



“Bajaj Finserv Limited Q4 FY '20 Results 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 the Bajaj Finserv Q4 FY '20 Results Conference Call, hosted by JM Financial Securities. 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 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. Thank you and over to you, ma'am.

Bunny Babjee: Thank you. Good morning, everybody. And welcome to Bajaj Finserv's Earnings Call to discuss the fourth quarter and full year FY '20 Results. To discuss the same, we have on the call Mr. S. Sreenivasan – CFO, Bajaj Finserv; Mr. Tapan Singhel – CEO, Bajaj Allianz General Insurance; Mr. Ramandeep Singh – CFO, Bajaj Allianz General Insurance; Mr. Tarun Chugh – CEO, Bajaj Allianz Life Insurance; and Mr. Bharat Kalsi – CFO, Bajaj Allianz Life Insurance.

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. In these difficult times, I would like to welcome everyone to our next edition of our conference call, where we will be discussing the results of Bajaj Finserv Limited for Q4 and FY 2019-2020. We have already put up our investor presentation on the website yesterday. And we have also issued the press release after our Board meeting yesterday.

I would also like to welcome my colleagues, Tapan, Tarun, Raman and Bharat. For your information, Ramandeep used to be the CFO of Bajaj Allianz Life till the last call, but now as part of our internal succession planning he has moved into the general insurance company as the CFO in place of Milind Choudhari who is retiring at the end of this month. Bharat Kalsi is joining us for the first time as CFO of Bajaj Allianz Life.

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 companies. Bajaj Finance, which is another major subsidiary of ours, has already had its conference call. However, if there are any high-level questions, we would be glad to take that as well. We will not be taking any questions on the status of Allianz's stake in our insurance companies. The status has remained the same as 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 IndAS:

As required by regulation, BFS has adopted Indian accounting standards from FY '19. The insurance companies, however, are not covered under IndAS. They have prepared IndAS financials only for the purpose of consolidation. Accordingly, for BAGIC and BALIC, the standalone numbers reported below are based on the non-IndAS accounting standards or Indian GAAP, as we may call, as applicable to the insurance companies. These are compliant with the IRDA's financial statement regulations.

Now to give you an update on the performance:

Even without the terrible effects of COVID-19 pandemic, India's GDP growth had shown clear signs of slowing down. Besides COVID-19 impact, RBI has unveiled significant measures of repo rate reduction, and even today, just an hour ago, reduced the repo rate to 4%. The CRR has also been reduced and targeted long-term repo operations, TLTRO, was offered in March 2020. Even as economic conditions remain difficult, all our three businesses have performed well till February 2020. However, as you may be aware, the nationwide lockdown enforced on March 25, 2020, and the moratorium on loan installments for customers of banks and NBFCs announced by RBI have impacted the performance for the month of March 2020. The lockdown has since continued, it was first extended up to May 3rd, and now at least in Maharashtra and many parts of the country, it is still continuing in different forms.

As new car sales came to a standstill and since IRDAI had provided customers time till May 15, 2020, to pay the renewal premiums for policies expiring after March 24, 2020, the growth of general insurance industry was affected in March and subsequently in April as well. The life insurance industry also recorded a steep fall in new business in the month of March as a substantial amount of business seasonally for the life industry is written in the last few days of March. Despite these challenges, the company has been able to record its highest ever annual consolidated total income and profit after tax. Before I cover the highlights for this quarter, I would like to discuss about Bajaj Finserv's response to COVID-19, followed by Covid-19's impact on the Q4 and FY '20 results, and its probable future impact for our insurance subsidiaries.

As I mentioned earlier, Bajaj Finance has already had its call, and you have had an extensive preview of the management on the various actions they have been taking from their side. Faced with COVID-19 and the lockdown, Bajaj Finserv and its subsidiaries took immediate steps to handle this force majeure situation. Some of the initiatives were activating business continuity plans, ensuring employee safety, operating work from home, setting up virtual private networks and IT infrastructure, continuing business digitally and reaching out to customers to meet their servicing requirements. In fact, BAGIC, BALIC and BFL's business continuity plans were tested by this lockdown, and I must say that all three companies came out very well, ringing in changes as required at the rapid phase.

On the employee end, every employee was contacted to ensure his or her safety and well-being during these tough times. A health support hotline was created for employees with a doctor on-

call. In addition, in anticipation of the lockdown, various end-to-end digital sales trainings were provided to employees virtually through our e-modules and video-based learning solutions, such as SkillSity for BAGIC. While ensuring the safety and up-skilling of our employees, we also made sure that we support our customers and partners in every possible way. We continuously engaged with partners and provided virtual product training. We mapped each of our distribution partners' capabilities and supported the partners who needed extra support. We integrated new processes on priority to ensure smooth transition. At the customer end, we already had the digital assets in place to digitally service their needs. We reached out to customers to reduce their panic and engaged with them to help them understand how to meet their servicing needs.

To give you a bit more flavour onto this, during the lockdown period i.e. between March 24, 2020 and April 30, 2020, BAGIC issued over 1.4 million policies, settled over 700,000 claims and serviced over 270,000 customer footprints across all lines of business. BAGIC also onboarded 10,000-plus agents digitally through the Sarthi app and even launched two innovative products in this period, pay-as-you-consume motor product and BAGIC GOQii Copay Health product.

BALIC issued approximately 24,000 policies between March 24, 2020, and April 30, 2020. Of the 24,000 policies, around 15,000 policies were issued in April '20 with term policies contributing to 21% of the total policies. In addition, BALIC digitally onboarded around 8,000 points-of-sales person through the iRecruit app from April 1, 2020, till May 20, 2020, with about 3,500 of them being onboarded in April 2020. BALIC has been agile and introduced new functionality, both on the customer and partner end, such as signature on customer declaration form replaced with OTP, co-browsing enablement for online buying journey, etc.

The situation is still evolving. And it is difficult to hazard a guess on how this pandemic will evolve. The company and its subsidiaries will be focusing on profitability over growth, seeking to conserve cash, borrowing long-term, strengthening collections, reducing overheads and preserving capital adequacy.

On to the impact of COVID-19 on Q4 and FY20 results, the spread of COVID-19 pandemic resulted in a sudden and steep fall in the value of shares traded in the stock exchanges. In Q4 FY '20, the Nifty 50 Index and the BSE 200 Index both lost 29%. Under IndAS, the insurance subsidiaries have chosen to hold equity securities at fair value through profit and loss account. Therefore, the insurance companies had an unrealized mark-to-market pretax loss of Rs. 768 crores in the consolidated financials. Additionally, BFL had made a contingency pre-tax provision of Rs. 900 crores because of the impact of COVID-19. The MTM adjustment and contingency provisions, together considered as COVID-19 impact, after adjusting for tax and the company's interest in those subsidiaries have impacted consolidated profit after tax for Q4 by Rs. 807 crores.

Now coming to the outlook for our insurance subsidiaries. I must again qualify this by saying that these are just estimates based on facts available at this time. As things pan out, it may turn

out to be different from what I am telling you now. However, these are the broad trends that we are observing, and I would like to share with you some insights. Given the uncertainty, it is tough to gauge the extent of the impact COVID will have on the industry. The outlook for our general insurance business in the coming year is likely to be mixed. Based on new motor vehicles sales and investment in assets, which are key drivers of general insurance, the business is likely to be subdued. Motor insurance, travel insurance and credit insurance are likely to be impacted in terms of growth. Demand for health insurance should pick up as the need for protection as heightened. Property business is expected to benefit from the price hike. Post the PSU bank mergers - I must complement the BAGIC team for this - BAGIC has retained all the large bancassurance relationships and gained access to over 10,000 bank branches through the already large distribution network.

On the claims front, we expect the number of claims will be on the lower side while the restrictions are in place. However, post the lockdown, we expect some impact to be felt due to diesel cars lying unused and potentially higher repair cost with dealers increasing rates. On health claims, as of now, we are not expecting COVID related health claims to be exceptionally high in relation to BAGIC's size, given the low level of penetration of health insurance and BAGIC's own market share, which is below its overall market share. As you may recall, we had deliberately slowed down our exposure to group health over the last 12 months. So, our overall exposure to this is actually lower than what it was maybe more than a year ago. This will evolve over the next few months. Similarly, we expect lower non-COVID claims during the lockdown as people postpone corrective surgeries and avoid hospital visits for smaller illnesses. However, post the lockdown, there could be a rise in claims due to postponed operations taking place and the hospitals seeking to cover their losses. Commercial lines expect lower claims during the lockdown term. Given the uncertainty with respect to COVID-19, BAGIC will continue to drive its expense reduction initiatives and focus on digitization of operational processes, both on the customer and partner end and its endeavor to transform to the new generation BAGIC in the no-touch and contactless environment. Overall, BAGIC's robust solvency, large AUM in relation to its premium, prudent underwriting, stable management team and strong brand, positions it quite strongly among the peers and should help it withstand the crisis and take advantage of opportunities once the crisis has passed.

Coming to BALIC, during the period of national and state lockdowns where businesses are not functioning, coupled with volatile capital markets, retail customers are cautious, and they are seeking to conserve cash. They don't seem to be comfortable making long-term commitments. This will initially have an impact on new business, subject to containment of the pandemic. In addition, retail term sales, though doing well, could have been more, but got impacted due to compulsory medicals for our flagship new product, Smart Protect Goal. We have been conservative in our approach to underwriting in the Smart Protect Goal because it is, by far, the most competitive in the market. BALIC will soon be launching a revised SPG product with a higher non-medical limit, more number of locations and smart underwriting using analytics. There has been an increase in demand for guaranteed savings and protection products, and it is hoped that this demand will continue even after the pandemic. BALIC's move towards the

balanced product mix, which started a couple of years ago, is expected to help it stand in good stead. In fact, if you recall, we have been saying in the previous conference calls, that one of the reasons we wanted to diversify product mix was to de-risk our exposure to the market, which comes in the form of unit-linked business. BALIC will be focusing on renewal premiums, channelizing new banca partnerships, controlling costs, reaching out to prospective customers digitally and enhancing digitization of operational process. Overall, an excellent solvency margin, a well-balanced product mix, a robust multichannel distribution, covering proprietary and partnership business models with extensive geographical reach and strong brand should help BALIC overcome the effects of the pandemic and emerge as a strong player.

Coming to the performance. For FY '20, Bajaj Finserv has recorded its sixth successive highest annual profit after tax on a consolidated basis. Bajaj Finance Limited continues its outstanding growth story and has again recorded its highest annual total income and profit after tax. BAGIC recorded growth well above the market growth and recorded highest annual profit after tax. BALIC recorded growth well above the market growth in individual rated business and strong growth in new business value, further moving ahead in its transformation that started a few years ago.

For Q4 Consolidated total income was Rs. 13,294 crores versus Rs. 12,995 crores. Consolidated profit after tax was Rs. 194 crores versus Rs. 839 crores. However, if we exclude the COVID-19 impact, which I mentioned earlier, the consolidated profit after tax would have been Rs. 1,001 crores as against Rs. 839 crores last year, which is a reasonable growth.

Bajaj Finance consolidated profit after tax for the quarter, Rs. 948 crores versus Rs. 1,176 crores - this is after absorbing the special contingency provision of Rs. 900 crores for COVID, special accelerated provision in respect of two large accounts of Rs. 390 crores and further strengthening the expected credit loss provisions, which is required under IndAS. As you are aware, the IndAS rules do not apply to banks, but they apply to NBFCs.

General insurance profit after tax for Q4, Rs. 304 crores versus Rs. 83 crores, which is more than 3.5x the last year. It has been a very good quarter for BAGIC.

Life insurance shareholders' profit after tax, Rs. 38 crores versus Rs. 112 crores. However, I must mention here that life insurance is usually measured in terms of new business value, which has shown strong growth of 47% YoY..

Consolidated total income, Rs. 54,351 crores versus Rs. 42,606 crores for the whole year. Profit after tax, Rs. 3,369 crores versus Rs. 3,219 crores the previous year. And the consolidated profit after tax, excluding COVID impact would have been Rs. 4,176 crores versus Rs. 3,219 crores last year. Similarly, Bajaj Finance consolidated profit after tax, was Rs. 5,264 crores versus Rs. 3,995 crores. General insurance profit after tax was Rs. 999 crores versus Rs. 780 crores. And life insurance profit after tax Rs. 450 crores versus Rs. 502 crores.

Bajaj Finance Limited, total income increased by 36%, and after considering the contingency provision of COVID, the PAT was Rs. 948 crores. Excluding this contingency provision, the profit would have increased by 38%. AUM as of March 31, 2020, was Rs. 147,153 crores versus Rs. 115,888 crores as of March 31, 2019, which is an increase of 27%. This includes Rs. 32,705 crores of its housing finance subsidiary, Bajaj Housing Finance Limited, which recorded a growth of 86% over the AUM as at March 31, 2019. Gross NPA and net NPA, ECL Stage 3 recognized as per extant RBI prudential norms and provisioned as per the ECL method prescribed in IndAS as on March 31, 2020, stood at 1.61% and 0.65%, respectively. This excludes standard assets provisioning ECL Stage 1 and 2 and contingency provision for COVID. After the equity capital raising of Rs. 8,500 crores in November 2019, the capital adequacy ratio of BFL standalone as at March 31, 2020, including Tier two capital stood at 25.01%. The Tier one capital is 21.27%. Therefore, BFL is very well capitalized to meet the contingency as we look forward to the next year.

BAGIC had an exceptionally good quarter. Gross premium stood at Rs. 2,655 crores versus Rs. 3,402 crores. BAGIC wrote crop insurance of Rs. 241 crores only in this quarter as opposed to Rs. 851 crores in Q4 FY '19. As we have mentioned before, crop insurance is seasonal, and we take different calls in Kharif and Rabi. In FY '19, we wrote less of Kharif, and more of Rabi; this time, more of Kharif and less of Rabi. Gross premium from core business, excluding crop, for Q4 FY '20 was Rs. 2,414 crores versus Rs. 2,551 crores. The combined ratio improved to 93.8% in Q4 FY '20 versus 103.9% in Q4 FY '19. This is a remarkable achievement given the current circumstances. Underwriting profit, which is a very rare term in the general insurance industry in India, was Rs. 159 crores for Q4 FY '20 versus a loss of Rs. 146 crores in Q4 FY '19. The higher underwriting profit was mainly due to lower claim ratios. During Q4 FY '20, BAGIC has recognized provision for impairment in respect of some corporate bonds for a further Rs. 53 crores. The total provision for impairment for FY '20 was Rs. 129 crores, including provisions made in the previous quarters. At this stage, we do not believe there will be a very significant residual impact of impairment going forward. Profit after tax for Q4 FY '20 increased significantly to Rs. 304 crores, as I mentioned earlier. Solvency ratio is very strong, 254% as against 150% required under regulation. And the AUM represented by cash and investments stood at Rs. 18,746 crores versus Rs. 17,237 crores as at March 31, 2019, an increase of 9%.

Coming to BALIC. After recording almost 25% individual rated new business premium growth till February, BALIC ended the year with a growth of 10.6% as against the private sector growth of 4.8%. Group protection business grew by 20% in Q4 FY '20 and 29% in FY '20. NB premium for Q4 FY '20 was Rs. 1,519 crores versus Rs. 1,818 crores in Q4 FY '19. Individual rated individual new business premium was Rs. 606 crores in Q4 FY '20 versus Rs. 689 crores in Q4 FY '19. Renewal premium further increased by 9% in the quarter and we have now several quarters where our renewal premiums are continuing to show strong growth. Shareholders' profit after tax was at Rs. 38 crores versus Rs. 112 crores in Q4 FY '19. During Q4 the company has recognized provision for impairment in respect of some corporate bond by further Rs. 224 crores, out of which only Rs. 47 crores impacted the shareholders' profit before tax (after tax Rs.38 crore). The provision for impairment for FY '20 was Rs. 390 crores, of which Rs. 135 crores

impacted the shareholders' profit before tax (after tax Rs. 116 crore). As in the case of BAGIC, we believe much of the impairment is behind us as we look forward to the coming years.

New business value, which we disclose once a year, and which measures the true profitability of life insurance business, increased by 47% to Rs. 227 crores versus Rs. 154 crores in FY '19. I must mention here; this new business value is after absorbing all the overruns. The new business margin on ANP for FY '20 after covering expense overruns was 9.9% as against 6.9% in FY '19. As you may recall, BALIC was having negative margins still a couple of years ago, and now we have almost reached a double-digit positive margin.

There are two annual disclosures that you will find in our investor presentation that was uploaded on our website yesterday. First, the new business value and embedded value of BALIC along with the waterfall of the movement in embedded value; and second, the reserving triangles for BAGIC. You may note from that, that the reserving of BAGIC continues to be reasonably conservative. Overall, all three companies are well capitalized, sufficiently liquid and have the diverse product and channel offerings that are critical at this stage. All three companies have very strong rural presence, where most of the green and orange zones are. BALIC has traditionally been strong in lower-tiered towns, while BAGIC has expanded its footprint in rural areas through its virtual offices over the last few years. BFL's rural vertical remains one of its fastest growing segments.

I will now comment on the April 2020 preliminary premium numbers, which was already published by the Life and GI Councils earlier this month. BAGIC has reported a minus 10% growth for April as compared to minus 9.7% growth for the industry, if you exclude the crop and government business. Our core business is in line with the market. Strong growth was recorded in property, liability, engineering, marine and retail health lines; while motor, travel, as expected, were in the negative territories. Group health de-growth was planned due to high loss ratios.

Given COVID-19 circumstances, BALIC April performance was better than expected. BALIC's individual-rated new business premium actually did not de-grow in the month of April as compared to minus 40% growth for private players and minus 48% growth for LIC. Agency with 54% share, was the main contributor in April business for our individual-rated new business as Bancassurance was affected due to the banks' focus on their core operations and because a number of the bank branches were not operational. However, we are slowly witnessing momentum in bancassurance business in the month of May. Total policies issued by BALIC in April increased by 4% as compared to a de-growth of 31% for private players. Finally, the mix for BALIC has a high proportion of non-par business, 36% versus 15%, in April last year.

With these comments, I now open the floor for question and answers. Thank you.

Moderator:

Thank you very much. We will now begin the questions-and-answer session. The first question is from the line of Alok Sanghai from VET Capital. Please go ahead.

Alok Sanghai: Sir, I had two questions on the life insurance part of the business. My first question would be, if you could explain the EV walk that you have given, as to why there is so much of negative operating variance and operating assumption changes, even though we have seen increased persistency across the cohorts?

And my second question on life insurance business would be that recently there have been some articles which are saying that reinsurers are tightening the rules as to people who have been exposed to COVID or maybe are going to travel abroad, they won't be given life insurance contracts so easily. So, any comment around that? Is there a negative impact that you see due to that?

S. Sreenivasan: Before I hand it over to Bharat to take you on the embedded value and the second question would be handled by Bharat and Tarun, I think as of now nobody is traveling abroad. So, I think the second comment, which was reported through the press, I don't think is really that important at this stage. Bharat, would you like to take the EV walk question on the financials.

Bharat Kalsi: Thank you for the question. So, if you look at the overall investment variance of Rs. 515 crores, there are two- three subsections to that. One, there is a one-off case in this year as mentioned in the deck also, we have tightened our impairment on few of our corporate bonds of around Rs. 122 crores. The second is the negative impact of equity market given the volatility, but we also had market to market gains coming from the debt portfolio given the yield has come down. So those are also sitting in the investment variance. But the biggest change is future forward yield curve movement, if you look at forward yield curve that has come down by average 1% at the reporting date leading to an impact of Rs. 265 crores. But this is like timing impact and consistent with MCEV methodology. If tomorrow yield curve comes back to earlier levels, this will reverse. These variances are consistent across everywhere given the market volatility and the yield curve movements.

Tarun Chugh: On the second point, if I might comment. See for us, term is anyways a new segment that we have got into in this financial year. We did kind of wet our feet a little bit in the last quarter, but we did launch only term in the last quarter last year. So for us, anything is an upside. And that is the good part. Yes, the reinsurers have gotten wary of people who travel abroad or NRI segment as well. For us, the NRI segment is a very small segment. And what we have done as a precaution that the reinsurers also asked us to do is basically get a COVID questionnaire filled if there is an existing exposure to COVID. So, we are covering ourselves at least from that part of the cover. Does that answer your question?

Alok Sanghai: Yes. Just one clarification in the EV walkthrough part. So, I wanted to know why there is that kind of operating variance negative? I got the investment bit part, but I did not understand the operating negative variance.

Bharat Kalsi: So, I will cover that also. Again, there are, I would say, two-three subsections to the number which we have shown as Rs. 94 crore. The first section is, as part of our usual exercise, we

always update our best estimate experience, both on the mortality/morbidity and the persistency assumptions and this time also we have updated based on our actual experience. So, within that, we have got some benefit in terms of our mortality experience, which is around Rs. 31 crores. And then we have also updated our lapse assumptions, which is a negative of around Rs. 13 crores. These are small number changes which happens in the usual as a year-end exercise, and that has given us a positive of around Rs. 18 crore in terms of mortality and persistency. But what has happened is that within our MFI business, we have registered extra claim on the group side of the business. And that is what really has impacted this operational variance of around Rs. 113 crores, and hence the net impact of Rs. 94 crore.

Alok Sanghai:

All right, sir. Sir, just one final question on the general insurance part. So, you all mentioned that you all forecast some kind of growth coming from the health business. So apart from health business is there any other area where you might want to venture into and you might see some green shoots coming in the coming year due to habit changes?

S. Sreenivasan:

I think Tapan will take that question.

Tapan Singhel:

Okay. So, an interesting question. But let's look at the April data to understand. If you look in April, the GI industry has a negative growth in retail health. We have a 9% to 10% growth which is better. If I look at sales for April, that's why I was very keen to look at the sales for April, I feel it should really be going up through the roof, which has not happened. But obviously, queries are being raised, people are raising concern about how this is going to move and how this is moving up. So, there would be an uptick in health. But to think that an uptick in health for the industry would be really huge, I don't think that would be happening. That is my personal prediction, looking at how April has moved.

Having said that, again, we are trying to create awareness because if you look at the Indian market, health insurance has COVID cover. And you had the same question for life business where international market is very, very, wary. I was actually telling my people that why our servers are not crashing because people should be buying a health insurance, but unfortunately, I don't see that happening as far as the trend is concerned. There is an uptick, there is a movement, but not to a huge extent right now. It may move up. If it moves up, we are fine because we have a presence all across the different channels and geographies. And that is reflected in the month of April also, if you look at the industry's minus 3% retail health growth, and we are at plus 9%. So, if it happens, we will obviously be benefiting from that. That is one point.

The second point, if you look at the growth in business, property, like Sreeni mentioned, because of some rate correction in some segments, it has some positive upside there. Motor has had a sharp decline, nearly half of what it normally would be giving. But going forward, looking at the Chinese experience of Wuhan, we expect at least smaller segment and two wheelers to start moving up in terms of sales. So that would come in later during the year because I think whatever circumstances may be, people will start resuming their normal lifestyle. So those things would start happening.

If you personally ask me what should go up, but let's see if it does or does not, the cyber insurance should go up because that's a huge risk. If you see, cyber-attacks have moved by about 1,000%, if you look at statistics, that should go up. The liabilities should go up. If you look at liability cases in U.S., which is happening because of COVID and the way directors and officers' insurances are reacting, it is also moving up. But these are assumptions that we feel should move up, but let's see how the market reacts and how does it behave. I hope I was able to answer your question.

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

Nidhesh Jain: Firstly, on the BAGIC, if I look at the claims triangle. There is a small strengthening in the earlier years, and there is a significant release of reserves in the near years. And I think there is almost Rs. 500 crores of reserve releases in this particular financial year. So how do you see this sharp release in the near-term years, whether it is sustainable? Because that has an influence on this year's profitability? And how do you see this Rs. 500 crores of reserve release for this particular financial year profitability?

S. Sreenivasan: See, let me take that first before I hand it over to Raman. When I look at the overall reserving in terms of what it was last year and what it is now, we are actually better off. Even the near years, if you see, we have 10%, 12% and 8% surplus reserves as of now. And when we look at the past trends, this seems to indicate that we are in a fairly good situation there. Regarding the specific questions on the Rs. 500 crores, Raman, would you like to take it?

Ramandeep Sahni: Sreeni, nothing is specific, which has changed this year. But like you rightly said, if you look at the trend every year, there has been a release of 5% to 8%. And I presume that, that is expected to continue. There is no reason why there should be a deviation.

S. Sreenivasan: Let me give you an example, what we do in BAGIC is that as soon as a claim is reported, we have a very robust, what we call, auto reserving system. Because we would not have any information, we immediately put in the auto reserve depending on the line of business and depending on the type of play. And then as the data evolves, the reserve is continuously updated. Now in any year, because we are a large company, we have a large number of claims settlement, a majority of almost all of this claims settlement, my understanding is that, has come out because we have settled those claims and whatever reserves are there, again, the claims would actually be absorbed. Simultaneously, we actually would calculate the IBNR based on the current trends, and that will be the ultimate expected loss ratio, which is what is reflected in the price.

Tapan Singhel: I think if you look at the question you asked, this is a natural behavior of GI industry. The actuaries have specific tools, and wherever they see a trend in which they feel that the reserving should be strengthened, they strengthen it. And like Sreeni mentioned, where claims get settled, the reserves get released. So, release reserve is a good sign, because that means that the company is adequately reserved. And that happens every year, like Raman mentioned, it is not something that is unique. If you look at the past years also you will see reserve release. And if you will see

that there would be strengthening happening where the actuary feels it is low. Strengthening that you see is mostly because there was a TP pool way back much earlier, if you remember, it is history now. And that TP pool had given an ULR which is ultimate loss ratio given, way back, that is where the companies had reserved themselves, but that ULR fell short. So prudent companies have strengthened that. Where they feel that ULR is going short, they have strengthened the reserves because if they see the trend is not moving up, they have strengthened it. But overall, if you see there is a reserve release happening for a company, and as a triangle, it is a good sign. And if you look at BAGIC, 7% to 8% is normally where the reserve release keeps on happening when it settles claim. So that shows that we are adequately reserved over time. Does it answer your question?

Nidhesh Jain: Yes.

S. Sreenivasan: Nidhesh, there is one more point here. If you look at, we have generated about Rs. 1,500 crores of net AUM surplus and that itself is an indicator, despite the impairments and all that. And that itself is an indicator that our cash flow is significantly higher than our profit after tax about 1.5x.

Nidhesh Jain: Yes. And coming to BALIC, we have seen a quite sharp growth in non-par segment. And for the month of April also, you highlighted that 30% of business has come from non-par. Given the declining interest rate environment and probably the interest rate environment may remain subdued for some time, how do you see that non-par strategy going forward? And how are you hedging these products, what are the level of guarantees that you are offering?

Tarun Chugh: Yes. So see, it is a very good question, and it is something we are always keeping a very hawk-eye on this. What we typically do in our approach is that, before the year starts we usually hedge our future business based on our plans for almost 9 to 10 months of business yet expected and we have been taking some calls pragmatically. We have been doing a lot of partly paid bonds hedging. And we have got a significant portfolio build on that. And these are fairly high on credit rating and from strong groups. There is no letting off on credit risk on this portfolio. And basically, even if we today, hypothetically, did not bring down our guarantees on the other side for the next eight to nine months and continue doing business, we are well under control. But having said that, we will be going ahead and taking a call on this dynamically, and we review it every quarter. So, we will bring down, for sure, but I won't be able to say when. But like I said, even if we did not bring it down for the next eight to nine months, we are absolutely comfortably hedged for a portfolio business we have not yet written. The other bit on non-par is, although non-par was 30%, but there is also term business, which is part of non-par. And in terms of NOPs that is really going up. There is a good amount of tailwinds on term plans, both offline and online. And I can see my agency business has also picked up quite well. So that is also bringing up the non-par portfolio.

Nidhesh Jain: Sure, sir. And can you just say the details of assumption change variance, what is there?

- Tarun Chugh:** I will let that question be answered by Bharat, and then maybe I will come back for any additional information.
- Bharat Kalsi:** See, these are the second order impact in terms of the mortality and lapse assumptions which I shared earlier. It is a small number of Rs. 24 crores, because when you change assumptions, it also impacts future profits (VIF). Nothing significant there other than the usual mortality & lapse assumptions change.
- Moderator:** Thank you. The next question is from the line of Ashish Sharma from ENAM Asset Management. Please go ahead.
- Ashish Sharma:** Just two questions. First on the BAGIC, on the outlook for combined ratio. I think the Q4 trend was positive, I mean, even if I look at number with crop business. Any sense in terms of any outlook you can give on how we see combined ratios? And then I think secondly, on the similar thing that given that we will see that investment yields would be under pressure, will it be paramount for industry to sort of focus on underwriting profit? Second would be on BALIC in terms of the outlook for VNB margin.
- Tapan Singhel:** Okay. First, let's talk about the combined ratio. So, if you look at Q4, it looks good even without crop also, like it is about 97% combined ratio. The fundamental difference is, if you look at times when we had floods and times we didn't have floods. So, if you take out the flood impact, our combined ratio would be again, we would be making good underwriting profit. So, in Q4 we didn't have any major flood event. That is how it moves in the kind of business that we are in. And in fact, last call also I mentioned that that I see it improving as time progresses. Now if you look for this year, obviously, I can't make any forward-looking statement, but if I look at the current trend, because of lockdown two things have happened. Hospital occupancy is about 30%. Now this has two meanings. Either hospitals were fleeing to the tune of 70% or people are holding back their treatment. Now if they are holding back a treatment, it is actually more worrying because if they come back, then the claim size will actually move up. Because if you were treated early, it is still easier to treat, and the cost is lower. So, one of the feelings can be that if I look at the claims for health, as lockdown eases out or people, they are not able to postpone their surgeries or treatment, that may start moving up. So that has to be seen along with the impact of how COVID starts moving up. Right now, COVID has not moved up to an extent that we find it alarming or significant. But looking at the trend, you never know how it moves up. So that can have an impact on the combined ratio going forward.
- The second, if I look at motor business. So, in the lockdown period, yes, the motor OD and motor TP would be lower. But as it is opening up, the previous losses will start coming in, and people started using more private vehicles and commercial vehicles starts putting in more hours on the road, because they have to catch up for the lost time, that may lead to high increase in frequency going forward. So, there would be some benefit in loss ratios where lockdown is on. There would be a spike of more than a normal when lockdown is off. So, the play of these two

will decide how the combined ratio comes out as the year progresses. Does it answer your question?

Ashish Sharma: Yes, sir. Just on trying to balance the decline in investment yields. So, will it be now even more important for players in the industry to focus on underwriting profit? Just some perspective on that.

Tapan Singhel: If you look at BAGIC, we have always been an underwriting focussed company. I have mentioned this a lot of times. And in fact, if you go back to maybe a couple of years, you will hear one of my statements saying that in the European market in the past also, companies did not focus on underwriting, when sharp fall happened in investment returns, so those companies had a tough time. So, in the Indian market also, this would happen now. As you see, and rightly, as you are pointing out, investments are going down. But a company like us who have been focusing on underwriting over years and the discipline of culture is there, I think for us, it will not be such a huge issue because I think investment income has always been on top of what we try to achieve on business results.

S. Sreenivasan: I can add to what Tapan said. As I said earlier, our objective has always been profit over growth when times are tough across all our businesses and BAGIC is no exception. Historically, it has shown over the last 20 years that we have always been an underwriting-focused company. In the market, different players have different objectives. There are small players who are still trying to get to scale. They will be hungry for capital. Availability of capital will drive how much they want to gain market share. In terms of larger companies, which are using cash flow underwriting - the PSUs are very good examples of that, but there are some private companies as well - they would have a fall in investment income, there will be no equity gains to be taken possibly for some time, and therefore, one would normally expect they should tighten their underwriting, but this is a free market and one has to see how they cope with this. So, it will be a play of different factors, and each company will have its own objective. And our objective, as Tapan has already outlined in very specific terms, is that we will not sacrifice a significant amount of profitability at this stage. We will continue doing what we are good at and in the best way we can.

Ashish Sharma: Perfect, sir. And the question on BALIC on new margins. So, we have reached 9.9% for FY '20. Any outlook on that would be helpful, sir.

Tarun Chugh: See, I don't think we can make a forward-looking statement on this. But let me just give you some building blocks for this. If you look at, and I think Sreeni very clearly mentioned that, till a few years back, we were writing negative VNB. Now, that is the statement of the past. And we have seen a 47% growth in new VNB for last year already. So therefore, the focus really is on VNB in a big way. There are various levers that work towards this. Of course, the first one we started with was persistency. Our persistencies have improved significantly, as you are aware. We are very clearly on that building block and we are very focused on that, so much so that the February block of even the third-year persistency, which is the 25th month, first time

after 8 years, hit 70% and above. Now it is something that I am kind of not so gung-ho about because it has to go up further. But I am also quite positive that the trend is really upwards.

The second bit is usually on the product mix. And as you know, about three years back, our product mix used to be about 72% ULIP. Now that time, we were trying to get to scale because we were really turning around the company, the ULIP products are very good. So, we were trying to get into a higher customer segment, which is typically more profitable, which is the affluent and above, which we have been successfully able to do. Our ticket sizes reflect that. Once we have reached the scale, we have basically shifted our product mix significantly to the same customer base and upselling more and more. So, what we have been able to do is almost get our ULIPs down to half of the entire company's portfolio. That is a big part of a movement, a needle mover for VNB.

The third needle mover really is the channel mix. So about four years back, our agency used to contribute 91% of our channel mix. So BALIC was really a one-horse story. Now that has changed significantly. And now it is almost that agency is approximately 55%-odd. And we have got three other channels going quite strong for us, which is a proprietary sales force, which is an extremely disciplined upselling channel and the most profitable retail channel, with very high quality of business and persistency. The second bit is the bancassurance channel. So last year, we got the maximum number of bank partners, including Axis, RBL, KVB and also two Middle East banks. So, whichever banks in the private sector were up for tie-ups, we got all of them. So, the channel mix is shifting.

The other is the online channel. In the ULIP space, we were the leaders and that has gone quite well. Now that we have a presence in the online space, we are now moving into the online term business space. That is helping in a significant way.

The focus will also be on the fourth lever, which is on cost, to control our costs because what we see ahead is not necessarily clarity. There is no clarity on what is going to happen going forward. Sreeni did make a statement that people would rather keep cash in their pockets than commit to a very long-term product as of now. So, we have to see how it goes. We have had an encouraging April versus the rest of the sector. But I'd say it is only versus the rest of the sector. Surely, there is a lot to be seen, and the year has just about started. So, a longish answer to a short question, but it is more important to understand that the company is now basically looking at new business premium and new business margins as any other company is, and we are strongly on that path.

Moderator:

Thank you. The next question is from the line of Anirban Sarkar from Principal Asset Management. Please go ahead.

Anirban Sarkar:

Sir, I have two questions. One for your general insurance business and other for the life insurance. For the general insurance, if you could throw some light on what the impact of the change in motor TP liability calculation is on the business overall, that would be great. And for

the life insurance, I am sorry, sir, you have already mentioned this, but what is the persistency assumption for your VNB calculation? So those are my two questions.

S. Sreenivasan: Just before that, I will just state, are you referring to the new draft, which states that the way the obligation would be deferred to motor TP?

Anirban Sarkar: Yes, sir, that one.

S. Sreenivasan: It is a draft and we are still not sure it will go ahead. But having said that, we have seen so many regulatory changes. We have seen the motor pool. We have seen the declined pool. We have seen the abandonment of both. So, regulation is something which is across the industry. And BAGIC has always been on top of how to interpret it and how to adjust the business according to the opportunity available.

Tapan Singhel: Yes. I think more than that, the question should be that if you see this year, there has been no increase in TP rates. I think that has a direct impact on the business. So, if you look at it, normally, you get a 7% to 8% increase and this year increase has not happened in TP, right? And that is why the previous question on combined ratio was raised. But again, because of the lockdown and less use of vehicles in those months, I think that is where the payoff will happen. So that has a bigger impact. I think on the draft, we will see how it comes through. It is too early to comment on that. Any other question you have?

Anirvan Sarkar: Yes, there is a follow-up to this. So, do you disclose the breakup of your motor premiums by vehicle, like car, CV and two wheeler? Is information available anywhere?

Tapan Singhel: No, I don't think so. It is at overall level, but then it is getting into business details of how do we run the business. But if you look at GI disclosures and the information available, it is exceptionally good from side or the council side, I think a lot of information gets available.

Anirvan Sarkar: Sure, sir. And my other question was on the life insurance business, what is your persistency assumption for the VNB calculation?

Tarun Chugh: Yes. So see, the persistency assumptions actually vary with the product. So, there are no one standard persistency product assumptions. We are talking about a pretty varied segment of products. And it is really part of the actuarial calculation, something we do not really declare. If you are asking me, if your question really is that are we feeling confident that we will meet our assumptions? Yes, we are. And we actively look to provide the assumption with respect to the market forces.

Anirvan Sarkar: Have you changed these assumptions in the latest numbers?

Bharat Kalsi: So, we typically, every year, basis on our December experience revisit all our persistency assumptions. As Tarun rightly said, we have gone in more detail in terms of going to the product level assumptions as well as at channel level persistency assumptions across the cohort, so all

that has been considered, at least for the March numbers. And it is, as of now, on the same basis. But going forward, as we declare our results, we will update based on recent experience.

Moderator: Thank you. The next question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati: Congratulations on a very good set of numbers. Sir, a couple of questions from my side is, what will be the advanced premium numbers in the general insurance business? And sir, also, the ratio of NEP to NWP looks very close to one this time, sir. Any specific reason for that? And I have one more question after you answer this on the life insurance, please.

S. Sreenivasan: Can you repeat the question, please?

Hitesh Gulati: Sir, the advanced premium number for the general insurance business?

S. Sreenivasan: Raman, do you have the number?

Ramandeep Sahni: Yes, Just giving Sreeni. So, there are two parts to it. One is on the motor, it is about Rs. 760 crores. Plus, there are other lines of businesses also. That's another Rs. 260 crores. So, in all, about a little over Rs. 1,000 crores.

Hitesh Gulati: Sir, the ratio of NEP to NWP looks close to one this time. Sir, any specific reason because the mix on a year-on-year hasn't changed, just trying to understand that?

S. Sreenivasan: See, it is based on 1/365 method. So as business goes up and down according to the business mix, it is normal, according to formula. There is no particular reason for that. I think we have de-grown the group health. In group health, you will find that more of earned premium of previous year. In certain lines we have grown, so there it will be less. So, the function of how the NEP moves depends on how the business mix in terms of the reinsured business versus the retail business will move. Very difficult to give an overall comment on the company's NEP to NWP.

Hitesh Gulati: And sir, general insurance companies follow 1/365. That's right. And the health insurance are following 50:50. That comment is right?

Hitesh Gulati: And just one last question, sir. New business strain on the life insurance piece, I just want to understand which are the segments, which causes the highest strain for us, because protection is something we added only in Q4 this year, but we do a lot of ULIP and non-par also? So just any qualitative comments on that.

S. Sreenivasan: Bharat, do you want to take it?

Bharat Kalsi: Sorry, I just missed the question completely.

- S. Sreenivasan:** Where the new business strains are likely to come from, which product lines?
- Bharat Kalsi:** So, new business strain, we are no different & typically the business strain will come from the unit linked business as well as the non-par business. Within non-par, sometimes, as Tarun mentioned that, we are pushing towards the protection business. And within the protection, there are a few variants, if you are on a limited pay then you can have some strain in terms of initial years. If it is a regular pay, it will not be there. So, it is more like a balancing of something between non-par and UL. Par is generally not a new business strain line of business.
- Moderator:** Thank you. Next question is from the line of from HR Gala from Finvest Advisors. Please go ahead.
- HR Gala:** This time we don't find the breakup of life insurance business according to the channels. Can you provide that, sir? The breakup of the new business premium, Rs. 5,179 crore in FY '20, according to the channels, that breakup is not there.
- S. Sreenivasan:** I think we have given in our mix the overall channel mix, right?
- HR Gala:** No, it is not given. I think there is no slide in your presentation that how much has come from the banca, how much from individual agents, corporate agent, direct selling, brokers online. I think this is the classification, which you used to give in last year.
- S. Sreenivasan:** In the Public disclosure, we normally give that channel-wise information.
- Tarun Chugh:** I can give you that. There is no point looking at the new business premium based on channel mix. It is better to look at the individual rated new business premium. So, which is around 56% was agency last year.
- HR Gala:** Last year meaning FY '20?
- Tarun Chugh:** FY '20.
- HR Gala:** Agency was 56%.
- Tarun Chugh:** This is down from 70% the year prior. The online business was around 11%, which is up from 9%. The institutional business, which is basically bancassurance brokers, was up from 11% to 21%.
- HR Gala:** 11% to 21%, okay?
- Tarun Chugh:** And proprietary sales was static at 11%. The year prior it was 10%.
- HR Gala:** Okay. Fine. Now another question is at the group level, is there any thinking of converting Bajaj Finance into a bank?

- S. Sreenivasan:** No. This is something we keep deliberating. As of now, we have no specific plans.
- Moderator:** Thank you. The next question is from the line of Bharat Shah from ASK Investment. Please go ahead.
- Bharat Shah:** Two questions. Essentially, if you look at the core of any insurance business, it revolves around three principal ideas; underwriting skills and the profits, investment management and the returns, and the third aspect will be the growth. So, my first question, if I have to take a combination of underwriting profits and investment returns. On underwriting we have done a fantastic job all through, where our combined ratio consistently is being well ahead of the industry curve, we have remained very prudent. And just to chase growth, we have not sacrificed the quality of underwriting that we have done. So full marks there.
- But I do have concern about the investment performance of both in BAGIC and BALIC. There are consistently poor quality investments which are made. And quarter-after-quarter, year-after-year, some write-offs or the others keep happening and diluting the overall quality of the returns, both for the unitholders as well as for the shareholders. I can't help feeling, but investment management, which should be core of any insurance activity apart from, of course, the underwriting and growth, which I will take up later, but investment management function seems to be kind of a secondary or less paid attention to kind of a function. That is the impression I get. I would welcome comments.
- S. Sreenivasan:** Okay. I will take that question. If you know, Bharat, last year, we made a provision for IL&FS. We are not the only company which was exposed to IL&FS and across the industry you had a few people who had that. In hindsight, we can say we could have invested or not invested, but I am not getting into that. This year, we had already announced in the first quarter the additional impairment potentially from DHFL. And then in the YES Bank, also, we had disclosed investment. However, in Yes Bank after SBI took over RBI decided to cancel the AT1 bonds, right? They are still going to honor the remaining part of the NCDs and other things are what the new management has told us. However, none of these investments are new.
- These impairments have always been there. We have already disclosed it end of last year and in the first quarter of this year. As we got more detail, we have made extra provisions. Now most of the provisions are behind us. We are 100% provided for IL&FS. We are 100% provided for Yes Bank. And we are 75% provided for DHFL. And in addition, we have provided for a couple of performing investments as well, which means that the companies are not defaulting. They are continuing to pay interest. But based on our assessment of the impact of COVID and potential price close, we have made that.
- Subsequently, we have completely revamped our investment strategy with separate policies for different liability profiles. We have redrafted the entire approach to investments, particularly on the credit side. Because when you manage investments, it is very easy to say that I put a lot of money in equities. Equity market fell 30%, I lost 20%. That is also not a good story for life

insurance or general insurance. Because insurance is a business of protection. It is not about beating the index or doing better than something else, which has done very badly. But in the process, we have completely revamped the whole approach. We now go in with the defined names, which I think I mentioned in the last quarter as well. We have a specific list of approved credits, which we will go through.

We have strengthened our credit team. We do not use only credit ratings now. We also use our internal models. We also have a group level stress investment forum, where we have, depending on the testing, either a weekly or a fortnightly call, where we look at all common investments across the group as well and then take a call on what is to be done. So, to the credit of the team after this event happened, they have also got rid of quite a few investments at reasonably good prices, much before some of them became more impaired. So, we should give credit to the team that there are a couple of investments we actually got out during the year of reasonably good amount. So, the residual balance now is not there. The team has been strengthened. The policies have been strengthened, and we will be going forward.

As you mentioned, in general insurance, the investment cannot be a driver of the profit. It is the float generation that is important. On the float, you have to invest it conservatively because on the insurance side, our balance sheet is full of risk. People come to us because they have risks. But if you want to take investment risk and underwriting risk, in some years both performing badly will lead to pretty bad results. It could even affect your solvency. On the life side, the par business is very long-term. There are 90-10 rules. And there are IRDA guidelines as well, where you have to invest a minimum amount. The amount of flexibility you have is not that much. In terms of unit linked, our performance is in line with most of the competition. We are among the top quartile performers, almost all our funds.

And one of our funds, Pure Stock Fund, compares well with most mutual funds in the industry as well. The non-par is a guaranteed product. We do not take any investment risk there, either on the credit side or on the equity side. It is about managing the guarantees. And as Tarun said earlier, we are fully protected for our expected business for at least one year. As we go forward, we look at more hedging options. IRDA's new product guidelines now allow us to also reset the interest rates when there is a big decline. So therefore, we have never been very aggressive in offering very high interest rates or taking high exposure on our product suite, which some companies have done in the last year. And as interest rates have fallen, we have appropriately adjusted our interest rates once already, and we will be doing so again as and when things are required. So yes, if you asked me one year ago, your comment was valid. If you ask me today, I think we are a lot more confident company about our ability to manage investments and take it forward.

Tapan Singhel:

This is Tapan here. If you look at the return, it is been 7.9% for the year, which I would say would be comparable or better than most of our peers in the market that would be there.

Bharat Shah:

So not as much on the quantum of return, in terms of the quality of return, if we keep getting drawn like a magnet to some of the bad exposures, like IL&FS and Yes Bank, DHFL, etc., then I think it is the predictability and sustainability, which comes into the question. So, while quantum of return in a particular period may be good or bad, that may be happenstance, accident or chance, but it is sustainability, solidity, predictability and focus on investment management in a conservative way because, as Sreeni correctly pointed out, insurance itself is a risk activity. Therefore, the investment activity, which has to aid to that, must counter that risk and should be able to create predictable earnings. Otherwise, the whole thesis of insurance business gets diluted. So, if I have to go by Sreeni's comments, I assume investment function is now a core function and not one of the functions in the activity, I hope.

S. Sreenivasan:

I think that during the year, we now have a very strong internal committee on investments. They meet every month. And apart from the investment team, we also have other professionals, including the CEO and the CFO, who get involved in assessing the market, where the direction should be, looking at the performance and what kind of calls need to be taken. We are looking at a very long-term, continuously managed program. So just because, for example, the equity markets fell, there is always a tendency now, let us increase our equity exposure. But that's not the way we will manage our investment. We will look at the market and gradually increase it because it is not something we keep dipping into every year. And the biggest test is that we never have so far required investment returns to cover up for our underwriting failures, which I think is the biggest risk for an insurance company, especially a GI company. So, having said that, yes, when you have an investment, which is not performing, I think that is normal in any investment portfolio. How quickly you react and how you recognize the problem early and what action you take is very important. I must admit that last year, your question was very valid. We realized that we were not quick enough in reacting to some investments. But going forward, we are very confident that this will not happen again.

Bharat Shah:

Yes. The second part is on that growth issue. Again, my comment here is relatively less on BAGIC, but it is on BALIC. As I mentioned earlier, we have been very, very prudent in our underwriting risk, and that reflects very clearly over a long period into our combined ratio on the BAGIC side. So full marks to the firm for that. The growth issue equally is important because the growth issue will be a function of the kind of a brand, kind of distribution network and kind of innovation of a healthy variety, which will create right kind of product suites. On the BALIC side, growth has chronically been an issue, mainly led by our weakness on the banking distribution side. Some part of it we have addressed. But do we think we have a likely healthy balance of underwriting and growth like BAGIC. Are we kind of reaching a healthy balance between underwriting performance as well as growth in BALIC as well?

S. Sreenivasan:

You're asking specifically about BALIC, whether we have the right mix of growth and profitability, is it?

Bharat Shah:

No. My question is in BALIC. While our underwriting, I would assume, will hit the same character in the prudent sales we have displayed in BAGIC side. In BAGIC, both growth and

underwriting have remained healthy. In BALIC, as far as growth is concerned, we have some legacy distribution weaknesses, especially on banca side, also probably on the innovation in terms of the products. Do we think going forward, we will have a healthy balance.

S. Sreenivasan:

I will hand it over to Tarun. I got your question. As for the BALIC, if you see, yes, between 2012 and 2015, we did go through a very poor performance because we had no bancassurance. We were predominantly 90% of our individual-rated premium was coming from our agency channel and the agency channel was losing, I mean was becoming a high cost channel to drive growth. So therefore, profitability was getting affected, and we had overruns, and therefore, we have negative margins. In last three years, I think there has been a significant transformation. We have transformed every element of quality of business. Our persistency, while it may not be among the top three, it is very close, within touching distance of the top three or four companies. In terms of margins, we are now at double-digit margins after overruns. Pre-overruns, we are between about 18% - 19% margin, which is we think is sustainable.

In terms of product innovation, the ROMC, variety of products, we have been at the forefront. What we have not done and which can actually bust a life company is offering excessive guarantees. We did see in the market products, which are offering 6%, 6.5% guaranteed return for 20, 25 years. But one year down the line, when I look at those kind of products, I think those companies will have to review what they want to offer in the future. Obviously, a small amount of business, which does not hurt your balance sheet much to maintain growth is there. So, if you look at the last two years, our growth has been significantly better than the market. Even this year, if you look at April as well, the market is down 40%. We are still at 1% growth. So overall, I think the transformation of BALIC, which I have been talking about for the last three, four years is, we have the confidence that it is firmly on track. There is work to be done. We will continue working on the same levers of business, both growth and profitability. Our focus is not on margins. Our focus is on new business value, which is a function of both growth and the margins that you get, and we will continue on that trend.

Tarun Chugh:

I think it is very appropriately answered by Sreeni. See your point is valid, Bharat. And I really appreciate the way you look at things here. I can see there is a deep insight of insurance there. See, the point is if you look at the large companies which you track, they are solely and wholly almost, if I might say so, except maybe leave aside one, two here and there, largely led by bancassurance, and the growth is particularly led by that. Also, they are owned by banks, and/or if nothing, at least 60% - 70% of their business comes from a bank, one bank, usually the promoter bank. We, of course, do not have that legacy. Now you can either take legacy as a problem or you could take it as a benefit. The way we have been taking it is more as a benefit. As you are building and you are right, we are almost rebuilding this business in the last three to four years, and it does take some time. It doesn't just get switch on, switch off. So therefore, we are being very careful that no one single distribution will kind of decide our fate. No one customer segment will decide the fate. No one product segment will decide the fate. So therefore, we will be derisking from all aspects.

That having said, last three years, and you are right. We have structurally shifted our distribution significantly to get banks. So, the focus has, of course, been more on private sector banks. Public sector, there is been mergers, and we did have tie-ups with Dena Bank and Syndicate Bank, which moved to Bank of Baroda and Canara Bank, respectively, and we lost those distributions. So, we saw more certainty coming in from the private sector banks, and we have got access, RBL and KVB, like I said. And we do have a smaller segment of banks, which we basically almost are building up, which are the four SFBs, and there is the India Post Payment Bank as well. So, what this has helped us with is try to do work with various segments of customers, various product segments and not any one single bank to hold more than a certain percentage of our business, which is therefore going to be de-risked. Because as you see a few, and I would not name any, a few players in the market. If one bank sneezes, their life insurance company ends up catching cold. So, we are very clear about that as we are building it up. And you will see more and more news around this because we are very clearly focused on developing a more rounded business.

The benefits of bank as it is underlying in your statement is that it is more variable than fixed cost because you are relying on a partner distributor and you don't need to develop the entire distribution yourself. What we are doing, therefore, is trying to, of course, get more banks. But at the same time, if you thematically look at the variable bit, we are also ensuring that the agency business we are trying to make into a more low fixed cost, high variable. And that is something that we will keep focusing on as well. And that is where the benefits will come. The growth story started off quite well last year, until like February we were double the growth rate of the sector. In March also, we did not fall as much. April has been comfortable. It is a little difficult to talk of growth at this point for this coming year. But having said that, if the markets were to de-grow, of course, my broad-brush statement would be that we would be better placed. If the markets will grow, we will be growing far faster than the rest of the sector. Will it be a very large growth for the GDP, for the industry this year? Unlikely, very, very unlikely, as we know.

So therefore, we cannot talk much about growth. What we are using is we are just only focusing on getting other parts of our metrics right. You talked about BAGIC's good underwriting. I can tell you, last four years have been spending BALIC as well in trying to get good underwriting. We did not launch our term plan for the first two years because I was not confident of the underwriting. Last one year, it has been beautiful the way the underwriting has been happening. And that has given us the confidence to get into the term market. And now we are plunged into that, and we are getting more and more share. I can tell you already in terms of number of policies, we are one of the top five in terms of term business. So that is a trend that is going forward. All your points are noted, and you can pretty well be sure that we are making it a more rounded ball than a ball with edges.

Bharat Shah:

I am delighted with both the answers, and I feel far more reassured, as I have always been about the business of Bajaj Finserv. And I also appreciate your comment about some of the people rushing into the guaranteed products, but many of the actions will have cost and repercussions later and not at the time when the action is undertaken. Therefore, your prudence to remain on

the right side of that guaranteed kind of a probable issue in a right way is something I deeply appreciate. Thank you for both the answers and all the very best.

S. Sreenivasan: Thank you, Bharat.

Moderator: Sanketh, your line is in talk mode. You can go ahead please.

Sanketh Godha: Sure. A couple of questions on general insurance business. Basically, I just wanted to understand the BAGIC's, new CRM, which has been mentioned in the presentation, how it will help in our business with respect to the renewal business and also anything which could improve our loss ratio. And I also wanted to understand, is it completely a new thing which we have started or we have acquired it from somewhere.

Tapan Singhel: Okay. Thank you for your question. I think CRM is a normal process that is there. So, what we have done was we had individual CRMs there. Now we have put it simply together, and obviously, the flow and the customer view gets better. And you can see the history of the customer, how it is moving, what are the issues, what products it has. So, it is just the enhancement of our capabilities in terms of looking at the customer. So, the customer experience will get better and in terms of how we look at cross-sell and upsell will get better and in terms of servicing will get better. So, our hope is that this will lead to a better customer experience.

Sanketh Godha: Yes. Is it predominantly towards motor business or it is nothing to do.?

Tapan Singhel: I said we individually had CRM for different departments. We are just trying to put it all together and have a consistent flow.

S. Sreenivasan: See, let me just add to what Tapan said. Both BAGIC and BALIC are undergoing significant technology transformations. And the pace of that will further accelerate after this lockdown and the number of customer acceptance of digital business. There are a number of digital properties that we have in both the companies we have built over the last few years. We do not advertise that so much because a lot of them are behind the scenes, helping the customer. Our Caringly Yours app for BAGIC is really state of the art. Similarly, in BALIC, we have apps for the agent. The entire office on the fingertip is available for both the companies. This CRM is the latest version of software, which will put together all the properties that we have, and it will sit on top of the core systems. In both the companies, we are also enhancing the core systems.

And in the process of changing the core systems, we are doing significant amount of engineering to make all the processes seamless as well. So, this is a journey we have undertaken. We started about one and a half years ago, and it will last another couple of years. But we are hoping that with this, it will put both the companies on a technology pedestal, which is very strong. The other area we have made deep investments in the last two years is in analytics. Clearly, BAGIC had a bit of a drawback because there is no requirement of a basic KYC to take an insurance policy. But over time, we have built the database and with more retention of customers we have

increased the number of people of whom we have got the data. BALIC also has significantly improved the quality of data. And I must say that the growth in renewal premiums that we are seeing in both the companies is largely coming out of the focus on using these analytics and the data-driven approach to business.

Sanketh Godha: Okay. Got it. And just another two questions. One on BAGIC, just wanted to understand your investment book mix, any significant NBFC exposure and average duration of the bonds. That is on BAGIC. And second on BALIC, given we had a little adverse experience in group life or credit life whether we changed our pricing in credit life in this year? And second, just wanted to know the basic this thing, the VNB margin is based on effective tax rate or statutory tax rate?

S. Sreenivasan: In BAGIC, our duration is 3.1. We have some NBFC exposure, but the exposure is much more nominal now. Same with BALIC on the non-par and the shareholder funds. As I said earlier, we have cleaned up a lot of the investments. We have made provisions. And we have sold out some of the investments much before things got worse. So, I think we are on a reasonably good wicket here. Going forward, yes, there is an external market risk. Today, even there are companies you thought were first class also could become bad. But that is that market risk that we have to take, and we have to have early problem recognition, act on it. That's about it. The second question, I will let Tarun handle it.

Tarun Chugh: Yes. So you asked two questions. One was on the credit side. The other, I did not get, the credit insurance. The other one was on?

Sanketh Godha: Other was on, just to understand, the VNB margins, what we have reported closer to 10%. Is it based on effective tax rate or is it based on statutory tax rate?

Tarun Chugh: Okay. So, the second one, I will let Bharat answer. I will just close the first one quickly with you. So see, credit life is actually a very lovely product. The genesis of bancassurance from France was actually entirely based on the credit life kind of products a long time back, and therefore, works quite well. Dynamically, what we have been doing last couple of years is that we have been pricing our credit life quite close to mortality experiences. The challenge usually is that the very difficult to get lead indicators. You can always get lag indicators. But what we have done last year is that we have taken the bull by the horns and doing a lot more dynamic pricing and ensuring that we have now got systems online with all our MFI and bank partners and the mortgage book. The bulk of the credit life hit that usually has been coming in the market is in the MFI business. There, we have been letting go of all the partners we used to have. So we have been market leaders in that. But what we have done is now we are just down to about the key seven, eight players who are a lot better placed in tech and risk systems. So that portfolio has only been getting better.

What we have also done is, as we have gone this year, we have already repriced our reserving and passed that cost down to our partners. So, this should be a lot better place. But having said that, like I said, it doesn't have too many lead indicators. It is largely lag indicators. What we

have also done is a lot more analytics happening on the MFI defaults and also on MFI kind of ratings that we have. At the same time, doing a lot of analysis around the kind of products that are sold, which usually could be joint life or single life products. We are also quite mindful of the exposures we are taking to various states depending upon the dynamics we are seeing in every state. Because we write about 2.5 crores of number of lives overall in our credit life business. So, you see a lot more dynamic pricing there. Bharat, can you answer the second one?

Bharat Kalsi: Yes. With respect to the tax rate, so we do not use ETR today. We use around 14.56% as our tax rate. But obviously, given the change in the DDT &, if we were to take section 80M deduction, this will be an upside only. But for time being, we don't take that in our reporting.

Sanketh Godha: Can you quantify that margin? How much upside we can see from 10%, maybe just to understand how we are on effective tax rate?

Bharat Kalsi: See, we have not done the detail working in terms of the margin uplift. But when I looked at the ETR, if we consider our current dividend rate, the ETR for this year would have been 13.9% instead of what we have used as 14.56%. Now, this will have a positive impact both on EV as well as on the VNB. That we haven't quantified yet.

Moderator: Thank you. The next question is from the line of Harshit Toshniwal from Premji Invest. Please go ahead.

Harshit Toshniwal: Two questions. One on the protection. Our initial strategy was to price the product lower than the peers, but we used to focus on 100% underwriting. So, I think you mentioned about new product launch where the underwriting norms will be a bit easier and cover limit seems to be lower. If you can throw some light that do we also plan to shift a bit in the strategy to rely some returns on the medical and focus on growth in that path? That's the first part. And the second part is your outlook on crop insurance. Both from the perspective that now with 3-year policy, how do you think the market is going to shape? And given our past experience of the 2-3 years, how do you see this?

Tarun Chugh: So was the first question to the life company?

Harshit Toshniwal: The first question was in the life insurance, yes.

Tarun Chugh: So, your question largely was that on the term and how are we going ahead and underwriting and whether we are using telemedical? Is that the question?

Harshit Toshniwal: Yes. And you also mentioned about some new product launch where the underwriting standards will be a bit dilution, if I heard it correctly.

Tarun Chugh: Yes. Okay. So yes, Sreeni had mentioned about that. So, we entered the term market in January, and basically testing waters after a long time. And we initially, therefore, got to very tight risk controls. It basically meant that any policy we sold had to undergo medical. We were also at the

same time using a very low-cost term cover. So, we were the least priced in the market. That helped us a lot to develop distribution, develop brand and also get people interested more in our term offerings. But having said that, the COVID part has hit us. So as a result, we are now refilled our term plan, where we are looking at nonmedical rates.

In the next one month, we should be having that launch. Of course, therefore, the way we are looking at easing the underwriting is more on the way the medical underwriting is done. What I personally believe is that telemedical and more so even video MERs can be sometimes more effective if done properly. So, we are developing strong capability around that. We already have started it actually. And to top it all, we are also now intending to use learnings from underwriters and use some artificial intelligence benefits, where we can use data from one driver to the other and be able to standardize some of these things. So, we are in a little better place to handle googlies in these situations. So largely, yes, while underwriting is going to get stronger in the way we assess them, it is going to get lenient in the way medicals are done.

Harshit Toshniwal:

Okay. And since we are currently priced around 30% to 50% lower than the major players, does the medical underwriting justifies that kind of a price decline. All I want to understand that are we compromising on the margin or is it just the underwriting strength, which gets captured in the lower prices?

Tarun Chugh:

Okay. That's a very good question. See, it is actually the better quality of life. So what's happening is because while medical is one part of it, the other part of financial underwriting, today a lot of life insurance companies take people, take customers with very low income. And so even if you have a Rs. 2 lakh annual income, you will be able to get a Rs. 50 lakh cover or a Rs. 1 crore cover. So we are very clear that we are tighter on the financial underwriting. And what we have seen with the aggregator who has a lot of information from other players and even otherwise from our agency channel are the number of graduates and the better lives that we are getting is far higher proportion versus what we used to get in the past and versus what other people are getting as well. So there are a few aspects other than medical underwriting that play there. I don't know the margins of other players, so I can't comment on that. But because the quality of life itself is so good, I don't see there will be an issue around VNB.

S. Sreenivasan:

If you want a parallel, if you look at our GI business, also, the philosophy is the same. It is about the ability to select good business underwriting. Underwriting is not about price, right? It will be market determined and therefore, at a given price, if you select better, you can still make money. That is basic principle.

Harshit Toshniwal:

Sure. Okay. And sir, on the general insurance side, the crop insurance aspect so it has been a volatile business. We had a good Rabi season in Q4 specifically, but we had not so good Q3 in the Kharif season. In general, how should one look at that business and how do you look at that business specifically? And with the three-year clause rather than a seasonal contract, how do you think that can impact?

Tapan Singhel:

Okay. Yes, I will take the question. So if you look at our crop business, over the years, you will not find a single year in which we lost money. Even this year, also combined ratio is below 100%. All business in GI business are volatile. If you look at automobile business, one in 5 cars has an accident. If you look at health business, one in 10% gets admitted. We are in the business of risk. So I don't think that I can say that we would be so sure that no claims will happen at any point in time. Crop is a significant part of the business for the industry. If you look at about 18%, 20% industry business is crop. As a leading player in industry, I think we are into all lines of businesses. Crop is also one line of business. It is not something that it is a separate line of business. If you look, we are into motor, we are into health, we are into crop, we are into liability, we are into fire, we are into engineering. And you will see us in most of the lines of businesses, we would be close to our market share.

So if you look at BAGIC market share, if it is at close 7%, you will find most kind of business are at 7% or a bit lower, a bit higher, depending on how we play that. And crop is also like that. You will find crop that also we had the overweight and underweight. It will be close to our market share. That is our philosophy. We try to write all lines of businesses, and we try to understand and do it well. So past track record says that we have always made money in crop also. And going forward also, we shall look at opportunities. It is a question of right pricing. It is not a question of what is good or bad in GI business. And volatility in GI business of claims is always there. We had five floods last year. Now that also is volatile. So if we get afraid of volatility of business and we move out of all lines of businesses to be secured, I don't think that is a business model. In the GI business, risk is there, volatility is there. Good underwriters know how to spread the risk and how to underwrite the business. And if it is not good pricing, then we don't write. So that is the philosophy, which has been there for all lines of business. And for crop also, it remains the same.

S. Sreenivasan:

So the limited thing, I would say, is that don't look at crop as a top line business. It is a business which we select every year depending on available terms of pricing as well as reinsurance capacity and various other factors. Depending on that, we take a call season by season. The good thing is that's a short-term business. So, what you do in July by, of course, September you know where you stand. You can take quick calls on that. And so far, as Tapan has said, it has been profitable, and the company wants to continue that. It is not something that if there is no business, you can say that it is bad forever and it is good forever. It is never been our approach.

Harshit Toshniwal:

Okay. Understood, sir. And maybe last one, just if you can touch upon the 3-year regulation.

Tapan Singhel:

So that is fine. If a three-year contract comes in, the pricing is done on that basis in the market, and that is how it works out. So the players would decide what is the right pricing for a three-year contract, and they would look into it, and that is where the data would be there from their perspective.

Harshit Toshniwal:

And pricing is decided annually? Is there any clause of annual revision or it is kind of fixed three-year pricing?

- Tapan Singhel:** No, it is a three-year pricing. That is how the tenders get done, but tenders can be decided on that basis. There would be an exit clause with penalty, but that is what the government is looking at. So those will get refined as the tenders keeps on coming.
- S. Sreenivasan:** Supported by reinsurance as well.
- Moderator:** As there are no further questions, I would now like to hand the conference over to Ms. Bunny Babjee for closing comments.
- Bunny Babjee:** On behalf of JM Financial, I would like to thank Mr. Sreenivasan and the senior management team of the insurance businesses and all the participants for joining us on the call today. Thank you and have a good day. Bye, bye.
- S. Sreenivasan:** Thank you, JM. Thank you, all.
- Moderator:** Thank you. On behalf of JM Financial Services, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.