



## “Bajaj Finserv Limited Q2 FY '21 Earnings Conference Call”

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**MODERATOR:** **MS. BUNNY BABJEE – JM FINANCIAL SECURITIES**

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 Q2 FY'21 Earnings Conference Call, hosted by JM Financial Securities Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the 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 second quarter FY '21 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 Sahni – 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:** Good morning, everybody. As usual, it's our pleasure to have all of you attend this conference call to discuss the results of Bajaj Finserv Limited for Q2 of FY 2021 and the half year ended on 30th September, 2020.

As before, in this call, we will largely be concentrating on the consolidated results as well as the results of our insurance operations through Bajaj Allianz General Insurance, BAGIC; and Bajaj Allianz Life Insurance, BALIC; and where material, the standalone results of our company. BFL, Bajaj Finance, which is another major subsidiary of ours, has already had its conference call. However, if there are any high-level questions on BFL, we would be glad to take that as well. We will not be taking any questions on the status of Allianz's stake in our insurance companies, the status has remained the same as at the end of the previous quarter, and there is no change there. 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 the Indian Accounting Standards from FY'19. The insurance companies are not covered under IndAS. They have prepared IndAS financials only for the purpose of consolidation. Accordingly, for BAGIC and BALIC, standalone numbers reported below are based on non-IndAS Accounting Standards, what we call Indian GAAP, as applicable to insurance companies. Our results, the press release accompanying the results, and our investor deck have already been uploaded on our website yesterday evening.

Now I will come to the update on the performance for the quarter and the half year. With lockdowns gradually being lifted towards the end of Q1, economic activity slowly started getting

traction in Q2, as indicated by many high-frequency indicators. Since then, each of our businesses has experienced a month-on-month growth in the areas they chose to grow, while the risk levels remain elevated.

In general insurance, post the lockdown, compact car sales have seen an uptick, leading to growth in 4-wheeler sales almost after a few quarters. During the quarter, BAGIC has gained ground in this segment. BAGIC has, however, been conservative in the high-end car segment as pricing is very poor. A large part of BAGIC's motor degrowth is from the commercial vehicle segment, where BAGIC has been more active in the passenger carrying vehicles, which is seen as more profitable. Production and sales of passenger carrying vehicles, as you may be aware, is well below normal.

The demand for retail health insurance continues to be high for the industry. BAGIC reported 39% growth in Q2 herein, which is well above the industry. On the other hand, BAGIC continues to be conservative on employer/employee group health business due to excessive price competition leading to high loss ratios, and the potential impact of COVID claims. Among the commercial lines, property (fire) continues to drive the growth for the industry on the back of IIB based rates. However, rate increases have been higher for riskier segments, while the more profitable segments have seen lower increases, and in some cases, reduction in rates as well. BAGIC has always been focused on the more profitable segments.

In the case of life insurance, given the uncertainties due to pandemic and the resultant volatility in the equity markets, we continue to see negative growth for the industry. Recovery in capital markets from March 2020 levels have helped equity market-linked business like ULIP to some extent. In addition to pandemic related uncertainty, lower interest rates and risk aversion among retail consumers continue to drive the demand for guaranteed products and protection products. Pure term products, which saw a strong pickup in Q1, has seen moderation in Q2 as the mortality rates in COVID have dropped across the country, and on the back of rate increases by most of the major players in the market.

I must also add that in terms of the group protection business, Q2 was better than Q1. However, as you may be aware, the group protection business is largely dependent on disbursements by banks and NBFCs, and that is still below pre-COVID levels. Despite these circumstances, BALIC has done very well, recording a growth in individual rated NB of 19% in Q2 as against flat growth for the market, while the private players actually degrew by 3%. For H1 too, BALIC's growth is well above the market.

Both BAGIC and BALIC continue to utilize their digital properties to harness the best possible under the current situation, where customers are restricting branch visits and limiting the face-to-face interaction. All our partners, individual agents, retail brokers and point-of-sale personnel are being supported with updated digital tools and are being provided with virtual training wherever needed. We have seen a substantial increase in digital penetration across several parts of our distribution and service chain across both our insurance businesses. Further details

regarding BAGIC and BALIC's digital capability are covered in the investor deck uploaded on our website yesterday.

Overall, both companies' digital foresight, we hope will help them navigate through any difficulty and will help them to continue the momentum picked up during Q2. Both companies have been able to recruit agents and POSP personnel in fairly large numbers in this quarter. BALIC recruited 2,428 ICs (agents) and 11,000+ POSP during the first half of the year, while BAGIC has also recruited approximately a little under 6,000 agents and POSP personnel.

A short brief on BFL. During Q2, we could see month-on-month growth in various businesses. And as at the end of Q2, business has restarted across all verticals except the EMI cards and wallets, which are on hold till early Q4, till we get all the Credit Bureau data fully updated. The focus of BFL was on restarting all businesses, refining loss estimates using granular models, creating back-to-growth plans, augmenting collection capacity and implementing business transformation. BFL is optimistic of growth prospects for H2 and expects to end the year with positive growth better than H1. BFL has also provided an additional Rs. 1,370 crores for expected credit losses in the quarter, and the company has retained its estimate for the full year credit cost at Rs. 6,000 to Rs. 6,300. At the end of Q3, the company expects to have a clearer picture.

I must add that being an NBFC and covered under IndAS, we provide expected credit loss based on financial models. And these are expected credit losses across the completion of each of the loan books. The company has very strong liquidity surplus of Rs. 24,775 crores. Additionally, they also hold Rs. 2,582 crores of SLR. As growth evolves in H2, BFL will be slowly reviewing its liquidity buffer with the intention of dialing down.

I will now come to the highlights of our financial results. Coming to Q2 of FY '21 versus Q2 FY '20, our consolidated total income was Rs. 15,052 crores as against Rs. 14,224 crores in the previous year's Q2. Consolidated profit after tax was Rs. 986 crores versus Rs. 1,204 crores in the same quarter of the previous year, and more about it a bit later.

Bajaj Finance's consolidated profit after tax was Rs. 965 crores versus Rs. 1,506 crores. General insurance profit after tax was Rs. 332 crores versus Rs. 294 crores, an increase of 13%. And the life insurance shareholders' profit after tax was Rs. 98 crores versus Rs. 207 crores.

Coming to the first half, H1 of FY '21 versus H1 FY '20. The consolidated operating income was up at Rs. 29,244 crores versus Rs. 26,496 crores; consolidated profit after tax Rs. 2,201 crores versus Rs. 2,049 crores. Bajaj Finance's consolidated profit after tax Rs. 1,927 crores versus Rs. 2,702 crores. General insurance profit after tax Rs. 727 crores versus Rs. 504 crores. And life insurance profit after tax Rs. 228 crores versus Rs. 269 crores.

Now coming to a note on the consolidated profit after tax. The consolidated profit figures for the current quarter and the half year may not be directly comparable with those of the corresponding previous periods for the reasons mentioned below.

Firstly, under IndAS, equity securities held by BAGIC and BALIC are classified as fair value through profit and loss account, hence they are required to be marked-to-market for the purpose of consolidation. While in Q4 of FY '20, this has resulted in a post-tax negative impact of Rs. 451 crores in the consolidated PAT. In Q2 FY '21 and H1 FY '21, it has seen a positive impact of Rs. 182 crores and Rs. 512 crores, respectively, in the consolidated PAT. Effectively, the provision made in Q4 for a valuation loss of MTM securities has mostly been recovered at the end of H1.

In Q2, consequent to the ongoing pandemic, BFL has further increased its provisions on Stage-1 and Stage-2 assets by Rs. 1,370 crores pre-tax, which negatively impacted the consolidated profit after tax by Rs. 541 crores. The combined effect of these adjustments in BFS's consolidated profit after tax is Rs. 359 crores in Q2 FY '21 and Rs. 603 crores in H1 FY '21.

Now let me come to the performance of major subsidiaries. While detailed performance of the subsidiaries is covered in the press release and the investor presentation, I would like to highlight a few major points for each of the subsidiaries.

For BFL. While BFL disbursed fewer loans in Q2 FY '21 as compared to Q2 FY '20, it more than doubled the new loans booked in Q2 FY '21 versus the previous quarter, which is Q1 FY '21, that is 3.62 million versus 1.75 million on the back of improved market conditions post unlocking. Overall, PAT for Q2 FY '21 for BFL was lower than Q2 FY '20 because of the additional provision as mentioned above of Rs. 1,370 crores. I must stress here that the pre-provision operating profit continued to show strong growth and is more than adequate to cover the excess provisions or NPAs that we are required to make.

Gross NPA and net NPA (ECL Stage-3), recognized as per extant RBI prudential norms and provisioned applying the ECL method prescribed in IndAS as of September 30, 2020, stood at 1.03% and 0.37%, respectively. Standard assets provisioning, ECL Stage-1 and 2, stood at 3.69%. This includes the additional provisions that we have made based on the ECL models.

Without considering the Honorable Supreme Court's interim order of not classifying customers at NPA after 31st August, gross NPA and net NPA ratio would have been 1.34% and 0.56%, respectively.

Capital adequacy ratio, including Tier two capital as of September 30, 2020, stood at 26.6%. The Tier one capital stood at 23%. For Bajaj Housing Finance, a 100% mortgage subsidiary of BFL, the capital adequacy ratio, including Tier two capital stood at 25.97%.

Coming to BAGIC. BAGIC reported an excellent combined ratio of 97.4% in Q2 FY '21 versus 102.7% in Q2 FY '20. And in turn, reported profit after tax of Rs. 727 crores in H1 FY '21. This is the highest ever first half PAT that BAGIC has reported in its history.

The claim ratio reduced to 74.2% in Q2 FY '21 versus 75% in Q2 FY '20. Overall, claims experience was mixed during the quarter, with higher claims in health insurance, including COVID-19 claims, and property due to heavy rainfall, compensated by lower claims in motor own damage segment. While there were lower claims reported in some segments like motor OD, the uncertainty over ultimate losses is quite high for the following reasons.

Most of these, I must hasten to add, are industry level issues. Motor OD claim frequencies, though lower than previous year average, but we have seen are inching closer towards pre-COVID levels, and we can see month-on-month increases. In respect of motor third party, MACT and other courts have been at very low activity. And it is possible that when the orders are finalized, there could be an interest impact for this period during which they have not emerged.

Thirdly, reporting of many non-emergency and elective health insurance treatments are still below pre-COVID levels, and there is a risk of higher frequencies when the pandemic subsides. Uncertainty on the quantum of COVID claims persists as many nations across the globe are experiencing a second wave of COVID-19. Approximately 3.5 lakh COVID claims have been reported across the industry, and BAGIC share of the same is sub 4%, in line with its market share of the health segment. Overall, the average claim size for COVID claims is about 75% higher than non-COVID claims.

BAGIC has, based on actuarial models and keeping all the above factors in mind, sought to increase the margin for adverse deviation in its ultimate expected loss provisioning while making provision for COVID claims as well.

Coming to BALIC. BALIC's AUM represented by total investments crossed Rs. 64,000 crores as on 30th September, 2020, again, a historic high. New business premium grew by 11% from Rs. 1,235 crores in Q2 FY '20 to Rs. 1,372 in Q2 FY '21. The performance was aided by institutional business side as bancassurance partners, Axis Bank, Bandhan Bank, RBL Bank and India Post Payment Bank started contributing. During the quarter, another significant event was the commencement of operations with Karur Vysya Bank and IDFC First Bank.

BALIC has recorded over 31% growth in renewal premiums. Although there was some pressure on 13-month persistency, BALIC persistency has improved in the longer vintages. Net NBV reported strong growth in H1 FY '21, growing at 103%, Rs. 61 crores versus Rs. 30 crores in H1 FY '20, this is after absorbing all cost overruns. During the quarter, BALIC also undertook forward-rate agreements to protect its liabilities and the guaranteed products, mainly in the non-participating segment.

On the investment side, most of the stressed investments reported in the past have either been sold or have been adequately provided for. We do not see any stress at the moment on any of our fixed income holdings. And going forward, we may stop reporting specific cases, unless there is a reason to do so. Finally, both the insurance companies are financially among the most solvent, BALIC with 730% solvency and BAGIC with 307%. Both are financially very well placed.

As indicated in an earlier call, we have started reporting MCEV, a new business value of BALIC on a half yearly basis starting this quarter, and you will find the details in our investor deck uploaded in our website yesterday after our Board meeting.

Overall, the company and its subsidiaries are navigating through this challenge with focus on profitability over growth. They are conserving cash, borrowing long-term where possible, strengthening collections and reducing overheads.

This is a period when we have been focusing on strengthening the balance sheet. And I am glad to say that all our companies have responded very well to this. As a result, all our operating companies have strong solvency well above the required capital, while maintaining excellent liquidity. The growth prospects for H2 are looking better than H1, all our companies are looking forward to some growth in H2.

With this, I conclude my opening remarks and open the floor for questions and answers. Thank you.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

**Dhaval Gada:**

I had three questions. First is on the BAGIC side, could you talk a little bit around the crop claims ratio? And overall, given the sort of sentiments being positive on crop yields this year, when should we see the benefit of the Kharif underwriting that we have done? And any initial expectations around that? So that is the first question around crop.

The second is related to health. Sreeni, you mentioned around the frequency and our market share in COVID-related claims. I just want to understand, while providing the extra claims provision, what is the kind of assumption that we have made and till what point we are covered? If you could give some broad indication just to monitor the trends on that part, that will be quite useful. So that is on health.

And then coming to the group level. Just wanted to hear some of the broad strategy plans around Finserv health and the mutual funds business and the amount of capital that these two businesses are going to take. And overall, if you could share some broad targets and some more detail around these two businesses, that would be useful. Yes, so those are the three things.

**S. Sreenivasan:**

Dhaval, I will broadly take the first question on crop. Typically, Q2 is a Kharif season when the sowing and the harvesting happens. But the claims determination usually happens in Q3. We are generally quite conservative in Q2. Based on the data available, we tend to be a bit conservative in provisioning. As of now, I would leave it to Tapan and the team to answer that question later on. And if at all there is any final adjustment, that will happen in Q3.

The second question was on COVID claims, that I would let Raman handle this after that or Tapan, as how they have approached the provisioning issue on COVID claims.

The third question, which is at the BFS level, you have asked about the eBH and the mutual fund business. As we mentioned in the last investor call, and in our press release, we had identified that the Board had approved setting up an AMC. And in this quarter, we have applied for an AMC. At this stage, we have nothing further to communicate. We are working on what kind of AMC we would like and what approach we want to take on the AMC. The process of licensing is likely to take some time. And by that time, we would have better clarity on exactly how we want to do it. We are still working out the strategies. At this moment, I have nothing further to communicate.

And for our health business, as of now, our capital commitment is a little over Rs. 100 crores. And we will continue monitoring it. The business is just getting built. We have launched the company and the new product, the Aarogya Care app. It is a platform, which will connect the users of healthcare systems with the providers of healthcare like doctors, pharmacies, diagnostic centers, clinics and so on. All of them will get access through this platform, a fully digitized online platform.

And on the other hand, you have customers wanting to travel the entire healthcare spectrum from finding a doctor, getting treated, outpatient treatment and hospitalisation. This company will also provide insurance as part of the customers' healthcare journey. We will also have a data focus on that, allowing customers to store their medical records and subject, obviously, to the entire law on data protection and privacy.

So, as we go forward, over the next few quarters, we will get a better picture on how this is evolving. Our initial pilots have indicated there is a very strong market for this. Our company has been working over the last year and a half in building the right kind of platforms, and now we have launched our product.

Now I will hand it over to Tapan and Raman to handle the question on crop and the COVID claims.

**Tapan Singhel:**

Okay. So first and foremost, let us look at the crop business. I think I have maintained over quite some time that, as a company we work on all businesses, we learn, we work hard, and we ensure that we are able to understand the business and do well. So, we have been doing crop from the very beginning from when the government started it, and we have been consistent about it. We

try to keep our crop portfolio up to the market share of the company that we have. So, we do not try to be overweight or underweight in it. That is a strategy we have been following consistently.

On the loss ratios of Kharif. Like Sreeni mentioned, this develops in the third quarter, when it comes through. So, if the year is good, then we obviously make much more profit and that gets reflected in the third quarter. If it's not been that good then, obviously, that reflection comes in the third quarter results, which would be coming over. And that would be on the crop business.

If you look at our reserving, I think what we did was very early on realizes two things is going to happen. Initial euphoria that the industry had of low loss ratios in motor and health was as per our thought, not the right euphoria to have, for two reasons. If you look at the study of COVID claims, and we had thought it would build-up, it started building up. And we also looked at the SARS study in Hong Kong, we can always go back to history and see what has happened in the previous era when things like this happened.

So, when SARS happened in Hong Kong, the initial hospitalization dipped and then it peaked up again, because all people who had to go to the hospital had been avoiding it. But the moment they get comfortable, they start going again, so claim ratio starts moving up. So just because there is initial dip, one should not take it that the profit with the industry is building up.

If you look at motor also, on the own damage part, there would be a drop in frequency in initial stages. When you look at the courts are closed, so TP claim settlement is not happening. And when we look at TP claim settlement, they also allow for provision of interest on the delay of what happens in terms of settlement. Which means that when the claims get settled for TP claims, the quantum would be much higher compared to normal times. Now all that is getting built up in claims, which, obviously, at the initial Stage-also we thought through. That is why we increased the severity, and we have total provision of over Rs. 300 crores, which, as of now, we feel is sufficient for these two instances to play out. And as they play out, because we have built it in, that shock we will be able to absorb. So that is why as a company, we have been very clear that these are going to play out, and we actually see the play out happening now.

If you look at the health claims, the hospitalization has increased. And if you look at newspaper reports, I think hospitals have started offering non-COVID beds now because they have started seeing that. If you look at motor claims also that are moving up. TP claims settlement is also happening, and whatever little is happening is with the interest part of the delay. The court is not condoning that. So, they are charging for interest on the month that has got delayed there. So, I think our prediction was right there. And as of now, we feel that we have been providing sufficient for these cases, and we should be comfortable on that basis. I hope it answers your question.

**Dhaval Gada:**

And just one follow-up. On the COVID claims, any sort of a broad indication, like Sreeni mentioned around sub 4% kind of share. So, till what level are we covered, any sort of broad estimates around this to just monitor this, whether it goes out of control or any broad markers?

**Tapan Singhel:**

So, if you look at our market share of our company, it's close to 7%, and the health market share is close to 4%, that is what Sreeni was mentioning. And our COVID claims overall are the sub 4% of the industry. So, in a way, if we look at from an industry perspective, since our health market share is lower compared to overall market share and our COVID market share exactly what our health market share is, the flow will be determined on that basis.

Now can somebody predict how it goes? Can you tell me will we have a second wave? When will we have a second wave? It's very difficult to predict like that. That is why we have this conservatism of building in reserves to see how it goes and that's what we have done. And we will see how it progresses. Like I said it's very, very difficult to predict how COVID goes. If second wave happens, how does it behave out? The world is still grappling with that. So, to make an assumption that this is exactly how it's going to go, I think it would not be right from my perspective.

**Moderator:**

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

**Sanketh Godha:**

I had just one question on health insurance and one on the OPEX. So, sir, when I see the combined ratio, the combined ratio improvement is largely driven by the OPEX ratio. And if I break down that OPEX into commissions and the regular OPEX, I see the total OPEX has declined almost by 23% year-on-year. So do you think this OPEX cut what we have taken, is it sustainable and continue to support our combined ratios? Or maybe over a period of time, maybe by end of the year it will normalize? That's my first question.

And second question is on COVID claims again. So if I look at your publically disclosed data, the total health insurance claims paid were around Rs. 320 crores, which is significantly lower than Rs. 511 crores what you paid in last year, and still you ended up providing significantly higher. Sir, so just wanted to understand that is it largely towards COVID or second wave, which probably you think would come and probably effect the numbers? Or is it because of the bunching of electives you have provided significantly higher on the health insurance claim?

And finally, on life insurance. Just wanted to understand, given non-par business has grown almost like 150% year-on-year in the second quarter, just wanted to understand how much of that business is backed by FRA and how much of the business is backed by partly paid debentures?

**S. Sreenivasan:**

Okay. Thank you, Sanketh. I think there are three questions that you have asked. One is on the health claims. One is on how much of the non-par portfolio is protected under FRAs. And the first question was on?

**Sanketh Godha:**

OPEX, sir.

**S. Sreenivasan:** Right. OPEX, is it sustainable and will we see a rise in OPEX as growth comes back. So first, I will tell Tapan and Raman to take on the BAGIC questions and followed by Tarun and Bharat to take the question on FRAs.

**Tapan Singhel:** Health claims has two components right now, one is non-COVID claims and others is COVID claims. If we look at COVID claims, and you will have the industry data, it is moving up exponentially. The non-COVID claims has actually come down significantly. Now it is a play of these two together, so you must watch the trend to be able to figure out how things are moving.

So if you look at the COVID claims and look at, let us say, the past month compared to, let us say, the month of May, you will see a significant difference. If you look at non-COVID claims also, now it has started moving up. So when you do kind of an assessment of losses and you make reserves, it's based on this trend analysis and the way you see how things are moving up. So non-COVID claims also start moving up now. COVID claims, obviously, have moved up exponentially. And that is what we have analyzed, and that is how we have reserved.

As I mentioned in my previous conversation also, if we look at, now non-COVID claims also have started moving up because people have started going to hospital. And this is a general trend which is there, and people were very afraid to go hospital, let us say, two, three months back, but not now. Our expectation is that as COVID peak is behind us, the hospitalization is going to, again, shoot up, the non-COVID ones. So, the play of these two is what you will see as it progresses.

The other part that you see, overall claims are lower because within GMC we have played less. We have a degrowth in GMC because our personal belief was that GMC is a one-year contract and renewal is not certain here. While in retail policies, renewal is there. So even if, let us say, one year you have losses due to COVID then next year, third year, fourth can still be better. While in GMC you write one year and if you have this COVID impact, next year it's not certain how do you get that back. So, it is the play of these three together what you see in the results, that is coming through, and that is what we have been thinking through.

Coming on the expense part of it. So yes, the expense overall for the industry, if you look at, would be down because travel is not happening now, which would be a major component. But as a company, we mentioned this before COVID also that we have been working on our expenses. We invested on IT and it's good that we invest in IT because we have also moved our core to the cloud. We see now that it is paying out in terms of our service parameter in terms of how we are delivering a large transactional business. So that is investment we did of shifting the core, and we are still continuing doing that, and we will do that. But the other expenses like travel and all has definitely come down. That's why for the entire industry you see this phenomenon of costs coming down.

As BAGIC, we have always been an underwriting company, and that is what we always talked about. And our combined ratio has always been significantly better than the industry. The impact

of the COVID-related expenses reduction is there for the industry and the industry combined ratio also has come down. And to that level, it will again move up for the industry and for BAGIC also. But in terms of underwriting, in terms of our loss ratio, in terms of what we have always done, that will continue, which is there. So that is what we have always been focusing upon.

**S. Sreenivasan:**

Just to add to what Tapan said on the expenses, all our companies i.e. BFL, BAGIC and BALIC have been looking at structurally at the cost structures. And this year actually gives us an opportunity to prepare ourselves for the next five years; digital transformation, work from home, a variety of these are at play. We have segregated cost into three things; waste, which has to be eliminated immediately; cost, which has to be controlled and where productivities have to improve over time; and lastly, investment, on which we will not dial down, which includes all relevant investments required in technology, in digitization, in customer experience, in CRM, all that we will continue to invest.

**Sanketh Godha:**

Sir, why I am asking this question is because the bulk of the savings in the cost came from the employee cost. Rs. 254 crores was the number in the same quarter last year and now it is Rs. 195 crores. Sir, so just wanted to see that the saving with respect to employee cost is sustainable or not? That's the reason I asked that question.

**S. Sreenivasan:**

If you look at the makeup of cost, I think more than 65% of the costs are employee costs. Then there would be an element of IT cost, there is an element of infrastructure cost, which is related to your rent and your offices and things like that. As far as the infrastructure costs, over time, we expect that will come down. IT cost may not increase in proportion to business, but we will continue making investments in IT. So those costs, especially in both companies, as we have mentioned before, are engaged in a complete transformation of their core systems, that is already a contracted amount, and we do not see significant increase in that element of cost. But otherwise, we will be investing in digitization.

And lastly, employee cost is not a conscious effort to actually reduce the number of employees, but largely the result of better productivity. As we get more businesses, for example, on the bancassurance channel, because of the mergers of public sector banks, we have added a large number, more than 10,000 branches of public sector branches to our kitty in BAGIC. Clearly, we are not going to invest in more people proportionately to tackle that, and existing people will handle more business, and that is how the productivity will increase. Similarly, in the case of BALIC, in terms of agency, we are now working on variabilized cost structures, we are using POSP, we are using a variety of models, which has resulted in better productivity overall, and that is why costs have come down. Some of this, we believe, will be structural. What could happen in growth returns is that the acquisition costs, which are variable to business, will continue to increase in proportion to the business.

**Ramandeep Sahni:**

Sreeni, let me just add to Sanketh's query. So Sanketh, you are right. Some of it is due to the efficiencies which we are seeing as the productivity is moving up, and there is a lot of work which we have done on rationalizing infra also, given the way the world is moving towards

digital, we thought this was the best time to actually propagate that. And hence, some of these saves, like Sreeni highlighted, will be obviously there for the future. But some like Tapan highlighted, are as a result of the lockdowns. So, you can assume half of it is pertaining to the lockdowns, and the balance will sustain.

**Sanketh Godha:** Okay. Perfect. Just on that life question of FRAs. I mean, the non-par growth?

**Tarun Chugh:** I will respond to an extent, and then I will give it to Bharat to get into details. So, we are 100% covered on all the guarantees that we have given on non-par. And we are using two instruments, one is the FRA and the other is partly paid bonds. And through this, we have 100% covered ourselves. Bharat, can you share the percentage?

**Bharat Kalsi:** Yes. So basically, with the partly paid bonds our total non-par book would be covered around 70% - and with FRA, we have covered the balance book. The first transaction we entered in August with covering the open block up to June 2020. And now, on a monthly or once in two-month basis, we continue to cover through the FRA. We continue to look at partly paid bonds availability. Tarun also covered both the things.

**Sanketh Godha:** Got it. But given the yield curve might change the shape, do you think the guarantees what we are offering right now can be sustainable? Or are we already thinking revising those rates?

**S. Sreenivasan:** It is something we monitor every quarter or more frequently if required. So, it's not a call we can take at this time. There are other companies offering products. See, one thing we have to see is that whatever risk we take is also related to the capital that we hold. What do we do there? What do we use excess capital for? I think last three, four years, you have seen how we have used it to build our distribution. Some part of it we will use to absorb some guarantees, now we have decided to protect ourselves in the guarantees as we have seen good traction in that business. And we will continue monitoring on all these dynamically, the yield curve, the amount of guarantee we want to take, what is the VAR on multiple periods. Based on all this, we have a very rigorous process of monitoring. Tarun, would you like to add something to it?

**Tarun Chugh:** Yes. So, I think what Sreeni said is perfect. We have multiple forums in which we have trigger rates and multiple committees in which we keep checking this. In any case, in August, we are one of the few players who actually brought down the guarantees we were offering. So, we are already quite comfortably placed, I think we are currently better placed than what we were placed earlier. So, you will see us only just being more agile in this. So, every quarter, in any case, it could move, it could come down the guarantees we offer. But in overall terms we are quite comfortable.

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

**Bharat Shah:**

First and foremost, my compliments for the life insurance business. BAGIC has always been a very solid piece. But I am really delighted progressively to see how BALIC is shaping up in terms of banca distribution, product portfolio, protection, persistency, balance of the product portfolio, all of the points, and first time the VNB reported. So, I mean, it is pretty, pretty delighted and not to see any further erosions due to any investments.

One important issue. I think time has come to highlight embedded value in its own components, whether the value of new business or unwinding of past profits or in terms of salience of the assumptions made and benefits obtained or operating variance. All these components, if you highlight, and then we work on operating profit i.e. embedded value OP, that, I think will give a very good sustainable long-term picture of how the business is shaping up.

**S. Sreenivasan:**

Thank you, Bharat. Thank you for the compliment. I think you have hit it spot on - both our businesses, BAGIC always has been on top, BALIC did undergo some tough times. But in the last three years, whatever they promised on delivering on the transformation, the Phase 1 is over. The company is now well poised to participate in the growth of the economy and the savings pool.

As far as embedded value is concerned, we have consciously taken a decision to report it once a year till last year. The reason was, the business is very much back-ended, and the expenses in the second half is where more of the NBV gets reported. However, this time, based on various feedbacks we have received from investors, we decided to start reporting the NBV and the EV. We note your point regarding the granular waterfall of EV to be disclosed. We did that in March, but from next time onwards we will be publishing that on a half yearly basis as well.

**Bharat Shah:**

Thank you, Sreeni. Because that will give a bit more near-term kind of a view. So that will help. My second point I just wanted to understand, currently the pocket insurance service or micro insurance, which is kind of being addressed, and digital and technology you said is at the forefront in making it scalable and efficient. Any thoughts around that? Plus, the new term life simple policy which has been announced by the regulator, though the amount unveiled it seems to be rather low at Rs. 25 lakhs, but any thoughts there as to what do you think is it and what it can be?

**S. Sreenivasan:**

I will take the high-level question first. Pocket insurance largely is suited for people who are either not insured or depending on the type of pocket insurance, people who do not want to burn their existing sum assured because of some specific event. For example, if people take vector diseases like dengue, chikungunya or when they take a COVID-specific cover, some of them take it because they feel a higher risk at that time, and therefore, they take it for a short term. But some of them do not want to take full-fledged health insurance policy, maybe because they can't afford it, depending on the customer segment.

The second segment is people who feel they have a sum insured, which they have reserved for certain major ailments, but the smaller ailments actually take up most of the sum insured, so they

want to take pocket insurance. To a large extent, pocket insurance in premium terms may not amount to much. It brings in a lot of customers, it is sold by a variety of distributors. Basically, it's a customer acquisition engine. And people who have not tasted health insurance, most of them will end up owning a high-frequency cover, which means that more people tend to experience the claims faster.

For example, last year, when we launched with Flipkart the mobile All Risk Policy, I think the frequency of claims was very large, and customers really appreciate the service through these products. So they play these 3-4 kind of roles as acquiring customers, providing them with the taste of what claims are like so they are able to distinguish between the companies which settle claims better and the others are not. Because in the traditional indemnity policy, it is more like what if something happens in future. Maybe it never happens, which is good for the customer, but that is the kind of risk they cover. I can now hand over to Tapan and Tarun to add more to this.

**Bharat Shah:**

Just one point, Sreeni, before that. Pocket insurance, I see it is similar to like sachets being introduced in the FMCG industry because it is small and numerous to be sold and pinch taking over a period of time, but that has built a whole class plus of customers in FMCG and they have graduated to the bigger packs and sampling and testing. So, in some sense, I think that some kind of a shadow of that sachet packing in FMCG industry.

**S. Sreenivasan:**

Yes, it is. But you can't build a business only out of sachet, because sachet is only an entry door because you showcase the variety of products that you can have, you help them experience claim. That's the point I am trying to make. But in terms of premium amounts, the amounts are very small, and many of them are very specific hours. Some of them may not get sold at all, but a lot of them may get sold for specific segments of customers. So, it help us identify customers, their behavior, segmented, trying to offer more segmented products, things like that. Tapan, would you like to add to that?

**Tapan Singhel:**

Yes. So, if you look at it internationally also, some companies, they went all out on pocket or packet or sachet insurance, as you call it. But in terms of their balance sheet, it did not do very good for them, and now they are shifting towards more traditional lines of products also to give an overall balance. And this is why what Sreeni mentioned is right, one, it does a behavioral change. Like, if you look at BAGIC, we have done a good amount of sachet insurance. If you look at mobile insurances, Flipkart is one of our agents and most mobiles sold had our insurance there. And we were always able to service them well. Our score in terms of NPS was over 90%, the way we service those insurance claims also across the country, remotely, which we did using digital methodology. If you look at maybe railways, you have a cover there, which again, BAGIC is one of the key providers there.

So, we do quite a lot of sachet insurances. But they cannot be, in its own way, a business build-up. Yes, they get people used to insurance, they get people to understand the beauty of having an insurance cover, it pays off. And that awareness building happens, which obviously later on

leads on to more insurances being taken. Right now, as Sreeni mentioned, if I look at the vector borne diseases or the COVID cover which is there, people are buying it now. But will they go and buy a regular health policy after that, yes, they understood the benefit of having an insurance coverage, if they don't, then obviously it's just as one more thing that we do. But as a company, we are doing it. It is not that we are not doing it. And we will be on the forefronts of doing these kinds of insurances across different distribution and different segments, and we are seeing how it plays out and where does it take us. But a very good question on that basis. Thank you.

**Bharat Shah:** On the new policy, which is suggested by IRDA and like a standard vanilla life insurance product, any thoughts around that?

**S. Sreenivasan:** Thoughts on the pricing and the risk, because fraud is very high on low ticket. Tarun, would you like to take it?

**Tarun Chugh:** Yes. So, Bharat, three things. First of all, thank you for acknowledging the turnaround in BALIC. As Sreeni said, we have now got the foundation in place, and we are now ready to get to the next phase, and I like the way you put it, participating in the economy, because at that point in time we were really just restructuring and getting things right. But thank you so much, it really is very meaningful when the senior analysts from the market acknowledge this as well.

I will first take the sachet question, because a part of it was on life insurance when you talked about it. So, see, sachets in life insurance have taken off in the telecom sector and in the e-commerce side. The natural deterrent for sachet for life is a little lesser than the general side, on the BAGIC side it will be higher. So, we were a little wary and careful of this. And I think till now, we have been right in not entering that market. Most of these groups, this is largely group insurance, but most of these groups have actually bled and bled significantly and continue to bleed at this point in time. When actually put it, it can be a very good engine to get data, understand, and to an extent we would want to participate for sure. But we want to participate with the right partners, and we have one such relationship already which we are seeking to begin in the last quarter of this year. But we will be careful of the way we are going about this, because the premium that you collate is very less and the claims can be far higher. So that's on that.

On Saral Jeevan Bima, which is the IRDA product. I think it's a very good move from IRDA. They have made it a very standardized and a very simple product to be offered. It's not bells and whistles, but a simple term cover. Yes, it starts at a very low cover size and it goes up to a certain level, which can be higher as well. Good thing is that they have let the pricing being handled by the life companies itself. So Sreeni correctly said that this is a segment most people are wary, for example, today our life cover starts only Rs. 50 lakh and up. But we will be entering the lower cover segment through Saral Jeevan Bima. But in terms of pricing, all companies will price based on their own data. So that comfort is there, and there will be good numbers coming in. So, a good amount of cover coming in.

And I think 2-3 benefits of that. One is the sheer spread. Second, the fact that given the pricing is left to the insurer, we can hopefully price in the risk well, that structure is currently still underway. The third bit is, IRDA itself getting to see directly what volume can come in life insurance, term insurance, which is not really such a big component, as you know, of the life sector as of now, plus the role of reinsurers as well. So, it is good that IRDA has directly taken interest, till now it was left to the companies. Hence, it will be a good learning experience for the regulator, for the reinsurers and for all life companies, because now we are in it together with our end of the business here. So, I think a lot more to be still read. From BALIC side, we will be very careful of the way we price it, as we have always been. And we will, of course, will not just want to be the first one to just plunge into it, but take baby steps first and then move in with rigor later.

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

**Hasmukh Gala:** Sreeni, really good set of results in these trying times. I just wanted to have a very broad question that, yesterday in Bajaj Finance conference call they said that they have taken off about Rs. 400 crores worth of operating expenses for structural changes. Can we have some thoughts for BALIC and BAGIC on this?

**S. Sreenivasan:** Okay. Raman, Bharat, would you like to take it or Tapan, Tarun?

**Tapan Singhel:** Yes, Raman, you can go ahead on this one.

**S. Sreenivasan:** The question is that Bajaj Finance has reported substantially lower operating expenses through their zero-based budgeting exercise. We have also taken a lot of steps in BAGIC and BALIC. So, he wants to know what have we done there in terms of structural changes and business transformation.

**Ramandeep Sahni:** Yes. So, I will talk about it for BAGIC. So, for BAGIC, I will just give you the numbers first. Our cost ratio for H1 last year used to be about 29%, which is now down to 25.7% to be precise. Now like I said earlier, this is outcome of two reasons. One is, obviously, the expenses were in quarter one on the lower side because of things like travel, etc., not happening due to the lockdown. So, some benefit we got from that, but there are some which were structural in nature, which we started working on much before the pandemic hit us. And to just highlight a few of them. You have to understand the two biggest heads for our insurance companies are essentially infrastructure and manpower.

On manpower, we have been investing, like Sreeni said earlier, because of the new partnerships we have been getting, and we have also been expanding through the length and breadth of the country, and hence, we were adding people. And hence, our ratios were a little on the higher side for the last few quarters. But from H2 of last year we started working on rationalizing the manpower, largely focusing on enhancing productivity and enhancing spans of the managerial

cadre of people. And the third thing which we did was we moved our entire organization on quarterly incentives rather than annual bonuses, so which ends up creating a high-performance culture is what we believe. So as a result of all this, we actually ended up saving about 17% to 18% on the wage bill versus H1 of last year.

The second piece, like I said, is infrastructure. I think two quarters back, we had about 170-odd branches. We gave a hard look at each one of them in terms of the way we run the infrastructure, do we need 4,000 - 5,000 square feet office? Do we need people to come to office every day? Because as an organization, we are trying to move towards digital. And hence, we took a call on multiple aspects. One was, we said, in multi-branch cities, which means in a city where we have multiple branches, we will try to rationalize a few offices there. The second was the office size. We said, given the current situation and given the way we are moving towards our digital endeavor, we said let us start focusing on operating most of the things we do from tablets or portable devices. And hence, let us not have the need for people to come to office. And hence, we started rationalizing the size of the offices also and we ended up reducing already the size of about 30-odd offices, and that process is ongoing. And as and when the leases keep coming up for renewal, that process will continue to happen. And the third one was that we went and renegotiated the rentals with most of the landlords because the rentals across the country had anyways fallen. So as a result of that, we have been able to save a lot of cost, and our expense ratio is down by almost 300 bps, from 29% to 26%.

**Hasmukh Gala:**

So where do you see this 27% moving as we go ahead in the H2?

**Ramandeep Sahni:**

Very difficult to predict at this Stage-because it all depends on if there are any future lockdowns, there will be more saves coming from that. But like I said earlier, you can attribute half of these saves to structural in nature and half could be happening because of the environment. And we believe this is an ongoing process, we will keep revisiting. Every two years, we keep revisiting our cost structures and take calls on rationalization. This was just one wave of it.

**Hasmukh Gala:**

Okay. Fine. At BALIC, what is the story on the cost reduction side?

**Bharat Kalsi:**

So on the BALIC side, also the story is on the similar line. So, our overall OPEX for H1 is down by almost Rs. 110 crores compared to H1 of last year, which is down by 13% in absolute value. In terms of the OPEX ratio to total premium, it is also down by 400 basis points, 18% compared to 22% last year. Whatever Raman has said, broadly, we are also in the similar journey where we have actually relooked at all our branches. So as of 31st of March, we were at 550 branches, we are already at around 520-524, and there is another round of branch revisits, both in terms of closure as well as reducing the size of the branches. So, we will continue with that, that is a structural phase. But there are a few timing savings also there in terms of travel and training and all that stuff, which is not happening, and we have also renegotiated all our rental agreements. And this is despite of the fact that we started our new channels, specifically Axis Bank, IDFC First Bank, KVB, IPPB. It was at least not there in H1 of FY'20. Despite our significant investment there, our overall OPEX is down by Rs. 110 crores in H1 of FY '21.

- Hasmukh Gala:** Okay. Now sir, second question is, Individual rated premium and group premium, we have got a ratio of about, say, 40:60 type. Where do you see this ratio going? Like when will the improvement come in the individual premium products?
- S. Sreenivasan:** I think really last three years individual premium is what has been focused on. Within group, see there are two different types of customers. The customers who are on the loan book of bancassurance and NBFCs is largely where the group products are sold. Then you have the individual premium, which is sold by a whole lot of channels, bancassurance sells it to their asset book, the agency force sells it, the BALIC-direct sells it. Similarly, in BAGIC as well we have a variety of distributors selling these products. So, it is a question of the type of channel and the type of distribution. And our job is to build up wide enough distribution, which can handle both. The mix will eventually be determined by that, because group products are profitable, it is not that you are doing group products is good or individual products is better. The question is, the focus of getting customers and acquiring them. Tarun?
- Tarun Chugh:** Yes. So, see, I don't think we manage it like a ratio the way you have looked at it. But if I was to, I mean, I don't have the exact ratio. But I think the ratio for this year has already reversed in the way you are currently saying. Not thanks to us, but thanks to the market and not something that actually we like because the credit life business has come down. Now, we are one of the larger players in the credit life side, and we spent quite a few years to understand and study, because it's a multiyear project almost, the MFI credit lines and how they behave and how do the lives there behave. And I think we have been an anchor in the industry for that segment. And I think it's very well structured now, the uprising is right, and the industry has been following what we have been doing. In fact, if anything, we would like this to grow more and more, not at the expense. See, the problem would have been if one was at the expense of the other. These are two independent markets. Now within group, there are two kinds of businesses, one is group risk and the other is group funds. If I just look at the percentage of group risk and group funds for the first half, it is 35% group risk and 65% group funds. Last year, the same ratio was with group funds being lower.
- Hasmukh Gala:** It was the other way around, correct.
- Tarun Chugh:** Yes, the other way around. But this is more because group risk hasn't come down. In the H2 we expect this to get sorted out, because we are seeing credit lines now begin from bank and from MFIs and I think the festival season is going to start kicking in now. But overall, our focus is on the weighted premium, which you will always see in the retail side. And that is what we measure ourselves more by. So, there is no confusion there. So pretty much like the sector we are focused on retail weighted premium as a company. Maybe almost six, seven years back we were a little different, but now we are quite rounded with everybody else. But just to close it again, we would like the credit line business to grow. It's quite profitable.

- Hasmukh Gala:** Okay. And sir, third question from my side is, at the group level do we have any thinking on when to convert Bajaj Finance into a bank? Like, what will be the right timing? What are the things we are looking at from the government?
- S. Sreenivasan:** This, I think Rajeev has already covered on the call yesterday. As of now, we think we have enough scope to continue at this rate for at least 2x to 3x of our current volume. This is a matter we continue to evaluate. We will await RBI's final guidelines, revised guidelines which are being talked about or if any other initiative comes in. But as of now, we are not seeing any particular need that we have to act very quickly.
- Moderator:** Thank you. The next question is from the line of Kishore Kaushal, individual investor. Please go ahead.
- Kishore Kaushal:** My question is for BALIC. My first question is, your protection mix has moderated in Q2, what were the key reasons? And how do you see the mix to be trending in FY '21? And second question is, agency has suffered for most players. What are the specific initiatives that you are driving in the agency? And then third question is, how has the Group credit Life performed and when do you see the revival happening? And fourth question is, how many numbers of individual and group COVID claims we have got till now?
- Tarun Chugh:** Okay. So, you asked four questions, I will take a shot at all four and Bharat can jump in, if possible. On the term life, see the term life is visibly down for the entire sector. If you noticed the first quarter, it was like a fire sale because everybody knew that it was a matter of time the reinsurance price would get priced in and prices have since gone up. We have also increased prices almost by 25% - 30% in various segments and some of the segments were 40%. So, I would actually take the first quarter for sector, while we were all happy at that time and, of course, we were not clear about, you can't always spot where it is going to really end. But I think that was like a dream come true for the sector. I don't think you should expect that kind of a thing coming back for the sector, no matter what statements the rest of the people in the sector make. So, this will get carried down. And we need to tone down the expectation in the sector in terms of what term life will contribute to.
- Having said that, for us, it's every new percentage of term coming is a significant bit, because till last year we had near 0%. I would expect the second half to start getting a little better than Q2. But I wouldn't really hazard a guess on a significant improvement. But that having been said, the overall term year-on-year for the sector will go up. It is not that it is some dream come true and it will start suddenly switching on in a very big way, and we will see people bursting up term coverage. So, I think that one should be very careful on forecasting that. If that happens, of course, it is great, but I don't think that's going to happen so quickly. Because all said and done, India is a young country, those basics haven't changed. Indians, when we invest money, we do want need to come back in our lifetime. So those things, we will have to see how the pandemic has structurally impacted that in the customer mindset. And I think whether that jury is out, we don't really know that bit right now.

On agency, yes, you are right, almost entirely across the sector agency has been hit. We have not been very different. The core reason, and I think it is good for you to know this, has been because of new advisers. See, every year a significant percentage of our business comes from the advisers that are hired during the year. But what has happened since March when the lockdown started and COVID began, is that people have been afraid of going for IRDA exams, usually conducted on a third-party space. And as a result, advisers onboarded have come down significantly for the entire sector. And we have not been any unique there. Where we have been unique is that when we saw this changing in the first 15 days of April itself, we were quite agile. And we said that, look, we will then move to POSPs in a big way. And as Sreeni highlighted, we have hired 11,000 POSPs in the first half. POSP is a model where the testing happens, as controlled by the company. So, we have an app-based testing where a person can sit in the house and do the testing itself. So that has basically kind of helped us to some extent, prevent a significant deep loss in agency. So that's what we have been able to do to prevent it. But having said that now, the people are getting comfortable to do testing outside and go ahead and get their licenses. But at the same time, we have been pushing IRDA to give us testing facilities, which are agile and allows advisers to get the licenses. So that discussion is still on, let us see how that goes. IRDA has also made it a little bit more flexible that we can do these testing in bulk in our branches. So that is underway. And I expect that the moment that stabilizes, the growth in agency should be back for everybody. So that's my response to second question.

On the third one, group credit life, yes, it is down, as I explained earlier as well. Because it is entirely linked to credit lines that are being extended. Q1 was very badly affected. Q2, we have seen some come back in a positive territory. And Q3 onwards, we do expect that this will start coming back, because we are seeing a lot of inquiries that banks are getting for loans. So that should help us, particularly on the GCL, as you call it. GCL side.

On the fourth question on COVID, we have put money aside for claims. I will ask Bharat to give you more details on that. Bharat?

**Bharat Kalsi:**

Thank you, Tarun. So as of 15th of October we have got around 368 claims, which in value terms is around Rs. 26.7 crores, out of which we have already settled 327 claims. So that is what our experience is on the COVID claims. And what we have done as a part of our prudence towards any unexpected claims coming from COVID, we have created a separate reserve of around Rs. 21 crores, which is an extra reserve and that varies at individual line as well as the group line. So, a total of another Rs. 21 crores has been created.

**Moderator:**

Thank you. The next question is from the line of Ajox Frederick from B&K Securities. Please go ahead.

**Ajox Frederick:**

Sir, just an extension of your earlier answer on protection. So, are you seeing demand itself coming down and that's the reason why you are expecting protection to not grow as much? Or is it anything else you are seeing on ground, which is causing that protection to slow down?

**S. Sreenivasan:** See, it's very difficult to draw the line in the sand, and mark how much is demand and how much is pushed from the distributor. See, I think the way we have to see is that the first quarter, like I said, was a dream come true. The second quarter is like a shock, because the prices have gone up everywhere, so it will take some time for the system to absorb the price hikes, at least mentally to absorb the price hikes. And to an extent, I believe, it's not really finished, there will be a few more price hikes by a few more players, because some players, the smaller brands are trying to make hay, but they will realize soon that you can't really because there is a cycle to this. And I think from Q3, a little bit growth over Q2 you will start seeing. Because by that time at least the excess, I would say, the pent-up demand which we lapped up in Q1 and kind of more than updated that. And since then, a little bit of a shock from distributors, particularly on the price hike, has kind of been absorbed. So Q3 should see better with Q2. And of course, the second half is usually good.

On the whole, very difficult to predict. But I do say that this year has been a threshold year for life insurance term plans at least. So, you will see as a percentage of the overall mix the proportion of term covers to go up. How much will it be is very difficult to currently say. But you will see a trend towards people buying it. Inquiries on website have not necessarily come down significantly, they have been quite active. So, there is a demand which is surely there. That kind of gives us comfort that there will be people, people who will come and buy it as well. Currently, an inquiry is an inquiry, you haven't really said that you want to buy. So, there is an upward trend, but I would not read too much yet into it. I think Q3 will be a good test to see how the future is going to be.

**S. Sreenivasan:** See, I mean, this is intuitive and it's that insurance usually works when fear is high. Clearly, in first quarter, we found that mortality rates were much higher than now. Today, the mortality rates in COVID themselves have come down. And people are getting COVID and getting recovered at a much faster rate, particularly in India. And therefore, as it dies down, there is possibility that some people feel there is no urgency to take term protection immediately.

**Ajox Frederick:** Understood, sir. Sir, on Axis Bank, what is our strategy? Are we specifically going to dial-in some products through Axis Bank? Or what is on the drawing board with respect to that distribution setup?

**Tarun Chugh:** Sorry, your question is that how much, I didn't get that can you say that again, please?

**Ajox Frederick:** So, are we planning any product-specific strategy to be pushed through Axis Bank? Or where are we with respect to Axis Bank as a distribution setup?

**Tarun Chugh:** Yes. See, bancassurance is a very unique channel and every bank has its own persona. What our job is really to be able to meet the demands of the customers the way the banks sees it. So, our push is to the extent that the bank's channels are willing to accept and take. If you are talking about will it be very high ULIP or very high term, I mean, I am just taking the two broad underline questions. I don't think it's on either side skewed too much, it's quite a balanced

product mix. But yes, there is a good amount of guaranteed products that are getting sold. And usually, Axis as a distributor does sell a lot more long-term product. It's a very good distributor for long-term products.

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

**Nidhesh Jain:** My question is that on the life insurance side, our persistency has dipped almost 300 basis points. So, in which product segment we have seen or which channel we have seen this experience?

**Tarun Chugh:** Yes. See, our persistency basically has been hit by about approximately 3% and which we had kind of talked about in the last quarter as well that we were expecting this to happen. Usually the decrease depends upon what businesses you have been, anywhere between 0% to 5% to 7% is fair. For us, the impact has really been on the high ticket at this point in time, which is across all channels, but particularly in agency, high ticket, where people are trying to time the market to an extent. Because the markets are down, and we saw that in the markets – people suddenly saw the market come up. And they have been maybe shocked by the rise and so they are trying to time it. So, we are seeing it more in agency, we are seeing more in high ticket. But the way I see it, unlike other large bank owned companies, in our case the second premium tends to come a little later. So, we hope to recover some of this. And we are, of course, very focused on trying to get persistency back to track.

**Moderator:** Thank you. The next question is from the line of Sachit Motwani from Param Capital. Please go ahead.

**Sachit Motwani:** Yes. I just had one question on this new health platform. So, you mentioned that you have committed Rs. 100 crores towards this, so can you elaborate more? You said your initial pilot indicates a very strong market, so just want to understand that you want to make this like a subscription-driven model? Like what is the customer profile you are targeting at? What kind of model you are creating essentially around this?

**S. Sreenivasan:** See broadly, I think there was a big launch function. It was fully explained by the CEO of that company, Devang Mody, who had a long experience with us in BFL as well. So, the full nuances of that are available in that video. But more importantly, I think basically, see, we are trying to cover the entire spectrum of healthcare needs of the customer. Today, insurance is one big part of that puzzle, which covers the financial outlay because of unforeseen healthcare. But insurance cannot be a complete solution to that. So, you have various healthcare providers, doctors, hospitals, pharmacies, and we will then provide this platform by which customers can handle all their healthcare requirements. A major part of that will be subscription-based, so for a certain subscription, the customer can get specific services like OPD treatment, lab services, like doctor appointments. And on top of that, they can also get insurance coverage. So, in case they get hospitalized for insurance-covered illnesses, that will also kick in.

The demand is very strong. I think overall, the gap between available healthcare and the demand for healthcare has been very clearly established after the pandemic across the world and in India as well. Secondly, healthcare is a population business, which means that every citizen of India will require the same amount of healthcare as everybody else. So therefore, it does not distinguish. For example, if you look at car insurance or things like that, it's only for people who buy cars. Or if you want to take a home loan, it's only people who can afford to buy a home who will need a home loan. Whereas healthcare is required for everybody. So, our objective will only provide a digital platform. We have worked in partnerships with different providers. We work with labs, we have worked with a few hospitals, we created co-branded products, we issue health cards of different layers, and that is the objective of this company.

**Sachit Motwani:**

Okay. And like Bajaj, BFL will also be like funding the treatments, is that right?

**S. Sreenivasan:**

See, there are three elements to it. An insured coverage insurance will pay to the extent they have coverage. But many people may be underinsured, there could be expenses which go beyond their insurance. Many people do not have insurance, but suddenly they are faced with healthcare. Depending on the customer and the risk metrics of BFL, BFL will end up advancing them amount to pay for the treatment, which is not insured or which they have to pay out of their pocket. And this actually is not a business service, it is a subscription service, where people can access to all healthcare across variety of hospitals, doctors, pharmacies. Over time, we will have to build more and more partnerships to be able to provide that service. Today, it's just a start-up company. So, it's too early to say.

**Sachit Motwani:**

Okay. And any idea on like what kind of subscription fees would be there?

**S. Sreenivasan:**

I think, I mean, the company will be putting up, you can go to their website and check, there are multiple services, it is very difficult to say what kind of price it is. It is available. And through an app, the entire thing will be through digital means.

**Moderator:**

Thank you. The next question is from the line of Arjun N. from Spark Capital. Please go ahead.

**Arjun N:**

Could you please help us with the progress that we have made in Bajaj Financial Securities, the number of clients enrolled, what percentage are active and the packages that they have opted for whether it is beginners or professionals? And broadly, what is the outlook that you are seeing in this business here?

**S. Sreenivasan:**

See Bajaj Financial Securities has reported a profit for this half year. They have started getting clients. At this stage, the objective of that company is to get more clients. It is one more door through which clients will come to us. Broking by itself is not a profitable business and nor is our intention that we will make a large amount of profit from that. Nevertheless, we will be investing in that business just to provide a holistic financial service across our group. We provide lending, we provide insurance, we provide digital platforms to buy all kinds of financial products

through Bajaj Finserv Direct, we are now providing access to healthcare. And Bajaj Financial Securities will provide them access to stock market for people who want to invest.

Secondly, I think it has also brought in a complete holistic platform to support the loan against shares business of BFL as well. Financial Securities, as you know, is a wholly owned subsidiary of Bajaj Finance, not of Bajaj Finserv directly. And now we have control on the DEMAT. So the whole process of lending and supporting loan against shares will be very seamlessly handled through this. So over time, we will build, we will build traction. As of now, we are just building clientele. We are not in a position now to disclose how many clients, but the business is growing. It has started recording profit, and we will invest in technology and drive it from here.

**Moderator:** Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

**Nischint Chawathe:** A couple of questions on BAGIC. If you look at claims ratio in fire and motor OD. I am just trying to get the quarter-on-quarter trends, how should we look at it, I guess, on the motor OD you said the claims have started increasing now as well. So, your ratios have come down for the quarter. So how should we think about it? One is on the fire side just amount of clarification.

**S. Sreenivasan:** See, on the fire side, before I pass it on to Tapan. Fire side is not really very high high-frequency events. So, these are more related to specific events that happen like floods, acts of God, and things like that. So that can vary across world. This year we had Amphan and there was Nisarga, I think, another cyclone. Now we are having unseasonal rains across all of Telangana. So, all this will have some impacts on the fire claims. So, one has to see fire claims over a cycle of three, four years; quarter-on-quarter, there can be big variances. Because floods, for example, happened in monsoon season, Southwest and Northeast, but then it tends to be low in Q4 and to some extent, in the early part of Q1. Motor OD claims, so far, the trend has been lower because we have cars on the road. But as we said earlier, it is picking up and reaching closer to pre-COVID levels is probably frequencies are about 85% to 90% of pre-COVID levels already.

**Tapan Singhel:** So, I will answer this question from an industry basis because it's not fair to answer for company basis, because a lot of other things play out on the motor OD loss ratio, how the company segments, what kind of vehicle it plays on and how does it go on forward. So, on an industry basis, if you look at the initial months, the car claims was much lower because the OD loss ratio was pretty low. But now if I look at it, there is about 90% of pre-COVID level, the motor own damage part. The TP part, as I mentioned to you earlier, one, intimations are coming less because of 40% courts are still closed and other courts also not operating up to the full level. And second, the settlement is happening less. So our expectation is that for the entire industry, if you look at the claims strength, as it progresses, you will actually see the motor claims going up higher, the OD plus TP combined together compared to what it was in the pre-COVID times as we move towards more and more courts opening up. So, when do the courts open up, when they start performing at full capacity, when does the settlement start happening, that we have to see. But once you see that happening, now when the courts have opened up and settlements are

happening, two – three months from then, when you look at the loss ratio, you will likely see a higher loss ratio in motor compared to what it was in pre-COVID times, is our belief, for the industry as a whole.

**Nischint Chawathe:** The motor OD losses I think came down, right, quarter-on-quarter?

**Tapan Singhel:** Yes. It came down, it's not moving up. I said 90% of what it was in the pre-COVID times the intimation will start happening now for motor OD.

**Nischint Chawathe:** Okay. So, what you are saying is that a rise should be expected in the third quarter. What I really thought was the since the economy is opening up and you would expect claims to kind of start going up, the point I am trying to make is that I might have expected that there is a sequential increase in claims ratio?

**Tapan Singhel:** No, the frequency increase in claims, if you watch, is already there now. But it is still the vehicle on the road has not reached the level what it was in the COVID. It is a simple thing, as vehicles increase on the road, the frequency will reach where it was. So now if I look at the market, and 90%, I think people have started moving out, that is why you have reached 90% now. And as it progresses, it will reach 100%. So maybe another month or two months, my belief is that the OD loss ratios would be at 100%, what it was in pre-COVID times. It will reach there.

**Nischint Chawathe:** And on the channel mix, you have seen the share of direct going to around 20%-odd, this is purely because of higher growth in health versus motor. I guess, there is a reverse in that possibly happens, maybe the kind of benefits of that goes around again?

**Tarun Chugh:** I didn't get the question, sorry?

**Nischint Chawathe:** So, as I look at the channel share, the share of direct business is at around 20% odd right now. The big swing comes in because of the health business.

**S. Sreenivasan:** Are you talking about the direct business of BAGIC?

**Nischint Chawathe:** That's right.

**Ramandeep Sahni:** I think, Sreeni, he is talking about our channel share. Our mix of direct going up. Nischint, you are right, that's because of motor going down and property showing a big growth, it's getting offset and that's what is reflecting in the channel mix.

**Tapan Singhel:** Let me add to this, Raman. This is not only for BAGIC, this is an industry phenomenon. You will watch that the fire growth is much higher than motor growth for entire industry. So, the mix is sort of shift for entire industry. So, the point you see that we look at numbers, first, we should look at the industry numbers, then the company numbers. That gives an idea how the industry is moving, how the company is moving. So, this would happen for the entire industry. The direct side have moved up for the whole industry.

- S. Sreenivasan:** But having said that, there is a point here that it is a very large ticket business. Some companies want to participate, and it just happened to be direct or tender driven or something. Obviously, that has a big swing. For example, all of the crop business is done direct, government health is done direct. So direct as an overall percentage has to be broken up into segments, retail direct is different. So that by itself can vary according to quarter-on-quarter, year-on-year.
- Tapan Singhel:** And Sreeni, here actually this shift has happened because of fall in the motor growth, what Raman mentioned.
- S. Sreenivasan:** It was intermediated, correct.
- Tapan Singhel:** It is not that we have changed the shift in our business strategy. So that is what happens. For the entire industry if we look at, motor growth has come down for the entire industry, so overall direct would look much bigger for the industry.
- Moderator:** Thank you. The next question is from the line of Vinod Rajamani from HSBC. Please go ahead.
- Vinod Rajamani:** Just had two related questions on health. First is on the health claims, what proportion of that would be related to COVID? So just to find out how much is the non-COVID claims? Because there has been some anecdotal evidence that the noncritical care patients are not going to hospitals because of scare of catching COVID, so they are postponing their hospitalizations, that is one. So what proportion of claims reported are non COVID? And also on health, on retail side what would be the split between the indemnity and if it is 100% indemnity?
- S. Sreenivasan:** I think the first question, I will take that question. I think, overall, we are not giving that kind of granular information. But compared to last year, obviously, there are more COVID claims this time. The severity of COVID claims, as I already mentioned, is about 75% higher. The average claim size are 75% higher than non-COVID claims. Overall frequency of non-COVID claims is at about 90% of what it was just before COVID in January of this year. And on indemnity, we have always done indemnity. We do a bit of benefit based products with specific intermediaries. But I would presume that more than 80% of our business is indemnity of the retail business.
- Ramandeep Sahni:** About upwards of 90%, Sreeni.
- Tapan Singhel:** And other point here is what you are asking, if I got it right, is around COVID indemnity and benefit. Are you asking on that or are you asking overall health?
- Vinod Rajamani:** For overall retail health?
- Tapan Singhel:** Overall, then I think that is what answers.
- Moderator:** Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to Ms. Bunny Babjee for her closing comments.



*Bajaj Finserv Limited*  
*October 22, 2020*

**Bunny Babjee:** I would like to thank Mr. Sreenivasan and the senior management team of the insurance businesses and all the participants joining us on the call today. Thank you and have a good day.

**S. Sreenivasan:** Thank you.

**Moderator:** Thank you. On behalf of JM Financial Securities Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.