



“Bajaj Finserv Limited Q1 FY22 Earnings Conference Call”

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Please note that the transcript has been edited for the purpose of clarity and accuracy

Moderator: Ladies and gentlemen, good day, and welcome to Bajaj Finserv Conference Call Q1 FY2022 results hosted by JM Financial Institutional Securities 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. Bunny Babjee from JM Financial Institutional Securities Limited. Thank you and over to you, ma'am.

Bunny Babjee: Thank you. Good morning everyone and welcome to Bajaj Finserv's Earnings Call to discuss the first quarter FY22 Results.

To discuss the same, we have on the call, Mr. Sreenivasan - CFO, Bajaj Finserv Limited; Mr. Tapan Singhel - CEO of Bajaj Allianz General Insurance Limited; Mr. Tarun Chugh - CEO, Bajaj Allianz Life Insurance Limited; Mr. Ramandeep Singh Sahni - CFO, Bajaj Allianz General Insurance Limited and Mr. Bharat Kalsi - CFO, Bajaj Allianz Life Insurance Limited.

May I request Mr. Sreenivasan to take us through the financial highlights post which we can open the floor for Q&A session. Over to you, sir.

S. Sreenivasan: Thank you, Bunny. Good morning everybody. Welcome to the conference call to discuss the results of Bajaj Finserv Limited for Q1 FY22 which is the financial year 21-22. As before in this call, we will largely be concentrating on the consolidated results as well as the results of our insurance operations through Bajaj Allianz General Insurance and Bajaj Allianz Life Insurance and where material, the standalone results of our company. Bajaj Finance Limited, 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 company except to state that the status has remained the same as at 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 few remarks on the Ind AS to clean up the hygiene disclosures. As required by regulation, BFS has adopted Indian accounting standards or Ind AS from FY19. 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, the 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 Q1 of FY2022:

After brief recovery in Q4 of FY21, economic conditions as you are aware worsened in Q1 FY22 as the second wave of COVID spread across the country. This led to localized strict lockdowns in many states. Under these challenging times, our businesses focused primarily on managing risks with the calibrated approach to growth. Despite external challenges posed by the second wave in the form of provisions for loan losses and COVID claims affecting health and life insurance claims, we saw many positives as well in this quarter. BFL was able to grow its AUM quarter-on-quarter and further continued the acceleration of its business transformation plan which was announced late last year. The bounce rate was significantly lower than Q1 of FY21 and only about 8% higher as compared to Q4 of FY21. Bajaj Housing Finance recorded good growth in its AUM and profit after tax. BAGIC reported an underwriting profit while growing better than market in most preferred segments. BALIC had an excellent quarter of growth and was able to increase its new business value year-on-year.

Let me now touch upon each of our businesses.

While April started off reasonably well for the General Insurance industry and for BAGIC, the second wave of COVID resulted in localized lockdowns in many states across India thereafter. This led to slowdown in the economy and in turn lower sales of motor vehicles and creation of assets in the economy. In contrast to the complete lockdown in Q1 of FY21, localized lockdown in Q1 FY22 led to positive growth, however, as compared to Q4 of FY21, growth was lower. BAGIC's growth of 9.1% during the quarter was marginally lower than industry which grew at 11.1%. Excluding government business which is predominantly crop and health, BAGIC's GWP grew by 10.8% as against an industry growth of 11.6%. BAGIC continues its approach to calibrated growth i.e. sticking to grow in preferred segments which are private cars, two wheelers, commercial lines, (which include property, engineering, and liability) and retail health while remaining cautious on group health. BAGIC has done better and grown faster than market on most of these preferred segments.

To give some more detail, growth in Q1 was driven by motor two-wheeler and motor four-wheeler segments - which reported growth of 23% and 10.3% respectively while commercial vehicles continue to be stressed on growth. Given the fact that, Insurance Information Bureau (IIB) based premium rate hikes for property was started in Q4 of FY20, the base for Q1 FY22 was already at a higher rate. Notwithstanding this, BAGIC's commercial lines growth of 14% was very satisfactory and higher than the industry growth of 8.2%. Within the commercial lines, property i.e. fire grew by 11%; engineering grew by 26.9% and liability insurance grew by 21.3%. The 2-year CAGR which compares the growth with pre-COVID base for commercial lines was 26.9%. BAGIC's wide and deep bancassurance tie-ups, direct corporate, strong broker relationships and dedicated multiline agency force were large contributors in this substantial level of growth.

On the retail health insurance, BAGIC continued the momentum from previous year as increased COVID infection positivity rate during the wave-2 heightened the need for protection. BAGIC registered a growth of 30.8% in this segment - slightly lower than the overall industry despite lower sales of corona specific products as compared to Q1 of FY21. During wave-2, COVID

claims hit the industry much harder than wave-1. While in wave-1 majority of the mortality and morbidity cases were in the 50+ segment, in this wave, lower age groups were also severely hit. This caused more claims on group health segment (employer-employee) and also in the group individual life segments in addition to retail health. I will give you some flavor of the impact of wave 2. The second wave resulted in much higher frequency with 27,000+ claims reported in Q1 FY22 as against the total of 32,000+ claims reported during the whole of FY21. That is to say, over 80% of the value of claims reported in FY21 have already been reported in Q1 FY22. This has resulted in increase in COVID's claim cost to the tune of Rs. 283 crores in Q1 FY22 while in the previous year the same quarter, it was just Rs. 14 crores; however, by June this year the cases have started tapering off.

Secondly, on the motor OD segment, the claims frequency which was very low in Q1 FY21, had picked up to near pre-COVID levels by Q4 of FY21. In this quarter, Q1 FY22, the frequencies were much higher than Q1 of FY21 since we did not have a complete lockdown. We had mostly localized lockdown and vehicle movement had not come to a standstill. Overall, frequencies were slightly below pre-COVID levels. In addition, there has been some impact of claims from two cyclones, Tauktae and Yaas while the amounts were relatively much lower than the other two factors, we still had the modest impact in this quarter. As a result, the claim ratio for Q1 FY22 increased to 75.9% as against 68.1% in Q1 FY21. On account of higher claim ratio, the combined ratio for the quarter ended slightly above 100% and stood at 103.4% which we hope will still be among the best in the industry during this challenging quarter. Despite these negative factors affecting the industry, BAGIC was able to record an underwriting profit of Rs. 15 crores. BAGIC's profit after tax for Q1 FY22 ended at 362 crores and this is equivalent to a non-annualized return on equity of about 5% for the quarter. To summarize, a tough quarter and BAGIC did very well.

Let me now come to Life Insurance. During the quarter, on account of lower base and strong growth seen from December 2020, the industry in April continued to show an excellent growth. But with wave 2 of COVID-19 peaking in May and resulted strict lockdowns, there was a slowdown in May and early part of June. Despite these challenges, BALIC continued to do well both in absolute terms and relative to the industry. In Q1 FY22, BALIC with individual rated new business growth of 49% was the fastest growing among the top 10 private players (Private players grew by 26%). As a result, BALIC's market share increased from 5.7% to 6.7% in Q1 FY22 on this metric. In addition, BALIC's individual rated new business 2-year CAGR where the base is of pre-COVID level stood at 22% versus private players 2-year CAGR of -1% and that is the highest in the industry.

The annuity product launched by BALIC in Q4 FY21 was very well received by the market. During the quarter, approximately 12% of the individual rated NB was from the annuity segment. Demand for retail protection in Q1 FY21 was much higher, in Q1 FY22 on account of higher prices, the demand had tapered off. It had already started tapering off by second half of last year, but contribution of protection to the mix has sequentially quarter-on-quarter improved and is better than Q4 of FY21. The risk appetite of the retail saver seems to have increased as

evidenced by the strong demand for ULIPs. BALIC's ULIP contribution to product mix was 39% in the quarter. Guaranteed non-par savings were muted in the quarter with a small degrowth. The par segment which had degrown quite substantially in Q1 of FY21 has picked up and recorded a year-on-year growth of 165% and 2-year CAGR i.e. comparing to the pre-COVID levels stands at 24% per annum. All our main channels - Agency, Institutional Business, which includes Bancassurance, and BALIC Direct recorded excellent growth.

Let me come to Group business of the Life Insurance Company. As compared to wave 1, Group Protection business was less impacted in wave 2 as it grew by 268% in Q1 FY22. It was mainly on account of the lower base. In absolute terms, the business is slightly still below pre-COVID levels and it is about 56% lower than Q4 of FY21. The major portion of the group protection business is from group credit protection which is largely dependent on disbursement of loans by banks and NBFCs. Due to the wave 2, such disbursements had also come down and therefore this business will follow that metric. Overall, Group new business grew by 92% from Rs. 397 crores in Q1 FY21 to Rs.762 crores in Q1 FY22, which is above the pre-COVID levels. Renewals registered a strong growth of 27% and as a result of these factors, BALIC GWP grew by 48% to 2,516 crores.

I will now cover claims, especially the COVID claims affecting the Life Insurance business. As mentioned before, the morbidity and mortality impact of wave 2 was felt across all age groups, more so in the 30 - 50 age group this time. Like the GI industry's health claims, BALIC and the Life Insurance Industry too recorded significantly higher death claims on account of COVID-19 in the quarter. On the retail side, BALIC had settled around 1,600 claims pertaining to COVID-19. As a result, the overall COVID claims cost (reserving) for BALIC in Q1 FY22 was 288 crores versus the mere Rs. 1 crore in Q1 FY21. As the things stand today, BALIC has adequately provisioned for probable future claims based on the best estimates available as on 30th June – the total reserve as on 30th June stands at Rs. 304 crores. The reserves as of 31st March were 98 crores. The 304 crores is the net reserve.

As mentioned before, we have declared our new business value in our investor presentation. From now on, we will be making quarterly disclosures of NBV. In addition to the NBV for the quarter, we have also indicated the NBV for the 12 months ended 30th June 2021. Due to high variations in the seasonality of business across quarters, I would advise investors to exercise caution while reading into Q1 NBV and the margins. We had mentioned earlier in our calls that quarterly NBVs and NBMs may not reflect the possible year end results. Investors may already be aware that as a significant portion of life insurance business comes in H2 and especially in Q4, most of the fixed cost borne by the life insurance company during the year gets absorbed in the second half of the year. Please note that NBV on rolling 12 months basis does not indicate a forecast or expectation of FY22. The new business value, net of expense overruns, the key metric of profitability for life business increased to Rs. 25 crores in Q1 FY22 from a negative of Rs. -14 crores in Q1 FY21. For the 12 months ended 30th June 2021, the NBV was Rs. 400 crores as against Rs. 212 crores for the 12 months ended 30th June 2020 and Rs. 361 crores for financial year 2021. Good news from the life side is that the 13-month persistency which was somewhat

lower in Q1 FY21 has rebounded and has reached 82%, 5% higher than the previous year. Through initiatives such as driving auto payment, digital payments and collection of high value nonpersistent cases, the persistency has improved, not just for the 13th month, but also across all cohorts.

BALIC's PAT for the Q1 at Rs. 84 crores was lower than Rs. 130 crores of Q1 FY21 on the back of higher COVID claims cost and reserving of Rs. 255 crores (post tax) as well as the new business strain because of the strong growth which were partially offset by the reversal of income tax provision of Rs. 161 crores on account of favorable assessment order received for assessment years AY 2012-13, and AY 2013-14. These orders were received by us in the last week of June. Overall, an excellent quarter for BALIC, both on the topline and on NBV.

Finally, both insurance companies are financially among the most solvent, BALIC with 648% and BAGIC with 340% and hence, are well poised to weather any external adversity that might affect solvency. Both BAGIC and BALIC continue to utilize the digital properties and continue to emerge stronger through the crisis. We have seen a substantial increase in digital penetration across several parts of the distribution and service chain across both our insurance companies. Further details regarding BAGIC and BALIC's digital capability are covered in the investor deck uploaded on the website yesterday.

Let me now come to BFL. BFL has already had its investor call and hence we will only broadly touch upon the results. Quarter 1 was significantly impacted by the severe second wave. Both business and collection efficiencies were affected due to strict lockdowns across many parts of India. Despite this AUM grew by 15% Y-o-Y to 159,057 crores and in the absence of the third wave, the company expects quarterly AUM growth to revert to almost the pre-COVID levels. Core AUM accretion in Q1 FY22 was approximately Rs. 4,100 crores. That is the absolute amount of accretion to the AUM as against the reduction by Rs. 9,000 odd crores in Q1 of FY21. The second wave caused a marginal increase in EMI bounce rates in Q1 FY22 over Q4 FY21. Average bounce rates in Q1 FY22 were approximately 1.08x of Q4 FY21. During Q1 of FY21, the investors may recall that BFS bounce rates had increased to nearly 2.5 to 3x the pre-COVID levels.

On account of regional lockdowns, 4.63 million loans only were booked by BFL during the quarter. They are slightly less than 5.47 million loans booked in Q4 of FY21. However, 1.88 million new customers were acquired during the quarter and they are in line with the company's general guidance of new customer acquisition of 7 to 8 million for the whole year. In Q1 FY22, BFL recorded a pre-provisioning operating profit of Rs. 3,116 crores and made loan loss provisions including expected losses of Rs. 1,750 crores as compared to Rs. 1,686 crores in Q1 FY21. The second wave resulted in significantly subdued collection efficiencies leading to higher stage 2 and stage 3 assets. BFL continues to balance growth vis-à-vis risks and collections while maintaining strong liquidity and capital adequacy. BFL carries the management overlay of Rs. 483 crores as provision for expected credit loss as against Rs. 840 crores as at 31st March 2021. The gross NPA and net NPA recognized as per the extent of RBI prudential norms and

provision applying the expected credit loss method prescribed in Ind AS as of 30th June 2021 stood at 2.96% and 1.46% respectively compared to 1.79% and 0.75% as of 31st March 2021.

As investors may be aware, BFL and other NBFCs are required to provide for expected credit losses over the life of the loan under Ind AS. We understand Ind AS is not yet applicable to banks. In their call, BFL has given the estimates of credit cost for the year to be Rs. 4,200 to Rs. 4,300 crores for the whole year. This compares with Rs. 5,969 crores of credit cost for the whole of FY21. Overall, BFL's pre-provision profitability remained strong and at the moment based on the available estimates, adequate to cover expected losses. PAT for Q1 FY22 increased 4% to Rs. 1,002 crores versus 962 crores in Q1 FY21. The capital adequacy ratio as of 30th June 21 was very strong and stood at 28.57% and the tier 1 capital also has crossed 25.41%. For Bajaj Housing Finance Limited, the mortgage subsidiary of BFL the capital adequacy ratio stood at 22.07%. Finally, BFL's business transformation is on track for phase 1 to go live by end of September or early October 2021. In summary, BFL is well positioned to navigate any temporary stress and I would request investors wanting to have more information to go through BFL's investor presentation and the transcript of their investor call.

Before I close, I will come to the highlights of our consolidated financial results which have been put up in our press release yesterday. Consolidated total income of Rs. 13,949 crores for the quarter compared to Rs. 14,192 crores in the same quarter of last year i.e. marginally lower. Consolidated profit after tax of Rs. 833 crores versus Rs. 1,215 crores. Bajaj Finance's consolidated profit after tax of Rs. 1,002 crores versus Rs. 962 crores. General Insurance profit after tax of Rs. 362 crores versus Rs. 395 crores and Life Insurance shareholders profit after tax of Rs. 84 crores versus Rs. 130 crores. A point to note is that under Ind AS, the insurance subsidiaries have chosen to hold a large part of the equity securities portfolio as Fair value through profit and loss account. Therefore, the unrealized mark-to-market gain on investments (post-tax) included in consolidated profit was only Rs. 25 crores for Q1 of FY22 versus Rs. 330 crores for Q1 of FY21. This is one of the reasons for the larger drop in the consolidated profit after tax, but I must emphasize that these are unrealized gains. During Q1 of FY21, as you may be aware, equity markets had recorded stellar growth after a steep fall in Q4 of FY20. Therefore, year-on-year, this unrealized gain has reduced by Rs. 305 crores on the post-tax profit. This does not affect the core operating profits of our businesses as it is market linked.

Final comments., With signs of the second wave ebbing, all our businesses will pursue opportunities to grow while maintaining focus on risks. At the same time, we remain cognizant and vigilant of a possible third wave. Our companies have been spearheading vaccination for all employees. Learning from each wave, our companies have strengthened their digital and touch-free offerings to their customers and intermediaries. Backed by strong solvency, well above the required capital, supported by healthy liquidity, continued focus on risk and collections, digitized processes and improved cost structures, we are confident of being able to maneuver through these difficult times. That is all from me as the opening summary. I will now open the floor for questions and answers. Thank you.

- Moderator:** Thank you. We will now begin the question and answer session. The first question is from the line of Prakash Kapadia from Anived Portfolio. Please go ahead.
- Prakash Kapadia:** Couple of questions, on the Life Insurance side, the growth has been fairly strong for us, so is it the low base of last year, is it some specific product demand or some specific channel where we are looking traction and what kind of momentum can we see for the rest of the year on the Life Insurance side?
- S. Sreenivasan:** Yes, I will just briefly give an overview before I pass it on to Tarun and if you see in the last few years, we have been engaged in the transformation process. This is a fairly an intensive process of planning and execution and in the process, we have rebuilt our channels, we have expanded our banca partnerships, we have remodeled our agency force, we have focused on cost, we have significantly digitized, taken a lot of actions. More importantly, we have also launched products and some product lines we were not present in earlier have also been launched during this period like term life and annuity. In all of these, I think our products remain comparable to the best in class. So overall, the growth obviously year-on-year also reflects the more subdued conditions in the same quarter of last year, but relative to market, I think we are growing very strongly on the back of all these factors, strong performance across all channels, which is we cannot pick any one channel saying that it has performed better than the others, but it is a combination of good product mix, strong channel performance and good execution.
- Tarun Chugh:** I think Sreeni has directionally answered it. Let me just add a little bit more. So, you are talking about whether it was only versus last year or the year prior and is it sustainable?
- Prakash Kapadia:** Right.
- Tarun Chugh:** Last year of course was muted for everybody and while most insurance companies degrew last year same quarter, we actually did not. We had a flat first quarter in FY21. Overall, last financial year i.e. FY21, we grew by about 28% overall as a company and this quarter, we have grown at about 49%. The reason is largely on the lines of what Sreeni has talked about. So, all channels have done well. Particularly, I would single out on agency channel that has shown some good growth because in this calendar year we have been able to hire advisors which was a little of an issue last year because of the lockdown. And I think we have come to a situation where as a company our product mix has largely directionally stabilized where we have a good sprinkling of par, term and ULIP. So, as Sreeni mentioned, the transformation was massive over a period of time and particularly showed some signs of stabilization particularly from last year – where our product mix and channel mix was changing constantly i.e. in 2015 we used to be 92% agency, but now we are around 44-45% agency. This quarter, we were 48% agency. So, I think this transformation is over, we are now on a foundation for growth. What will it be like, I can't make any forward-looking statement, but I must say that the culture change, the change around business dynamics and large business call that we have to take are behind us now. Our product mix is also very well stabilized, and we are now into all the buckets i.e. need buckets that we look at. Our last entry in need buckets was in the pension space which was missing till the last quarter i.e. last year in Q4 FY21 is when we launched it and this quarter we have been able to

of course use that quite well and because this product did not have any medical requirement, we have been able to get a lot many customers who were not comfortable going into medicals take benefit of that. So, we have been a little tactical in that way in taking benefit of this product. So, I think you should see a good growth going forward, but that is all I can currently say.

Prakash Kapadia: Secondly, on the Motor TP side on the General Insurance, any update on pricing by IRDA because it's been some while, so any update on the regulator on the pricing?

S. Sreenivasan: You are talking about third party pricing?

Prakash Kapadia: Yes, third party pricing.

S. Sreenivasan: Tapan, would you like to take it?

Tapan Singhel: Yes, thank you for the question. I think that is something that you have to ask the regulator. From the industry side, we have been asking for it, there is a need and they have to come back on it. We don't have any information on that as yet.

Prakash Kapadia: Lastly, any update on the mutual fund license which we had applied to SEBI, it has been some while?

S. Sreenivasan: No, we have applied, we have a process of checking with regulators. Because of COVID things are moving a bit slowly, they have conducted their on-site inspection also. We are hoping to get the license soon.

Moderator: Thank you. The next question is from the line of Sanket Godha from Spark Capital. Please go ahead.

Sanket Godha: Sir, I have couple of questions, one is, I just wanted to understand strategic reason why Bajaj Finserv sold 20% stake in terms of market place to Bajaj Finance, so I just wanted to understand the overall logic behind of that deal?

S. Sreenivasan: Let me take that question. See Bajaj Finserv is not selling any stake to Bajaj Finance. Finserv Direct as we told last year, we were fairly clear about the path of Finserv Direct as a neutral open architecture market place. However, on the platform side there is a lot of linkage between BFS and Bajaj Finance. Bajaj Finserv Direct is actually helping Bajaj Finance build its platforms. We believe there are a lot of advantages there. Bajaj Finance while it builds this platform which supports its core lending business will also require a strong stable long-term partner who can deliver what they want, otherwise it can get diffused in the market. At the same time, as of now, Bajaj Finserv Markets has already started dealing with others. So from a customer acquisition point of view, Bajaj Finance will be just one more partner for Bajaj Finserv Direct and as time goes on and as more partners get added, obviously the share of the total pie may come down. On the platform side, Bajaj Finserv Direct will continue to support Bajaj Finance for some more time and we believe this linkage between the two is very positive for both to deliver their own

individual business goals. Therefore, as we move ahead the incremental capital would be contributed by both Bajaj Finserv and Bajaj Finance. By the end of that period, we expect that the stake will come down to 19.9% for Bajaj Finance. It is more like a strategic and financial investment in a significant platform provider. In fact, I must hasten to add that overtime, may be 3-5 years from now, even this platform we may offer as a product to other partners.

Sanket Godha:

Sir, basically other NBFCs or banks can also tie up with Finserv market place offering the same solutions to them, that is the way you are trying, right?

S. Sreenivasan:

Yes, as they build their business and when they get to reasonable number of customers and more partners. We get that they have already started adding partners and overtime they will continue to add more partners because the risk appetite of each lender is different and hence, depending on the segment of customers, they could offer differential products. The idea is people come to us and they can also compare products of others through our own ecosystem and they can choose what they want, so eventually it will become free market place where customers choose and hopefully our manufacturing entities, Bajaj Finance, BAGIC, BALIC will end up getting a higher share of the profit pool if they compete very well, but they have to compete in this market.

Sanket Godha:

Sir, other question, one is on life and one on general. Sir, on life insurance side, just wanted to understand the gross impact of 288 crores which we have taken with respect to COVID in the current year – It will be the number, net of tax, that will be flown through EV as a negative mortality experience, is my understanding right? And second, just wanted to understand in the 304 crore of outstanding provisioning with respect to COVID, how much is IBNR and does it cover only the claims which are expected to be reported till June or you have provided anything beyond June also in this 304 crores number? That is the first question on BALIC and second question on BALIC, I just wanted to understand the banca channel mix, if you can provide how much are Axis and especially the new banca relationships like RBL, IDFC, KVB contributing on incremental basis?

S. Sreenivasan:

I think the first question I will give it to Tarun and the second question probably Bharat can give you a flavor on paid versus reserving plus how the general approach towards reserving is adopted by BALIC.

Bharat Kalsi:

So, basically for the 288 crores number the net impact on the PAT is 255 crores for the quarter and we will be declaring our EV on a half yearly basis what we have agreed upon, so that will also flow to the EV as net worth change. With respect to the overall outstanding of Rs. 304 crores, this is the net amount which we are carrying out of which Rs. 98 cores was as of March 21 and in this quarter, we have created Rs. 206 crores of additional COVID reserves. So, to that extent Rs. 304 crore is a net amount which broadly in terms of gross claims can support up to around Rs. 425 to Rs. 430 crores of claims, so those are the two numbers, in case any specific I can answer that also.

- Sanket Godha:** Sir, basically given the phase around gross claims of 117 crores in the current quarter, so we can safely assume that around 3.5x to 4x kind of a number could be sufficient from that Rs. 304 crore number what is sitting in the balance sheet, that is the way I should read it, right sir?
- Bharat Kalsi:** so basically what we have done, we have looked at the past experience for this quarter. What Sreeni also mentioned that during the May and June we saw a second wave impact, so we have looked at various segment levels, whether it is GTL, MFI and retail and based on that formed our estimate about how many claims can come. So, technically it can cover claims up to may be July, August, September, October, but as lot of claims come with the delay, hence there is a projection which we have taken. So, to that extent it is as on date estimate of potential claims.. Obviously, it does not include anything on the potential wave 3, if it comes.
- Sanket Godha:** Sir, if possible, can you break down the Rs. 117 crores into individual business, group business and say may be credit product business? if you are okay to give that data, just wanted to understand the way we are paying.
- Bharat Kalsi:** See, basically the breakup of the actual claim: that Rs. 143 crores is a gross number, on net basis, net of RI the number was around Rs.112 crore. Rs. 101 crores for retail and the balance was for the group. So, the total claim amount is 112 crores and if I remove the par element and the UL fund value portion, then the net impact is Rs. 96 crores for the quarter. and another Rs. 192 crores net of par COVID reserves, so hence the total number is Rs. 288 crores and net of tax is Rs. 255 crores for the quarter.
- Sanket Godha:** And if you can answer the question on banca relationships with respect to new banks and Axis Bank?
- Tarun Chugh:** Yes now, we are into a lot more diverse set of relationships and may be next time we will bucketize these separately and give more details out. But just to mention, Axis is about 18% of our topline. After that we have got quite a few partnerships over the last 3 years which includes 4 small finance banks, IDFC First, RBL, Karur Vysya Bank and of course some small banks as well. So, we bucketize them in two parts, emerging bancassurance and partnership distribution. Put together, this segment has about 10% now with various banks contributing to the business because they are still emerging in terms of the relationship i.e. we have just started putting resources in the last two quarters of last year. They have now started moving up. Effectively, we do want to move to highly diversified distribution.
- Sanket Godha:** Sir, out of 42% of the total institutional business you are saying 18% is Axis Bank in the current quarter, right sir?
- Tarun Chugh:** Yes.
- Sanket Godha:** Finally, on BAGIC, just one point, given the growth has come back, I failed to understand why there is such a gap between Net written premium (NWP) and Net earned premium (NEP) in the current quarter. Maybe if it is a slowing year, I understand, but as we reported 9% growth, still

the NEP number seems to be substantially higher compared to NWP number. Is it contributed by 1/365 rule or something else that we need to understand the difference between NEP and NWP?

Ramandeep Singh Sahni: Sanket, there is no change in what we have done. It is simply 1/365th method. So, it is basis what we have written in the past, no other reason beyond that.

S. Sreenivasan: But I think also depends on business mix changes as some are low retention like high end corporate business. So as the business mix changes, earning rate also changes. But this is just part of the core business. I think across quarters it would get normalized.

Sanket Godha: Sir, finally on the two-wheeler, we saw a very strong growth. Just wanted to understand the mix of how it has moved in the two-wheelers segments given that we have ended of reporting very strong growth. And related item, what could be the likely advanced premium accretion which has happened because the way we are seeing strong growth in two-wheeler segment?

Ramandeep Singh Sahni: The total advance premium outstanding is about 1100 crores as we stand today.

Sanket Godha: And two-wheeler mix if you are okay to share it, sir?

Ramandeep Singh Sahni: We have not been disclosing that you know, Sanket.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers Limited. Please go ahead.

Bharat Shah: I continue to get delighted by structural improvement in Life Insurance part of our business and on the General Insurance our prudent and the wise approach continues. So, both of those are most pleasing aspects in the way both the insurance businesses are shaping up. My core question is, while General Insurance given the nature is shorter-term product and especially some segments like automobile are more closer to commodity and therefore these segments probably are more push oriented. But Life Insurance and some of the segments of the General Insurance should be more pull oriented and especially for Life Insurance in particular as is a longer term contract where solidity, reliability of the insurer are very important issues from the perspective of the customer. On the other end, when I see the brand building efforts, I see brand building efforts mostly by aggregators where you see the advertisements by policy bazaar and others all the time. So, it is somehow the comment for the industry in general, and not just Bajaj Finserv. It gives an impression that aggregator seems to becoming a brand while actual underwriters of the insurance contracts has kind of fallen into the background. So, I was curious to understand the brand building, direct pull factor, relationship-creating nature of the insurance rather than being pushed as a commodity and with power then over the period of time shifts to the aggregator?

S. Sreenivasan: Bharat, your point is valid. But if you see across the world largely life insurance is a push business. Basically, distribution is a very important component. While some segments of nonlife

tend to become pull businesses overtime, especially motor insurance because it is bundled with and it is statutorily required, there is some amount of pull. Health insurance in certain times when there is a scare factor it becomes a pull business. But in life insurance it is a long journey. Overtime, I think if you compare what life insurance companies are doing now with what was happening 5-7 years ago, we have made significant improvement in customer experience, significant improvement in disclosures to customers in terms of the ease of buying i.e. the ease of owning the insurance. In terms of digital processes, I think it is not comparable at all with what was happening 7-8 years ago and what is happening now. Even if you see the mis-selling complaints and all have come down quite substantially. So, over a period of time, retention is very important i.e. how much you are able to retain in terms of persistency of the existing contracts as well as are we able to get more money from the existing customers, because that is the ultimate sign of pull business. I think on all these fronts, we have done very well. For example, BALIC Direct, a channel that we set 3 years ago is working quite hard; I think their persistencies are very high. We are working on portfolio management type of structures there and we believe that if we continue this effort, overtime, we will be able to acquire more customers, keep them and also get more money from them. Unfortunately, in the case of life insurance, the role of bancassurance is very high. People tend to keep lot of money with banks in terms of wealth management, PMS and various other things and therefore banks have the data edge. They already have customers, they already know about them, they know their spending habit, their saving habit, so they tend to have an edge and therefore that channel of distribution is very important. Having said that the banks are not going to give it cheap either as they have a choice of 23 odd life insurers and they have a chance to play with them. So I think this will evolve. That is my take on this. In terms of aggregators in life insurance, I think they will do much higher on term life and all. But their share of the total market is still not very significant. It may be under 3 or 4%. In terms of general insurance, yes, in motor insurance, we have seen in UK and some other geographies that aggregators do tend to dominate the new car purchases, but in India it is still dominated by OEMs, and we have a very strong presence there. Tarun, Tapan, would you like to add anything to that?

Tarun Chugh:

Let me just step in. So, Bharat, it is an interesting question and brand building is particularly close to my heart in the life sector. You are right that it is a very critical component particularly for the life sector. It is that building of a brand requires lots of elements that come in and I think that is where the nuances also play out versus the aggregator and the various manufacturers. So, for example, the best way of building a brand is through the experience that one customer gets with you through transactions. Unlike banks, NBFCs and the GI business, LI is not very heavy on transactions. So, experiences what you see with LI are on a lesser action basis, and hence, every interaction, whatever little they have it with us has to be spick and span and really convenient. Hence, as Sreeni therefore said that the investment in marketing platform becomes critical. The difference between what you are talking about aggregators and the manufacturers (I had answered for manufacturers in a generic way and may be a little bit for us) is that the aggregators usually want to go on mass media and their job is comparison. So, they are just comparing. They just want eyeballs coming. The moment the eyeballs come in, then the brand of the manufacturer comes into play and of course there is a pricing element given the fact there

is a very narrow product that is at play. The difference between us and the aggregators is that our spends are quite wide such as into channel marketing, into multimedia which could be lot more digital, and could be a lot more specific i.e. the segments we want to get into. So, for example, in BALIC, we have actually been spending a lot on marketing, may not be available in general to everybody, but I believe we are making an impact in the segment that we want to. As an example, in this quarter (and I talked about it a little bit), we were largely focused on building the brand on the annuity side of the business which we introduced as a product in the last quarter of last year and this has really paid off. It is 12% of this quarter's business, so actually we have got a good ROI on that investment. We have been investing in platforms, we have been building in experiences that customers get, we have been building on the data management behind it and as a result in fact we have been spending a lot on marketing. Whether the spending is on mass media at all that usually is a decision on media mix that we intent to play with. Usually for us, the first quarter is not the best time to get onto the mass media. Usually, it is not justifiable on the number of transactions you see. At the same time, as you know, the aggregators may actually have various reasons, such as they may be going for listing, which may not be the case with us i.e. the reasons are different. Our overall underlying bit is that when somebody looks at a life insurance product, we should be present at that very moment through the right channel with right motivation and mode for the distributor, right knowledge with the distributor and the right offering for the customer. Now, that is 360-degree way of looking at service marketing, which is very different from what you see plays out in the mass media, so this is classical service marketing.

S. Sreenivasan:

Tarun, would you just like to highlight that life goals approach that we took few years ago.

Tarun Chugh:

Yes, maybe I can talk about that as well. So, we changed our entire stack to life goals and being life goals enablers, that requires a very systemic investment over a period of time and we have only been increasing that investment. We have been focusing on product marketing particularly for various life goal segments and now, like I said, we are into all the relevant segments with the annuity business falling in place and that is what we will intent to do for the next 5 to 7 years. We are very clear about that and our platforms are going to do the speaking a lot. The other bit if I might add is also how we go with pre-approved offers to existing customers. That is possibly the most efficient to keep our cost of acquisition low. And that is something, if you are not a customer of us, of course you deem to buy a policy Bharat and then you will see us more often. So, these are very targeted marketing plans. I hope I have answered your question.

Bharat Shah:

If I take each of those elements, I mean three critical elements i.e. platform as a way of distribution mechanism, customer experience and service helped and enhanced by digital journey, and brand building and pull factor. So, customer experience part, I understand what you are saying. I also understand the platform building efforts to widen and deepen distribution capability. But I am seeing soft touch aspect of building the brand where not just the existing customer, but the potential new customer is favorably inclined towards insurance brands rather than being just machinery behind the policies sold only through the distribution mechanism. That brand building subtle effort that whenever a particular prospective customer is ready, he

kind of thinks of first name of recall, let us say, is Bajaj life insurance solution, that brand building is that I am saying seems to be not visible and not just for BALIC and portions of the business of BAGIC but in general, for the insurance industry, it seems to be kind of handed over on platter to the distribution channel or at least that is the impression that I am having, maybe I'm wrong.

Tarun Chugh:

No, I think there is nothing right or wrong in this Bharat. All I would say if there is an X amount of money to be spent and Y amount of output to be taken out of that, so we have to balance out over the years and over the life of our offerings, that's how we play this. So, this will vary, but if you are seeing it as a trend for all life insurance companies and lots of life insurance company are sitting with pots of money and they are also not investing. There must be some logic behind it. That is what I will only just allude to.

Tapan Singhel:

If you look at this Bharat, in terms of brand for BAGIC and in all the brand reports you will watch that BAGIC brand is written as the best brand in the general insurance market, way above other brands and all so by the independent reports. Whenever you get a hand on these reports, you will be watching that one of our philosophies has been to be the claims paying insurer because if you look at the general insurance industry, claims happen, and the frequency of claims is high. Our obsession has been that we should be the best claim payer in the Indian market. And if you see overtime all the awards that we have won or all the ratings that we get, we are rated as one of the best claim payers in the Indian market and that is what our obsession has been. For us, our product is not that we are selling a policy, our product is that we are settling claims in the best possible manner for our customer, in the fairest possible manner and the best claim experience should be there. We have been doing it consistently and that is why our brand has a very strong recall. And that is the point, even if you have aggregators in the market, aggregators can only sell policies and they can do price comparison, but the experience of a policy comes when a claim happens and which is up to the manufacturers and that is where the difference comes in and that is where as Bajaj Allianz General Insurance Company we have focused very high on. Hence, if you look at all brand reports and all, you will find that Bajaj Allianz General Insurance Company is way above any of the other brands within the General Insurance industry. If you look at a claim settlement and the positioning in the market as far as the claim settlement is concerned and if you look at any kind of survey reports or any other kind of reports, you will find us among the best in terms of claim settlement. So, it is the combination of factors, because in general insurance you have claims, you have experiences, and the moment of truth keeps on happening, this is why we focus on that. That is precisely why the good claim settler can do it very fairly. I don't think there is a major threat from aggregators perspective as they may be able to sell a policy at a much cheaper rate, but when an experience of claim happens that is where the moment of truth happens and that is where good companies get differentiated from average companies.

Bharat Shah:

Just one last small point I will make, so from all that I heard what I surmise is that brand building effort is part of our conscious recognition and it is something that we are focused on and brand building is not something left as an accidental happenstance. But it will be a long term kind of a

conscious strategic choice and secondly, under brand building spends and the efforts are in sync with the return on investment or ROI equation compliant, is that a fair way to summarize what I heard?

S. Sreenivasan: Yes, Bharat I think you hit this spot on. BALIC has chosen Life Goals as their main plank on which they will deliver all this. BAGIC has chosen Care as the main plank on which they will do that. In the short run, customers will take time to appreciate it, but investments into these brands will continue not just through the traditional means, I think you may not see too much on the above-the-line on TV and such media advertising which are very short recall nowadays. But we spend a lot on digital marketing, on mobile apps through multiple channels. So, I think it is fair. Anything to add Tarun, Tapan on this?

Tarun Chugh: No Sreeni, I think you summarized it quite well.

Tapan Singhel: You actually summed up well Sreeni in the initial stage also. And what Bharat said also is right, but insurance brand building is something which is very interesting. So, unlike may be an FMCG brand building, an insurance brand building requires trust and trust does not happen in a micro second. It is led by demonstration overtime, what you have said and how you stood for it overtime, it gets built. So, if you look at powerful insurance brands across the world, you will find most of them have stood the test of time and delivered to customers over time. I think this is what is relevant. If you look at what Tarun said or what I spoke about, I think if you try to look at that angle that comes a very clearly from that is building long-term trust, staying true to our commitments, delivering on the ground and being with customers in times of need and ensuring that they have a very good experience is what builds a long-term brand along with obviously the activity that you do for marketing which is there. And digital is what we have been focusing on a pretty high note. Simply because if I look at customers today, I think they watch more digital views than on television; I think that is what the research also is showing. We also use television in combination, so we will keep on building it. Insurance brands overtime become very powerful. It is the outcome of commitment to what they have been promising.

Tarun Chugh: I think all of us have added significant to that. Bharat, it was a very interesting question and that is why you see the answers coming in from everybody. Maybe I will just close with just two statements here. For services, number of times your brand is as good as your last interaction. That is one statement which is where what Tapan also said was very important where you pay your claims. The second is the Bajaj brand. I think there is enough trust behind that in many case, so I think we ride on both.

Moderator: Thank you. The next question is from the line of Hasmukh Gala from Finvest Advisors. Please go ahead.

Hasmukh Gala: My question was pertaining to the digital initiative, which are being taken by the group. Now what I see is that the individual companies have done work on digitization, automation and things like that i.e. BALIC has done separately, BAGIC has done separately, Bajaj Finserv has

done separately, Bajaj Finance has done separately and now you are, I think probably trying to put everything in Bajaj Finance Direct, that is what I would like to know?

S. Sreenivasan:

See, let me get this clear. One, there is a fundamental difference between some of these businesses. If you look at insurance business as compared to say the lending business, the lending business is largely, I think customers come there because they need money, so you buy a house, you take a home loan, for example. And therefore, once the customer comes in the rest of the entire investment goes into how to keep the customer there, how to make them use Bajaj Finance when they need money again. Now, the new transformation of Bajaj Finance will also ensure that while they are in our ecosystem, they keep getting engaged through the acceleration of the payments and through other platforms that they are building. In the case of insurance, it is a journey. Once a customer comes, they can't say that I don't need insurance tomorrow. Most of the insurances, they have to stay through their life, whether it is health insurance, life insurance or even car insurance throughout as long as they own a car. Therefore, the approach has to be different. Insurance continues to be heavily intermediated businesses and there is no need to look down upon intermediated businesses whether it is agency or bancassurance. We have some fantastic intermediaries who actually deliver substantial value to both the customer and the insurance companies. Therefore, the approach has to be different. At the backend, we do have at the group level through the efforts of Finserv i.e. through technology councils where technology partners come together, where they discuss technologies that are happening, where they also share best practices across the technology teams, so therefore given that while we allow companies substantial amount of freedom in doing what they want, at the backend they also collaborate quite a lot of in terms of platforms and the resources that they use. The individual strategies and delivery is obviously left with the companies. Finserv Markets is not a digital platform for the group. Initially, when we set up the company, there was a thinking like that, but it is an open market place. To the extent that there is some commonality with Bajaj Finance is because they are providing the platform to Bajaj Finance. But in terms of insurance, they would just be dealing in APIs and the insurance company's role is largely to provide the APIs, the risk algorithms, and the products and the customer insight will remain with Bajaj Finserv Direct. So, it is not technology platform for the group, it is the frontend of a digital market place. So, I hope I got that clear.

Hasmukh Gala:

We said in our press release that we are contributing 342 crores and Bajaj Finance 284 crores. So, for all the initiatives to take them to the logical conclusion, how much more capital you will have to provide and whether you will go down below 20% or 19.9%?

S. Sreenivasan:

That overtime, we have to see how. This business is still a startup. The next 2 to 3 years are very critical. Whatever numbers you have seen in our stock exchange communication indicates that this is the expected amount of capital that we feel will be required for this year and the next year for Bajaj Finserv Direct. Now, there are two segments to it. In this business, you have to continue to invest in new capabilities, new investments, and new partnerships. At the same time, the existing customers who come in, they need to be in the ecosystem and transact with us across the entire market place for whatever they want. So, it is like a supermarket where you can get

loans, you can get credit cards, you can get insurance, you can buy investments and even participate in the e-store. So, this is the market place. You will have existing customers and so they will have to look at it both differently. As customers come in, Finserv Markets will increase the engagement levels with existing customers, offer them greater choices, have campaigns or whatever is needed to do that and there will be a new investment required till it reaches a scale i.e. what we call a normalized level of growth. So as of now, this amount that we have mentioned should be sufficient for us for the next 2 years. Because even now it is, I would say about 50% R&D and 50% business because we have seen the green shoots which are quite substantial, and we like this business quite a lot, we will continue to invest. Now, in the future, all possibilities are open. Will there be other kind of partners entering this? Maybe, what type of partners, what capability they bring, what purpose they are coming, - these we have not taken a decision at all on this, but I think our mind is open. This will remain a neutral market place and we will build it up to the scale that we think is good. Obviously, as a business, there are lot of risks and we will play it as it goes along. We have the manufacturers at the backend, we have this market place at the frontend and underlying all this is the Bajaj brand of trust and long term value.

Hasmukh Gala: My second question is on BAGIC, do you have any rethinking on crop because we didn't write any crop in this quarter?

S. Sreenivasan: First quarter, there is no crop. It is basically Kharif season starts in July and Rabi is in January. Tapan can give a flavor on that.

Tapan Singhel: Yes, so if you look at crop insurance, the next quarter, you will see a pickup happening here. It depends on how the tenders get done, how the announcement happens at the government, like Maharashtra came in later this time, earlier they were not planning to come in, probably you see it a bit later, so you will see the booking happen in this quarter.

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

Nidhesh Jain: Firstly, on the life insurance, two questions, one is our margins have improved quite significantly over last two years i.e. around 12%-13% VNB margin. But some of the companies which are having bancassurance partner are operating at around 25% margin. So, do we think that over next 3 to 5 years that the gap between our margin and some of the larger players can reduce over a period of time, given that our product mix has now already been stabilized quite a bit as some of the high margin products like protection and annuity has already been forming decent share of our product mix. Do you expect VNB margin gap between us and large player bridging and what could be the drivers of that?

S. Sreenivasan: This is directionally what we would like. We can't compare exactly number to number because part of the margin is highly volatile especially on the non-par segment where there is an element of interest rate. While a lot of us have hedged it and tried to reduce that volatility, I think the margins will fluctuate depending on your business mix. Obviously, as part of our first level of transformation as Tarun said earlier, that is more or less complete, but if we continue to grow like this over time, our fixed cost will get absorbed over larger volumes and we should see that

the net margin should improve. At a gross margin level, we are already very close to the top 4-5 players. The pure captive banks with single partnerships had definitely had an edge because they are not offering multiple companies and they have an arrangement between their own group companies. But other than that, I think if you compare with any other player which do not have a captive partner and are dealing with independent banca tie-ups or building up their own agency or the direct channel like we are doing, we think we are already on the right track. Tarun?

Tarun Chugh:

I think largely answered by you, Sreeni. I will just may be take a minute more to say a few things. I think Sreeni touched that the fact that as we go faster which implies scale. There is still significant scale that we can see and that is the gap. Scale also has an underlying benefit of our productivity getting better which shows up in bottom line. Product mix, we are largely there, but now we have to figure out how can we take more out of this. The other movement is on the customer segments because customer segments do have an impact on persistency and on ability of customers to may be reinvest and buy more. That is something we still have to work on and we will continue that part. So, it is a journey and I think more and more we get into details, the more we will get better and company is looking to its strength. That is all I will say.

Nidhesh Jain:

Secondly, what would be the provisions of future claims from COVID, the provision that we have provided is entirely IBNR or we are also make some provisions for the future claims after Q1 which may come on account of COVID?

S. Sreenivasan:

As of now, I think Bharat has already clarified in great detail in an earlier question, maybe you missed that. But it includes a provision for all the actually reported claims. It also has provision for what we believe using our analytical model, what we expect from the current wave of COVID. We have not planned for wave 3 because nobody knows whether there will be a third wave, whether that will be intense, how intense it will be, these are anybody's guess and therefore as it evolves, we will be looking into those. Having said that, I think one of the great strengths that we have is our surplus solvency. These are difficult times when capital is scarce and we have enough of that and we hope that will help us provide the right sort of cushion for this.

Nidhesh Jain:

On the general insurance business, in the motor segment specifically, if I look from a longer-term perspective i.e. over last 7-8 years data, we have lost a bit of market share in the motor segment. Within motor segment, the market share loss is more pronounced in the motor OD, while I think in motor third party, we have gained market share. So, any particular reason why in that segment we have lost market share over last 7 to 8 years?

S. Sreenivasan:

There is no specific answer to that question. Because motor is not very simple because motor has got many segments, there are geographies, there are risk policies of different companies, there are smaller players who will get into motor business in a big way because that is the most visible and easier to sell among all others for a startup company. So, competition will be more intense there. However, we have been growing in the segments that we like. Yes, for last couple of years, commercial vehicles have been a bit slow in the segments that we liked particularly, passenger vehicles, but I can ask Tapan to actually add flavor to that.

Tapan Singhel:

One way to look at it is if you look at it in the GI business, any company which will start new would start with the motor base. So, if you look at all the new companies, you will see that motor base is significantly very high in this portfolio because as discussed earlier that is the easier business to acquire and move forward. So, if you see as number of new players move up in the insurance industry, the motor market share will get distributed overtime, it is not only for us, across you will see this happen. Smaller players would gain more market share and since it is a limited pool, you will see a shift in market share happening. Now that is not important, the important thing is to see that is the shift happening in businesses which the company prefers to have or not. So, if you look at BAGIC, we have been a strong four-wheeler player overtime and there we have a strength. There we would actually be changing over time. In quite a few years, we have gained market share, and in some we would have lost but mostly we would have gained. If you look at this quarter, our private car market share i.e. in four-wheeler we have gained substantially. Then the other part was, as we were pretty good in the commercial vehicle space in which we had a substantial market share and obviously we made good profits which the markets have observed and so more players have come to that space. So when more players come into space, the market share will get distributed. Hence, it is a normal phenomenon which will happen for motor business as you progress and go forward. As long as overall motor keeps on moving up, I think the industry would keep on gaining from that perspective, but I don't think that is something that we would have not thought through or seen through. When we had limited players, the same market would be divided. BAGIC has been a strong retail player from the very beginning compared to its peers which came into retail later, so obviously our retail presence was much higher and then other players also try to move into this. So that should be the way to look at this change. Does it answer your question?

Nidhesh Jain:

Yes, and on the health insurance, what I see is that SAHIs are growing at almost 40%-50%. Some of the SAHIs have become 10x of our size in terms of retail health insurance. While we have been there for 20 years, they have been in the industry for 10 years. So, why do you think multiline insurance companies have not been able to scale? I know there is a regulatory arbitrage in terms of agency channel, but I don't think that completely explains the differential in scale that they have been able to achieve vs us?

Tapan Singhel:

No, your question has the answer itself. So, if you look at the scale of SAHI in terms of the premium and if you look at the agency portfolio, you will see a substantial amount of life insurance agents in the SAHI agency, if you look at bifurcation of that and the pure health insurance space. I think the arbitrage that they have of being able to sell health through any agent is a very powerful arbitrage, we should not underestimate and say that it is not substantial. It is very substantial because to build an agent, you acquire agent, you train the agent, you teach products, you get the agent license, it is a task and it is a journey and then as the agent matures and then they start selling; it is a journey when you are building agency and that is why agency is a pretty intense channel to build. Let us say if your arbitrage is picking up any agent and start selling your product and specifically, let us say if I look at SAHI group of companies and their major agency force comes from the life agency and they can do without requisite infrastructure. That gives a huge boost. So, if you look at number of agents of some of the big SAHI groups,

that runs into like 2 to 3 lakh agents and look at any general insurance companies and largest one like amongst us they would have like 50,000-60,000 agents where it requires a lot of time to build this force. So that arbitrage is a big arbitrage and that does give them a huge push for the business which would be there.

S. Sreenivasan:

One more angle to this is that we are composite insurance companies. I mean ultimately in the long run, the general insurance business is a business of risk and therefore having property and casualty in the right mix is what composite companies do. So, like if you have a catastrophe in fire, you could make money in motor or when you have both motor and fire have issues, you could have health growing, we saw that last year. Monoline will have to achieve a much higher scale to achieve the same level of profitability. Most of the health insurance business is low float i.e. motor third party kind of benefit you don't get, so therefore the float benefit is also much lower, but they are specialized. It is like comparing a composite player with a niche player because they will be selling only one group of products and that they will get more specialization, no doubt. But in our case, we will have to continuously manage our risk and that is what gives us more profitability. If you have seen our combined ratios or profitability or ROEs of top 2-3 insurance companies, we are really up there.

Moderator:

Thank you. We take the last question from the line of Nischint Chawathe from Kotak Securities Limited. Please go ahead.

Nischint Chawathe:

Two questions from my side, may be you touched a little bit upon it, but on the same point on the health side, did you consider setting up a health subsidiary separately to kind of capitalize on the arbitrage or you kind of probably felt that look there is too much of risk because it is a standalone so might as well skip it?

S. Sreenivasan:

We discussed this at the BFS level because as of now IRDAI is not very clear, whether existing insurance company should set up a subsidiary or not. So, if you know some of the mergers have happened also where the standalone company has been merged into the other composite company. At a BFS level, we have considered that, but this arbitrage and all is not a long-term thing. At some point, it will go away and if you see last few years, the composite companies have also been growing their health portfolio quite well. So, it is something we considered and obviously we do have a joint venture arrangement with Allianz and both partners we do discuss this, but we have not taken a decision to set up another company yet.

Nischint Chawathe:

And just pertaining to Finserv Direct, the company is working closely with Bajaj Finance and now Bajaj Finance has also invested in that company. If this is kind of an open access platform where you expect other lenders to come in, on the face of it wouldn't be like that Bajaj Finance will always have an upper hand over here?

S. Sreenivasan:

Why would they have an upper hand; 19.9% stake does not give them any upper hand. It is only because of the strategic nature of the platform that Finserv Direct is building for Bajaj Finance that they will share. On the customer acquisition, Finserv Direct takes its own decisions. They will build their own thing overtime. Obviously, as the company started, they did have the

advantage of somethings like e-store and all, they did borrow on Bajaj Finance's network, but as time goes by they will start adding more partners to every line of their business. You can see already in insurance they have other partners. Some of them are not partners with Bajaj Finance as well. There are limitations on insurance side because of the regulation that they can't become a broker, but they will go with the corporate agent model only. Similarly on investments they will build, so it is a completely different thing. I don't think the stake means that they are not independent. I mean if you see mutual funds, every distributor is open market and nobody is pushing any particular mutual fund. So, the stake is not to control Bajaj Finserv Direct, it is only to ensure that continuity of support is there in the future. They are in terms of collaborating for technology i.e. the platform they are building.

Nischint Chawathe: And even in case of future partnerships, you might want to kind of consider an investor in form of a banking partner or a NBFC partner?

S. Sreenivasan: As I said earlier, as of now we cannot take a call because until this company reaches the scale we may not consider that, but it is not ruled out. That is all I can say now.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to Ms. Bunny Babjee for closing comment.

Bunny Babjee: On behalf of JM Financial, I would like to thank Sreeni sir, the top management of the insurance businesses and all the participants for joining us on the call today. Thank you and have a good day.

S. Sreenivasan: Thank you all. It has been our pleasure.

Moderator: Thank you. On behalf of JM Financial, that concludes this conference. Thank you everyone for joining us and you may now disconnect your lines.