

“General Insurance Corporation of India Q4 & Full Year FY’20 Earnings Call”

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to General Insurance Corporation of India Earnings Conference Call. As a reminder, all participant lines will be in a listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sarada from Christensen IR. Thank you. And over to you, sir.

Binay Sarada: Thanks, Aman. Good evening to all the participants on the call, and thanks for joining this Q4 & Full Year FY’20 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 if 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 would cause future results performance or achievements to differ significantly from what is expressed or implied by such forward-looking statements.

To take us through the results of this quarter and the full year and answer our questions, we have with us the management of GIC, represented by Mr. Devesh Srivastava -- 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 and the Year given by Mr. Srivastava” which will then be followed with a “Q&A Session.” With that said, I will now hand over the call to Mr. Devesh Srivastava. Over to you, sir.

Devesh Srivastava: Thank you so much. Good afternoon, everyone. GIC Re announced financial performance for the year ended March 31, 2020 at our Board meeting held in Mumbai on the 24th of this month. Despite the challenging external environment in the wake of the COVID-19 pandemic, GIC Re managed to post strong performance in the recently concluded Q4 financial year 2020.

Let me take you through some of the highlights. The growth in the gross premium of the company was 15.4%, with a premium of INR 51,030.13 crore for the current year up from INR 44,238 crore in the previous year. The investment income has increased by 11.3% to INR 7,125.48 crore this year as compared to INR 6,401.34 crore last year. Incurred claims ratio increased for the year to 97.5% as compared to 89.5% in the previous year. The combined ratio, as you would have seen, has improved slightly to 114.37% for the financial year 2019/20 from 115.76% for the 9 months ended December 31, 2019. There has been an improvement in the underwriting results for the quarter of January to March 2020. The adjusted combined ratio by taking into consideration the policyholders' investment income works out to 102.5% for the year ended March 31, 2020.

As compared to loss after tax for the 9-month period ended December 31, 2019, amounting to INR 1,556.50 crore, there has been a profit after tax recorded in the fourth quarter of 2019-20 of INR 1,197.41 crore, which reduced the loss for the full year 2019-20. This turnaround has been



led by significant profits in the fire and motor segments. The reduction in profit for the full year is on account of provisioning for investments, an increase in agriculture losses.

Solvency ratio stood at 1.53 on the 31st of March 2020, which is above the minimum required solvency ratio 1.50. Net worth of the company without fair value change account, is recorded at INR 20,529.45 crore as on March 31, 2020 as against INR 22,334.42 crore as of March 31, 2019. Total assets were INR 1,15,196.20 crore as of March 31, 2020 as compared to INR 1,18,883.57 crore as of March 31, 2019.

We have recorded improvement in profitability in Q4 financial year 2020 compared to the preceding quarters. I think all the other details, including the 3 months ended this year as compared to the whole year's performance have been shared with you. On the premium breakup, domestic premium for financial year 2020 is INR 36,233.84 crore and the international business is at INR 14,796.29 crore. The percentage split is domestic 71% and international 29%. The growth in the domestic premium has been 17%, and the growth in the international book has been 11.5%.

Having given the highlights, we will now await questions from the interested investors.

Thank you.

Question and Answer

Moderator

[Moderator Instructions] The first question is from the line of Dipika Mundhra from JPMorgan.

Dipika Mundhra

Thank you for the opportunity to ask questions and congratulations on a good result. I have a few questions. So firstly, on solvency. I can see that while the solvency has declined substantially since last year, sequentially there has been a slight improvement despite the equity market correction or and some write-off of investments that you have taken. So can you first outline as to what has driven the slight improvement in solvency? And do you think that you will need to raise capital anytime in the next year?

Devesh Srivastava

Madam, solvency for us is very, very important. And therefore, a lot of emphasis was laid on the solvency bit. Now normally, we do realize fair value to boost our solvency. But since the markets were so down, there was no point selling family Silver and plus, we had improved performance by way of better underwriting and better results for the fourth quarter. Therefore, the improvement is what you see. But to answer your question, going forward about raising capital, the answer is an empathic no right now, ma'am, because we are already capitalized adequately and in a very good position right now. We don't need to raise capital right now. So I hope that answers your question, ma'am.

Dipika Mundhra

Right. Secondly, I just wanted to -- while we've clearly seen an improvement in underwriting



over the last few years, there has been quite a bit of volatility in the combined ratio. How is the company planning to bring down this volatility in combined ratio? And specifically, if you can talk about some risk management measures that are being adopted in terms of excess of loss structures, et cetera, and particularly on crop, what are the measures being taken?

Devesh Srivastava

Yes, sure, ma'am. Obviously, as reinsurers, we don't want volatility. That is the name of the game. Now given the fact that the past couple of years have been bad internationally as well, you want to have as smooth a balance sheet as possible, and that is the aim of ours as well to take care of certainty -- the way we are writing, we are monitoring our exposures in all areas and cutting down on cases where the volatility is there. So for our international book, we are using a lot of tools, whatever treaties we write, we model them - we have a very robust modeling system. And after that, we come to conclusion and then write the program. Added to it is the fact that we did identify crop as something that was creating a lot of volatility as well.

For that, Mr. Tripathy, who's the General Manager looking after crop, he is there on this side. He will add to what we have in crop and what our intent is going forward.

Satyajit Tripathy

Good evening, madam, and good evening to all the listeners. This is Tripathy, GM Crop Agri department. If you look into our agri portfolio, at the gross written premium of INR 15,470 crore for the year ending March 31, 2020 where we have a net premium of around INR 13,980 crore. For the year 2020-21, that is for the coming year, we have taken drastic steps in course corrector as far as agri department is concerned. Our capacity for the next 3 years, now this scheme has changed for a 3-year period. Earlier, it used to be 1 year for the PMFBY. For this year, the revised PMFBY has started for a 3-year period. So our consolidated capacity to the market at this time stands at INR 7,800 crore, down from INR 13,900 crore of earlier year, a drastic change of close to 40% in the market. In addition to that, we have been able to garner the better pie of the crop business this time. So this year, the number of cedants have come down, we have managed to retain 11 cedants to whom we write of which around 8 cedants we are leading. And for us, the percentage of business - the better quality business has actually increased. In addition to that, in our treaty, we have improved the conditions for some of the companies, which have not shown results, a loss cap starting from 90% to 120%, which will be fair. And beyond 120%, the company will share a 50% amount of the loss to their account. It is for those accounts, which have not yielded good results for us and there we have reduced our capacity drastically. Then coming forward, as far as the pricing is concerned this year. Overall, market pricing for crop insurance has seen a significant rise of around 15% to 20% across the board. You would be aware that this year, at least 4 states have shown their unwillingness to participate in PMFBY. So the overall country-wide gross return premium will come down from INR 28-29,000 crore to around INR 21,000 crore.

Of the INR 21,000 crore, we should be writing something like INR 7,800 crore at this point of time, which is less than the earlier 44% that we are writing country wide. Our exposure to the whole premium in the country is now to the tune of approximately 30% and less. In addition to



that, if it is a 3-year contract, we have kept a review clause after every year for crop results. the results will be reviewed for all companies after a year, and it all will be taken again into account as to what needs to be tightened for those companies for the subsequent 2 years. So we feel that with this amount of written premiums for our coming year, we are firmly in the saddle and have a total grip on the crop business at this point of time. And this is going to be apart from the overall balance sheet size for crop, it was already occupying 30% and will be at least less than 20% from this year onwards.

Dipika Mundhra:

Got it. So firstly, you mean the mix of crop in the business will be significantly lower next year? And then secondly, you have tightened the loss corridor as well.

Satyajit Tripathy

Absolutely, absolutely.

Dipika Mundhra:

And can I just know, sir, previously, what was the -- you mentioned it 90 to 120. Can I know what was the previous loss corridor for crop?

Satyajit Tripathy

See, the loss corridor, actually, differs from company to company depending on their pricing strategy. Correct? Now depending on, for the last 4 years, where the companies have shown poor results, before giving the capacity, we give a condition of 90 to 120 loss corridor this year.

Dipika Mundhra:

Yes,

Satyajit Tripathy

It is not for all, it is for those companies, which have not the desired results. Earlier, yes, it used to be, again, from 85 to 120 or it would be 90 to 130, it would be like that. But most companies as results are poor it is, 90 to 120, then 120 to 150, again.

Dipika Mundhra:

Okay, sir, understood. And the 15% to 20% increase in pricing, which you mentioned, that is effective from when?

Satyajit Tripathy

It would be effective from this year kharif, which has already started from 1st of April.

Moderator

The next question is from the line of Keshav Binani from Axis Capital.

Keshav Binani:



2 questions. First, on the fire side. Can you quantify what has been the price hike on the balance 291 occupancies which has gotten effective from 1st of January?

Devesh Srivastava

Keshav, if you have a look at the figures that the GI council, which is a body of the IRDAI, it releases figures every month, April and now May figures are also out. Now we see that the fire portfolio is one that has shown a 40% growth.

Keshav Binani:

But that is again a factor of volume and pricing. I just wanted to get a sense of pricing only, if you could quantify that.

Devesh Srivastava

Yes. So - but pricing, so I'm just coming to that. That if you take a 40% hike in the pricing that the direct companies are seeing, the effect that will trickle down to us, which obviously will happen after a lag, it will be between 25% to 30%.

Keshav Binani:

Okay. And these will be largely what 65%, 70% of industry volumes. Is that the right understanding, the first 8 occupancies were about 30-35% of volume, is my understanding correct?

Devesh Srivastava

Right. See, Keshav, no, yes, partly, you're on the track. But see, the whole thing comes from the Tariff Advisory Committee, which had the fire tariff long back before the market was de-tariffed. That time, it defines these 300 occupancies.

So having done it for 8 occupancies, which were actually the perennial ones that were going wrong every time, that 8 were extended on the 1st of January to the balance 291. So with this, the entire market is covered now. All occupancies in the market are covered.

Keshav Binani:

Right. Can you name a few of the rate occupancies where the price hikes were [indiscernible]

Devesh Srivastava

Keshav, from what I recall, it was tires, paints, chemicals, plastics, the usual suspects.

Keshav Binani:

Okay. Okay. So this was first. And then the life Reinsurance fund, we've been hearing a lot that the reinsurance rates have increased materially for all. So again, any sense of what has been the price hike for your portfolio? And when is this effective?

Devesh Srivastava

Keshav, see, life forms a very small part of our portfolio.



Keshav Binani:

I agree. I agree.

Devesh Srivastava

So we have with us the General Manager who looks after Life Re, Ms. Suchita Gupta. She'll throw some more light on the pricing for this life portfolio.

Suchita Gupta

Hello. Good evening, everyone. I am Suchita here. I look after Life also. So as to your question about the general market, we have seen many re insurers are having a price hike, hardening is there in the market, but right now I can speak for our portfolio which has grown mainly because we have come out of PMJBY, which were having losses and our portfolio was bleeding. So now, we have come out of it and have entered into treaty again with a few insurance companies for PMJBY but with a high rate, not with the one which the government was giving them. They are giving us business at a higher rate i.e. they are giving a little out of the pockets than what they are receiving. And also, since some of the insurance companies have tie-ups with banks and banks have merged my volume of business has also increased to a large extent. You can see 75% growth in Life Re mainly out of the PMJBY which has shown an increase of nearly around Rs.200 crores for the present year. Also, we have entered into microfinance and some more overseas business. How the other reinsurance companies are increasing the price? We would not like to comment on that. As for us, we see what risk is and accordingly our actuarial team prices it, which is given to the cedents and if they accept it, we take the business.

Keshav Binani:

Sure. Sure. But for the industry, the price hikes are effective 1st of April this year?

Suchita Gupta

No, no, no, no, it is nothing like that, we don't have that in life, we don't have sort of renewals like what the nonlife sector has on 1st April. It is case-to-case basis. Yes. And so whenever any proposals comes, we give our rates.

Moderator

The next question is from the line of Madhukar Ladha from HDFC Securities.

Madhukar Ladha

What was the reason for high losses in the agri segment, even in the fourth quarter?

Satyajit Tripathy

Yes. Actually, the fourth quarter you have to see that during the Kharif '19 season, there was unseasonal rain which actually continued much beyond the monsoon season. Normally, in states like Maharashtra, Gujarat, Rajasthan, MP, the monsoons should be ending by September 15, but we had rains up to November, and there were some excessive rain situations, which actually



caused larger damage in Maharashtra and in MP. Second, this was a very typical kind of loss because already the crop was being harvested, and this led to a kind of post-harvest loss situation. Keeping that in view, we have taken substantial provisioning in our books as far as all these stakes are concerned and the companies are concerned. That is why the amount of loss that you are seeing in the fourth quarter is arising out of the loss for which provisions have been significantly made for in the last quarter. The subsequent results for rabi season has been good, and we believe that, that result will sit in the balance sheet going ahead.

Madhukar Ladha

Understood. And so even on the aviation side, there's an underwriting loss in the fourth quarter, which is substantially high. Any particular reason for that?

Devesh Srivastava

Madhukar, there was one crash, which the name is escaping me right now. That was there. Otherwise, aviation now is turning around because worldwide, the premiums are looking up north. Of course, most of the planes are grounded right now. So you have a decrease in exposures as well, but there will be some premium refunds also that are aligned with that. So there would be premium refund, but the exposures are down, and you have a better margin base. So aviation is in for a turnaround.

Madhukar Ladha

Sir, there are no loss of profits on aviation, if the flights are grounded?

Devesh Srivastava

Yes Madhukar, so that is something that we do not cover. You'll remember that Icelandic volcanic eruption, I'm forgetting the Icelandic, the name is such a tongue twister, I wonder if anyone remembers it. That also ash cloud that went out over Europe. I think this was 2010 or '11. All the airports in Europe were closed. Heathrow was closed. Everyone was closed, Charles de Gaulle in Paris was closed. So all the planes were grounded. But then these are losses that the aviation sector insurance policy does not cover. So it will not come on to our books at all.

Madhukar Ladha

Understood. Can you quantify the absolute amount of gross and net NPA?

Devesh Srivastava

Okay. We have Mr. More with us, who is the Chief Investment Officer for GIC.

Shashikant N. More

Tripathy, take it.

Devesh Srivastava

Tripathy will take the NPA.



Satyajit Tripathy

Am I audible, sir? Yes.

Madhukar Ladha

Yes, sir.

Satyajit Tripathy

At this point of time, the gross NPA in our book stands at INR 1,754 crore. And the net NPA, we have already provided, therefore, majority of the provisions, and we have already provided for around INR 1,501 crore of NPA. The gross NPA percentage is 4.42% and the net NPA percentage is 0.66% in our books right now. We have led additional provision of INR 868 crore this year. For the year ending as March 31, 2019, we had total provision of INR 844 crore. At this point of time, we have INR 1,754 crore.

Madhukar Ladha

Got it. Can you -- so quarter-on-quarter, the gross NPAs have risen. Are there any new names?

Satyajit Tripathy

No, there are no new names. We have actually gone ahead and provided 100% for the unsecured stress assets that we had, that was in the nature of DHFL and who have provided significantly for the secure portion. In DHFL, we have provided fully 100% for secured and unsecured. And for Reliance Home and Reliance Capital, for the unsecured portion, we have gone ahead and provided 100% and for the secured portion we have started with 15%. So we are taking elevated provision, as far as these stressed assets are concerned, we have the four debentures, which are classified as stressed assets in our books.

Madhukar Ladha

How much is the ADAG secured and unsecured portion just finally.

Satyajit Tripathy

ADAG, we have Reliance capital secured bonds INR 270 crore on which INR 41 crore has been provided. Unsecured amount of INR 94.70 crore is fully provided. For Reliance Home of the INR 94.95 crore, we have provided fully for the unsecured amount of INR 69.95 crore. And for the INR 25 crore of secured amounts, we have provided 15%. For ILFS and DHFL, we have fully provided 100% as of now. Except these four, we don't have any stressed assets as of now in our book and don't envisage also.

Moderator

The next question is from the line of Madan Ladha from HDFC Mutual Fund.

Madan Ladha

Hello. Am I audible, sir?



Devesh Srivastava

Yes, Madan, you are.

Anand Ladha:

This is Anand Ladha. Sir, you had given a breakup of the gross premium in terms of domestic and international. Can you give the breakup of the claim ratio for the domestic business and international business? Also, can you share the combined ratio for the domestic business and international business?

Devesh Srivastava

Yes, sure, for the domestic business, the claim ratio was 94.8%. For the foreign business, the claims ratio is at 86%. For the combined ratio, domestic is 112.7%, and the foreign bit is 118.5%.

Anand Ladha:

Okay. Okay. Between the claim ratio and the combined ratio, the expense is only because of the operating cost. If I had to look at the domestic claim at 95% and combined ratio at 112%, do you mean to say the difference is because of the only operating cost?

Devesh Srivastava

It is the cost of procuring the business and expenses of management.

Anand Ladha:

Perfect. And sir, how do we see the growth for next year, both in domestic business and international business? And what is internally, how much combined ratio are we targeting in both these businesses domestic as well as international?

Devesh Srivastava

Sure, obviously, the COVID situation is something that the world is battling with. So there would be -- the companies will be stretched to meet their targets. And since we are providing capacity to the companies. If they don't meet their targets, we also go down by a smaller amount, not as much as the company would be. So that would bring down the premium to a certain extent, but not very much because in the way we are in India, a whole of these insurances are not something that we purchased, but we are available to you because we have either taken a loan from a bank or in the motor, for example, you have the third party. So we are not really seeing much of a down in our premiums going forward. And the combined that we are looking at right now. So combined ratio is something that you have a long-term vision on a combined, we want to bring it below 100. Obviously, this year has been bad, and we're not the only one. In fact, even when you see the biggies, Lloyds has clocked 103. Swiss has clocked 108, Munich Re, the Q4 for the Munich Re was 112.5. So it has been a bad year, but the good thing is that the rates have hardened because of this. So it is going to be good. And as we had said even last quarter, at the close of the last quarter, in about 6 to 8 quarters, you will see the difference in. The combined will move to something that is below 100.



Anand Ladha:

Okay. Okay. And sir, is it fair to assume next year, we will have a degrowth because the agri business, which was INR 13,000 crore for us, would decline to INR 8,000 crore?

Devesh Srivastava

And see, Anand, it works both ways. You're talking about the premiums going down here, but then there's an increase in rates as well. As Mr. Tripathy said that you are looking at a 15% to 20% hike in rates, in the bidding that's taking place right now for the kharif season. So a bit of it will be offset. But you degrow because, A, the COVID situation. And secondly, when you try to prune your portfolio and work towards a better combined, some degrowth is always there to be.

Anand Ladha:

Okay. And sir, lastly, if you can tell me, sir, what is breakup of the investment book into debt and equity? And on the debt part, if you can give -- how much is invested into G-Sec and bonds and what could be the average duration in yield on the book?

Shashikant N. More

More here.

Anand Ladha:

No, no, I'm there. Sir, I just want to understand the breakup of the investment book into debt and equity. How much is equity book now, how much is debt? And within debt, what proportion is into G-SEC and what the portion into the corporate bond, yield on the same and the average duration of the book?

Shashikant N. More

Yes. If you see total book, 67% is fixed income. And around 19% is equity and around 12% to 13% is all money market instruments, FD also. FD, it is around 0.7% and 21% is in corporate bonds.

Anand Ladha:

Sir, this 19% equity is on book value or on the fair market value basis?

Shashikant N. More

No, it's a book value.

Anand Ladha:

Book value. And what could be our proportion on fair value basis?

Shashikant N. More

Fair value basis, then it will increase to, say, around 35% -- 30%, 35%.

Anand Ladha:

So on fair value basis, 30% will be equity and 70%. Okay. And then 70% will be divided



between

it will be divided between around 35%. Sorry? 35%.

Shashikant N. More

35%.

Anand Ladha:

35% will be equity. And 65% will be between fixed income and money market.

Shashikant N. More

Then ratio will be changed and then it will 53% fixed income and then around 10% money market.

Anand Ladha:

Okay. Okay. So what would be the yield on the ...

Shashikant N. More

Yes. Consciously, we have increased our exposure more in central government and state government securities over a period of time.

Anand Ladha:

What could be the average duration of the fixed income book and the yield on the same?

Shashikant N. More

Fixed income book, average duration is at somewhere around 7 to 10 years, but we are now increasing for central government, we are increasing that also 10 to 15 years also. And this year, actually, it is around 8% that we are getting in government securities. Hello?

Anand Ladha:

Yes, sir.

Shashikant N. More

8% is in government securities. You can say -- hello?

Anand Ladha:

So I'm sorry, I didn't hear you, sir. The yield on the investment book is 8%, you said, fixed income book.

Shashikant N. More

No, fixed income. But if you see yield overall, then it is 12.15%.

Anand Ladha

But sir, INR 7,000 crore of gain, which we booked this year, how much was equity gain and how much is the equity gain in that, sir?



Shashikant N. More

Equity, actually, I told you that INR 2,900 crore was equity in that. And dividend also around INR 580 crore. The rest was all fixed income.

Moderator

[Moderator Instructions] The next question is from the line of Srinath from Bellwether Capital.

Srinath V.

Sir, just wanted to understand what is the pandemic impact on the property casualty portfolio in the sense of loss of business or loss of profit claim separately for the domestic market and separately for the international market?

Devesh Srivastava

Mr. Srinath, for the domestic market, the General Insurance Council, the body of IRDAI that I mentioned has already taken out a message saying that the BI claims because they are not they are arising out of property damage are not tenable. So the domestic sector is clearly ruled out. Now we come to the international book, the international book, we are obviously having exposure in the countries where the BI claim - there are governments which are pressing for a BI claim because of a pandemic shutdown, which obviously, the insurers are resisting. And in fact, there was a study that I was reading that if the governments compel and everyone has to pay out 50% of the reinsurance capital of the world will be wiped out. So it is still a gray area. Even London -- is the courts of London are looking at it. It is something that is very much a gray area right now. Nothing concrete has come out of it.

Srinath V.

In our INR 14,000 crore of international premium, where -- what is the value at risk of the companies that are actually thinking of including pandemic for loss of profit. If you could kind of say what is the risk that we hold in our book in the international business?

Devesh Srivastava

Mr. Srinath, going forward, every treaty that is being renewed is having a pandemic exclusion clause. Of the ones that we have already written earlier, where at least for the domestic, obviously, it is very clear, and we also had the pandemic exclusion clause there. The international book, it depends on the area where you're operating. Certain U.S. states have said that you have to pay, but that is not a very large bit of our book.

Srinath V.

Okay. But any ways you could quantify what is the value at risk because since such a sensitive area to just get a feel on what kind of risks are we holding.

Devesh Srivastava

Mr. Srinath, for your property book only that you are talking about, right?



Srinath V.

Yes, Yes.

Devesh Srivastava

There, the exposure that we have -- envisaging is not much. I would not be able to put an exact number but I can tell you what we have done in our syndicate, which also has substantial exposure there. The syndicate is around their budgeted around GBP 2 million. So that should give you a fair amount of idea where we will stand.

Srinath V.

Okay. My second question will be on motor book. Then that for 2 months, no large other vehicles like, and we would have come across the board presence in the India motor third-party pool. Would there be kind of windfall gain in the coming April and May that -- so the current financial year, that we would make on third-party policies. And would that reflect in underwriting profits in Q1 and Q2.

Devesh Srivastava

Mr. Srinath, again, the motor book, see motor is being a retail business is -- doesn't get much of reinsurance. There's not much of reinsurance involved in motor. So we are not very big in the motor reinsurance business. But we do get the 5% obligatory from the market, the Indian market, which forms about 80%, 85% of our entire book. Now obviously with no motor cars plying across length and breadth of the country, claims are not being reported. So that is one big plus that we are looking at. Mr. Tripathy is also heading the motor vertical. He can add to whatever I have said.

Srinath V.

Yes, Mr. Tripathy, just wanted to understand that would we have very substantial gains to report in the first 2 quarters, given that motor third-party claims will be significantly lower.

Devesh Srivastava

Mr. Srinath, I can continue with that. Am I audible, sir.

Moderator

Yes, You are audible now.

Satyajit Tripathy

I don't see any significant amount of value addition in the first 2 quarters as far as motor is concerned. Yes, it is a fact that motors are -- motor vehicles are not plying. And even commercial vehicles plying is also a very lesser number. But the amount of value that will flow into the balance will not be very significant impact to our business. It will be much better than earlier year. But yes, it is not significant I would say. It is only coming from the obligatory side of the



business.

Moderator

[Moderator Instructions] The next question is from the line of Sanketh Godha from Spark Capital.

Sanketh Godha

Sir, in the fourth quarter, we have seen international business growing by almost 26%. So can we quantify that number? How much was due to hardening of the reinsurance rates and because of the better volumes in the geography? I just wanted to understand how January renewals played out in the year.

Devesh Srivastava

This is, of course, there was hardening -- a perceptible hardening of the market. Mr. Hitesh Joshi is also look after international business. Are you there?

Hello?

Moderator

Yes, sir, you are there. We can hear you.

Devesh Srivastava

No, Mr. Hitesh Joshi?

Hitesh Joshi

Yes, Mr. Sanketh. The thing is that after two years of CAT losses globally, which has stretched out this alternative capital and the collateral has been locked. So there has been some slowing down in the capital flow from the alternative market. Due to the COVID impacting the global capital markets and creating more volatility, alternative capital is also now seeking higher return as compared to the case earlier, which was there for the year '18 and '19. They were keen to reap the benefit of the little bit of hardening of the market following the record catastrophe losses of 2017. So this COVID is playing up the cost of capital, and there is a dent, and there is a higher expectation from this alternative capital markets. And some of capital also got trapped by way of a collateralization. So if one looks at the Japanese renewal, which happened after the last quarter results, which is April renewal. There was a hardening ranging from something like 10% to 30%, depending on the nature of the account and its loss history. What is later on seen is, presently just as we are talking, we are concluding the July renewals of the U.S. market. Again, Covid and this alternative capital is making a huge impact. Even within the alternative capital market, the cat bonds are demanding a much higher price. And given this Covid scenario, which is likely to play out much longer and the fear that there can be second round or maybe third round also, the expectation of higher capital cost is getting factored into the reinsurance pricing as well.

And it is expected that this hardening, which is mirroring the hardening following the World Trade Center loss in 2001 of a similar magnitude, and it is likely to continue in 2021.



Sanketh Godha

Sir. But any, can you just quantify renewal hardening and this U.S. market expected hardening to happen. You said that Japanese it is 10 to 30. But the Jan renewals were at what rate broadly and how much that was contributed to 25% growth for the fourth quarter. And July renewals, which you are seeing in U.S. market, what kind of rates you can expect for the full year-- to be hardened by I mean from that range, would be useful.

Hitesh Joshi

U.S. market hardening is, again, something like 10% plus to going right up to something like 50% plus. The percentage will actually depend on whether the account has the East Coast exposure and Florida and hurricane exposure. On top of that, there is a little above normal hurricane activity forecast, which is also playing on the mind of the global reinsurers and retro reinsurer capacity. So all found that there is a significant hardening, and it is likely to continue.

Sanketh Godha

So for the safer side, can we assume that around 20% is on weighted average, which is a 20% rate hardening could happen in overseas business for the fiscal year, sir?

Hitesh Joshi

I would put in mid teens rather than 20. Every country and every region has its own dynamics. So essentially, of course, because of the integration of the markets, there is a cascading effect. But what we see, the hardening in the U.S., it may not be to the same extent in, say, China or Turkey or, say, Greece or Europe. So there is a bit of dilution as you go further away from these particular hurricane exposed territories and like that. So every region has its own dynamics.

Sanketh Godha

Okay. Okay. Perfect. And sir, I just wanted to understand that when the Wimbledon event was canceled, they was a payout made to that event by the reinsurance or insurer. So now given we had a series of Olympic cancel and all those things - do we have any exposures to these cancellations that we made a payout as a claim to these companies, to these events or they are in the contention zone kind of it because of the COVID-19?

Devesh Srivastava

No. So Olympics, we had no exposures. In Wimbledon, yes, we did have from our London branch. That payout will be around GBP 4 million from the figure that I recall, but I can confirm the figure to you.

Moderator

[Moderator Instructions] The next question is from the line of Vinod Rajamani from HSBC.

Vinod Rajamani

So the first question is on these locust attacks. So I was reading somewhere that they will not



impact the insurers as much because the crop was -- it was their mid season. So it is not covered under insurance. Is that the case? So the locust attack will not be covered by the insurers?

Satyajit Tripathy

No. See whenever crop insurance claims are met, that is a field yield-based system. If the locust attack is there, we have to wait for the harvest season and see how much yield has fallen for that particular insured area. Only then the claim will be paid. It is not that the locust has come, it has attacked a particular area and has gone ahead and claim is paid. The current situation for all PMFBY scheme claim is that unless it is a localized claim, which needs immediate attention. This locust attack and other, will have to wait for the harvest season to see how much yield has actually fallen.

Vinod Rajamani

Okay. So it is covered under insurance. So it will be covered under..

Satyajit Tripathy

Yes. Any loss arising out of the locust attack will be definitely covered.

Vinod Rajamani

Okay. So that is one. And the second one was this investment income, which is there on your -- which is declared for the full year, I just wanted to split between how much is from the sale of investments and how much is it from your general -- how much you earn in terms of the investment yield and so on.

Shashikant More

From sale of equity, actually, the income is INR 2,900 crore. And rest is from all fixed instruments, government securities, money market instruments.

Moderator

The next question is from the line of Nischint Chawathe from Kotak Securities.

Nischint Chawathe

Right. Most of my questions have been answered. Just one on the solvency side, I missed -- you are at a very low solvency. So what is the plan you have?

Devesh Srivastava

See, as I mentioned earlier, solvency for us is the Holy Grail. And with the regulator specifying 1.5 at the minimum, we always want to be healthy above that. So obviously, we had come down to 1.51, which is now on an upward track. You have the option of realizing the fair value and buffering up your solvency. So when the market improves and the market looks up, we will be getting that money in as well. But the more important bit is to make profit in your own business and increase your effectiveness of your combined ratio comes down because that is the real money for you in the area of your operation. So there are a slew of measures that we have taken



for our underwriting that is being put in place. So we mentioned about what we've done in agri and how the rates have been increased by almost 40%, 50% in the domestic market by the endorsement that we had passed. So these being big portfolios in our kitty, these will ensure that we have better operational profits, which will also help us get on to a better solvency.

Nischint Chawathe

But does this affect your ratings or anything on that front?

Devesh Srivastava

No. See, rating is never on just one aspect of your working and the rating has already come in, and we are -- we have managed to retain our ratings for what we had in all these last 10 years. So obviously, the solvency is something that is taken into consideration, but it's not the final word.

Nischint Chawathe

I believe the March numbers are considered in the last rating exercise.

Devesh Srivastava

Yes, the annual number will definitely be considered now. Yes, yes. Mr. Tripathy is there who takes care of the rating as well, he can chip in.

Satyajit Tripathy

Yes. As far as rating is concerned, it takes into account the whole business perspective that we operate, whether domestic, whether foreign, solvency though is a major path. And in no way, we are saying that if the solvency comes down, rating will be retained. The rating rationale if you go through, you will find that the rating agencies have always assigned us a very strong financial background. In none of the cases where we have got rating, whether it is for our claim-paying ability or for the overall business, the overall financial strength is taken into account. And solvency is only a part of it. Plus we have been able to convince the rating agencies that the steps that we are taking to shore up the solvency is purely driven by our business strategy. We are not going to go for additional capital requirements or capital from the market to shore up our solvency. We will drive this business based on our perception of the overall strategies that we have, and we are reasonably confident that the rating agencies also are reasonably confident we will be able to manage the solvency and the overall business profitably going ahead. So that is the reason why they have maintained our earlier rating, even for the year that has just ended. And for this year, when the ratings happen, that will be probably around November, December, we should be able to convince them again.

Devesh Srivastava

And if I just may add to it, see the solvency that we currently calculate is based on the book value of our investment. What nationally the practices and which investors are also well aware that you have a mark-to-market valuation base. And when you do that for our portfolio, our solvency is almost touching 2.7 or 3, I don't remember the exact rating, Mr. Tripathy can possibly fill in there also.



Satyajit Tripathy

Sir, it will be in excess of 3.

Devesh Srivastava

Yes. So that is where we actually stand.

Nischint Chawathe

Okay. Sure. And just next quarter, you would see some kind of -- I mean - some kind of decline in medium income. So that sort of helps from a solvency point of view.

Devesh Srivastava

If we are doing good business and you're making -- talking combined of less than 100, then it doesn't really matter because you are making profit out of that.

Moderator

[Moderator Instructions] The next question is from the line of Manoj Shah from Investments.

Manoj Shah:

My question is with respect to the claims ratio. Like in fourth quarter for the domestic business, you have close to 90. So can you give some guidance where it will stand for the year FY '21 and going forward? And also if you can comment on net commission percentage would have slightly increased for FY '20 from 15.7% to 16.1%.

And also the price revision for the various segments, like what has happened in case of Fire Health. And as we said in motor, you don't do much retail. It's only the obligatory business of 5%. That's all.

Devesh Srivastava

So I think we spoke about all these topics that you've touched upon. In property, we are seeing a substantial rise in premium after the endorsements that GIC passed. In crop, Mr. Tripathi also mentioned that we are seeing an appreciable rise in the rates being quoted. Then health is much a mirror of the same, it's a retail business largely because not much of reinsurance is involved. A large part of our portfolio is obligatory.

Manoj Shah:

So regarding the claims ratio and the net commission percentage, if you can comment on that.

Devesh Srivastava

Net commission is very marginal, the difference. I mean, commissions is what you pay for procuring the business as well.

Manoj Shah:

Yes.



Devesh Srivastava

Because what contributes to your combined is outgo - claims and commissions and expenses with management. Now our expenses of management is almost nothing, less than 1%, which is phenomenal. I think it's one of the lowest in the world. That leaves essentially your claims outgo and your commission. And your commission is what you pay out for procuring the business. There, you can't turn the screw much. So this is just a small difference here and there.

Manoj Shah:

Okay. No. For the fourth quarter, the domestic business, the claims ratio has increased as compared to the 9 months of FY '20. So do you think -- you can sustain at these levels, close to 90%? Or you can improve from these levels for the current year?

Devesh Srivastava

Going forward, the steps that we have taken in broad basing our domestic fire portfolio and the agriculture portfolio, the claim ratio should definitely come down.

Manoj Shah:

Okay. And I agree with the good monsoon and water levels, so do you expect that the claims to be lower as compared to the past year? Past year, you have got a lot of claims for the agri business.

Devesh Srivastava

That would be extended monsoon Tripathy will cover it.

Satyajit Tripathy

Every year when the kharif season starts, we always pray that it will be a very good season. The earlier rainfalls are very good and the sowing is progressing very well.

But all these things, agri can go topsy-turvy in 15 days or 7 days time, as we have seen last year. There are cases of freak weather phenomenon that is happening. But we are absolutely now confident that considering the kind of business that we have written this year and the quantum of business that we have written this year, agri itself will not have much negative impact on the GIC balance sheet going ahead. And as for every year, we hope that this year monsoon, which has been predicted to be very good. As far as the long period average is concerned, should be giving us a good result going ahead.

Moderator

The next question is from the line of Dipika Mundhra from JPMorgan.

Dipika Mundhra

Sir, I just wanted to, once again, just ask on overall risk management. Vendors are typically looking at maximum loss estimations, do you look at it for event risk or as per your various



segments?

Devesh Srivastava

Ma'am, it depends whether you are writing a facultative offer or is it a treaty. So facultative the PMLs will be defined. And so you take the total sum insured generally, 30% of that is the PML that's taken. So that is a well-defined formula which you run. And it is something that is acceptable worldwide. Is that the answer that you're looking for? Or is there something beyond that?

Dipika Mundhra:

No. So similarly because you all do mostly professional business on treaty based business, how would you calculate your maximum loss, estimated maximum loss?

Devesh Srivastava

So ma'am, in a proportional treaty that you're talking about, we have event limits -- if catastrophe was to strike, what is the maximum payout that you will have under the treaty? And that is how it is looked at. So there are event limits defined in every proportional treaty that we write.

Dipika Mundhra:

Got it. Yes, that is what I wanted to know.

Moderator

The next question is from the line of Madhukar Ladha from HDFC Securities.

Madhukar Ladha

So you mentioned that you have a loss corridor of 85% to 120% for agri. But still, if I look at FY '20, our loss percentage is about 25.6%. So why is it going beyond 120%?

Satyajit Tripathy

Hello? Hello. Yes. If you look into the year that has gone by, we have also taken into account that earlier claim for the year '18/'19, which has also significantly built up subsequently has taken care of during this year also. When we say '19, '20 only, '19/'20 is also carrying over the earlier years when which is developing still, if we close '18/'19, by the March 2019, if we have closed the year at a loss of around 88, 89 that has developed significantly and has gone up close to 98 right now. Because of subsequent claim, which has come up. So when you account for all those things, it builds up in your book as far as you're provisioning and all other things taken together. So when you look into the combined ratio for agri, the combined as also takes care of apart from the claim payment takes care of whatever the retro payment -- I mean the protection that we are buying which has been made during this year, particularly for the earlier years, is also a factor into that. Plus, companies in PSU sector have developed claims, that has also developed to something like 150 to 155. So when you factor all those things, you will find that the claim as a percentage to the premium that you have booked right now is trending to something like 125%, 126% overall. So it is not that when the season is ending and you have provided for all those things, there is no



question of it developing further. It develops once and takes at least 2 to 3 years time.

Moderator

Next question is from the line of Srinath from Bellwether Capital.

Srinath V.

Sir, you have this time in agri, two loss corridors 50 to 120, and 120 to 150. So just wanted to understand how the -- are there a different loss sharing in each of the corridors and for current year, I want to find out what has been the loss corridor we have levied on our customers? And what kind of loss have they taken compared to the losses that we have taken?

Satyajit Tripathy

Okay. I will talk about 2021. That is for the coming year. We imposed loss of around 90 to 120 and 120 to 150 for the year, for the 90 to 120, the sharing of loss will be 60% to be cedant and 40% to reinsurer. From 120 to 150, the loss share will be 50-50 between the cedant and the reinsurer. Beyond 150 loss ratio, the reinsurer pick up 100% of its liability. This is the arrangement that is done for the year ahead. For the year we just ended, whenever a loss corridor is in force, whether it is 85 to 120 or 90 to 130, that is 100% to net of the cedant.

Srinath V.

Okay. We have suffered INR 3,500 crore loss, what would the insurers have suffered because of the lost corridor. So just want to understand how does the loss sharing work? Would they have probably proportionally suffered INR 500 crore to INR 1,000 crore of loss on agri?

Satyajit Tripathy

For the year '19/'20 of the gross written premium that we had written, 13% was under loss corridor. So companies for whom basically this loss corridor varies between 85 to 100 and 120 will be at least picking up close to 35% to 40% of the losses which are net. This loss corridor is not across all the states where they are operating. This will be specific to the cluster where the pricing has not met our guidelines. So if a company like United India Insurance is writing around 8 clusters in the country. And there is loss corridor for 2 to 3 clusters only, then the loss arising out of those 2 to 3 clusters only will be subjected to this loss corridor, not the whole so when we are imposing loss corridor, it is very, very cluster specific, depending on how the pricing has been done for that particular cluster. And if it does not meet our prescribed guidelines, the loss corridor will come into picture.

Moderator

Next question is from the line of Sanketh Godha from Spark Capital.

Sanketh Godha

I have two questions. One on what is our loss corridor for the crop insurance, where we have bought retro for it? And has it changed compared to last year, given where we have tightened the business? And second thing is I just wanted to understand the impact of capital gearing treaties



being not allowed by the IRDAI. So how much portion of our domestic business comes from capital gearing treaties and if the business is not written incrementally, what will be the PAT impact because of those treaties because they work on fixed profit margin. So what will be the likely impact on the PAT because of that reason or PBT because of the discontinuance of capital gearing treaties?

Satyajit Tripathy

So can I take the loss corridor one first?

Sanketh Godha

Sure.

Satyajit Tripathy

The loss corridor that I described is one that GIC imposes on its cedants, there is no loss corridor that is imposed on GIC by our partners. So we have to be absolutely clear that the loss corridor is a one way traffic between GIC and its cedants. There is no further loss corridor on GIC by anyone else. And whenever the claims settlement happens, supposing a company showing a loss of around 120% overall. If a loss corridor is there for the cluster from 90 to 120, claim payments will happen up to 90%, the rest additional 30%, the company has to take to its net, as far as the earlier practice is concerned. From here onwards, any loss, above 90% up to 120%, 60% is to the cedant's account.

Moderator

The next question is from the line of Vinod Rajamani from HSBC.

Vinod Rajamani

So in terms of this year, the growth in the domestic business is likely to be muted - something like single low - mid-single digits. And on the international side, there are concerns around Covid and so on. So how do you view this current year? I mean - in terms of just the top line growth and also in terms of profitability, is it going to largely come from this better structuring on the crop side and on the fire side? Or is there some other -- is there scope in some of the other lines such as health as well?

Devesh Srivastava

Yes, you said it - better underwriting for both crop and property, which forms a bulk of our portfolio. Apart from that, I stated earlier as well, that top line will be certainly stressed because the insurance companies will find it difficult to meet their targets. And from their targets comes the premium for us as well. So the trickle down will be felt. And the second thing, you said, what else did you ask us?

Vinod Rajamani

I just wanted to know, in terms of the top line for the domestic business, it's going to be single-digit or so this year for the primary business. So how do you view that for GIC?



Devesh Srivastava

Second point of yours was about health. so that's what I was saying. The direct insurance companies will be stretched to the limits to meet their EPIs- expected premium income. And that we . And as for health, as I said, is also largely a retail portfolio, not much of it comes for reinsurance. So again, it will be a reflection of how the market performs. But if you have been seeing the figures issues b the Council on a month-to-month basis, in both April and in May, health insurance has shown an increase of about 10% plus. So people are buying more and more of health insurance.

Moderator

Ladies and gentlemen, that will be the last question for today. I now hand the conference over to the management for their closing comments. Thank you, and over to you.

Devesh Srivastava

So, thank you. We are thankful for all the interest generated. It really warms our heart to see that people are taking so much interest in our line of business, which is a very niche area and being the only reinsurer and the Indian reinsurer in the country. We are proud of our status here and also the fact that we are having a very prominent global presence, which is what we have to build upon. So I guess, the journey has just started. And we shall grow from strength to strength, and that is exactly what the management is totally geared up to, and we are all putting our heads together. And trying to get on to a better and better tomorrow as we progress in this year. Thank 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.