that people will come to Finserv markets because there are multiple partners other than Bajaj Finance. They will also come directly. They could come for insurance, loans, e-store, investments, etc. In Bajaj Finance they come for a loan and then the whole platform is for cross sell to their existing customers. But in terms of experience, I think there will be some commonality in tech side, but experience could be different because of the different partners and the APIs.

Manish Dhariwal: Thank you. The second question is regarding the health platform. Are there any updates? How it is shaping up? What are the metrics they have now?

S. Sreenivasan: As of now, we are building that business. The company is focused on driving the tie ups through the doctors. They have signed up with a lot of doctors. We are not disclosing the numbers because we still need more stability. They have apps for doctors, they have apps for patient who will get OPD through those doctors. Many of them have already started using it and we are now present in probably about 150 towns or so in India. Apart from that, they also do things like this health prime rider with BAGIC, they sell health cards through Bajaj Finance and they will also be doing a few corporate deals where they are helping the corporates manage their health claims. It is still in early stages; we still have to invest in capabilities over the next couple of years. Finserv will be putting in that capital and we will

see how it goes. I think in about a year and half, we should reach the level of maturity there. For Finserv Direct obviously I think the path is clear and they will be looking to acquire more and more customers as they go along.

Moderator: Thank you. The next question is from the line of Heena from Systematix Group. Please go ahead.

Heena: Sir, I wanted to ask if there was any possibility of a reverse merger?

S. Sreenivasan: Reverse merger between what companies?

Heena: Between Bajaj Finance and Bajaj Finserv.

S. Sreenivasan: No. We have not considered that at all.

Moderator: Thank you. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Thanks for the opportunity Sir. There are three questions. Firstly, on Bajaj Finserv markets. The e-store and EMI store is owned by which company?

S. Sreenivasan: As of now, the e-store which Bajaj Finance has, Finserv markets offers their platform. Over the next few years, they will develop their own e-stores which may be outside of categories that Bajaj Finance may not do as well.

Nidhesh Jain: So today EMI store or e-store is owned by Bajaj Finance?

S. Sreenivasan: To an extent they already have a presence and e-store is theirs. But customers do come through Bajaj Finserv Markets as well. Over time we will have multiple options and we will have more categories which Bajaj Finserv Direct also will develop. But that is not priority. Our first priority is to develop the loan business and the insurance business, followed by the investment business and the e-store.

Nidhesh Jain: Sure. Second Sir, in the general insurance business how do we feel about the direct-to-consumer companies which are coming up, where they are offering their motor insurance policy at sharp discount to our pricing or industry's current pricing? What do we think about that?

S Sreenivasan: Tapan can you take this question?

Tapan Singhel: All markets will have different strategies. If you look at the companies what you should assess is their performance in terms of the market share that has been acquired, the policies which

are there in the market, profitability, balance sheet, etc. That is something which you as an investor have to assess. Having said that, we also have a very strong direct website and we also do quite a significant amount of business there. For companies like us, there are options for the customers - if they want direct service then they can approach our website, if they want the intermediaries, then they can approach intermediaries. In terms of intermediaries also, we have different intermediaries be it banks, be it agents, be it brokers, be it POS or the CSC village network. I think the advantage that legacy companies and companies like us which have massive distribution is that as a customer you have so many choices. If you want to come direct, you can also come direct. I think everybody has their own space in the market, they will all find different strategies. But overall, we have to look into forming our market share in terms of the profitability, in terms of customer service, there are places that would be more relevant and client focussed.

S Sreenivasan:

Just to add to what Tapan said, I think if you look at property insurances which is motor, fire and all that, that is where pricing is free. Otherwise, almost all the liability products are brochure pricing. Usually where B2C customers come in are low ticket sachet products. Number two, the discounts where there is free pricing, especially in motor, largely will be in the cash indemnity part where the claims are settled in cash. Because building the garage network, building the network for monitoring third-party claims, the MACTs and all that, whether you are acquiring customers directly or not, it is the same. So globally, maybe barring UK motor insurance, I do not think there is any specific evidence that direct companies have a lion's share of the market, and we will have to see how it goes. As of now, there is heavy discounting going on by them, but they do not have any tie-ups with the OEMs, there is no control over a lot of the new car sales through their marketplaces and platforms.

Nidhesh Jain:

Lastly sir, on the protection you mentioned that we are strengthening our underwriting and analytics platform. But is there any change to our reinsurance strategy that we were having in the past and are we rethinking about that?

S Sreenivasan:

We will be doing that by end of the year, because normally that is the time that we do that. There have been changes during the year in pricing. Clearly the more you retain, the more you have to be responsible in underwriting. With the COVID wave hampering mortality and morbidity risk was staring at you in the front. I mean the more business you do, the higher the risk immediately, and the chances of making money were much lower, notwithstanding what the assumptions were in NBM and NBV which companies may have used. So, we have been fairly conservative there. But as things ease up, I think that is something we will look at. Obviously, we will have to balance and over time we will have to keep increasing the retention. Because unlike property or other business of GI, in life business the premium in relation to the claim amount is very small. Also, there is a financial payout, so there is a great incentive for fraud in terms of claims. And over time term premium had dropped to such an

uneconomic extent, that the reinsurers were losing money, and that is why they have pulled the plug. So yes, we will be looking at increasing retention, but not overnight. Gradually we will increase it, and in the meantime, we will continue to strengthen our underwriting. Does that answer your question?

Nidhesh Jain: What is our retention policy today? At what sum assured level do we reinsure?

Bharat Kalsi: Today Nidhesh, we are at 40 lakhs. This is after the revised reinsurer guidelines for the retail book.

Nidhesh Jain: Thanks. Thank you all. Thank you.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Good afternoon. Sir, actually just correct my understanding, but did I read somewhere on the press release that the life insurance profitability is lower due to new business strain? So is this something which is expected to continue for a couple of quarters because the growth on the protection side has been higher, and if the profitability is obviously linked, so is it that the new business strain will continue for few more quarter?

S Sreenivasan: If we grow strongly, there will be more new business strain which affects the reported profit after tax. Because for every new business written by all the life companies, irrespective of the product, the first year is a loss. Now the amount of loss will vary according to the product. But by and large it is from year two, year three onwards, that you start making money. Therefore, the emphasis on persistency. So, if the growth is strong, the NBV will go up if you have managed your business mix reasonably well and contained your productivity and cost. But new business strain will continue to be there, that is why you have to invest the capital upfront. Luckily, we are in a position where we have surplus capital. We are sitting on a very strong solvency and it is why we are using part of that to build this. Tarun would you like to add something?

Tarun Chugh: I think largely you have answered Srini. Maybe the only additional point I will say is that bottom-line is not the right metric to look at any life insurance companies in India. Accounting practices in India assume all the cost for the life insurance companies (where our policies usually have a 10 to 20 year kind of a span) in the first year and all expenses have to be taken in the first year itself. Hence if you go fast, the losses will be higher as Sreeni said. The added point to that is you have to basically see the net new business value added, and the NBV is the one which unfolds over a period of time and tends to draw the value out from the insurance plan. That is what we have been focusing on, and not so much on the PAT, because NBV is still one that goes up.

- Mayur Parkeria:** Sir correct my understanding please. Sorry I may not be well versed with the accounting here so much on the life insurance side. But if because of the new business the profitability is impacted, how does the NBM increase on an annualized basis? I have read that from 11% last quarter it is 12.6% right now. So how is it that the NBM has increased or am I mistaken somewhere?
- Tarun Chugh:** Yes, I think there is a little bit more that you may have to work on this information. Yes, the NBM is the right metric, the NBM percentage growth, the way Sreeni hinted, is the way you look at the health of a life insurance company. If that is growing and the entire NBV or the entire pool is also growing; those are the real indicators of profitability of a life insurance company.
- Mayur Parkeria:** This does not include the impact which you mentioned about the Mark to Market losses of the equity?
- S Sreenivasan:** Those are quarter-on-quarter adjustments and they would not impact. So that is only for the purpose of consolidation in our consolidated results. It does not affect the standalone results of the insurance companies. Because life insurance is a long-term business, they have to consider the future profits that will be earned over the policies you have written in the year. And that is what NBV reflects – it is the present value of the expected future cash flows from new insurance policies that you have written during the period.
- Mayur Parkeria:** The other two questions were slightly on a consolidated level. We have taken a mutual fund asset management license in October if I am correct, but we have been relatively quiet on that side. Can you throw some light on that?
- S Sreenivasan:** We are not quiet. We are in the process of getting full registration, it is a multi-step process with SEBI regarding principal approval. Now we have to do step one, after which they will come and do an inspection. Then there will be another step, after which they will grant us the right to launch our products. We think that will be at least another 12 to 15 months from now, before we are allowed to launch products by SEBI.
- Mayur Parkeria:** Another 12 to 15 months.
- S Sreenivasan:** Yes, that is the process for getting a mutual fund registered, licensed and then go through the whole process. And then you launch the product. Meantime, we have started planning and strategizing and seeing how we can differentiate in that market, but over time, we will share about it.
- Mayur Parkeria:** Sir at the initial comment, you also mention that from the Finserv balance sheet you are going to invest 2,500 Crores in the housing finance subsidiary?



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- S Sreenivasan:** Bajaj Finance is investing 2,500 Crores in its housing finance subsidiary.
- Mayur Parkeria:** Is not housing finance or the subsidiary fully owned by the Finserv?
- S Sreenivasan:** No. It is fully owned by Bajaj Finance Limited. They need capital because they are preparing for a higher period of growth. They have grown 39%, the capital adequacy is 19%, but both BFL and BHFL decided that they need to infuse capital.
- Mayur Parkeria:** Sir, have we mentioned the percentage stake which we will have there? I am sorry I have not yet understood.
- S Sreenivasan:** As of now 100% is owned by BFL and the same will continue.
- Mayur Parkeria:** No, for our investment what will be our stake?
- S Sreenivasan:** We are not investing in Bajaj Housing Finance. BFL is investing 2,500 Crores.
- Mayur Parkeria:** Thank you so much.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Ms. Bunny Babjee for closing comments. Thank you and over to you Madam!
- Bunny Babjee:** On behalf of JM Financial I would like to thank Mr. Sreeni Sir, the senior management team of the insurance businesses, and all participants who are joining us in the call today. Thank you.
- S Sreenivasan:** Thank you all.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of JM Financial Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.