“General Insurance Corporation of India Q3 FY2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the General Insurance Corporation of India Q3 FY2018 earnings conference call. 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. In case you need assistance during the conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar Pingle. Thank you and over to you Sir!

Diwakar Pingle: Thanks Aman. Good evening and good morning friends depending on which geography you are in welcome and thanks for joining this Q3 FY2018 earnings call for General Insurance Cooperation of India. Please note that we have mailed out the press release to everyone and you can also see the results on our website as well as it has been updated in the Stock Exchanges.

To take us through the results of this quarter and answer your questions, we have with us the management of GIC, represented by Mrs. Alice G Vaidyan, the Chairman and Managing Director and other top members of the management.

We will be starting the call with a brief overview of the company and the financial highlights of the quarter given by Mrs. Vaidyan on the performance of the company, which will then be followed with the Q&A session.

Before I start the call I would like to remind you that everything said on this call is reflects any outlook for the future or which can be construed as a forward-looking statement. It must be viewed in conjunction with the risks and uncertainties that we face. These risks and uncertainties are unpredictable, but not limited to what we mentioned in the prospectus filed with SEBI and subsequent annual report, which you can find in the website. With that said I would not hand over the call to Mrs. Vaidyan. Over to you Madam!

Alice G Vaidyan: Thank you so much Diwakar. A very warm welcome to all of you and it is my pleasure to be addressing you for our first earnings call post our IPO, which was well received by the market. Given that this is our first call, let me just take a couple of minutes to give an overview of our business and then we will move on to the financial highlights of the quarter post this we will throw it open to Q&A.

The GIC Re is the leader in the Indian Reinsurance Market. It is the largest reinsurer in the domestic reinsurance market in India with gross return premiums of over Rs.33584 Crore last year and a market share of approximately 60% in the FY2016 and FY2017. We lead many of the domestic companies treaty programs and facultative placements while foreign reinsurers have opened branch operations in India since early 2017. GIC Re is expected to maintain its market leadership and market share.

Internationally GIC Re is an effective reinsurance partner for the Afro-Asian region leading the reinsurance program for several insurance companies in the Middle East and North Africa and

SAARC Countries. According to AM Best in September 2017 GIC Re ranked twelfth among the top 40 global reinsurers. We have offices in London, Dubai, Malaysia and Rep office in Moscow. In December 2017, GIC Re received approval to setup a syndicate at The Lloyds of London. This marks an inflection point in our history and will help to broaden and diversify our international portfolio.

The General Insurance Business in India continues to grow at a healthy rate of over 20%. The insurance sector in India is projected to reach $350 billion to $400 billion by 2020. Penetration remains low at about 4% and this is an area of great opportunity. Spurred by government initiatives such as the Prime Minister's Fasal Bima Yojana, Crop Insurance is the third largest line of nonlife insurance business after motor and health insurance. GIC Re has a multi-line reinsurer maintains a diversified risk portfolio that includes property, motor, agriculture, marine, engineering, aviation, health, and liability. The reinsurance premiums are expected to touch Rs.70000 Crore by 2022. GIC Re benchmarks our performance against the best in class global player and we have registered significant growth in the nine months ended December 31, 2017.

With the competitive advantage that we enjoy and the growth momentum of the market, we expect to emerge into the top 10 global reinsurers during the current year.

Let me come to the financial highlights now. The growth in the gross direct premium income of the company was Rs.33274 Crore upto the quarter with a growth rate of 36.8% as against Rs.24323 Crore in the same period of last year. Investment income increased by 28.4% to Rs.3612 Crore upto the quarter as compared to Rs.2812 Crore for the last quarter of last year. The profit after tax for the nine months ended December 31, 2017 was Rs.2482 Crore compared to Rs.555 Crore during the same period of last year.

The incurred claims ratio decreased from 87.4% in the nine months of previous year to 84.7% upto this year 3rd quarter. Combined ratio is 101.1% upto the 3rd quarter as compared to 111% year on year. The underwriting loss of the company is Rs.327.4 Crore for the nine months ended this year as against an underwriting loss of Rs.1876 Crore during corresponding period of last year.

The networth of the company without fair value change increased by 35% to Rs.20776 Crore this nine months quarter from Rs.15385 Crore of corresponding period last year. The growth in networth, which is including fair value change, was 31.4% at Rs.54591 Crore as against Rs.41554 Crore.

Return on equity annualized improved to 15.9% in the nine months ended this year compared to 4.8% in the previous year showing a growth of 231.3%. The solvency ratio of 1.87 times as on December 31, 2017, which is above the minimum required solvency ratio of 1.50 times and total assets increased by 28.8% from Rs.86,236 Crore last year December 31, 2016 to Rs.111,061 Crore as on December 31, 2017.

The other key points, which I would just like to highlight, will be that we have been having consistent results for the last four to five quarters. The combined ratio at 101% this quarter is far less than what appears from across the world had taken. This is considering that the three major hurricane losses, Irma, Maria, and Harvey have hit the US coast. We have been able to absorb these losses because of our controlled exposures and as a consequence we have also seen increase in premium pertaining to the effected layers for the January International Treaty Renewal, which will have a positive effect on the premium base of the company.

The proposed health scheme in the budget is likely to give a boost to the insurance penetration and significant growth of the non-life market and this growth could in fact rival the crop segment in the medium term. The higher MSP and the agrarian focus budget will also benefit GIC Re in the long term and as on date, the technical reserves of the company is over Rs.54,000 Crore to take care of any losses.

I would also just like to highlight that we have moved from the fourteenth to the twelfth global ranking last year and we plan to move to the tenth ranking this year. The credit rating that we enjoy is AM Best A- excellent for the last 10 years, which keeps us in good standing while pursuing the foreign international business. We have a dominant position in the fastest growing insurance market in the world. The other fact, which I would like to highlight, is that the handsome investment returns, which is attracting global capital flows, this is an advantage, which is not available to other global players across the world. Our excellent geographical diversification also helps us insulate losses in different lines of business.

One other thing, which we would like to highlight that as a reinsurer with combined ratios around 100%, we insulate ourselves from domestic market performance, which has been showing combined ratios of 110% to 127%. This is based on figures from the general insurance council yearbook. Government has been pushing penetration in a big way and the crop insurance scheme and the health insurance scheme, which is going to hit the market, will also see increased penetration. With our global footprint, which is growing and the Lloyd's platform, which we have already announced, we hope to increase our international book as well.

The robust investments income with good balance of equity and debt in our investment book is one of the major highlights as well and a sound balance sheet with consistent improvement in performance during the last four to six quarters.

I will conclude by saying that we target a combined ratio of below 100% in the future quarters to come. Our investment yield also has been very good at 11% upto the quarter and our good performance and the loss ratios have come down for motor, health, engineering, and marine segment, which has helped us to show profit for the company.

Given that we have spoken this, I will now throw open the floor to Q&A.

Diwakar Pingle: Aman you can start the Q&A right.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Avinash Singh from SBICap Securities. Please go ahead.

Avinash Singh: Good evening Madam. Three questions from my side; first one is that last year if I were to look at your Q4 the numbers were very strong particularly in the profitability side almost Rs.2500 Crore profit has come in the Q4? What are the reasons behind strong profitability was it just quarterly business or some sort of over conservative reserving in the previous three quarters if that was the case what sort of expectations is this time for Q4 that is question number one? Question two is again because of the exorbitant domestic growth your sort of geographical mix has moved heavily towards domestic, so what has been the experience in this January renewal in the global markets in terms of pricing and volume and where do you expect this year to end in terms of domestic plus overseas mix, so that was question two and thirdly in terms of your top line growth guidance, so if I were to look on the one hand I mean of course agri has been a biggest driver and as a reinsurer, you also want the primary insurers to retain more, so even if I were to assume that the primary insurance growth will be at sort of 20% and if you manage the insurers to retain more, the growth in the topline for you could be lesser? Where do you see that this 20% growth for you coming from, so these were my three questions. Thank you.

Alice G Vaidyan: Let me answer your first question Avinash. We are talking about Q4 results of last year. The Q4 of every year is a year is where internationally the foreign business happens on January 1 across the globe, so for our international books, 70% of my foreign business is actually renewed on January 1 of every year, so the Q4 will definitely show an increased premium in our foreign book for Q4 and that will continue for this quarter as well, Q4 will definitely reflect a better premium. We are also talking about the profit, the profit in Q4. Last year what has happened is that the entire agricultural premium was booked in Q4. That was the first year of the scheme last year, so that was the increase, which we had showed last year in addition to our international foreign book. So this year what has happened is, we have gone by the various quarters. The first crop Kharif has been split 70% and 30% over the first quarter and second quarter. Now with the third quarter, third and fourth quarter will show Rabi crop premium. So, it is sort of stabilized for this quarter. I think we have gone up by around Rs.600 Crore last year, so which will be marginally low for this year's quarter and now that we have stabilized the accounting of agriculture premium over the four quarters. Does that answer you Avinash?

Avinash Singh: Yes.

Alice G Vaidyan: So, the second you were asking is about geographical diversification?

Avinash Singh: Yes. Where do you expect this year to end, say FY2018? What sort of a domestic overseas mix and what has been your experience in terms of pricing in January renewal because whatever I am reading, the pricing was below expectations at single digit growth?

Alice G Vaidyan: For the foreign renewals, like you said we have seen a hardening of rates, reinsurance is actually a cyclical business, so we see that the market has hardened on the back of the losses, which we have seen. So, from the loss affected treaties, we have seen a good increase of 15% to 20%. For others, it has been nominal 5% to 10% increase, but definitely for our book we are seeing a rate increase of 15% to 20%. Like you said the domestic market has been growing at a fast pace because of the agriculture crop premium, so going forward I think we may not be looking at 75:25 balance, which we have shown now. So I think by the end of the year, we may be around 70:30 and going forward, we aim to bring it to 60:40 as our international book grows. Comingf to your third question for the agriculture, what you were asking was, if the company tries to retain more business, our volumes can come down? Yes. That is fine with us because we have a 50% share of the agriculture market and even if our share were to come down, we would not be overtly concerned because there is the National Health Scheme, which is going to hit the market, so which will sort of compensate even if we were to write lower line, but right now I do not see that the share of agriculture premium will come down in a big way for us

Avinash Singh: Just one quick follow up on agriculture: what kind of rate environment have you got from the other reinsurer?

Alice G Vaidyan: Yes, just like companies buy from us, we have also arranged protection for our entire agriculture book, so any loss above 100% hitting us, we have a stop loss arrangement in place, which will make good our losses.

Avinash Singh: Stop loss at 100% you said?

Alice G Vaidyan: Yes.

Avinash Singh: Thank you.

Moderator: Thank you. The next question is from the line of Ayush Khaitan from Prospero Finvest. Please go ahead.

Ayush Khaitan: Thanks for the opportunity Madam. A couple of questions: first on the underwriting losses if we see the results of nine months as well as yearly, the company have made underwriting losses, so when we buy GIC shares, we buy the reinsurance business, but the company is generating net profit from investment income, so how long it will sustain and what is the company's plan to improve or to make underwriting profit?

Alice G Vaidyan: If you have been following GIC's book for the last four to six quarters, I also did make a mention about it. We have shown combined ratio within 100. Now this third quarter was an exceptional quarter, so to say. If you have been following international news, you will see that we have seen extraordinary catastrophe events. We are talking about Harvey, Irma, and Maria. We are talking about Mexican earthquake and Californian fires. All of this has hit the market in a year and if you have been seeing the performance of other major reinsurers across the globe, we find that all of them have reported losses for this quarter and this year. Even Berkshire Hathaway have shown loss this year. So, I think it is because of our reserving methodology and our strong balance sheet that we have been able to handle this loss. Our focus is on to a have a target at combined ratio within 100%. We will be moving forward in that direction and I think in the fourth quarter we do not expect any major losses, as such have not come in till this time, so I think we will be able to show good results for the year.

Ayush Khaitan: So, we can expect our company to make operating profit in coming year, is that correct?

Alice G Vaidyan: Yes, we will see how it proceeds, but given the current factors, we are expected to make profits. Operating profit anyways. We are talking of underwriting profits. That is what we are targeting.

Ayush Khaitan: On agriculture front, is the premium on agriculture insurances done at market price or it is subsidized rate, if you can explain on this front?

Alice G Vaidyan: You are talking of agriculture premium on market price, what do you mean? It is actuarially priced. For the first time, the government has introduced actuarial pricing in the agriculture sector, so when states float tenders, companies can bid for the tenders and there is a reserve cost on the tender, which is like a burn cost price, on which you can do the loading, so the point is that it is actuarial-driven price and GIC Re is playing a big role in the market in supporting the actuarial price, so we are confident the scheme has worked well and going forward also, it will be successful because of the actuarial pricing.

Ayush Khaitan: On investment side, there is an increase in policyholders' fund while decreasing shareholders' fund, so if you could explain on this path why is there a decrease and increase in shifting funds from policy to shareholder and shareholder to policy?

Alice G Vaidyan: I will ask my investment team to explain.

Dinesh R Waghela: I am Waghela. I am responding to you as GM Investment. Policyholder fund is consisting of technical reserves that are reserves for unexpired risks and for the outstanding claims. Since this has increased as Madam explained for the Q3, the policyholders' fund has increased, and the shareholders' fund has decreased. So that is the reason.

Ayush Khaitan: Is it a statutory norm, or it is voluntary?

Dinesh R Waghela: The policyholders' fund is described as the reserve for unexpired risks and the outstanding claims. If these two figures increase, then the policyholders' fund increases and the fact is that to that extent, the shareholders' fund will come down, so that is the exact case. It is voluntary.

Ayush Khaitan: Lastly Sir, recently the insurance regulator has floated a norm that GIC Re will be given a first preference other than obligatory, GIC is now given with first preference and later on to foreign reinsurer, so what is the impact on GIC Re business on premium side?

Alice G Vaidyan: There are two things. Here we are talking of the obligatory sessions - 5% mandatory, which comes to GIC Re from the market. For any policy written in the market, 5% comes to GIC so that also gives us an advantage in the market. The other thing is the order of preference. I think you are talking about the right of first offering for which the IRDAI has given GIC Re, so that will definitely put GIC Re in an advantageous position as compared to the other reinsurers because that says that any reinsurance business should first be placed with GIC Re and then with the other reinsurers, so we get to see all the business in the market and we can choose to write the business in the market, so that will definitely help us. As a national reinsurer with 45 years' standing in the market, we appreciate the regulator's stand towards GIC.

Ayush Khaitan: Will it increase the competition in terms of pricing or will it level the playing field?

Alice G Vaidyan: No, you are talking of competition with the foreign reinsurers.

Ayush Khaitan: Yes Madam.

Alice G Vaidyan: The foreign reinsurers have opened offices in Indian market. We are talking of all the biggies – Munich Re, Swiss Re, Hannover Re, Lloyd's Syndicate, all of them - they were anyway operating in the Indian market and they had a 50% share of the market. It is just that they have chosen to open offices in the market, so competition is not something new to them and to us because we have also been working alongside them in the Indian market, so we do not see any major threat from their presence in the market. In fact, I will only say that more reinsurers coming in India will be advantageous towards India becoming reinsurance hub with all the capacity and the expertise of all the global reinsurers.

Moderator: Mr. Khaitan, may I request you to join the question queue for any follow up questions as we have further participants waiting for their turn?

Ayush Khaitan: No problem. Thank you.

Moderator: Thank you. We have the next question from the line of Anirudh Agarwal from AAA Investments. Please go ahead.

Anirudh Agarwal: Good evening, thanks for the opportunity. My first question is actually on your agriculture underwriting: if we look at the nine month performance, my back of the envelope calculations suggest that the combined ratio is around 109%, which has worsened as compared to the previous year, so what do we expect the sustainable combined ratio to be in this line of business?

Alice G Vaidyan: For the agriculture, what has happened is that you really cannot go by quarter-to-quarter based upon agriculture because of the seasonality of the business because the Kharif premiums are accounted in two quarters and the Rabi, but like you said the claims have come in only in the third quarter because the major crop cutting experiments happened after November 2017 and the actual shortfall of yield was also noted after the same, so the claims have all come into the third quarter of this year. You have to actually take upto the quarter figures to get a real picture of the agriculture claim but having said that, last year it was a profitable year and we hope to close this year also on a profitable note.

Anirudh Agarwal: If I understand correctly, we expect combined ratios to be in and around 100% every year?

Alice G Vaidyan: Around 100% even 105% and 110% will be good enough for agriculture.

Anirudh Agarwal: But if the combined ratios are at around 105% to 110% and our investment yields are around 11%, we are not making a lot of margin on that business, is that the way to understand this?

Alice G Vaidyan: Yes, we have a margin because of the investment income we have. So what we normally say is that what has been a 100% combined ratio in international markets should ideally be seen as 110% to 111% for the domestic markets here because of the investments yield, which we enjoy in the market. So, we have that buffer.

Anirudh Agarwal: If you are writing any business where combined ratios are in excess of, let us say, 110% to 111%, effectively at a net level that would be a loss-making business for us?

Alice G Vaidyan: Yes, above those levels, above 110%.

Anirudh Agarwal: Do we have any receivables from the central or state governments on the agri side and does the whole model work?

Alice G Vaidyan: On the agriculture side, I should give due credit to the government that last year premiums have all flown in fully for GIC Re from the companies, from the states to the companies to GIC and for the first crop season also, we are already seeing the flow of premiums coming in for Kharif.

Anirudh Agarwal: Just a broad level question: so if we are writing proportionate treaties and general insurance combined ratios are around 110% to 115%, how is combined ratios so low?

Alice G Vaidyan: Because reinsurers have their own techniques of isolating themselves or insulating themselves from the market performance. We also write non proportional treaties and we have our own ways of incentivizing companies for better performance, so it is not that the performance across all segments in the market are all non-profitable, so it is about balancing different lines of business - good and bad years are balanced.

Anirudh Agarwal: If I remember correctly in the DRHP, we had stated proportionate treaty would be more than 70% or 75% business, that is why the question?

Alice G Vaidyan: Yes that is the case. But when we design treaties for them, we see that they have more skin in the game by increasing their retention. We work out the incentives to them for better performance. We work it out in such a way that we have profits at the end of the day.

Moderator: Sorry Mr. Agarwal, may I request you to join the question queue for any follow-ups?

Moderator: Thank you. The next question is from the line of Rahul Marathe from Aakash Ganga Investments. Please go ahead.

Rahul Marathe: Congratulations on a good set of numbers. The kind of robust premium growth, which we saw, which was around 37% for nine months on year-on-year basis, so what is the expected growth for FY2018 year end and the next year?

Alice G Vaidyan: By the end of this year, we are expecting for the whole year around 25% growth. This is given that our major treaty renewal for January are already over and taking into accounts the premium renewals for the period. We are looking at completion of 25% growth for this year itself over last year.

Rahul Marathe: For the next year?

Alice G Vaidyan: For the next year, we are looking at the health insurance scheme to hit the market. Definitely we are aiming every year, year-on-year we are looking at 20% to 25% growth at a very stable level.

Rahul Marathe: The next question, which I would like to ask is that we got membership with Lloyd's Syndicate, so how will that help us to grow our international business? What rate of growth can we see in that line because of this membership?

Alice G Vaidyan: Initially we will just start the Lloyd's platform. We are thinking of starting off by April, so this will give a big boost to our international business, but we plan to take it slowly. Definitely, it will open doors for us in all countries across the world and as we go on we are looking at, short to medium term, of three to five years, we are looking at a good increase in our international book especially in the specialty lines of business, which Lloyd's is very famous for.

Rahul Marathe: Specialty lines like?

Alice G Vaidyan: Oil, energy, aviation, liability, cyber insurance, and all those new lines of insurance.

Rahul Marathe: Lastly, I would like to ask is if we are able to generate the investment yield of 13%, so should our PAT exceed Rs.5000 Crore for FY2018?

Alice G Vaidyan: You are saying should we increase, but right now we are looking at 11% investment yield. Should it increase up? Our PAT should increase, but I think the investment department should be able to say whether we will be able to increase it to 13%.

Rahul Marathe: So, 11% is what we can we expect for FY2018?

Alice G Vaidyan: Definitely 11% to 12%.

Rahul Marathe: 11% to 12% and lastly it was the data point question, so for domestic and international businesses for segment wise, if you could share the combined ratio?

Alice G Vaidyan: Definitely we will share that with you. Across all lines that is a big list, so I think that we can share it with you, Rahul. We have your email. We will come back to you.

Rahul Marathe: So I can push you a mail for that?

Alice G Vaidyan: Yes definitely.

Rahul Marathe: Thank you Madam.

Moderator: Thank you. The next question is from the line of Khuresh Kapoor from IIFL. Please go ahead.

Khuresh Kapoor: Just wanted to know two things: one is just looking at your underwriting profits, what is driving the underwriting profit for the motor segment and second, if you could just help me understand in the agri segment you are making underwriting loss, but the crop season has been very good, so what is the reason for the loss in the agri segment for us?

Alice G Vaidyan: Did you say the agriculture the season has been very good?

Khuresh Kapoor: Yes, that is what we understand from the general insurance entities because if we look at the loss ratio that is pretty good with the numbers they are reporting.

Alice G Vaidyan: Yes, fairly good. We are looking at losses because for this last crop season has gone as well as expected, so the losses has come in the third quarter from the Kharif and that too from very select states of the country, so all states have not shown, but some states, yes it has. We are thinking that by the end of the year, it should even out by Rabi season results coming in.

Khuresh Kapoor: So for the agri segment, could you just highlight which states are you seeing more losses that is coming through and how many states are we kind of reinsuring, etc., some colour on that?

Alice G Vaidyan: Last year the states were different and this year they are different, but like you would have read from the papers, we had some presence in Telangana, Andhra Pradesh, some parts of Maharashtra, Tamil Nadu. There are some states in and some states out. We will have some issues this year. I think overall given that the agri book is overall diversified book across the country and given that it is based on actuarial pricing, we do not expect to see big diversions or a deviation from the results.

Khuresh Kapoor: And on the motor segment, could you just help me understand what is driving the underwriting profit there?

Alice G Vaidyan: Yes, I had mentioned earlier the losses has come down for four segments the motor, health, engineering and marine the loss ratios have dropped so the underwriting profits are coming from those segments.

Khuresh Kapoor: No but in motor OD, are we seeing certain patterns because of which this is happening or what is the actual reason so that is what I wanted to know?

Alice G Vaidyan: The TP third party motor rates have been going up so that is sort of compensating and then I think for the motor own damage section it is being offset by the third-party premium.

Khuresh Kapoor: Last thing, can you just give the split in motor TP and OD for your motor premium that you have underwritten what is the split broadly.

Alice G Vaidyan: I think we can come back to you on that. On the exact split for the motor and third party for the entire market across different companies that we write we can come back to you on.

Khuresh Kapoor: Fine that will be helpful. I will touch back with you for this. That is it from my end. Thank you.

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

Hiten Jain: I just continue with the question, which the previous participant was trying to ask, so Madam we have seen great improvement in loss ratios in both motor and health so I understand one reason you said is that the third party rates are going up, but it seems that you have done some changes this year, which have resulted in such good outcomes because if I look at motor it has seen a swing of 660 Crore of underwriting loss in Q3 2017 to 1400 Crore of underwriting profit this year this quarter and similarly in health, so maybe I understand one is that we would have perhaps taken price increases from the insurer and I also see that your net commission to net premium that has also seen good improvement from 22.6 to 19.6 so I was under the impression when I met your management team in the IPO days that we get net commission is linked to the performance, so then the question comes that we are seeing good performance this first nine months in this quarter despite that it seems you have curtailed the commission of the insurers, so definitely there are some changes that you are trying to do, so maybe if you can highlight what are the changes that you have done, which has resulted in such good outcomes?

Alice G Vaidyan: You are talking about the 2700 Crore, which we have released so that is the premium reserve release.

Hiten Jain: No, I am talking about the net commission to net premium ratio.

Alice G Vaidyan: So this conservative result, which we had made earlier that has come down this quarter because of the improving loss with ratio.

Hiten Jain: No I am seeing in net commission divide by net premium there is no reserves in this right?

Alice G Vaidyan: The commissions have actually come down.

Hiten Jain: Because this is linked to the performance right if you have underwriting profit then you would tend to give more commission to the insurer and if you have losses then you actually give less?

Alice G Vaidyan: Yes see this is like I said earlier this is how we are trying to incentivize the company for better performance.

Hiten Jain: The commissions are coming down. So I believe they should have gone up. Right madam. If you want to incentivize because you are making underwriting profits and if you want to incentivize them then ideally this commissions go up?

Alice G Vaidyan: No, but like I said this is because of the release of the reserves that the loss ratios have come down.

Hiten Jain: You are talking about the loss ratios, which is due to the release of last year reserves. My other question is what is the reserving policy in agriculture book?

Alice G Vaidyan: Yes we can share that with you because it is actuary who actually decides the reserving in the company we have a non-life actuary who takes care of the reserving so depending on the claims, which come in the reserving is done for each line of business for each quarter.

Hiten Jain: No, but as you clearly said that in third quarter we come to know about the Kharif crop outcomes and Rabi also we come to know later so normally we have some reserving policy rate like say for example ICICI Lombard has 100% reserving policy there actually you get the outcome so do we have some stated policy on this or you leave it to actuary?

Alice G Vaidyan: Yes that depends on the season and the crop as well, but overall it will be around 100% the reserving methodology yes.

Hiten Jain: And you said there is some release of reserves so is it possible to because some of the insurer companies also give reserving triangle so there we can actually see the release of reserves, so for GIC is there a way through which we can track how the reserves have moved over the last year or maybe last few years?

Alice G Vaidyan: Yes we can share that with you we can get it from the actuary and we can share that with you definitely.

Hiten Jain: And my last question is on this budget announcement where we said that the finance minister said the 10 Crore family is getting 5 lakhs insurance, so of course these are early days as of now, but I would like to know your thoughts on the same because the budgetary allocation seems quite low, so on the face of it do you think it will be a profitable business because just 10000 Crore allocated, which is quite low if we look at our private polices also so it comes down to premium of just Rs.1100 so what are your initial views on this, this piece of business do you think the GIC Re will be excited in this and these type of mass insurer government sponsored projects?

Alice G Vaidyan: No, what has happened is that there is no compulsion on GIC at all to ride this business, but the fact remains that we have already made it clear that we will insist for actuarial pricing in this regard just as crop insurance has panned out well based on the actuarial pricing that all companies not GIC Re alone it is all the direct companies in the market are also now insisting for actuarial pricing only then will it be a sustainable scheme.

Hiten Jain: So is there a change in the mindset of the general insurance industry where more focus is coming on actuary pricing it seems because we are seeing other companies also doing well on underwriting a profitability so is that this change say from last two years to this year is it on the ground?

Alice G Vaidyan: Yes, definitely see we are talking of two big companies in the market, which have been listed. We are talking of the largest public sector New India Assurance, the largest private sector ICICI and Lombard and we also see in ICICI Pru and SBI Life and all that is getting listed a few more are going to follow I think with the listing itself there is a definite focus on bottomline profitability. So, the focus we actually see has shifted from topline growth to bottomline and I think this trend will continue.

Hiten Jain: Alright madam. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Abhishek Saraf from Deutsche Bank.

Abhishek Saraf: Most of my questions has been answered just madam continuing with the previous participant's question on the Government Health Insurance Scheme I just wanted to understand like in crop insurance of course we had a strong revenue flowing in, but it seems that there was a high seeding ratio from the primary insurers like around if I am not mistaken it was more than 70%, but do you see that the same kind of seeding ratio will be there in health insurance scheme given that, that is an area where there is lot of familiarity for the primary insurance company.

Alice G Vaidyan: Yes, we do expect that, that trend to continue the same for health as in crop. See initially though health is not a line, which requires reinsurance in a big way as compared to crop because of the fact that this huge premium, which will hit the market will have solvency implications on the company so for that they will definitely approach, a few have already approached us for reinsurance arrangement, but we will take it as it goes on based on actuarial pricing.

Abhishek Saraf: And just few things on that so when do you think that this is probably the scheme could attain a critical mass like in crop insurance of course the growth was very strong last year itself do you think that this will be a more graded growth more calibrated spend staggered growth for health insurance because it is a very big pool of insurable population that we are talking about.

Alice G Vaidyan: Yes but the government's intentions are very clear FM has announced that they want to more to a fully insured and pension society and I think this health scheme will be one of the largest in the world and the government is also keen to roll out this scheme in such a big scale itself so I think they are working out the modalities we are hearing it will be rolled out by August 15, 2017 or October 2, 2017, but I think they are very serious and this will only scale up light crop insurance like they had brought in the gross cropped area 30%, 40%, 50% by 2020 for crops that scale will come even for health insurance we are talking of 50 million that will definitely go up in the years to come, but if it is going to hit the market in the next fiscal year I think the year on later they will be spurred by the success of the scheme in the market next year.

Abhishek Saraf: Thanks for that. Just last question: on this agri insurance, for nine month the growth has come at 65% so for the whole year where do you think that this growth will pan out? Of course a big part of the booking was done in the first quarter itself so is it fair to assume that the growth rates for the full year will be lower than what we have currently achieved?

Alice G Vaidyan: Yes, for the full year we are thinking that we will be around 25% for the crop insurance book.

Abhishek Saraf: Fair enough Madam. Thanks a lot.

Moderator: Thank you. Next question is from the line of Niraj Toshniwal from Emkay Global. Please go ahead.

Niraj Toshniwal: Congratulations on good set of numbers. I just wanted to know our exposure to HIM if you can give that?

Alice G Vaidyan: Our exposure to?

Niraj Toshniwal: Harvey, Irma and Maria.

Alice G Vaidyan: So, we have taken a reasonable hit on the Harvey, Irma, Maria, which is coming to around 1900 Crore, but we are able to absorb it because of our strong balance sheet.

Niraj Toshniwal: So, this is kind of one time and we can have a lower gain?

Alice G Vaidyan: One time see this like I said reinsurance we have seen you see good and bad years after 2011 this is the worst year we are seeing 2017 and that is one of the worst years we have seen.

Niraj Toshniwal: And this 1900 Crore is in the nine months or this in third quarter?

Alice G Vaidyan: Yes, this is for all the loss I am talking of Harvey, Irma, Maria and Californian fires, Mexican earthquake, Peru loss, all put together.

Niraj Toshniwal: But have we taken this loss hit in third quarter?

Alice G Vaidyan: Yes, between second and third quarter we have taken the full hit it is fully provided.

Niraj Toshniwal: On insurance renewal rates like for the international business do we also take renewal add for domestic business and when do we take that?

Alice G Vaidyan: I did not get your question.

Niraj Toshniwal: Like the renewal for the insurance international business when do we take it for the domestic business?

Alice G Vaidyan: April 1, 2018.

Niraj Toshniwal: And what are the rates are we looking at the trend how much we are expecting that to happen for our domestic market?

Alice G Vaidyan: We will definitely not see lower rates, but we will definitely see a flat renewal because the losses have not actually happened in the Indian market so we do not expect a very high increase in the rate for the Indian market going forward, but definitely it will be a reasonable rate for April 1, 2018 because as a reinsurer you know that the insurer or insurance company life and nonlife so for their proportional, non-proportional it is all of them yes we will have reasonable rate.

Niraj Toshniwal: And last question Madam on the net commissions have come down considerably what has been the strategy and what level of net commission to net on premium we can see in the future?

Alice G Vaidyan: I will just ask my CFO to talk on that.

V.C. Jain: The main reason for this reduction in our commission ratio comparison to earned premium and in comparison to the September quarter: that is one treaty was there, which was closed and in the current quarter as per the treaty terms, whatever was the balance in the treaty has to be taken as a profit commission so we have credited the profit commission to this treaty so that is why the commission amount has come down and consequently the percentage of the commission to the earned premium has also come down.

Niraj Toshniwal: So, this profit commission are we taking that in the P&L?

V.C. Jain: Yes.

Niraj Toshniwal: So what kind of rate we can expect going forward are we signing any new treaty or the trend we can expect going forward?

V.C. Jain: No, that treaty is closed, thereafter one more treaty was taken that treaty also we have not renewed this year.

Niraj Toshniwal: So, we can take 12% as going forward the trend for the commissions?

V.C. Jain: No this is one-time exercise now this will be not there in the fourth quarter.

Niraj Toshniwal: So what level we can expect that?

V.C. Jain: No, it may be marginally increased in the next quarter because the effect of this particular credit has come in the third quarter. Now fourth quarter onwards the premium rates will be in the same and the percentage will go up only, but marginally this year, but next year onwards it will be just like our normal percentage of the commission. There will be no effect of this credit in the next year.

Niraj Toshniwal: Thank you so much Sir.

Moderator: Thank you. We have the next question from the line of Pankaj Agarwal as an Individual Investor. Please go ahead.

Pankaj Agarwal: Madam as you mentioned in the very beginning of your speech that the IPO was very well received. I see you have launched the IPO of around 11000 Crore out of which LIC picked around 8000 Crore, so I see you are also on the Board of LIC does that influence the decision of LIC to pick up stake in GIC in anyway?

Alice G Vaidyan: Is that a relevant question at all because I think there is a conflict there for this matter when I am on the board, so I refused myself from conflicting issues on LIC board.

Pankaj Agarwal: Thank you for the clarification.

Moderator: Thank you. The next question is from the line of Anirudh Agarwal from AAA Investments. Please go ahead.

Anirudh Agarwal: Just wanted to understand I was just going with the DRHP in equity the portfolio seems to be very cyclical so there was no IT, pharma or FMCG so can you elaborate a little bit on your equity investment strategy?

S. Tripathy: Good evening, I am S. Tripathy, DGM Investment. Our equity portfolio actually is well diversified and it is across various sectors. The overall percentage of BSE 200 in our portfolio is close to 78% and we are not over weight on any particular sector at this point of time; however, since the financial sector is well regulated as a reinsurer our exposure to financial sector is slightly higher compared to the other sectors, but we have excellent exposure in FMCG, auto, pharmaceuticals, oil & gas along with infrastructure also, so it is a well diversified portfolio, which has been producing excellent result for us over a period of time for the last significant period and number of years.

Anirudh Agarwal: So sir can you tell me what percentage of your equity portfolio would be in PSU stock?

S. Tripathy: Our exposure to PSU stock as a percentage of the overall exposure is very less, it will be less than 5% at this point of time and we are not overtly exposed to any kind of manufacturing PSU.

Anirudh Agarwal: Thanks for that clarification and just wanted to get a sense of your investment strategy going forward with the downturn in the equity market so are we shifting towards debt or how will our strategy be going forward?

S. Tripathy: If you look into our overall exposure into equity, we had been reducing our exposure to equity on a book value basis for last four to five years, all those investments have actually gone into high rated corporate bonds and sovereign securities. So as against mandatory requirement of 65% of fixed income in AAA and sovereign we have close to 85% in sovereign and AAAs rated paper. Though we are not very aggressive on corporate credit at this point of time our portfolio is one of the best at this point of time and we have significant exposure in AAA and sovereign only and we are not making incremental exposure to equity at this point of time rather we are taking the fair value out of the market.

Anirudh Agarwal: So the fair value change is like how much of the equity portfolio are we looking to monetize can you give me some sense?

S. Tripathy: It will depend on how the market moves at certain points of time we have to see that whether whenever you are taking out the fair value from the market you could have access to the fixed income market, so there is no thought that always to sell the equity whenever the market is going up. On various sectors we have been releasing the fair value and it is getting into the fixed income securities. So the strategy all along has been: when we are not comfortable with the increase in value of the equity that we hold compared to the market price we will be selling and converting it to the fixed income securities, we also carry abundant amount of liquidity at this point of time since the yield curve has started to invert.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Want to understand when we are saying taking forward earlier participant when we are shifting our portfolio into AAA and where there I do understand the yield is around less than 10% or 8%, so how do we plan to maintain sustain our yield say 11% on the investment?

S.Tripathy: The yield that we are showing in excess of 11% includes the profit on sell of equity also if we take a standalone fixed income portfolio only our return will be close to 8%. So the profit on sell of equities is added on that yield comes close to 12%.

Bharat Sheth: Do we have any strategy in a place that to every year realized certain percentage of or equity as again and booked again?

S. Tripathy: Yes, this strategy also is dependent on how the market is moving, if the market is moving at a steady pace and it is going up depending on how the interest in the market is, we certainly will be selling equity. At this point of time our sale is significant and that is getting converted to government securities and AAA securities.

Bharat Sheth: And one more question for Madam. Madam in your opening remarks you mentioned that our business is cyclical we understand that large part of our book is related to catastrophe event correct is my understanding correct, whether it is agri or fire or marine?

Alice G Vaidyan: We cannot say that it is exposed to catastrophe risk see as a reinsurer we are insuring the insurance company and the treaties we designed for them basically comes from the proportional treaties on a risk basis also individual risk as well as for the catastrophe and also for facultative business what we call on a one-to-one basis also, which we do.

Bharat Sheth: Because what we have observed from general insurance company numbers auto business, own damage as well as health insurance it is low percentage vis-à-vis fire, marine, and general in other insurance, so how do we see I mean that can play out for us?

Alice G Vaidyan: Yes because there are lines, which require reinsurance. Motor and health are not lines of business, which require reinsurance, reinsurance is required for those lines where there are huge sum insures involved so we are talking of aviation, oil energy, property we are talking of all the big infrastructure project, power plant and also volatile portfolios like agriculture, so that is where we really need when there is severity and the frequency are both very bad so that is the case where we take more of reinsurance so it is not right to say that reinsurance is all risky business because as reinsurers we would rather be called as a risk custodians of the world, so we have better standard for underwriting that we observed the better technology decisions we take based on our catastrophe tools that we rise and we insulate ourselves from the performance of the company and where we feel that the lines are not doing well we of course may insist that they increase the retention still in the game that they have in those lines so that they will have a better performance for those treaties.

Bharat Sheth: Thanks Madam. That is all from my side.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.

Sunil Kothari: Madam regarding this I think about your net commission ratio at 15.5% had been one off for this year and going forward we will be expecting it to be a bit higher so 2016-2017 is what we should expect?

V.C. Jain: By the year end, it may be around 17% and next year onwards our normal commission, which is average around 19% that will be the commission percentage approximately.

Sunil Kothari: And then our plan to shift from doing underwriting loss to underwriting profits or combined ratio to go to 100% we are expecting incurred claim ratio or incurred loss ratio to go further below 84.5, which we have done in the first nine months so what is the plan either rate increase when it comes to insurance or how will we improve this number basically?

Alice G Vaidyan : Yes, see as a reinsurer we have our own methods of doing that rate increase is one of those and then the terms, which we give the company where we will make them increase their retentions, their commissions will come down, so those are different ways we do it to get the treaties for the company.

Sunil Kothari: My last question you mentioned on the call that we are looking at some gross premium of 70000 odd Crore in 2022 am I correct?

Alice G Vaidyan: That is what the reinsurance market premium.

Sunil Kothari: For the reinsurance market premium?

Alice G Vaidyan: Yes Indian reinsurance market premium.

Sunil Kothari: Perfect. Thank you madam.

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

Hiten Jain: Madam I have just one question so our solvency ratio has come down from 2.21 in nine months FY2017 to 1.87 in nine months FY2018, so this is a drop of 0.34 in one year, now you said that the private insurer when you have such a big mass health insurance scheme by the government they will not have good solvency ratio that is where they will come to you, but for us also if we see just one more year passes then we again if it repeat then our solvency will be closer to the minimum requirement of 1.5 so how do you look at your solvency ratio for future growth?

Alice G Vaidyan: See as a reinsurer we would ideally like to keep our solvency ratio around the range of 1.8 to 2 and I think we will balance our growth in such a way that we will be able to maintain our solvency around this ratio.

Hiten Jain: How can we do that if you could help us understand like how can you manage the growth to keep this solvency ratio?

Alice G Vaidyan: Between the crop insurance see basically solvency is coming down on the back of the growth in the market is not it, it is because of the huge growth that is what growth we are seeing and our health insurance is only going to come in next year and we will balance out between the crop insurance and health insurance scheme and as such we have also raised some capital from the market for supporting our growth target, so that will also help.

Moderator: Thank you. The next question is from the line of Abhishek Saraf from Deutsche Bank. Please go ahead.

Abhishek Saraf: Just one small accounting question Madam. It seems that while GWP and NWP has grown at 36%. 37% for a nine month basis the net earn premium has grown at much faster pace around 83%, which I understand this is basically the unexpired risk reserve has been accreting at a slower rate just share your thoughts on why that is happening and how we should be thinking about this development and any specific segment, which is driving this?

Alice G Vaidyan: No like we had discussed early this was just a one half accounting thing, which we have done and this is based on actuarial advice.

Abhishek Saraf: So this thing should then abate in the years going forward?

Alice G Vaidyan: Yes, so going forward we will not see any variation from these treaties.

Abhishek Saraf: Fair enough.

Moderator: Thank you. The next question is from the line of Haresh Kapoor from IIFL. Please go ahead.

Haresh Kapoor: I just want to know one thing I think you mentioned that there were some reserve releases, tell in which product there was reserve release and what was the quantum?

Alice G Vaidyan: This is the question we just answered now.

Haresh Kapoor: Reserve releases product wise?

Alice G Vaidyan: On motor and health lines of business.

Haresh Kapoor: Motor and health?

Alice G Vaidyan: Yes.

Haresh Kapoor: And what was the quantum on each product?

V.C. Jain: This quantum this in our notes also it is reported in account for motor it is around 1500 and for health it is around 1000 Crore.

Moderator: Thank you. We have the next question from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: This is Sanjay Shah here good evening everybody. Madam first of all appreciate your explanations very well. My question is regarding the risk model what we are adopting to mitigate the risk as you said that our reinsurance is low risk business as what we pursue, so what are the models what we adapt and how often we advance on that side?

Alice G Vaidyan: Yes see we have this catastrophe modeling tool what is RMS and AAR, which is used by all reinsurers accords the world we use that this is to map our exposure management and control, which we used, so that helps us in a big way to do our business.

Sanjay Shah: Regarding after getting this registration at Lloyd have we started working on it and how optimistic we are on that platform and how much time it will take to show some good picture from that side?

Alice G Vaidyan: Yes, we have already announced that we have received the in-principal approval from Lloyd we are thinking planning for a launch in the month of April and I think we will start commencing our Lloyd's platform from April onwards and I think going forward we expect to see a spurt in our international book of business using the Lloyd's platform.

Sanjay Shah: Can we hope that in year 2018-2019 we will be able to have some good products that we placed new products and new for our customers?

Alice G Vaidyan: From the Lloyd's platform yes. See because Lloyd's is a specialty market known for their support to the international market for specialized lines of business so we expect to rope in the expertise in the market and GIC will definitely benefit from this partnership.

Sanjay Shah: So we need to appoint some talented staff in place right to understand that and carry forward that?

Alice G Vaidyan: In GIC you mean?

Sanjay Shah: After having that Lloyd's registering?

Alice G Vaidyan: Yes in fact we have the best talent pools in the Indian Insurance Market that is GIC, so we build our talent and we are also planning to train them in the London market and we are very confident that we will be able to successfully function with the employed platform.

Sanjay Shah: Thank you.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question I now hand the conference back to the management for their closing comments. Thank you and over to you.

Alice G Vaidyan: Thanks to everybody for logging in and I think in case you have more queries please write to us and we will be happy to answer you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of General Insurance Corporation of India that concludes this conference. Thank you for joining us and you may now disconnect your lines.