



“Bajaj Finserv Limited Q1 FY-23 Earnings Conference Call”

July 29, 2022



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MODERATOR: **MS. SAMEER BHISE – JM FINANCIAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Bajaj Finserv Limited Q1 FY23 Earnings Conference Call hosted by JM Financials. As a reminder to 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 Mr. Sameer Bhise from JM Financial. Thank you and over to you sir.

Sameer Bhise: Thank you Renju. Good morning everyone and thank you for joining us for the Bajaj Finserv Limited Q1 FY23 Earnings Conference Call. Firstly, I would like to thank the management of Bajaj Finserv Limited for giving us an opportunity to host this call. From the management team we have Mr. S Sreenivasan – CFO of Bajaj Finserv Limited, Mr. Tapan Singhel – CEO of Bajaj Allianz General Insurance Company, Mr. Ramandeep Singh Sahni – CFO of Bajaj Allianz General Insurance Company and from the Life Insurance business we have Mr. Bharat Kalsi – Chief Financial Officer of Bajaj Allianz Life Insurance Company.

Without much ado, I would now hand over the call to Mr. S Sreenivasan for his opening comments and then we can open for Q&A. Over to you sir, thank you.

S. Sreenivasan: Thank you Sameer. Good morning everybody. Welcome to the conference call to discuss the results of Bajaj Finserv Limited for Q1 of FY23, i.e., the quarter ended 30th June 2022.

As before in this call, we will largely be concentrating on the consolidated results, as well as the results of our insurance operations - Bajaj Allianz General Insurance (BAGIC) and Bajaj Allianz Life Insurance (BALIC), and where material the standalone results of our company (Bajaj Finserv Limited). 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 take that as well. We will not be taking any questions on the status of Allianz’s stake in our insurance companies, 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.

As required by regulation, we have adopted Indian accounting standards. 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 that we will be reporting and talking about are put up on our website and 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. I hope you’ve all had a chance to go through it. Let me add a word about the additional disclosures in our investor deck. We have added an update on the Policy Administration systems adopted by both our insurance companies. These are under implementation, and one of them is under pilot implementation. These are designed from the ground adopting relevant modern

technology, and we expect that once fully rolled out, it will give the benefit of scalability and efficiency. I must highlight the fact that we will probably be the first to be predominantly cloud native on the core system and this could be a new trend in the market. We have also added an update on our two digitally oriented subsidiaries - Bajaj Finserv Direct or Bajaj Markets and Bajaj Finserv Health, although they are not yet material subsidiaries under the SEBI LODR. We do hope these disclosures will be useful to our investor community.

Coming to the performance updates for Q1 of FY23:

Conditions for business in Q1 FY23 were significantly better compared to the previous quarter of the previous year. Barring an increase in claims for BAGIC, overall, it was an excellent quarter for all our businesses.

Let me start with BALIC. I think we had all round growth, which was excellent. Individual rated new business (IRNB) premium recorded 81% year-on-year increase to Rs.895 crores. Group Protection New Business was up 76% at Rs.574 crores. Overall new business premium more than doubled to Rs.2,917 crores from Rs.1,296 crore in Q1 of FY22. On the back of renewal premium growth of 19% the Gross Written Premium (GWP) was up 74% year-on-year. A matter of satisfaction for us is that over three years CAGR compared to the pre COVID period, BALIC's growth in this Q1 is the highest in the market.

During the quarter growth was driven by all our main channels with Agency, Institutional Business (which includes bancassurance, brokers, corporate agents), and BALIC Direct growing at 63%, 105% and 68% respectively. Unit linked business was 38%, non-par savings 31% of the product mix, with par contributing 19%, annuity 9% and retail term 3%. Persistency improved across all cohorts, with a 13th month persistency at 83% and 61st month at 49%. While growing rapidly, BALIC has also reported significant increase in its Net New Business Value or NBV. The NBV for the quarter was Rs.135 crore as against Rs.25 crore in Q1 of FY22, with the Net New Business Margin (NBM) improving to 11.1% from 4.2% in the same quarter of the previous year.

In the life insurance business, Q1 is also the lowest seasonally as you're aware. And since fixed expenses get charged fairly equally across quarters, margins tend to be lower in Q1. Therefore, a double-digit margin in Q1 is a significant achievement. BALIC's profit after tax for Q1 FY23 was Rs.124 crore against Rs.84 crore in Q1 FY22 – it is a growth of 48%. However, I must mention here that Q1 FY22 was impacted due to higher death claims and reserving on account of COVID-19, net of some tax reversals. Therefore, normally when you grow so fast, you would expect higher new business strain, which is indeed the case, but it has been more than offset by the higher claims that we recorded in Q1 of FY22.

I would like to highlight another significant development in Q1 for BALIC, which is that they have signed two new corporate agency agreements on bancassurance with Development Bank of Singapore (DBS) and City Union Bank (CUB). We hope to see these contributing to growth from Q3 and beyond. If you recall, one of the gaps BALIC used to have a few years ago, was on

bancassurance tie-ups. And now with several partners, Institutional Business has become significantly large for BALIC. New tie-ups will also help us diversify business across partners.

Let me move on to BAGIC now.

Growth in GWP (Gross Written Premium) has been very good overall at 25%, and excluding tender-driven business of government health, it was 19%. Due to the strong growth, and since we have to amortize premiums over the life of the policies, our Net Earned Premium (NEP) growth was just 2%. We hope unearned premium for the quarter should get released over the next few quarters. The quarter also witnessed challenges on the claims front - we saw a significant increase in motor OD claims, both in terms of frequency and severity. As growth builds up, combined with selective underwriting action, we hope to stabilize this in a couple of quarters. While auto sales have just started picking up from its lows, it will be some time before it plays out in terms of growth. Due to very high traffic on the roads, there was an increase in frequency of TP claims, and BAGIC has chosen to reserve prudently for TP claims.

On the health front, BAGIC was cautious on retail health, because of the possibility of a new COVID wave. Unlike life insurance, impact of a COVID wave is fairly immediate for general and health insurance. As things are stabilizing BAGIC will seek now to accelerate growth. BAGIC will seek to strengthen the team in its health vertical and also seek to promote health insurance through marketing efforts. BAGIC has recently launched its first global health policy for Indian residents. We believe this is probably among the first, if not the first, in the Indian market. The pickup on its health prime rider, which was announced in Q4, which includes outpatient treatment and tele consultation, has been very good since launch. Till date BAGIC has sold over 500,000 such riders.

With its extensive product range, outstanding service record on claims, and with marketing focus, BAGIC hopes to regain growth in retail health over the next few quarters. Overall, there has been an increase in the frequency and severity of non-COVID claims in the health business. Group health grew strongly and BAGIC was able to write more accounts on its own terms, while also gaining advantage of some benefit products that it sells through NBFCs. Under the classification of IRDA, benefit products come under group. Claim ratio for health overall is lower in Q1, largely due to provision for COVID claims in Q1 of FY22.

Let me touch upon the commercial and corporate lines - fire engineering, marine, etc. Although they seem to get less attention as they are not retail, this has always been BAGIC's strength and is a significant proportion of the market. We had another good quarter with BAGIC outgrowing the industry, and with its excellent reinsurance capacity and terms, and the vast bancassurance network, BAGIC hopes to further strengthen its position in this segment over the next few quarters. On account of lower growth in earned premium and higher claims, BAGIC reported an underwriting loss of 61 crore and a combined ratio of 104.6. Profit after tax grew by 13% to Rs. 411 crores, helped by higher profit on sale of investments of Rs.279 crore as against Rs.132 crore in Q1 FY22. Overall, a good quarter for BAGIC, though higher claims was the challenge.

Now to touch upon BFL briefly:

An excellent quarter for the company across balance sheet growth, portfolio quality and profitability. Highest ever new customer acquisitions in Q1. On track to go fully digital across all products and services on app by January 2023, and by web hopefully by March 2023. The assets under management or AUM crossed Rs. 2 lakh crores with an increase of 28%. Deposits grew strongly and are about 20% of borrowings. The gross NPA and the net NPA continue to be under control at 1.25% and 0.51% respectively; and BFL continues to maintain a management overlay of 1000 crores on its expected credit loss provisions.

The consolidated profit of BFL grew 159% to Rs. 2,596 crores. The pre-provision operating profit (PPOP) grew 37%.

Bajaj Housing Finance continues to do well. With a 40% growth, AUM ended at Rs.57,425 crore, while net interest income grew 77% to Rs.594 crore. NPAs continue to be low with net NPA at just 0.11%. It was only in FY17, that Bajaj Housing Finance started the business on its own in a small book from Bajaj Finance. In five years, reaching 57,000 crores, we believe is a very strong start for this business. On the back of growth and good risk metrics, profit after tax grew 96% to Rs.316 crore.

A word on our consolidated results:

On the back of strong results from our subsidiaries, the consolidated results were very strong. The consolidated total income was up 14% year-on-year at Rs.15,888 crore, while the consolidated profit after tax was up 57% at Rs.1309 crore. This consolidated profit is after volatile mark-to-market losses on the investment portfolio of BAGIC and BALIC, which is recognized under Ind-AS in the consolidated financials, and which had a post-tax impact of Rs.283 crore. The underlying core profitability would have been significantly higher excluding this.

Overall, a very strong start to FY23, and we do hope the momentum continues into the next few quarters.

The last word - you must have seen from the press release yesterday and the filings in the stock exchange that Bajaj Finserv has decided to split its Rs.5 share into five shares of Rs.1 each, and thereafter give a bonus of 1:1. So that Rs.5 share today will eventually become 10 shares of Rs.1 each. This will be after due approvals by shareholders.

With that, I will pass it on to you for any questions you have or clarifications that you may need. 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 Managers Private Limited. Please go-ahead sir.

Prakash Kapadia: Couple of questions from my end - on the motor OD as well as TP side, we've grown slower than industry in Q1. So, is it aggressive pricing by others, or we were waiting for third party hikes, or are there certain segments we are avoiding?

S. Sreenivasan: Before I pass it on to Tapan, I will give a broad outlook. In all asset-based insurances such as motor or property, when you go through a cycle where growth has been slow, then the growth doesn't pick up in the same proportion across the sub segments. For example, in motor, it is a complex business - you have motor, OD and TP - within that you have two wheelers, you have private cars, and then you have commercial vehicles (there are goods carrying, passenger carrying, etc.). It's not that all of them are growing similarly. So, as the growth comes back, whether we are a little bit here or there, vis-à-vis the market, is not important. Because it is only one quarter - we are running a long-term business. So, we will pick up the growth on the segments that we want. Typically, BAGIC has always been conservative on the heavy vehicle segment, which gives very high severity of third-party losses. And therefore, as we go along, we will continue to focus on the segments that we like.

Now, I'll hand it over to Tapan to give a sharper flavor on this.

Tapan Singhel: Thank you Srin, you summed it very beautifully. When you look at growth, it is in the context of what we want to drive, and how the market growth is happening for those particular segments of vehicles. So, it is a play of these two which takes on, and that is how the overall growth comes. So, at times when the segments in which we are driving are doing better than the market, then our growth will be better than the market. And when they are not doing as good as the market, then our growth will come down in the market. This also is dynamic - it is not a fixed kind of segment. We have a strong team of underwriters and actuaries, and we keep on studying the market. Basis that, we keep on deciding on what segment to push. That is why this is a dynamic movement. So, the ups and downs will just vary depending on the segments that we are focusing on.

Prakash Kapadia: And on the CV business, what is the kind of mix that you would be comfortable with? Because you said that is more of a lumpy business, and because of third party claims, the ratios are much higher.

Tapan Singhel: In CV, it is not that all CVs have high third-party loss ratio, that's the point I should tell you. It's a combination - CV again has a variety of vehicles. There are a lot of vehicles with low TP Claims ratio, while some makes have high TP Claims ratio. It's a combination of which segment you are looking at, how you want to grow it, and how they're performing. So, there is nothing which is good or bad in the market - in all portfolios you have business which to us looks good and we want to service that well. And there are some businesses which are not right priced as of now, so we look at those very keenly to see when the price range comes to the point where we feel it is conducive for us to write that business. So, it will be wrong to say that CV has only high third-party loss ratio business.

- S. Sreenivasan:** Just to add to what Tapan said, it is very easy in a market to say that in CV or other business, the third-party business has to get very aggressive because interest rates have gone up. But historically, we have seen in the general insurance industry, that kind of cash flow underwriting doesn't work in the long run. Because third party being a long tail risk, it will take some time for the losses on the new book to develop. So, one has to balance - BAGIC has a very strong team which looks into all aspects of this in terms of geography, type of vehicle and all other relevant factors. So, we'll continue doing what has helped us so far and we are quite confident in BAGIC.
- Prakash Kapadia:** And in terms of annual mix, it would be what 10% to 15% CV business?
- Tapan Singhel:** In CV or otherwise, we don't set mix as a target. We just do good business. Obviously, there'll be some good and some bad, but overall, as long as we're doing the right underwriting, we should be able to deliver our profit. So, the mix will develop according to that.
- Prakash Kapadia:** Right. And on the health side, what kind of contribution do we expect from the government business? On the non-government group health side, what has been our comfort in terms of claims ratio? Because this is a business where you will have lesser marketing costs. So, what would be our comfort, and how to manage risk on that side of the health business?
- Tapan Singhel:** As mentioned earlier, business in which we find pricing comfortable we do the business. Because it is our belief and it has been demonstrated over time, in terms of our grievance ratio or claim settlement ratio. Our belief is that companies with healthy balance sheets are able to service customers very well. And that is why we don't want the balance sheet to be spoiled. If we look at our track record in IRDA publicly displayed data, we have had least grievance ratio for quarters together, and one of the best claim settlement ratios for a decade. So, this is a testimony to the fact that our obsession for our customers has been the highest. If you look at the NPS score also, it will be among the highest in the industry. So, we write business in which we feel comfortable, in terms of the price in which we feel that we service it very well, and that's how we build a long-term company. But to get to the micro details, what the loss ratio should be, what particular segment should be, I don't think that I would like to answer that in my analyst call.
- Prakash Kapadia:** And, lastly from my side, given that the industry is having a higher combined ratio - last quarter it was 118% versus 112%, 113% - does that lead to unsustainable business for most of the players in terms of profitability and cash flows? Is consolidation the way to sustain this business, because we've seen a lot of new age players suffering because of cash flows or profitability. So, is there consolidation happening in the industry? Directionally what is our sense?
- S. Sreenivasan:** Tapan, I will start that. That's a good question, because the industry cyclically globally has gone through many cycles like this. When capital is readily available, when liquidity is strong in the market, there is a belief that there is only one metric to be chased, and that is Gross Written Premium (GWP). But unfortunately, in this business the risk is open ended, because the quantum of claims in relation to the premium is significantly high. So, over time, as the cycles change,

and capital becomes scarce, the ability to write business, which is losing, becomes very difficult. Now, I don't know whether that situation has yet reached in India or not yet. But to us writing business at a loss is not what we as a group in Bajaj have ever done. Therefore, we will watch as the things go by. When too many companies make losses, and they have to continuously inject capital, at some point, one should expect that some of them may not be able to survive. It is not a good way of running a business. Today, we sit on a solvency (one of the highest in the market, if not the highest) of 349%. And this 349% is with the lowest capital infusion in the business. And that represents the fact that in the last 20 years we have been profitable, despite the fact that industry has hardly been profitable in any of these years on the whole. So, that is the sort of the top-level answer to this.

Tapan Singhel:

When you look at the combined ratio moving up, what I understand is that the general insurance business (not only in India, but across the world) is facing a very unique situation, which is high inflation. In the GI business high inflation hits the business immediately. Because when you price the product, you didn't take into account inflation, which may come up and rise so fast. So, be it a simple repair of motor vehicle, or a health claim, or when a factory is getting repaired or rebuilt, the cost of construction, the cost of repair of a vehicle or cost even for hospitals, we see a very high inflation is built in. Now when you look at high inflation, a lot of places people revise the cost or the sales price to take care of the inflation cost. For the GI business, it has a lag, and that is why you notice the combined ratio moving up. Now about survival of a company - each company has their own strategy and how they look at it, we cannot comment on that. But if you look at it for a very long period like Sreeni mentioned, for industry which has gone through difficult combined ratio, we already see a lot of stress for quite a few companies out there. But they have to figure out their own strategy of how they want to look at it. We are building a company for hundreds of years, so I don't think we are in a hurry to cut corners just for that. So, we will continue to focus on long term stability and long-term good business for customers and for the stakeholders in this business.

Prakash Kapadia:

Absolutely, your philosophy and process and approach to running the business is very clear. This was more of a general industry consolidation view, if this will accelerate because of the way the combined ratios are.

Tapan Singhel:

Combined ratios are not easing, As I told you, inflation is going to hit it again. So, when you see quarters coming through, we see deterioration happening. Because at the price at which it was built, I don't think this inflation was taken into consideration. So that is why the industry would see more difficult combined ratios. So, it's a very valid question and a very relevant question.

Prakash Kapadia:

Sure. And lastly, one on life insurance, what kind of unwind rates do we expect in FY23, given that we are seeing an increase in interest rates across?

Bharat Kalsi:

I'll take that. Our long-term best estimate unwind rate is 8%. As you rightly pointed out, there will always be some moving parts during the year. So, saying by March '23 what it would be, it will be difficult because there are moving parts such as mark-to-market, or the reserves which

are over and above the statutory liability one has to keep. All those plays in. But 8% is what you can imagine as a steady state unwinding rate for us.

Moderator: Thank you. Next question is from the line of Bharat Shah from ASK Investment Management Limited. Please go-ahead sir.

Bharat Shah: Two questions - one is on the competitive scenario in an emergent kind of a picture, and the second is a more specific question about two of our businesses. Coming to the first one, the last three years have been kind of a cataclysmic period for want of a better expression - COVID, sudden heightened concern for insurance, sensitivity, digital models, tremendous flux and a huge infusion of capital. And therefore, we've seen a significant number of changes, which have been going around competitively. Like we have seen in Fintechs, a lot of technology players have come in, but with a poor understanding of finance. We are seeing similar insurance technology ambitions burning on the funeral pyre. Given all of these, also the fact that digitization is imperative - so that much like pure technology without insurance is a very bad business, good insurance without technology will also be a danger. And therefore, a good mix of the two is emerging very clearly. So, while what not to do is becoming increasingly clearer, what are the insights, understandings and strategic guidance for Bajaj Finserv insurance businesses in terms of what to do, what to achieve, and how to go about it? In other words, the key strategic priorities, given the tumultuous kind of changes which have happened in the last 3-4 years.

S. Sreenivasan: Thank you, Bharat. A very profound question I must say. In fact, insurance has also undergone a lot of change - companies are trying out different models. The way we look at digitization or the way we have achieved what we have, is we have digitized significant proportion of the customer experience. The entire chain of underwriting, the chain of the apps with which the distributors work today, substantially more than 90% of the policies now are issued digitally. But this you may say, is just the base of what anyway has to be done. It is not something that we're doing that others may not do. But going forward, buying insurance on digital channels is a question mark actually. Because if you look at health insurance for example, the products are not comparable across companies, so customers require advice. And even today, I believe a substantial portion - more than two-thirds of the health insurance market - is driven by agents, and not even by banks. So, in this market, both our companies will remain digital. We will continue to invest in our agency and other intermediation channels. At the same time, we will offer the customer in terms of claims, customer experience, servicing, etc. a fairly one-touch experience. Both our insurance companies are now in the process of just rolling out their new policy admin systems. This is because the old systems which were available in the market, and one of which we ourselves were using, have become outdated now. So, unless you change the core, you will not have an agile flexible system which can incorporate the changes that the market demands. This is a very long process. It is much longer for the life business, I must say, because every single policy we have sold in the past, pretty much has to be brought into the new system, while we have to start with the new business as well. But having said that, in the health business - we rolled it out late last year - it is now stabilizing in terms of retail health. We have now launched motor TP, then we will go for the other products which is motor OD, then the

commercial lines, group health and all that. So, we think the bigger problem is not digital transformation. The bigger problem is that there are a lot of companies coming in who are willing to burn money for an uncertain period of time. We do not know what the long-term game is for some of them. Maybe they have their own strategies, maybe they are trying to get market share. But, for us the balance between three things is important. First is the quality of service which you give to the customer in the long run that is sustainable, because customers who have good service will continue to be with you. Number two, we want to grow, we want to grow in line with the market, better than the market, but only in those segments where we think there is sustainable profit. And thirdly, we want to enhance the experience for our intermediaries and customers, The only thing we seem to be missing last time you pointed out, which is very valid, was that we are not marketing our capabilities enough which I think both CEOs have taken very well. And I would now ask Tapan and then Bharat to maybe comment further on what the individual businesses are, and how they are looking at this trend.

Tapan Singhel:

Sreeni you sum it up so well that there is not much to add to that. The only thing is that it's a constant evolution the industry goes through. If I take the industry 20 years back, the motor claim settlement used to take three to four months and at that time the customer was happy with that also. Today the motor claim settlement is not only cashless, but we also have a facility in which when an accident happens, you get down from the car, click pictures, upload and we transfer money on the spot. So, it's a constant evolution of how digitalization gets used. But the basic difference between kind of a lending unit and insurance is that no one usually wakes up to buy insurance. But we buy watches, clothes, cars, take loans, buy homes, and are excited about that. But insurance as a category is not something in which people actually get up to buy. It's a category in which when somebody talks to the person, they realize the importance of it. And it's an amazing product to have for the price and the protection it gives, and then people buy it. So, it has always been a strong intermediary-driven business, minus some transactional business which happens. So, the digitization in the insurance industry, as compared to lending, the difference would be that it will incorporate the ease at the front end for the intermediaries. At the same time, it will be a very different customer experience for the customer at the time of claims or policy issuance. So, a lot of investment goes in the insurance industry on these parameters to make a huge difference. And if I just add up today, be it health, be it motor or be it the commercial claims happening - the speed at which they are happening compared to let's say even five or seven years back, there is a phenomenal increase in that. We as a company have been on the leading or cutting edge of it. Most of the innovations that have been in the market, including the ones that I mentioned, we are ahead of the curve. And some of them we brought to the industry here. So, that is our obsession - because as I mentioned earlier, the experience the customer has with us is very important to us and we keep on working towards that. Thank you for the question.

Bharat Kalsi:

Thank you Sreeni, thank you Tapan. Sreeni has anyways covered a lot of things, and Tapan has also alluded to the fact that customer obsession is one of our focus areas. But, if I put it broadly the way we are looking at, it has to be a sustainable and a profitable business, as the overarching strategy for the company. Within that, there are lot of initiatives which the company has already

embarked upon. And we've been doing it for over last five years or so. Few of them, which also includes focus on tech and analytics to drive efficiencies and also to put us in the forefront in terms of innovations. As I said, our overall theme is about sustainable and profitable growth. It's not always about being tactical in the market. And within that, the few drivers which we always believe, and we've been investing into is - one on the tech and analytics; Second is on the product innovation; And the third is, we wanted to be the choice of distributors in terms of the integration experience, in terms of the processes, in terms of the people we provide them at the ground for all support. All those has been our focus areas. To drive the business, we are also investing into new engines of growth, whether it is a channel in a channel strategy, or whether it is going to the adding new market participants - like Sreeni mentioned that we recently signed with DBS and CUB. So, all those are our focus areas, that's where we are.

S. Sreenivasan:

Bharat Shah, just one more point to add to this – in the insurance business there are two things which will probably guide you towards assessing this question that you asked. One is that insurance historically follows experience-based pricing. That means, unlike finance and others, where you work on a lot of parameters, you identify the good risks from the bad risks and try to focus more on the good risk, in insurance, you actually write a lot of volume, because geography is important. And therefore, when you write a volume you get to know the experience. And this is a business where you can never be where you write only good business. Because, if all your customers don't have claims, they will stop insuring with you. So, therefore, it's a question of mixing good with bad, and the more volume you write initially, you will be able to then cull out what you don't need. Or then using analytics, you will continuously refine that portfolio. So, that is how you manage the risk in insurance. And globally, it is still experience-based. Even the catastrophe and the large risks are based on experience. Although there will be some input from external assessment of parameters that drive claims, largely it will be experience based.

The second thing is the incidence of fraud is very high in both these businesses. The amount of benefit one can get for a small amount of premium is very large, which is very attractive for fraudsters to exploit. So, therefore, we are spending a lot more to control that- both companies have very strong loss mitigation and fraud management departments, and we continuously invest in analytics there. We think that is very important, we don't want to have too much of these fraudulent claims affecting the P&L. Even if it's a small percentage, it can actually bite into the profit margin, which is anyway very thin in this business. And lastly, even if you acquire a customer digitally, in terms of servicing them digitally there's still a long way to go. We have to deal with motor workshops, we have to deal with hospitals, many of which are not technically equipped to be able to get paid and settle claims fast. Although that number is increasing, there is still a long way to go. And lastly, in terms of motor third party claims, it is dealt with by more than 1000 motor accident tribunals and it's a legal process which takes quite a long time. So, these are things where even if one acquires a customer digitally and wants to do business digitally, one will have to invest in the traditional way. One must have people who will build these networks, people who will manage these networks, one will have to have partner management, along with the technology to support it, to make it efficient. So, it is a complex matter. And, as things evolve we have to be agile and change, and that is the direction that we

normally take. So, digital for us does not mean B2C. It just means enhancing customer experience and partner experience. I hope I have answered your question, but off-the-cuff this is what our thinking is.

Bharat Shah:

Sreeni, Tapan and Bharat all have answered it well. It was less of a question; I was seeking more of an assurance and reassurance that our model is not trying to get tempted into following technical path. I am not worried on people who are ready to burn capital, who have more capital and less ideas. That bouts of insanity happened time to time. Ofcourse it is painful for sensible players while capital is being spent loosely, because it creates disturbance for some time. But eventually it gets sorted out. It's an irony that in the business of risk, those who are supposed to underwrite risk, are themselves following business models with seemingly uninsured. Also, for a conventional large player when suddenly there is a strategic change of the priority, where priority shifts to growth rather than capital efficiency - while I would have thought it is always both and never only one, it puts some worries and doubts whether the companies are on the right path or not. So, it is more seeking confirmation and assurance that quality, growth and all together is what we are pursuing, and that answers it. Thank you.

S. Sreenivasan:

Thank you.

Bharat Shah:

The second question is more specific. One is about cross selling, and second is about health insurance. While I know cross selling is easier said than done, but Bajaj Finance has shown the way in the finance business how to use cross selling as a tool very intelligently, not only to acquire more customers more efficiently within a shorter timeframe, but with better risk profile, and reduce the cost of customer acquisition. I understand the parallel doesn't follow similarly in insurance, with some specificities of the insurance. But cross selling as an idea somehow doesn't appear whether for insurance business of Finserv, is really heavy at the top of the mind. The second one is more specific, that an important large conventional opportunity like health exists, when we don't focus in good time. And serious long-term players like you, one would have thought, would have carved out a very large activity by now, where we still are seemingly in a catch-up mode and trying to find our feet wet. So, on both of these I wanted to understand the mind of the management.

S. Sreenivasan:

I will take that the top level first, and then Tapan and Bharat can add. On the health business, you see we are very strong on group health (employer-employee). Unfortunately, that has been a business which always has been subject to pricing pressures, because it is an HR cost for companies. But, over time, it is not that we are being either aggressive or being not aggressive - it is just that we do business on our terms. For example, with respect to our corporates with employer-employee policies, we always know what the claims were last year, how many employees they had, how their employee strength is going to grow, we can make a reasonable assessment. And with inflation, we know how much it is going to cost. Now if somebody is going to be at 30% below that, we obviously won't participate in that. But there are many components, for example, we are focusing more on more on the service aspect of it. And hopefully, our healthcare company will also be able to deliver some more value on to that.

Coming to cross selling, in the last two years there has been a significant focus on both companies on cross selling. The problem with General Insurance is that a value seeker eventually becomes a price seeker if they do not have the benefit of service. Number two, while there are large number of products, a lot of people are not buying these products. For example, if you take homes, the only way some amount of home insurance sold in India is only when it is bundled with the home loan. Otherwise, people around us do not buy it. Over time, hopefully it will become more important for people to buy home insurance, because if something happens to the house, then the loan and other things will get repaid, or they'll have the losses recouped. There are many things like this – for example we have launched pet insurance. So, the products are available now, but selling them is not that easy. Because as Tapan said, people aren't getting up every morning saying that I want to buy some insurance. So, cross selling is on. In BAGIC we are running a loyalty program, but that will take a few more months before it is rolled out fully, because it requires a lot of capabilities to be built in the company. As the analytics teams in both companies are now well established, they're working on a lot of data, and we will try to bring that. In BALIC again, getting the customer and keeping them, itself used to be a challenge for the industry. Now we are keeping them, with a higher persistency. The next step is obviously to ensure that they also give us more of their future savings. So, from a pure opportunity perspective, what you said is right, health is a population business. And therefore, over the next 15-20 years India will offer tremendous growth. In terms of life insurance, even at nominal rate of GDP growth of 10%-12%, the amount of savings pool coming into the industry is going to be huge. So, the opportunity is huge, the market is very competitive, everybody is trying to take other people share. But hopefully as a strong company with both companies generating capital, we have the wherewithal to survive it. That's all I can say from the top of the mind.

Tapan Singhel:

So, if you look at this, in general insurance space we are big in health insurance. In the SAHI space, SAHIs have done good in terms of the penetration of health. Now, they have an arbitrage in terms of the number of agents they can acquire without training – existing agents can become SAHI agents. And that is one of the reasons why SAHI did much better than the general insurance companies. So, it's not that we are trying to get our feet wet, we are a major health insurance player in the Indian market as it is. What we have been saying is that we want to scale it much further, we want to become the dominant player including the SAHI players, as time progresses. And the arbitrage which may be then acquiring agents, that is perfectly fine since we have a massive distribution network, and we are working on how we build on that. So, first and foremost, the point is that we already are a big player in the health insurance space, and we would be scaling it up further, taking it up. That is how we look at it. Now if you look at health also, with the entire industry working on the entire total population, cover would be just 14-15 crores in terms of the number of policies. In fact, the government health insurance scheme covers about 40 crores Indians. So, there is 70 odd crores, which is a missing middle. So, the opportunity for growing health is huge, the way we look at it. And how do we look at handing the missing middle, how do you put it together, that is what we have been saying. Cross-sell again, like Sreeni actually summed it up, that is something which I would say that when you look around, when you compare different industries, it's like an apple and orange comparison – it gives a wrong perspective. It should be compared within the industry. Let's look at in the general

insurance industry across the world. In terms of financial institutions, we heard about the Wells Fargo story, we heard all the stories across the world of cross-sell being there. But has anybody heard about stories like this in the insurance space across the world? So, fundamentally the way we look at cross sell, would be very different from the way financial services cross sell would be happening. That is where the stories also come up. And it is again because of the way customer looks at this category. So, more than cross sell, what we should look at, is that are we covering the customer for his entire protection needs. I have always believed strongly that a customer should have a good health insurance, a good home insurance, a good PA cover, a good cyber liability cover on retail basis, a good travel insurance cover, etc. And these don't cost much, these are five or six things a customer should have. So, the obsession for the company is that when somebody is a customer, are we working hard enough to have a complete protection for the customer? Are we at least making him or her aware? That is an appropriate way, and that obviously in a very simple term can be called cross sell. And our endeavor is to keep on doing that because we are obsessed about our customer. And we should see that if something goes wrong with a customer, we should have ensured the customer and he or she should not be left uninsured. That is what the philosophy of the company is that we are pushing.

Bharat Kalsi:

Thank you Tapan, thank you Sreeni, you have covered most of the things. With respect to BALIC, we have to look at two things - one is the upsell part and the other is the cross-sell part. So, BALIC in terms of upsell, has covered up good grounds. We are already seeing almost 20% of our new business comes through upselling. That it's not specific to the Bajaj group per se, but with all our existing customers, where we can further go back and sell them our next policy. So, to that extent, upsell is working fine. And from a cross sell perspective, this has always been an opportunity. So, if I specifically talk about BFL customer base, numbers are not as relevant as in terms of percentage to the business. But has this been improving year-on-year? The answer is yes. Is the group business with them improving year-on-year on a strong growth? The answer is yes. But given this is a small base and a large opportunity, have we really penetrated enough in that? Maybe, it is still a journey which we are working on. And there are a lot of new initiatives which we have taken. So, all in all, cross sell within group – is there further opportunity? And otherwise on the upsell is BALIC there? The answer to both is yes. This is where I will stop, and happy to take any further question on that.

Moderator:

Thank you. Next question is from the line of Dhaval from DSP. Please go-ahead sir.

Dhaval:

I had three questions relating to BAGIC. The first one is relating to OPEX - the group and the company is making several investments on distribution and technology. So, just curious to understand, as we progress into the year, how do we think about OPEX and OPEX growth? The second question is relating to profitability. At a high level in BAGIC, would you expect in the next couple of years, premium growth and profit growth to be broadly similar? Or there could be investments upfront and benefits could come later, which means that profit growth will lag premium growth. And the third question is sort of more product specific strategy. We've seen in the industry, this embedded insurance business sort of pickup - be it trip insurance, mobile insurance, et cetera. All those categories have picked up. I just wanted to understand, we have a

very strong small ticket sachet insurance business. And also, technology is one of the key pillars in this embedded insurance business. So, I just wanted to understand how we think about this business and is there a sort of long-term game plan around it. Is it profitable and is there a long-term game plan in this space?

S. Sreenivasan:

Broadly on the sachet bit, sachet is a good way to acquire a customer. But then the industry has to be prepared, and the customer has to be prepared to expand that sachet product into long term indemnity products. Insurance is not like some other services where there is a trigger. Only if you buy a home do you need take a home loan, and if you have taken a home loan, then the company comes after you to collect the money. But insurance is a journey, and in the journey they will first buy a product, any product they can buy, but usually it is motor. But nowadays some are entering through sachet products, and over time as awareness increases, they will buy more and more products. As a company which is strong and seeking to have the best product range, and the best customer service, hopefully we be in a better position to attract those customers. It is possible that one customer can have multiple products with multiple insurers. And there's nothing that prevents them from doing that. But the fact largely remains that you can't build a business on sachet products alone, unless you are willing to burn a lot of capital. It will not give you the risk reward in terms of profitability, it is not there in that business. The other question on OPEX and to add to what I said, I would leave it to Raman and Tapan to handle it.

Ramandeep Sahni:

So, I will take the one on OPEX Sreeni. Dhaval if you recall, in the past also we have highlighted that our OPEX ratio over the last few years has gone a little higher, and last two years we did a lot of consolidation. And if you look at the OPEX expense ratios actually, they've been coming off quarter-on-quarter over two and a half years now. But like I mentioned in the last call also, there are investments which we had held back because of the pandemic. But now that the pandemic is behind us, we plan to scale up geographically on a distribution front, also in terms of technology. All of this is actually now being invested into. Just to give you some numbers, our peak headcount used to be about 12,500 to 13,000 people. And during the course of the pandemic, we actually scaled it down and we're down to about 8,500 to 9000 people. But given that the pandemic is behind us, now we will start scaling up on the manpower front. Plus, we are also investing a lot in technology, and with this massive transformation going on, on the policy admin side, we are running two systems parallelly - our old policy admin system and the new one. So, another two years this will parallelly run while also doing a hybrid of the cloud and onsite. This will add to some amount of costs. So, for at least six to eight quarters from now, I believe that the investments will add to the cost. Productivity may or may not shape up the way we want it, so that there's just a word of caution on the expense piece.

Dhaval:

Any comment on the profit growth versus premium growth, any broad high-level comments?

S. Sreenivasan:

See broadly what happens is when you make these investments, if they are fixed cost investments, then operating leverage will take time to develop. You first invest, then you get the business. And in insurance the premium gets accounted over 12 months. So, it takes a longer

time to recognize the revenue, while the claims and other costs come up front. So, there will be a cycle. However, we will have to balance that with our need to grow the profit as well as the opportunity that is there, i.e., the profit that the new business will give us. That may take a couple of years to evolve. The one good positive sign is that over the next two to three years, it seems like the investment yields are going up. So, that will provide some cushion. In the underwriting side there are pressures of inflation as Tapan pointed out. This will balance out and we have a very rigorous long term planning process across our group. We also have backed it up with a very strong annual operating plan, which runs a series of projects across the companies. Hopefully that enables us to build capabilities. And sometimes we have to make some investments upfront. Luckily we are in a good position that we are generating capital. So, we do have money to invest, but we have to see how the market goes.

Dhaval: Got it. Thank Sreeni and thank you for sharing the additional disclosure on Finserv market and Bajaj Health, which was really useful. Just one small question on Bajaj Health, if you could broadly lay some context of how much Bajaj Finance contributes to the current business in terms of the user base or paying users - some way of explaining how much is from our own organic efforts.

S. Sreenivasan: I don't have the exact number and we're not disclosing that. Bajaj Finance is selling health cards along with its loans. However, the big thing for them is that the health card - when people want to use the service of doctors or diagnostic centers, etc. they need Bajaj Finserv Health to provide that service. There is a base cost and there is a loading on that. So, on the OPD side, the B2B2C product that we sell, quite a lot of it is done by Bajaj Finance. They do a lot of direct business also through their digital marketing. In addition, they also offer services - the health prime rider of BAGIC is serviced by Bajaj Finserv Health. They will be investing; they are also doing some other pilots in some other areas. And we hope there is enough opportunity there as well - outside of illness, they will be focusing more on wellness. So, we think the business is scaling up quite well. We have about 100,000 doctors now. And the number of customers using our app is also increasing. Our apps are highly rated on the Play Store. We are quite confident - it's a growing ecosystem, we are a Wave 1 partner for the national digital health mission. So, we are there - whether the customer is ready or not, we are helping them get ready. And we are seeing the initial response that people are liking it.

Moderator: Thank you. Next question is from the line of Sanketh Godha from Spark Capital. Please go ahead sir.

Sanketh Godha: Just wanted to understand the motor OD part a little better, given we had reported loss ratio which is probably the highest that we have reported in any quarters. You alluded to the point that is inflation, just wanted to know whether we are able to do a price correction. Because inflation is now real, our competition is not allowing it to take a take price hike, and therefore some full year point of view should we see this numbers remain at these levels. That's on motor OD, and similarly on TP you alluded to the point that we need to reserve, or we have been

conservative. But how do you see this full year to play out, given this 89% loss ratio which we reported?

S. Sreenivasan: First at the top level, you are seeing what is happening in airports across the world in terms of their ability to handle the pent-up demand that people want to travel. Somewhere I feel motor is like that. Having said that, when a claim happens in motor, it's not of the current book that we are writing - it is always of the past book. And there has been a period when the auto sales have been down, you will find that later on a year or two down the line you have higher claims because the premiums you earned were not sufficient to cover that. So, this is cyclical, and as auto sales pick up overall we think this will be evened out. In many cities, metro work is going on causing traffic, so that is another factor. If we see the number of cars on the road, and the roads are not expanding every day, it's obviously causing some extra frequency. In terms of pricing, in motor there is open pricing; it's not like there is a fixed price, and it depends on the segment you want to target, the intermediary through which you're dealing with, and how you can get there with a price. Tapan, you would like to add to that?

Tapan Singhel: What you said Sreeni is the answer. If you go out on the street today, you see more motor vehicles on the street or highways compared to even pre COVID times. So, the frequency of claims obviously goes up because of more vehicles that hit the road. Coupled with frequency, you also have severity increase with inflation. Now is this a permanent phenomenon or will it balance out over time, is what the question should be. That is determined by how the loss ratios shall move and is it a short-term phenomenon. For the next couple of quarters this would play out, because as Sreeni also mentioned, the pricing is on the past assumptions and the spike in frequency and inflation is not something that somebody predicted. So, this will take couple of quarters before it can correct itself in the market as it progresses. So, to answer your question that do you see immediate correction? No, it takes some time before the correction would happen on that. But does the phenomena remain like this, does it ease out, are the questions that has to be answered to get your pricing right as it progresses further.

Sanketh Godha: Got it. And on our motor TP side sir, regarding the reserves?

Tapan Singhel: On Motor TP side, the reserving happens on the assumption of how the frequency is, and how the settlement is happening. On both, if you look at inflation in the TP settlement, and if we look at frequency also, it has increased. As a company, when we publish these triangles, you always see there'll be reserve release, which shows that we are very, very clear in terms of reserving. And it's a very good reserving methodology that we follow at all points of time. So, when we see this happen, obviously we strengthen it. We feel that in times to come the TP would increase, so we strengthen it again. But let us say over time when it drops, then obviously there would be a release. But it is always better to be cautious and reserving than to go overboard on reserving. So, that's what we did.

Sanketh Godha: Got it sir. Sir. On Bajaj Allianz Life just a couple of data keeping questions - just wanted to understand how much Axis Bank would have contributed to the total premium growth in the

current quarter. And second thing is that while all other products have done very well, the protection business, especially the individual protection, seems to have declined. So, how do you see that to play out going ahead? And finally on margins, just wanted to understand that based on the 11.1% margin which is in the current quarter, can we expect the full year to be closer to 20ish, given the product mix and the cost over-run might pile out by the end of this year?

Bharat Kalsi:

Thank you Sanketh. I will take the questions in order. So, your first question was about the Axis Bank contribution. In Axis Bank branch banking, we started sometime last year, second half. So, obviously this first half it will have some contribution effect in terms of not being there from branch banking, we were always in the liability field for last 2-2.5 years. With that, for the time being the share of Axis Bank in our business is around 25%. That's for the first quarter only. The second question was on the protection. As you would have seen, for everyone the protection business either in absolute or as a percentage, has come down. But if you look at on a sequential basis, our protection mix is there and there about rather, it has just marginally gone up, but only by a few basis points. And what is happening in the overall protection space, is that people are now a little bit more calibrated as to how they are thinking. Companies are undergoing a lot of underwriting processes change given what has happened in the past. The reinsurer arrangement is changing, and we are also going with a very calibrated approach in terms of how we want to take the risk on the books, whether it is strengthening the underwriting practices or the reinsurer pricing, etc. What we have also done is that we have re-launched another product with a lot of new features and a better underwriting process. So, I hope as the market grows up back on the protection business, our share is expected to be improving on a quarter-on-quarter basis. Third was on NBM, which is at 11% for the quarter. We never provide any forward-looking guidance on the full year basis. But as Sreeni in the opening remark also mentioned, that having a Q1 with a double-digit number, it's a good start. Last year our full year number was around 14.2%. So, we are on the right trajectory - lot of things depends on how the year ends in terms of growth, product mix, what happens to protection, how the non-par saving is playing out, and the overall business cost, etc. So, there's no forward-looking number per se, but as I mentioned we are on the right track. So, hopefully we'll have a good year by the time we reach March. I hope that answers

Moderator:

Thank you. Next question is from the line of Ashish Sharma from Enam Asset Management. Please go-ahead sir.

Ashish Sharma:

First of all, congratulating you for sharing this data on Bajaj Markets and Bajaj Health. So, just wondering, in your assessment on the data for any metric you're tracking, is the performance better than what your expectations were, or is there further headroom for the metric to sort of grow? And second would be in terms of investment. We've already infused around 807 crores in Bajaj markets. Do we further need to invest in the ecosystem?

S. Sreenivasan:

See, it is an evolving business. We have to look at it like a startup. So, when you look at it like that, the companies have done remarkably well. They are well better than our plan. If you look

at Finserv markets for example, which is the older of the two, you can see the metrics are all shaping up quite well. We have organic visits which is over 4.8 million customers in Q1 FY23, we have 79 crores of revenue. The app registrations are going up. We have 1.3 million app registrations, and we have 146,000 transacting customers. Obviously with the kind of variety of products they sell from high ticket to low ticket, they will rather focus on improving these metrics. From a capital perspective, we think that they are good till FY24. After that, if the business model scales up further, and we reach our goals, there is a possibility that from FY25, on the existing business at least we will start cash breakeven. It is our goal - I'm not saying that we will reach there, we'll have to wait and see, because there is a long way ahead. But incremental capital requirement we think will be less. However, if growth is significantly higher than what we anticipate, clearly we will need to continue to create capability. A lot of the investment we do is largely on people and technology required at the back end to drive a digital business like this. And in building the network of partners and expanding the product range that we offer. So, we continue to focus on that and as a concept, as a business, I think the path is clear for us.

Ashish Sharma: Okay. Sir just clarifying, so we've given transacting customers and visits, so that's 1.3 million which you just mentioned?

S. Sreenivasan: That's right, number of people who have downloaded the app.

Ashish Sharma: Okay, great. And lastly, we have discussed a lot on the combined ratio part. Historically for BAGIC, we've always sort of seen that combined ratio had remained below 100%. But given the competitive intensity, even for BAGIC in the next couple of quarters is a combined ratio above 100%, what we are guiding, given the challenging environment?

S. Sreenivasan: We are not giving any guidance; we don't do that. All we are saying is that yes, this quarter we have grown quite well. Our net earned premium has grown only 2%. So, on the one side, what premium we have booked till now will get earned over the next few quarters. At the same time, we'll continue to grow, and as Raman said, we will also be continuing to make investments in expanding distribution, technology, analytics, etc. So, there will be some element of cost as an investment. And the claims, we have already discussed at length, there is an element of uncertainty on how they will pan out. As they all come out, Combined Ratio is a result of all that. Our focus is on continuing to do what we do well, underwrite well, do good business, retain well, invest the cash flows, and earn return on that. We will continue to do that, and I hope as things turn out, we will be agile enough to do that.

Moderator: Thank you. The last question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Sir, just wondering for our Bajaj Markets do you have any specific numbers as targets? For the Bajaj Finance equivalent, we had some targets shared the other day. So, for markets, do we have any such targets for the full year?

- S. Sreenivasan:** It's an emerging business, and whatever targets we put can go either way. So, we don't actually give targets for any of our companies. Bajaj Finance does that sometimes as a general guide as to the range at which they would like to operate. So, we are showing the numbers, and we will continue showing those numbers every quarter, let us see how it goes. We have explained what we want to do in one slide. And we have given the key metrics that we think ought to be tracked for both our businesses as we go along. But I think that the revenue is an important factor to track the quality. We are generating good revenue from both the companies and that's really important for a startup.
- Anand Bhavnani:** Got it. And sir secondly on the health card, how many health cards would we have sold in the quarter and what percentage?
- S. Sreenivasan:** The number of paying customers represents that only.
- Anand Bhavnani:** Okay, so all the transacting customers?
- S. Sreenivasan:** Yes, customers who are paying us money for using the services.
- Anand Bhavnani:** And what percentage would have been through Bajaj?
- S. Sreenivasan:** That we don't know for sure - a lot of it will be through Bajaj Finance, but Bajaj Finance is only a distributor. Ultimately the services is the card you sell today. You have to provide a service and that is where the capability is of Bajaj Finserv Health.
- Moderator:** Thank you. Due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to Mr. Anuj Narula for closing comments.
- Anuj Narula:** Thank you. On behalf of JM Financial, I would like to thank Sreeni sir, the senior management team of the insurance businesses and all participants who have joined us on the call today. Thank you and have a good day.
- S. Sreenivasan:** Thank you all.
- Moderator:** Thank you. On behalf of JM Financial, that concludes this conference. Thank you for joining us, you may now disconnect your lines.