

“General Insurance Corporation of India Q1 FY19 Earnings Conference Call”

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MANAGEMENT:

**MRS. ALICE G. VAIDYAN – CHAIRMAN AND
MANAGING DIRECTOR, GENERAL INSURANCE
CORPORATION OF INDIA**



Moderator: Ladies and gentlemen, good day and welcome to Q1 FY19 Earnings Conference Call for General Insurance Corporation of India. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Binay Sarma from Christensen IR. Thank you, and over to you, sir.

Binay Sarma: Thank you, Zaid. Good afternoon to all the participants on the call. Thank you for joining this Q1 FY2019 Earnings Call for General Insurance Corporation 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 uploaded on the stock exchanges. In case you have not received the same, you can write to us and we will be happy to send it over to you.

Before we proceed with the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. It must be viewed in conjunction with our businesses that to call future result performance or achievement to differ significantly from what is expressed or implied by such forward-looking statements.

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

We will be starting the call with “Brief Overview of the Company” and the “Financial Highlights of the Quarter given by Ms. Vaidyan on the Performance of the Company” which will then be followed by Q&A session. With that said, I will now hand over the call to Ms. Vaidyan. Over to you, ma'am.

Alice Vaidyan: Good afternoon to everybody. I am very pleased to announce the financial performance for the quarter ended June 30th 2018. As you would have seen from the information on the website and the press release, there has been a growth in the gross premium income of the company with the premium of Rs.18,791.45 crores for the quarter from Rs.17,194.76 crores and we have recorded a growth of 9.3%. We have also shown good growth in profit before tax of Rs.1,029.74 crores against Rs.391.37 in the first quarter of last year, so there has been a jump in PBT by 97.7%. The underwriting loss if you see has been reduced to Rs.96.37 crores against Rs.658.47 crores of last year. The investment income also for the quarter was Rs.1,111.31 crores as compared to Rs.1,163 crores for the last quarter. The profit after tax was Rs.771.42 crores compared to Rs.391 crores and here is where we have shown a jump of 97.7%. Combined ratio is 99.9% for the quarter as compared to 99.7% for the last year's first quarter. The net worth of the company without fair value change account has increased by 21.6% to Rs.22,297.66 crores from Rs.18,336.91 crores, the growth in net worth including the fair value change account was 3.86% at Rs.52,254 crores as against Rs.50,309.62 crores. The return on equity is 13.8% annualized for this quarter and the solvency ratio of 1.77 as on 30th June is above the minimum required

solvency of 1.50. Total assets have also increased by 15% from Rs.1,05,823.99 crores to Rs.1,21,747.89 crores. The EPS increase also has been seen from Rs4.54 for the 1st quarter 2017 to 8.79 for the quarter of June '18. These are the highlights of the financial performance of this quarter. I think I will take your questions, we will talk about this in detail as we go along.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. We will take the first question from the line of Ashwin Agarwal from Akash Ganga Investments Pvt. Ltd. Please go ahead.

Ashwin Agarwal: My question was on the NHPS scheme that has been implemented by government. In some states we are seeing aggressive bidding for NHPS. So, will it be a profitable business for GIC?

Alice Vaidyan: In general, health is not a line of business which requires more reinsurance per se. So, we do not think there will be much need for reinsurance in this line. But having said that I think many states have gone for the trust model. Should the trust require reinsurance, they will get in touch with us, then we will be happy to provide the same. Otherwise, I think only a few states have gone for the tender model of going through the insurance company route. But like you said, government has indicated a rough pricing initially, but the tenders result has shown that prices have fallen drastically but that has been only for one state, Nagaland, is it not? So, there I think the price has been lower because the claim ratios have been good in that state. So, we cannot really take the case of one state to be a general indication for the country, we will have to wait and see till the other states tenders are floated and the price discovery is done.

Ashwin Agarwal: The improvement that we are seeing in the underwriting profits, so in the further quarters also we can see this kind of improvement in underwriting profits also?

Alice Vaidyan: We have always maintained that the focus in GIC Re is only on bringing down the combined ratio and to maintaining it within 100. So, last year was an exceptional case where we had gone a little above 100 but going forward in the short-to-medium-term, we are focused on bringing down the combined ratio in the 95-100% range and that focus will always remain and there will be consistent efforts in GIC Re to bring down the claims ratio going forward.

Moderator: Thank you. We will take the next question from the line of Aarsh Desai from Vallum Capital. Please go ahead.

Aarsh Desai: My question was regarding your commission ratio, from 15% to 11%, I hope it is a sustainable number in terms of commission ratio and this is a true reflection of tightening effort in our agricultural sector which we had mentioned last quarter, so about going forward I hope at 11% and all the improvement in the combined ratio should be purely driven by a change in other ratio?

Alice Vaidyan: You are right in assuming that - what you have said because our focus also is to bring down the commission ratios from 15.6; it has come down to 11.2, like you said mainly it is because of the agriculture commission coming down. Going forward, our focus is also to bring down the

commission. So, the only thing which will make a big difference will be the incurred claims ratio.

Aarsh Desai: My second question was regarding fair value change account. Our fair value change account QoQ has more or less been stable but now that we have seen in the last three months decent enough rally in the BSE 100 with stocks like ITC performing, this quarter your fair value change account should show significant appreciation, is it not?

Management: Fair value, what has happened now, we are bringing down our exposure in the equity gradually in a phased manner. That is one of the reasons why fair value change account will come down. It is depending on the market also. Right now, market is quite good. But despite that there is a decrease but percentage wise it is very small, last time was around say 30,000.

Aarsh Desai: What I am saying is this time it should be better for this quarter?

Management: But what happens, once we are reducing our exposure in the equity, so that is why when we sell the share, the fair value which gets converted to our profit and to that extent fair value will come down.

Aarsh Desai: So, is it fair to assume that investment income will go up?

Management: Yes, definitely, it will go up, fair value will get converted into our profit.

Aarsh Desai: This will help our credit rating change?

Management: Yes, of course, risk factor will be reduced for even our rating, rating agencies are of the opinion that we should reduce our exposure in equity gradually.

Aarsh Desai: At what percentage of equity would they upgrade you?

Management: We cannot say, but they are telling us that you should bring down your equity exposure gradually to a minimum level.

Moderator: Thank you. We will take the next question from the line of Avinash Singh from SBI Cap Securities. Please go ahead.

Avinash Singh: Two questions; One question on our combined ratio improvement. Of course, it has been partly driven by our lower commission ratio. Claims ratio has almost deteriorated 4.5% YoY. So, can you please help me understand which are the lines that had led to this sort of deterioration in the claims ratio because going forward if the commission ratios go back to normal level because of the lower crop insurance mix probably our overall combined ratio may go up. So, I would like to understand the deterioration in claims ratio? Secondly, the growth in this quarter, I am mindful of the fact that, okay, in the international business Q4 that is important, not this Q1, but year-on-

year growth is very muted, almost 3%, so how are we going to sort of achieve that our 65-35 local and international mix in a year or two?

Alice Vaidyan:

On this incurred claim ratio you have mentioned, it has increased from 83.8 to 88.3 per cent. Given that we have brought down the commission levels from 15.6 to 11.2 per cent, we have to ensure that we have good claims ratio maintained if we want to bring it down within the level of 100% combined ratio. So, focus will be there on GIC Re side that we write a profitable business; that we come out of loss-making business, we give terms and conditions to the reinsurance treaties in such a way that it works well for GIC and we hold the pricing levels in the market given the pricing power we have as a dominant reinsurer in the market. So, I think all these factors, the senior management is really focused on, in fact, all the underwriters in the company are focused and I think that will make all the difference going forward. Your other question on the foreign business. I agree that we have not seen the growth we expect and as you said Q4 is the quarter where we really see the growth in the foreign business but having said that you are aware that our Lloyd's platform has also been operational since April 1st, we look to write good quality business going forward and given the growth in the market, the focus is still on that. We move to our ratios. We are looking at 65:35, 60:40 ratios in a period of time- definitely we will achieve given that agricultural growth has already stabilized in the market. If you have seen the figures, the property we had a few losses from our foreign office, Dubai, so that was the line which we have seen a little bit of business losses and motor in a small way. The other lines I think we have not seen - even agriculture losses have come down. So, significantly it has been only property and motor and in a small way aviation.

Moderator:

Thank you. We will take the next question from the line of Nilesh Doshi from Prospero Finvest. Please go ahead.

Nilesh Doshi:

Madam, my first question is, is it not matter that earning is improved due to the improvement in combined ratio than the higher contribution from other income or investment income and what are the steps company is taking to improve the combined ratio?

Management:

Combined ratio is purely for business - the other income and investment income does not have any bearing on our combined ratio, this is purely our reinsurance operations combined ratio.

Alice Vaidyan:

If you see the combined ratio, the components of the combined ratio are the claims ratio, expenses of management and the commission, that is about it. So, the combined ratio has come down on the back of superior performance of the company itself and the investment income is outside of the combined ratio which adds to our profit before tax.

Nilesh Doshi:

This time also in Q1, the combined ratio is 99.92 or something like that. If it crosses the 100%, will the insurance business itself will not report loss because the net profit comes only from the investment income then?

Alice Vaidyan:

Yes, in fact, if the combined ratio is within 100, investment income will be the absolute profit of the company plus whatever surplus is there from the combined ratios is well within 100, it

will add to the investment income of the company and it will add to the overall profit of the company.

Nilesh Doshi: Madam, world over the combined ratio is around 100 or it is below 100, what is the general yardstick to measure our general insurance performance?

Alice Vaidyan: If it is within 100, it will mean that we are making technical profit. If it is over 100, we are still making profit but investment income will be subsidizing operational losses, what we call underwriting loss.

Nilesh Doshi: My last question is what is the composition of investment among the equity and debt?

Alice Vaidyan: On a market value basis, 50:50, on a book value basis equity is 20, debt is 80.

Nilesh Doshi: After fair value, it is 50:50?

Management: Yes.

Moderator: Thank you. We will take the next question from the line of Rahul Jha from Bay Capital. Please go ahead.

Rahul Jha: Ma'am, this is specifically regarding health insurance. So, your combined ratio on health side has improved drastically from 109 to 94, overall combined ratios are around 100. So, what specifically happened here – is it cyclical?

Alice Vaidyan: We are a multi-line reinsurer. Across all lines we have to assess the claims performance of the company. So, we had some underwriting losses in the fire section and the motor section and small losses in the aviation section. So, when we take the overall claims ratio, we have balanced out between good and not so good lines of business. So, like we said, health has done well, some lines have taken losses.

Rahul Jha: Ma'am, the question is regarding what has really changed in health, it is a very significant improvement?

Alice Vaidyan: For health, mainly the prices have held in the market, so better pricing has contributed to the better claims ratio. So, if you see that on the group Medclaim side, there have been market corrections happening on the individual Medclaim and health insurance scheme, we were doing well right from the inception, in the group Medclaim we have seen a big turnaround in the pricing of the account. So, that has made a difference in the health portfolio.

Moderator: Thank you. We will take the next question from the line of Abhishek Saraf from Deutsche Bank. Please go ahead.

Abhishek Saraf: Ma'am, one question on the combined ratios. Is it possible to give a split between the combined ratio for domestic and foreign operations on incurred claim and commission?

Alice Vaidyan: For the domestic business, we have done very well; the claims ratio is 83.3% and the combined ratio is around 97%. In the international business, claims ratio is 110 and the combined ratio is 130. So, there we have a focus that we have to improve the international book, but this is not because of inadequate pricing and all, we had a few unfortunate losses, so I think going forward we hope to see an improvement in our international book as well.

Abhishek Saraf: If I am not mistaken, in the domestic book, actually 97% is quite good combined ratio. So, this you think will be maintained for the full year and for foreign growth 130% that you are saying, so it should actually improve over the year, right because this seem to be a bit high given that net cycle will also churn?

Alice Vaidyan: But what happens in the international book is that, the premium comes in only in the fourth quarter. So, that is the real quarter when we actually balance the premium and the claim. You will see the true picture of the portfolio only towards the end of the year. January 1st are the major foreign business renewal. So, all other quarters will not give a true picture. But for the domestic business we are confident that going forward also we will be able to maintain good results.

Abhishek Saraf: One question on the agri side. So, it seems that a few of the large primary channel insurer have not been booking a lot of premium on agri insurance. So, could you just give us some color in terms of where are you sourcing your agri business from? Has the composition changed over last year? I am talking about a few large private company, they seem to have not done much of primary underwriting in crop insurance. So, have you seen any change in mix in your book for your agri portfolio?

Alice Vaidyan: We have brought down our share for agriculture in the market. Last year we were around 52%, we have brought it down to around 46%. But if you see in the market what is happening is that it is basically driven by tender as to who wins the business. So, they are all private companies and the PSUs, all of them bid for the tender that is floated by state governments,... so I see that a few large private companies have not been able to get a lot of business but if you see among both PSUs and private companies, I think there is a sort of balance that 65% is by private sector itself and only around 35-40% is by the PSUs overall.

Abhishek Saraf: One last question on the accounting side. So, effectively it seems that this quarter you have booked a forex gain which has not been there earlier, so roughly around Rs.210 plus odd crores of forex gain on the other income, so what would have driven this ma'am?

Management: GIC is dealing in 146 currencies. So, it is the effect of all these currencies' fluctuations. So, what happens, sometimes it is plus, sometimes it is minus. Last year it was minus, this time it is plus. On that we do not have any control because 146 currencies, so some will go up, some will come

down and that too on daily basis, even the difference of 0.5, 0.10 percent that makes the difference.

Abhishek Saraf: So, difficult to attribute it to a particular currency as well?

Management: Yes-yes, 146 means you can imagine which will go up, which will come down daily basis.

Abhishek Saraf: This time the amount seems to be a bit high and if you see overall PBT has gone up by around Rs.638 crores, of which around Rs.231 crores is accounted by forex gain. So, that is why I ask the question.

Management: Yes, this time very significant, I do agree.

Abhishek Saraf: But nothing non-recurring effect?

Management: Even in second quarter, it may fluctuate; it is 200 today, it maybe 300 or it may be 100 also.

Moderator: Thank you. We will take the next follow up question from the line of Ashwin Agarwal from Akash Ganga Investments Pvt. Ltd. Please go ahead.

Ashwin Agarwal: There was a board meeting held by IRDA for the order of preference. So, what is the update coming from that?

Alice Vaidyan: What has happened is that that was deferred in the board meeting which would mean that the order of preference still continues for GIC in the Indian market. So, till there are any changes made to the existing provisions on order of preference, GIC Re will still have the first right of refusal and that will continue.

Moderator: Thank you. We will take the next question from the line of Aarsh Desai from Vallum Capital. Please go ahead.

Aarsh Desai: My question was last year on the same quarter we had a line item other income less outgoing there is a long-term Rs.112 crores which is Rs.16 crores profit. What exactly this line item referring to?

Management: Last time it was low, but this time what has happened, one is that forex gain which we discussed just now in the last question. Because we are having the segregation of our all the income and outgo as per the policyholders' funds and shareholders' funds. So, even this forex I showed around 200, that pertains to policyholders' funds. But around Rs.74 crores pertain to shareholders funds. So, that Rs.74 crores plus some of our provisioning made in the last year corresponding quarter, that has been released. So, these two combined are making this income this time. These are the two major factors. Rs.74 crores is the forex gain and around Rs.83 crores is the release of our provision which were made in the last year, but now it is not required, so these are the two major factors.

Aarsh Desai: So, just to understand, the provision of Rs.83 crores that you are talking about, if I have to look at each segment individually, for example, health insurance, how we had a loss last year and now that we have a profit, how do I realize how much of the provision has been released specifically into each segment and how much is actually by release of provision and actually how much is the current year underwriting profit or loss?

Management: First thing is that this provision is not based on this segment wise like how much motor, etc., it is for the receivable because we are dealing with hundreds of cedants. So, where the doubtful amount of receivable is there, so the provisions are made for the doubtful receivables which are to be received from the cedants. So, against receivables when we follow up and we get the recovery, 99% we get. We have got a provision policy for the doubtful debt. So, despite all efforts, some amount definitely remains and needs to be followed up further but once a long time has passed, then definitely we feel that it may or may not come, so for that we provide, we have a policy for providing against this receivable.

Aarsh Desai: Actually, I got a little mixed up with segment technical liabilities when I was referring actually to unexpired the risk reserve and outstanding claims reserve. So, with regards to those, how do we figure the release of reserves into each segment because that has a bifurcation even segment wise? About the outstanding claims reserve including IBNR and IBNER, I am talking about those reserves, so those reserves keep changing depending on your actual claim incurred and your assessment of the claim. So, for every underwriting profit or loss there is some reserve that is released into each segment, am I correct? I understood the claims that is outgoing. So, how do I realize how much of the release of reserves is what I was trying to ask you?

Management: There is no release this time. Because premium has gone up, the URR has also gone up and on this basis, IBNR that is OSLR that has also gone up because these are mainly related to the growth. If there is growth in the premium, definitely URR will also go up because we have to account as per the IRDAI guidelines, 50% of the premium in the first year and 50% in the next year.

Aarsh Desai: Do we hold on to our guidance of 15-20% growth this year?

Management: Yes, we can hold 15-20%.

Moderator: Thank you. We will take the next question from the line of Dhawal Gada from Sundaram Mutual Fund. Please go ahead.

Dhawal Gada: Just a couple of questions; first, could you give the number of prior year reserve releases for the quarter net?

Alice Vaidyan: This quarter there is no release at all.

Dhawal Gada: So, we added to our reserves?

- Management:** Yes, reserves are built up.
- Dhawal Gada:** Ma'am, just trying to understand, for the prior period, there would have been some movement within the reserve book, either we would have added or released it, so the net impact is it positive, so you have added to the reserves or you have released reserves, just trying to understand what is there for the current quarter and what was there for prior year period, so just trying to dissect the two?
- Management:** No, prior period will not be there, Rs.7,000 crores increase in our outstanding as such.
- Dhawal Gada:** That is the IBNR, I think you are referring to, correct?
- Management:** Outstanding claims are technical reserve I can say.
- Dhawal Gada:** This would pertain to prior year, is it?
- Management:** Not prior year type - this is the accounting that whatever the premium booked last year whatever premium booked this year, the difference is our reserve built up.
- Dhawal Gada:** Sir, I will just repeat the question, so where I am ultimately getting into is what would be the ultimate loss ratio for example FY'18 or FY'17, how has the ultimate loss ratio moved, so that is what I was trying to get through because we do not publish reserving triangle, so that is the reason?
- Alice Vaidyan:** Across different lines of business, we actually calculate ultimate loss ratios.
- Dhawal Gada:** So, qualitatively, would you say where it has improved and where it has deteriorated over the last two years?
- Alice Vaidyan:** The combined ratio for segment wise underwriting profit and loss figures are there with you, is it not, we have released it. So, for fire and motor and aviation, we have taken some losses, most of the others have shown profit only.
- Dhawal Gada:** What about agri ma'am?
- Alice Vaidyan:** Agri also there has been an improvement. If you see we have only shown underwriting loss of Rs.12 crores only as compared to last year Rs.25 crores for the quarter I am saying.
- Dhawal Gada:** So, would Agri have seen a reserve release from prior period, so what we would have booked earlier versus what has finally turned out, would there be a positive experience or that...?
- Alice Vaidyan:** Say for the last year, we have been seeing this scheme came from '16-17, this is the third year, there would have some release from the year '16-17 but definitely for this year, we have booked

the premium of the first season kharif, but then claims have not come in, so there have been big IBNR reserves for this quarter.

Moderator: Thank you. We will take the next question from the line of Vipul Shah, an individual investor. Please go ahead.

Vipul Shah: Can you tell me what are the advantages we are deriving from our partnership with Lloyd's platform and how that relationship works basically?

Alice Vaidyan: The Lloyd's syndicate has just become operational from April of this year. So, slowly going forward, we are looking to write good quality international business and probably the biggest advantage for us will be that we have access to the S&P-A rating of Lloyd's and we can also work in all the countries where Lloyd's has the platform. So, we want to slowly scale it up and we also want to take the expertise of the market, so we are training people from GIC Re in the Lloyd's platform as well. So, going forward we look to growing our international book of business through this platform.

Vipul Shah: Will there be any fixed percentage for using that platform?

Alice Vaidyan: No, it is not that we have to pay any fixed percentage for using, it is our own platform, no, it is 'GIC Re 1947' that is name of the syndicate, so it is the first Indian Capital Syndicate we have there in Lloyd's and like any other business all the operating expenses will be there, like we operate in any other market.

Moderator: Thank you. The next question is from Sandesh Kadole, an individual investor, please go ahead.

Sandesh Kadole: What are the steps the company is taking to improve a combined ratio further?

Alice Vaidyan: If you see that any ratio within 100 is a good combined ratio, we are very pleased that we have a combined ratio of 99.8. Of course, it is a point higher than last year's 99.7 for the first quarter. But like I had mentioned earlier, we have made all out efforts in GIC Re to have focus to bring down the combined ratios within 100 per cent level. The short to medium term we are looking at something between 95 and 100 and in the long term something between 90 to 95.

Sandesh Kadole: But what are the steps you are taking?

Alice Vaidyan: Two-three steps majorly will be. As a dominant reinsurer in the market, we have the pricing power in the market, so we are making all out efforts to hold on to actuarial pricing to increase pricing across all segments of the business, because we have almost 70% share of the reinsurance market now. So, that is a big role we play to hold on to the prices. The other thing was we have tried to bring down the commission, as you would have seen from 15.6 per cent, the commissions have come down to 11.2 per cent for this quarter. So, that is one big role we played. Overall, we also get involved with the claims management process of the companies. So, I think



this will all help us and the reinsurance treaties, how we design it with the companies. All this should work in our favor to have a very healthy combined ratio.

Moderator: Thank you. The next question is from the line of Avinash K from Sutherland. Please go ahead.

Avinash K: My question is regarding the agriculture business. You are seeing continued losses in the agri segment and there is a report recently saying that you need to clear all the losses for the state regarding kharif by January 2019. So, can we expect the agriculture analytics process continue for the next few quarters?

Management: For agri business, actually whatever premium has been taken for the kharif '17-18 a year earlier, all the reported claims have actually been accounted for and whatever claims paid have come from certain companies have actually been released. We are actually seeing an improvement in agri performance compared to whatever loss has been taken in the initial time, it has actually improved for us. So, going ahead we expect that the agri results from the second quarter onward also will be better than what it has been in the first quarter. Since all the premium has already been accounted for and for the rabi '17-18 season, crop cutting experiments and the outcome of that has not yet come to us; however, all the gross premiums as per the regulatory requirements have already been booked. So, we are in a comfortable position as far as agri underwriting is concerned and going ahead for the next two quarters, the results will show itself in our quarterly results.

Avinash K: My second question is regarding the Lloyd's, since you have opened from April of this year, but do you see as Britain is going to lose passporting to EU, so how you are going to underwrite to Continental European company, and how do we take if this is going to affect your Lloyd's operation?

Alice Vaidyan: We are in the reinsurance business basically, so we write business from all over the world. So even from Lloyd's platform in London we will be writing business in the US, in the EU and across all countries. Actually, we write business from 160 countries across the world though we have offices in five continents.

Avinash K: Just a follow-up to this question, how do you see the international price going because earlier it was said that you want to increase it to 35%, do you look for any physical presence in other countries?

Alice Vaidyan: Yes, we have plans for business expansion, that is always open, so now we have the Lloyd's platform on, we are converting our representative office in Moscow to a subsidiary, our South African subsidiary is also doing well. So, we want to have our footprints across the globe. So, we will always be on the lookout for having some partnership with other companies and countries as well as inorganic expansion as well if a good target comes our way.

Moderator: Thank you. The next question is from Niraj T from Emkay Global, please go ahead.

Niraj T: I just wanted to understand on your net commission which has reduced to 11.2%. So, what would be the sustainable number because last year also in the first quarter it was actually tad lower than the whole year, and is it the trend which we can see through in the first quarter coming in, how should one read it?

Alice Vaidyan: This will continue throughout the year. If you know the background it is because we have actually downsized the agriculture commission in the market. So, we have seen a clear reduction in the commission ratios. Going forward, we have to improve this further, that is the view of the management.

Niraj T: In terms of commissions rate, that has been also reduced I guess what are you receiving from the general insurance companies, how net commission in total, is there a change or is that in the similar range what it was in the last year?

Alice Vaidyan: We pay the companies commission; from 15.6 per cent it has come down to 11.2 per cent and going forward we will only see improvement in these ratios.

Niraj T: If you have to quantify it the commission rates in terms of different lines, how much has been the impact... where it has been reduced most?

Alice Vaidyan: Maximum reduction has come in agri only and fire portfolio; for the first quarter from Rs.2,653 crores it has come down to Rs.1,938 crores, so almost Rs.700 crores.

Niraj T: Not on the total figure, I am just asking in term of commission rate if you can share how much, broad number will also be fine, how much you were giving?

Alice Vaidyan: Basically, it is not a fixed percentage as the direct companies, they pay their agents or something like that. What we do is we base that commission on the performance of the treaties of the companies. If they are doing well, they earn more commission, if they are not doing that well, then they get lower commission.

Niraj T: Okay, it is dynamic?

Alice Vaidyan: Yes, it is dynamic.

Niraj T: In terms of claim ratio, it has actually inched up. So, where do we see that going and what efforts probably...?

Alice Vaidyan: I wish I could tell you in which direction it goes because we have no idea of what cat events will happen in which corner of the world. But having said that, like you said that is the only component we have to focus on given that pricing and the commission we are trying to control and the management expenses, if you see we have reduced management expenses, that is 0.3%. So, we will have a focus on bringing down the claims ratio, from our side we will make all-out efforts to have very effective claim-based management by very good quality underwriting.

- Moderator:** Thank you. Next question is from Anirudh Agarwal from AAA Investments. Please go ahead.
- Anirudh Agarwal:** My first question is actually on the agri side. So, the retention ratio has actually gone up this quarter. So, have we taken lower amount of retrocessional insurance or what is the reason for the higher retention ratio?
- Management:** We actually have asked all the cedant companies to increase their retention. Since we already have two years of experience on the Indian market on PMFBY, most of the companies have been asked this year to increase their retention, so they have more skin in the game. That is only the reason why they have increased their retention. The retrocession side from our side, there has been no change to what it was there for the last year, our retrocession program for agri is a three-year contract, which will end at the end of '18-19 financial year.
- Anirudh Agarwal:** But do you expect that considering that we have two years of data and the third year will be done, I think the cost of retrocession insurance would go up for us, what are your thoughts on that?
- Management:** The retrocession how it will pan out next year will depend on the end of this underwriting year result. After the end of '18-19 year, we will have three years of concrete data to actually structure the next retro program. Whether it will go up or go down? It is too early to say at this point of time, but with the data that we have at this point of time we expect that the retro cost going ahead could be less than what it was earlier.
- Anirudh Agarwal:** So, does that mean that we expect a lower combined ratio this quarter, I mean I know that we reduce the commission, but in terms of the loss ratios also, what do we expect this year, we are seeing some part of the monsoon already?
- Management:** If you talk about agri only then we expect that the combined ratio going ahead will remain stable and within the range that is there in the first quarter itself. Since all the losses have already developed into the balance sheet, there is no need for any excess provision at this point of time and since the current kharif season is panning out well, we expect that the combined ratio for agri will remain within the range. Going ahead and we will not overshoot the expectation that we have for agri.
- Anirudh Agarwal:** One question on NHPS. I think we mentioned that we would be willing to write NHPS business. But considering the kind of premiums that have been claimed how do we think that this is a sustainable business. The concern is that even in the first two years, the agri business turned up with huge losses and then it gets corrected, so the worry for investors is that the same thing should not happen in NHPS.
- Alice Vaidyan:** Yes, we will definitely be very cautious in our approach, like you said, it is not that we will support the scheme at any pricing. When the company wins a tender and comes to us, we will, of course, examine whether the pricing will be sustainable for us. On that basis only, we will support.

Moderator: Thank you. The next question is from Animesh Shah from L&T Mutual Fund, please go ahead.

Animesh Shah: What should be the sustainable tax rate for the company?

Management: This year because of the long-term capital gains also not taxable as per the current year budget. So, our liability will go up little higher because now we have to pay the tax on the capital gains also. Otherwise, it is 30 plus 3% around 32.5% plus this 10% extra definitely, so may be additional Rs.100 to 200 crores we have to pay.

Moderator: Thank you. The next question is a follow-up from the line of Abhishek Saraf from Deutsche Bank, please go ahead.

Abhishek Saraf: My question is with regard to the overall GIC Re net retention ratio. So, you said that your retention in agri has actually come down from around 52% to 46% on sequential basis; however, the overall retention ratio seems to be going up. So, if I see the trend has been actually from 85% to 92%, which are the kind of the businesses we are retaining more and is it to do with the market situation or is it a more conscious decision on our part to keep that on GIC Re book?

Alice Vaidyan: GIC Re is on average 90% retention we can say - we are retaining that business with us.

Abhishek Saraf: One last question with regard to solvency. So, solvency is now 177%, so what level of solvency are we comfortable with given that you are targeting 15% to 20% growth and in case if this needs to be addressed, so how do you intend to address, do you have the option to do some kind of bonds, how you are seeing the overall picture on solvency from here?

Alice Vaidyan: I think this is a solvency ratio we are comfortable with given that the mandatory solvency ratio is only 1.5. But it would mean that we are utilizing our capital asset well. We are in the risk-taking business especially catastrophic business. Ideally, we would like to keep it between 1.8 to 2, but I do not think we would need to raise any bonds and all that as far as we are writing profitable business, and with this ratio we do not have any aggressive targets for growth... 15% and 20% is a reasonable rate of growth in the market, and I think with this we will be able to maintain it without any strain on our solvency.

Moderator: Thank you. We will take the last question now from the line of Anirudh Agarwal from AAA Investments, please go ahead.

Anirudh Agarwal: My question was now on the health combined ratio which has come down to I think about 94% in this quarter. So, what are the key reasons behind this and do we think that these kind of combined ratios will be sustainable in the health business?

Alice Vaidyan: Like we have mentioned earlier, there are all-out efforts in the industry itself to improve the health portfolio, mainly the group health schemes are the ones which was a big drag on the profitability of the health sector. So, there has been a very good price improvement which has



also rubbed off on GIC's performance. So, I think it is a good pricing of the health sector that has contributed to the profit in the health sector for us.

Anirudh Agarwal: Next question was actually on the ROE that we expect this year. We are seeing that we can grow at 15-20% and solvency would remain roughly constant, that means our ROE should be 15-20% this year. Is that the right way to look at it?

Alice Vaidyan: Yes, that is what we have always have in mind, our ROE has always been in the range of 15-20%, 17-18% is what we also have in mind, so this is the first quarter of the year and I am sure going forward the second and third quarter will definitely see an improvement and we will be back on track in our target of 17-18%.

Moderator: Thank you. Ladies and gentlemen, I now hand the conference over to the management for closing comments. Over to you.

Alice Vaidyan: I think we have been able to explain the results to your satisfaction. If you see overall, GIC Re is a dominant reinsurer in the market, we have improved our market share to around 70% and with the right of first refusal, (ROFR) continuing in the market, I think this dominant position will continue. The first quarter of the year has given us great confidence because we have been able to maintain the combined ratio within the desired 100% level, the net worth has increased, the profit after tax has jumped and our growth has also come on track, and so we think that the results will continue throughout the rest of the quarters for the year and with all-out efforts in GIC Re to maintain the growth target and also balance it with good combined ratio, I am sure that we will be able to maintain the good results in the year and we look for continued support from all of you. Thank you.

Moderator: Thank you very much, members of management. Ladies and gentlemen, on behalf of General Insurance Corporation of India. That concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.