Star Health and Allied Insurance Co. Ltd.

STAR Health Insurance
Personal & Caring
The Health Insurance Specialist

Date: November 04, 2023
Place: Chennai

Ref: SHAI/B & S/SE/ 148/2023-24

To,
The Manager
Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400001
Scrip Code: **543412**

To,
The Manager
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot C/1,
G Block, Bandra-Kurla Complex
Mumbai – 400051.
Symbol: **STARHEALTH**

Dear Sir/ Madam,

Sub: Transcript of Q2 & H1 FY2024 Earnings Call – September 30, 2023.

Further to the Company's letter SHAI/B & S/SE/135/2023-24 dated October 26, 2023 regarding Earnings Call Intimation for Q2 & H1 FY2024, please find attached transcript of the call dated October 31, 2023.

The above information is also being hosted on the Company's website at www.starhealth.in

This is for your kind information.

Thanking You,

For Star Health and Allied Insurance Company Limited,

JAYASHREE SETHURAMAN
Digitally signed by JAYASHREE SETHURAMAN
Date: 2023.11.04 14:16:05 +05'30'

Jayashree Sethuraman
Company Secretary & Compliance Officer

Star Health and Allied Insurance Company Limited
Q2 & H1FY24 Earnings Conference Call
October 31, 2023

Management:

Mr. Anand Roy – Managing Director & Chief Executive Officer

Mr. Nilesh Kambli – Chief Financial Officer

Mr. Amitabh Jain - Chief Operating Officer

Mr. Aneesh Srivastava – Chief Investment Officer

Mr. Aditya Biyani – Chief Strategy and Investor Relations Officer

Moderator: Ladies and gentlemen, good day and welcome to the Star Health and Allied Insurance Company Limited's Q2 & H1 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on a touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratik Patil from Adfactors PR, Investor Relations Team. Thank you and over to you, Mr. Pratik Patil.

Pratik Patil: Thank you Jacob. Good evening, everyone. From the senior management we have with us, Mr. Anand Roy – Managing Director and Chief Executive Officer Mr. Nilesh Kambli – Chief Financial Officer, Mr. Aneesh Srivastava – Chief Investment Officer, Mr. Amitabh Jain – Chief Operating Officer, and Mr. Aditya Biyani – Chief Strategy & Investor Relations Officer.

Before we begin the conference call, I would like to mention that some of the statements made during the course of today's call may be forward-looking in nature, including those related to the future financial and operating performances, benefits and synergies of the company's strategies, future opportunities and growth of the market of the company's services. Further, I would like to mention that some of the statements made in today's conference call may involve risks and uncertainties. Thank you and over to you Mr. Anand Roy.

Anand Roy: Thank you and good evening to all of you. Thank you for joining the Star Health earnings call. I will first give you a brief about the overview of the industry trends and the developments that we have witnessed in the last few months, as well as walk you through the company's performance in terms of premium and distribution. Later on, I will cover the financial performance and aspects related to claims, including the steps that are underway to manage them.

In quarter two 2024 the health insurance industry, including PA business grew by 26% on the back of 30% growth in group health and a 19% growth in retail health.

Now we will talk about the growth in market share for Star Health.

In the first half of FY24 our retail growth rate of 18% versus the industry retail growth rate of 18%, we are growing in line with the industry. In H1 FY24, Star Health registered 33% market share in retail health, which is more than three times the second largest player in the industry. We continue to aspire to grow faster than the market growth rate, an increase our retail health market share in the days to come.

As regards the accretion market share, Star Health registered 32% retail health accretion market share in H1 FY24. Agency business contributed around 82% of our overall business in the first half of this year. Our agency's strength has increased to 6,65,000 agents with a net addition of close to 40,000 agents in the first half of FY24.

The contribution of fresh business from non-agency has grown to 32%. The bancassurance growth in fresh business is at 57% in the first half of this financial year, fresh business through bancassurance and the digital business has grown by close to 40% in the first half of this financial year.

Some of the highlights in H1 FY24 for us were as follows:

We had taken a price revision in one of our leading products, Family Health Optima where the renewal price increase was effective from 1st May, 2023. The policy renewals in terms of volumes and in terms of value are in-line with our expectations when we filed this product.

We launched four new products during the quarter. Our digital first product Star Smart Health Pro is available on our online platforms where the customer can avail online discounts by providing health information, which is required as per the policy. We are also augmenting our existing product suites by launching various add on covers, such as YoungStar Extra Protect, Homecare Treatment covers and Flu Vaccination covers.

Our existing bank and corporate agents tie up continue to show good traction. With the new open architecture and the expense of management guidelines which provides an immense growth opportunity for us and we have so far 44 tie-ups, and the full effect of these tie ups will be seen in the coming months.

The new Star Wellness app has been launched with our addition of new condition management programmes. The number of customers who have availed of the wellness services in quarter two has grown by 77%. The home healthcare program is now live in 11 cities and Star Health customers can now avail home health care services by speaking with our doctors, and medical professionals will visit their homes to provide them service.

In order to increase the penetration in semi urban and the rural geographies, we plan to open 1000 sales manager stations; these are small individual service centres and sales distribution centres of which 753 have already become operational in the first half of this financial year. With 869 branch offices, we now have a total of 1,622 customer touch-points to ensure better services and distribution in all parts of the country. Of the 19,000 PIN codes in India, we are now present in 16,900 odd PIN codes via our agency network.

The average sum assured of our new policies has increased by 10% on a year-on-year basis to about 9.6 lakhs per policy. Policies with sum assured of five lakhs and above now constitute more than 77% of our portfolio versus 69% in the last financial year same period.

The share of long-term policies within retail GWP has increased to 6% in the first half of this year versus 4% of last year. The premium from benefit products has also grown substantially by close to 30% in the first half of FY24 as compared to last year.

Organic traffic to our website grew by 52% and this is directly reflecting in our digital business growth over the same period last year.

Coming to the financial performance of the company. I would like to reiterate that at Star Health we are focused on sustainable and long term profitable growth, we are taking decisions to achieve that goal by focusing on quality business. We have also tightened some of our underwriting processes relating to recalibration of some of our portfolio mix.

The combined ratio for H1 FY24 was 98.4% versus 97.9% in H1 FY23. The claim ratio in the first half of the year improved to 67.1% versus 67.3% in H1 FY23. The claim ratio for quarter two of FY24 was 68.7% versus 68.2% in the quarter two FY23.

The expense ratio for H1 FY24 was 31.3% versus 30.7% in the previous year. The expense ratio in quarter two of FY24 was 30.5% versus 29.7% in quarter two of FY23.

Our investment assets have grown to Rs. 14,020 crore in Q2FY24 vs. Rs. 11,653 crore in Q2FY23 showing a growth of 20%. The yield for H1 FY24 rose to 7.4% versus 7.1% in H1 FY23. The investment income in first half of this financial year grew by 23% to Rs. 506 crore versus Rs. 411 crore in the last year.

H1 FY24 recorded a profit before tax of Rs. 551 crore versus Rs. 409 crore representing a growth of 35%. The PAT for H1 FY24 was Rs. 413 crore versus the PAT of Rs. 306 crore in H1 FY23 thereby showcasing a growth of 35%.

The quarter two recorded a PBT of Rs. 167 crore versus Rs. 121 crore in the last year. The quarter two PAT came in at Rs. 125 crore versus Rs. 93 crore PAT representing a growth of 35%.

The non-annualized ROE for first half of this year was 7.3% versus 6.5%. The non-annualized ROE for quarter two was 2.2% versus 1.9% in the last financial year.

We have provided the reconciliation from IGAAP to IFRS in the investor presentation for FY23. The PAT, excluding the ESOP cost, would have increased by Rs 168 crore, as you know very well the IRDA is closely monitoring the implementation of IFRS very soon, and we believe that this will be very positive for Star Health. The PAT, excluding ESOP cost, would have increased by Rs. 168 crore coming in a total of Rs. 897 crore, the ROE would have increased substantially by 3.1%, reaching 17.7% under IFRS.

Solvency as on 30th of September 2023 is 2.13 times compared to the regulatory requirements of 1.5 times.

I will now talk about some of our claims initiatives and the outcomes. 66% number of paid claims in H1 FY24 are through the cashless mode versus the same percentage in the last financial year. In terms of the claims amount paid, 84% of the paid claims are cashless versus 79% in the last financial year first half.

Cashless TAT came in around 90% i.e. claims settled within two hours' time.

The auto adjudication of claims helps us in drastically reducing the turnaround time. 33% of agreed network hospitals representing 71% of the cashless claims have been on boarded under our authorized adjudication initiative.

Our anti-fraud digital initiatives have produced good savings in the claims out, there is a 1.2% incremental benefit in terms of lower claims ratio in H1 FY24, and the total savings are 2.9% through these measures.

Based on our recent claim experience, our claim ratio may be pushed beyond our guidance due to higher incidence of fever and respiratory diseases across the country. We have tightened our underwriting standards to enhance our focus on quality business, leading to recalibration of some geographies and portability business, which have poor LTV (lifetime value).

To conclude, we continue to believe in the long term profitable growth opportunities available in the health insurance segment. And we are on our desired path of realizing the same. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: Sir, I have two questions. First is on the loss ratio side, in the second quarter higher on Y-o-Y basis, so is it fair to say that, since the seasonal diseases are a little worse this year than last year and if you can help us to understand any provisional numbers for October loss ratios. And my second question is on your conflict with the Ahmedabad Hospital Association sir it will be helpful if you can help us understand, how much progress has happened on that space and any views on the same. Thank you.

Amitabh Jain: Hi, this is Amitabh. On the Ahmedabad Association, we had reached out to the association members and have discussed all the issues thoroughly, in the end what came out was, some concerns they had on some of the excluded hospitals, we explained them our process of how the hospitals are put on the excluded list, which is a well-defined process and something that is approved by the regulator. Post that, we have had a couple of interactions and the matter stands amicably resolved. As far as, the October numbers are concerned, at this point in time we don't know how long this persist to estimate the impact of the fever, infectious diseases and how it will pan out but we have taken initiatives like telemedicine, home healthcare and other wellness measures to ensure that the impact is minimized. Thank you.

Shreya Shivani: Sir, just a follow up on the Ahmedabad issue. So, when you say that the matter is amicably resolved, is it on have you guys taken any what do you call hike on your hospital prices or something like that, what would include in amicable resolution over here, some colour around that would be helpful?

Amitabh Jain: No, we've not taken any hike or anything. It's just that they wanted to understand some of our processes and how things are done. And what we have done is that, we have assured them that we will keep them informed about some of the actions that we take against hospitals, also we will work closely with them in terms of identifying fraudulent hospitals, et cetera. In fact they encouraged us that if there are fraudulent network providers they will help us in taking action.

Shreya Shivani: Got it sir. So, there is no chance of any suspension of cashless or anything in Ahmedabad for Star, that matter is closed for now?

Amitabh Jain: There was never a situation of suspending cashless for Ahmedabad as a city. There were specific hospitals, this is an action we keep taking or whenever we find any such activities or fraud or abuse in any hospital across India, this is not specific to Ahmedabad.

Moderator: Thank you. Our next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Couple of questions. So, the first one, I would sort of try to go more around this claims ratio, particularly because we have been taking price hike on new policy starting February and on renewal starting March, for a significant part of portfolio. Now, even in this backdrop off course seasonality is there, but at the Y-o-Y basis seasonality is taken care of, and it is not also that you are sort of growing very fast. So, there could be some kind of, if at all for growth sector is facing some sort of profitability or underwriting compromise. So, that is not the case you are growing in-line with the industry, have taken price hike. And of course, you are big enough, you have processes and better sort of claims processing or fraud control, yet the claims cost is sort of surprising on the higher side. Now, the question is does this raise sort of some kind of a challenge in terms of the business model itself, because now in a pretty normal, because now COVID or delayed impact from COVID everything is behind, yet I am a +68% claims ratio and of course combined is 99%, that sort of raises some concern around the 95% combined kind of a business model, because I'm saying that all the things that should have been there or you can do you have already done. So, is that something that there is kind of some challenge around the business model of retail health insurance in India or what is it, because 99%, of course I would say sort of a comfort zone for you, I will ask next question after this.

Anand Roy: So, Avinash couple of things, as far as the price hike is concerned, we have taken that, but the reflection of that will play out over 12 months' time because as you know, the renewal portfolio price revision has started this financial year and so, it will play out over the next 12 months up to next May 24 and only then it will reflect in our total books, so price hike, we will continue to take some risk based pricing not only on FHO we have taken but we may take on other products also as and when necessary. As far as the elevated loss ratio is concerned, if you look at the performance of Star Health versus the industry, we have done fairly well to manage our loss ratios, given the efforts that we have taken in various initiatives on our wellness side, on our telemedicine, on the home healthcare. Otherwise, the delta of the loss ratios which has been showcased by the industry has gone up substantially due to the fever and epidemic like malaria and dengue which happened during this monsoon season. As you know that this second quarter is always on an elevated loss ratio in terms of high incidences of fever and respiratory diseases. This year, we have seen huge amount of outbreaks in various parts of the country. So, there is an impact there, but there is nothing that we are not confident of the model and the model is well proven. We believe that as this slowly dies down, we'll be back on track as far as our business model is concerned.

Avinash Singh: And so now sort of, where would you like to sort of guide at least for FY24 your claims ratio, and also if I were to break down again your H1 experience, can you help us understand, what sort of average claim ticket size increase, or if there's any sort of a change in claims frequency vis-à-vis last year. So, how much of the claims cost going up has been due to claims frequency change or claims severity.

Amitabh Jain: The impact due to frequency change was close to about 2% and from severity about 6%, so overall about both put together the range of about 7% to 8% over last year quarter two.

Avinash Singh: And for claims ratio now the target or guidance for FY24?

Anand Roy: So, Avinash based on the recent experience that we have seen, the claims ratio that we are guided might be pushed beyond our guidance given that the higher incidence of fever and respiratory diseases which we are seeing across the country. We are taking all efforts to ensure that it does not go beyond the guidance and to the level possible but in the last two, three months; we have seen the inflow of fever and respiratory claims on a higher side.

Moderator: Thank you. Our next question is from the line of Swarnab Mukherjee from B&K Securities. Please go ahead.

Swarnab Mukherjee: My question revolves around the renewals and the fresh business. So, if you could share I can see that in terms of the premium, for the second quarter you have almost got back the whole renewal book of last year second quarter was 99% odd is the renewal number which I can triangulate. What that would be in terms of number of policies, how much, what proportion of policies would you have been able to retain given that you have taken a price hike. So, that is one, and also if I try to understand the new business growth specifically in the retail health space excluding the group business that you have started to scale up also, that number compared to last year is lower right now, and I just wanted to understand that two elements of it, one is that you have mentioned that the new business is growing from the banca and the digital channel. So, how are the ticket sizes in this newer channels vis-à-vis, how we were used to write it earlier when it was primarily agency driven indemnity product. So, is there a hit coming from a lower ticket size say in the digital or the banca side and also given the fact that we have consistently been adding new agents, what is the activation levels of these newer agents and why is it not translating into relatively large ticket size retail health indemnity products. So, if you could give some colour on that, what is going on and in conjunction to this, if you could help us understand how we would plan to as your growth target of around say higher than industry growth? So, I would assume that maybe upwards of 18% for next financial year.

Anand Roy: Internally we have permission for ourselves to grow at, there are three numbers that we are pricing which is 20% growth, 20% ROE and 200% solvency. These are the three mission statements that we are driving internally not for this year but for the years ahead also. We would like to have a consistent and long term profitable growth story rather than anything else. As far as the bancassurance and digital business, our digital business ticket size is actually larger than our agency ticket size, much better and also the overall operating performance of the vertical is also quite very highly profitable. We are investing a lot of time and money and efforts to make that business larger and larger. The bancassurance partnerships that we have recently signed, are going to give us a mix of both indemnity health as well as group health products, on indemnity health we sell obviously something which is similar to our retail health products through the bancassurance branches and on the group health there are attachment products which we offer to the customers of the bank.

On a ticket size we are quite comfortable both on the digital and on the bancassurance space. As far as our renewal retention is concerned, we have guided earlier that we expected a drop off of up to 5% customers in the FHO renewal which we are noticing somewhere around that and we are quite comfortable with that and our premium retention is as per our expected lines. Overall growth of Star Health, right now we are at 18% growth we hope to end this year better than the industry's growth rate. All our channels are firing, we have consciously taken some calls to recalibrate our low LTV geographies where we are not seeing loss ratios coming down over a period of time, some internal underwriting strategies have been calibrated, which is resulting in slower growth in some of the markets, but that is by design and that is not something that we are not aware of.

Swarnab Mukherjee: So, still I have not, if you could provide some more clarity, if the ticket size is not a concern and you are confident of growing also why is like in the last two quarters we're seeing around say maybe Rs. 500 to Rs. 550 odd crore of fresh business coming in which was a bit higher last year, and how we can kind of drive that ahead, what would be the factors that will kind of take this to a higher scale?

Aditya Biyani: Swarnab, can you just rephrase the question again please?

Swarnab Mukherjee: So, I just wanted to ask that, the fresh business which I can triangulate from the renewal premium ratio that you have given that has been muted vis-à-vis last year. So, my initial thought was that maybe the average ticket size of some of the newer channels is lower, now that you have mentioned that the ticket size is also comparable and better. Just, I was trying to understand that, is there any kind of say, extreme competition that is there in this space or some other challenges which are?

Aditya Biyani: Swarnab, you have got it right. The average ticket size of banca will be lower than the other vertical which is there, but our average ticket size overall in the portfolio has grown by almost 10% and right now we are almost around 17,000 odd which is our average ticket size currently.

Moderator: Thank you. Our next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Just extending this question on the growth of premium, we have taken a 25% hike in both new business and in terms of your renewal business, we have seen a very strong growth in banca, we have seen a very strong growth in digital possibly the ratio would have gone down in terms of number of policies would have been 5%. So, still in that sense, is there an industry wide issue where, even the industry also has grown by 18% on retail health, is there a slowdown that is being seen where the demand for the health insurance on the retail side is kind of and after the pandemic has slowed down a bit because the price hike also has been across the industry for most players. So, a large portion of the growth seems to be coming from price hike rather than customer additions.

Anand Roy: Definitely the elevated demand which was there during the pandemic or immediately post pandemic the industry has seen a scale down in the high growth which was noticed during the pandemic and after that. But overall there is a sustainable demand for the health insurance retail products as you can see from the market behavior also almost all insurance companies including Star Health continue to focus on the retail side of things, the penetration levels of health insurance still is a big opportunity for companies like Star Health and others to increase their portfolio. We do not see any challenge in the demand for the product, at least for many years to come, what we are doing at Star Health is we are, recalibrating some of our strategies to make the business more profitable and more sustainable in the long run. There are pockets where even on retail health the business may not be having a good LTV so we have identified such areas and we are trying to be more calibrated in those pockets. Probably that is leading to some amount of lower growth for us other than what would have been an ideal situation but then this is a short term pain that we are willing to take for the long term gain, rather than just doing a quantity business over quality, so that has been our strategy.

Prayesh Jain: Interesting. Just a couple of more questions. Firstly, on the revenue, if I look at the loss ratio, you have seen around 120 basis points benefit coming in from the claim fraud detection mechanism which you have implemented. And in spite of that, you've seen an increase in loss ratio. So, is the severity so high and rightly asked by someone, how is the October experience we've almost gone through the entire month of October now, whether it was kind of sustain what we've seen in the month of July, August, September, or that has kind of waned down a bit. And lastly on the specialized health products that again seems to have declined in terms of share, is there that is a more profitable product just an element of the price hike on FHO or is there a slow down there. Those would be my questions.

Aditya Biyani: As far as the loss ratio goes, if you compare the H1 of last year to this year's H1, there has been a significant improvement from 67.3% to 67.1%. , it's almost 20 basis points which is positive in terms of loss ratio. And Prayesh what was the next question?

Prayesh Jain: Just before going to the next question. So, 120 basis points benefit gets absorbed by the severity and frequency?

Aditya Biyani: Yes, absolutely that's what Amitabh also mentioned a few minutes back.

Prayesh Jain: And second was on the specialized health products where the share has seems to have come down?

Aditya Biyani: You've answered the question yourself, basically the focus is still there but because of the FHO price hike, the share is looking a bit lower as compared to last year but it's still a healthy of 15% odd.

Prayesh Jain: Nothing else, that some of the products would have seen some slowdown in terms of growth or demand, nothing of sort right?

Aditya Biyani: No, absolutely not. In fact, we are trying to push all the specialized products through various channels.

Moderator: Thank you. Our next question is from the line of Supratim Dutta from Ambit. Please go ahead.

Supratim Dutta: My first question is I just wanted to understand is how has the lives covered grown during this quarter. And, a corollary to that would be, is there a slowdown in the new life added, which is resulting in losses from the back book now becoming more evident, because typically in the new policy we have a wait period of four years, and hence the claims are lower that compensates for older policies. So, is that also an element which is playing out in this higher loss ratio? If you could answer that before I move to my second question?

Nilesh Kambli: Yes, in terms of value and volume growth, the value growth is roughly 65% and the volume growth is around 35% and as mentioned, the loss ratio in second quarter was mainly impacted because of the epidemics, it has nothing to do with the quality of the portfolio, the impact of epidemic was severe. The impact of dengue was also severe, which led to higher length for some of our customers that we have seen, so it's mainly on account of the medical cases that loss ratio is higher.

Supratim Dutta: Got it. Also just wanted to understand given this year itself you have taken a 25% price hike, then during the price hike wouldn't you be factoring in that there could be the claim or the experience could be different because, from the start of the year itself it was evident that customer trends have changed, people are visiting hospitals more frequently. So, just wanted to understand despite the price hike how was this such a surprise?

Nilesh Kambli: See the price hike is effective 1st May 2023 and it's only five months, the earned premium is over a 12-month period and there are still seven months left for the portfolio to be re-priced on the renewal piece. While we have taken the price hike, the impact in the earned premium is still only for five months of portfolio, it will play out over the next 12 to 18 months.

Supratim Dutta: Got it. And last question from my side. So, do you see more price hikes coming forward now that, the experience this year could be worse now, do you see more price hikes coming in the next year and which products could be up for price revision?

Anand Roy: We definitely follow a risk based pricing model, where we keep evaluating all the products on a regular basis. We may be looking at a few more products other than FHO for a price revision in the short term.

Moderator: Thank you. Our next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: A few questions from my side. First on the new business if you can give your growth for the quarter and also split it between core retail growth through the agency in terms of fresh business. Second, if you look at a premium growth on the retail health side, ex of the banca led business for 1H, which is around 18%. Now a good chunk of it is a mix of premium growth because of FHO offset by some amount of loss in renewal rate. But going into FY25 or FY26, in the absence of this re-pricing of the product in the back book, how you would kind of justify the 20% growth target that you are kind of building in. And lastly, you mentioned something on change in strategy based on LTV of the customer and also some portability related changes. If you can elaborate on how are you kind of reducing the LTV today on the back book, on specific geographies or, what are the key parameters you are considering, all is there any change in strategy of payout to the agent based on the claims ratio that we are witnessing. If you can give some colour on the strategic changes that we are implementing on the underwriting processes out there, those are the three questions.

Anand Roy: We are recalibrating our underwriting strategies. Definitely, we have taken some decisions based on the long-term profitability of the book and certain segments and certain geographies where we have seen that there is a huge amount of non-viable business; we are slowing down our growth in those markets. And you are right, the strategic level we also have taken some calls on the agency commission payouts where we have linked our agency commissions and rewards to the performance of the agents as well as their profitability and based on that, there are certain calls that we have taken, some of the good performing agents have really got motivated and they are working harder, but some of them who have very high loss ratios have probably moved away from us or have slowed down their business, but that is part of the design of the strategy that is not something which is happening without our knowledge. We are looking at a long term sustainable, profitable growth, we are not trying to do something which is not going to be sustainable in the long run. Our group business strategy that is excluding the banca and all of that, the corporate groups, we have still not been able to make enough inroads, hopefully second half will be better because we are sticking to our pricing strategy, we do not want to undercut prices and grow the top line it is not very difficult to do so but it is definitely not good for the long term business. We are taking some calibrated calls and we are very confident with all the strategies that we have in place that we will grow our business by 20% for many years to come.

Dipanjan Ghosh: Sir, the first question on your retail health growth through agency, fresh business for the quarter and first half?

Anand Roy: These data points we don't publish in the public domain. You can connect with us offline and we can discuss this.

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

Nidhesh Jain: Sir on the new retail premium growth is it negative for Q2 Y-o-Y and if you look at the trends on the new premium growth for last couple of years, so that growth has been quite weak. So, what is the strategy going forward so if you can verify that whether the number is negative Y-o-Y for Q2 and what is the strategy to improve the new premium growth on an overall basis?

Anand Roy: For new premium growth the strategy is to improve the numbers, we have already added close to 40,000 agents in the first half of the year, we hope to add another 60,000 agents in the second half. In the long term, every year we will add 1,00,000 new agents, we are opening as I mentioned in my speech a lot of offices in the semi urban and in the rural markets we are seeing good quality growth in those markets also. But at the same time, in my earlier comments we are also taking some calibrated calls on markets which are not profitable for us in some geographies. It is a mix of both this year is a kind of recalibrating plan, but we believe that given the brand of Star Health, given the products that we have and the services that we offer we are going to grow strongly at +20% for many years to come.

Nidhesh Jain: Sure. And sir what will be the difference in combined ratio of agency and non-agency channel?

Anand Roy: I can't give you the data, but I can tell you that our bancassurance and digital businesses have a significantly better combined ratio and we are focusing on that, on the group business, though the business hasn't picked up too much to our expectations, the corporate group I am talking about, we hope that in the second half of the year we will be able to do better performance.

Moderator: Thank you. Our next question is from the line of Madhukar Ladha from Nuvama Wealth Management. Please go ahead.

Madhukar Ladha: A couple of them. I'm not sure whether you answered this question or not, on the Star Family Health Optima what was the renewal rate in terms of numbers, so I understand that the average price hike is 25%. But in terms of volume, what would be the renewal rate, second there's a lot of news on the industry coming together and forming a cashless network for all the health insurance and private insurance companies together even the PSU ones. So, how would that impact the industry especially, see one of your moats is that you have this strong hospital network and cashless network would that reduce your competitive advantage given that now all players would have access to that network and could offer that to customers. So, those two would be my questions.

Aditya Biyani: So, Madhukar, on the FHO the volume number as envisage whenever we have taken a price hike the number of policies are not being renewed, works around 3% to 5%, so even in this time it was absolutely as per what we have envisaged while taking a price hike.

Madhukar Ladha: Understood.

Anand Roy: And on the industry level coming together for a uniform network. So, there are two initiatives that is being envisaged, one is 100% cashless which is also the vision of the IRDAI Chairman and this will be something very unique and beneficial to all customers. Basically the concept is that, the customer should be able to avail cashless facility in any hospital which is registered as per the norms in India irrespective of whether that hospital is in the network of the company or not. Of course, this also has a condition where the customer has to inform the insurance company in advance before going in for the hospital admission. It is beneficial for both the insurance company and the customer in that context. Definitely, we welcome this and if it happens, soon it will be quite useful for all of us. This will help us in prior intimation, engaging with the hospital in negotiation in a more effective manner, and also improving the customer experience. Second point is, uniform standard tariff for a hospital network, that is still in the concept stage we will have to see when that comes into being, there is a committee that has been formed we are also part of that. We understand that there is significant moat that Star Health has in terms of our direct negotiations with the hospital, we would obviously want to protect that moat but since this project is still in the concept stage we will see how it pans out, and then we will work it out. We are very confident that all of these initiatives will be beneficial for the industry and the customers and also to us.

Madhukar Ladha: So, just a follow up on the first point that you made, that customers would have access to the hospital also provided they let you know in advance, and that may be an out of network hospital. So, how would pricing work in that case and, it would still mean that practically any insurance company would have a access to any hospital, with all the hospitals for a cashless sort of settlement. So, wouldn't it sort of dilute your edge because you have a higher number of hospitals, you'll be like a preferred name, to buy health insurance from.

Anand Roy: No, we don't look at it that way. We think that, definitely this will improve the perception of health insurance industry and that will help all the companies including Star Health. We do have a network of 15,000 odd hospitals, many other companies have 10,000, 8,000, whatever numbers they have, so, there is already a pool of hospitals, which is common to most of the insurance companies. There are many hospitals who are not in the network and right now we'll have to see how we can utilize their services, to bring them into the network of the insurance companies. This project is in the right direction, we do not see that this will affect our competitive advantage in any way.

Madhukar Ladha: So, how far along are we in the first case, like the first one that you mentioned where you could go to any hospital and the person just has to inform in advance, the tariffs are the second part of it, which is still in conceptual stage the first leg how far along are we.

Amitabh Jain: This is being done through the GI Council as a nodal body for the entire general and health insurance industry and, as an overall body that's driving it, we are also a member of that committee and working along with the other members to make this happen as soon as we can. But obviously project of such nature you can understand it's very mammoth in its proportions and it will take time for it to fructify.

Moderator: Thank you. Our next question is from the line of Sanketh Godha from Avendus Spark. Please go ahead.

Sanketh Godha: I have basically two questions. First question is that, if I do the math of new business contribution to the total retail GWP it seems to be around 17%. So, the company when we came with an IPO, the new business contribution was almost 29%, 30% of the total business. Today, it has fallen to 17%, honestly just wanted to check from your perspective at what number 15% or 17% or 12% will make you a little worried given a new business growth is not happening and the contribution is not there because it has to budget it reduces the figure system to the renewal. And then it can potentially have a negative impact on the claims if the price hikes are not taken on regular basis. That's the first question. The second question is, honestly you said that your new business 32% of the contribution came from non-agency channels, if new business for the half has declined, which means that agency channel has made significant decline because other channels have grown positively banca or your digital so if agency you are adding more people, specialized agents strengthen has increased, you have added more branches, but honestly the new business decline despite making investments into the capacity not happening seems to be a little worrying trend. So, just wanted to understand what exactly will lead to reversal of this basically?

Anand Roy: So, Sanket as I mentioned, we are running after quality rather than quantity right now. We believe that there are certain steps we have to take along the way to recalibrate our portfolio to make sure that the long term profitability of the portfolio is sustainable. We have taken some calls, some tough underwriting calls on some segments like portability business, we have taken some calls on certain geographies where we have closed down few offices, we may probably do that in few other areas also so these are decisions as I mentioned, it's a short term pain for long term gain, we have to live with this, but we are not at all concerned about the new business growth, we are growing quite well. We expect that the growth will only pick up going forward, so, these numbers, which you are talking about is an impact of certain calibrations that we have done consciously.

Sanketh Godha: Anand then honestly when you can expect given you have taken already the measures. So, at some point in time, you will see that now everything is done, and now you will see a revival. So, can you just guide us by which quarter or how many months away we are away from seeing that thing to revive back?

Anand Roy: We are guiding for 20% growth, and we expect that to happen from this year and as well as for the future.

Sanketh Godha: Okay, which means that effectively the second half the new business growth should be strong. And what are the corrective measures you have taken are almost done and dusted and then it's now like a growth part, is it a fair assumption to make?

Anand Roy: Yes, you are right.

Moderator: Thank you. Our next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: Sir I have two questions. My first question is, over long period of time we're looking to do 20% growth which is above the industry and 20% ROE, do you think that could be any sort of inherent conflict between achieving these two outcomes, because to achieve that 20% ROE, there is a certain loss ratio we would like to kind of maintain, which would mean we need to take price hikes, exclude certain customers to achieve that number. And so by definition, our ability to grow ahead of the industry would be constrained to that extent, or do you feel that this is something that is manageable wanted, your thoughts on that?

Aneesh Srivastava: No, it is very well manageable, because Star Health has always been growing profitably. As long as you are growing profitably, and your denominator in terms of net-worth remains same, your ROEs would improve there is no reason why ROE should not improve. It's absolutely doable, there is no problem we don't see any reason why it's not doable, there may be some cyclicality here and there, but ultimately it would be doable.

Anirudh Shetty: Got it and do you believe that once the price hikes that we take are fully in the book, our price competitiveness versus the industry is that something that we will be able to maintain?

Nilesh Kambli: Price hike is a continuous process, we keep on evaluating the products as mentioned in the call we are looking at price increases in part of our portfolio. We are focusing on quality growth and ensuring long-term sustainability of the business, which will improve price increase, quality of the business to achieve the profitability.

Aditya Biyani: And Anirudh the price hike is never taken with the vision of showing the growth, the price hike is taken because we have an envisaged loss ratio for every product and as and when we reach that number we go back and start doing the risk based pricing again.

Anirudh Shetty: Right. I understand that, my second question is, off late in the news there's been a couple of reports around claim settlement ratio and the claim rejection ratio, I understand that there's no standardized number and product mix can be different for peers, but can you just elaborate on whether at least for a genuine customers, what is the right claim settlement ratio to look at for the genuine claims?

Anand Roy: We would not comment on the media reports, but what I would like to tell you is that, at Star Health we are very sensitive to customer service, we have a very strong grievance redressal mechanism in case any customer is not satisfied with our services. What we have seen is, we track two metrics one is the retention of our customers in our franchise, and second is our NPS scores at various levels, and we have seen that both of these are tracking very much in trend with whatever we are expecting. We are quite comfortable with what is being done here. Of course, there is always scope for improvement and we will keep doing that.

Moderator: Thank you. Our next question is from the line of Neeraj Toshniwal from UBS India. Please go ahead.

Neeraj Toshniwal: One question, how many customers in FHO would have shifted to other policies from FHO at the time of renewal?

Aditya Biyani: What's more important is the renewal rate is as per what we have envisaged for FHO and the growth rate of this.

Neeraj Toshniwal: No, I understand that would have impacted your average ticket size to some extent.

Aditya Biyani: No, so if I had to give you a number almost 90% of the existing policies got renewed in the FHO portfolio and probably around 8% to 9% would have got transitioned to a new product within Star Health.

Nilesh Kambli: And that is a choice we give to the customers.

Aditya Biyani: And that's the choice we have given proactively to the customer to decide.

Neeraj Toshniwal: And any impact on average ticket size from that 10% of pool, I know it will be very small about 45% of that 10%.

Nilesh Kambli: No, there is no impact because, when there is an upgrade to the customer in terms of sum assured of the Star comprehensive, the average ticket size is higher than FHO itself, but there is no compromise on the premium.

Neeraj Toshniwal: A follow up on this if, you increase the price of these products again as you mentioned you would be looking at increasing the price ex of FHO, will these customer again have a higher pricing from next renewable is that understanding correct?

Anand Roy: Insurance price hike is a function of the inflation that we see in the medical side and as you might be aware, the industry is looking at very high medical inflation for many years now. Unfortunately, the loss ratios in case they hit the comfort level that we are operating at, we have to take a price revision, but as mentioned that it is never the first choice of port of call, it is however the last option, we try various measures of keeping the our severity under control through negotiation with the hospital but beyond a point we do go for a price hike. So, yes, we are looking at a couple of products in the near term for a price revision.

Neeraj Toshniwal: Got it and one more question on the sum assured given the increase 10% for a new, and 11% for overall which implies that the older portfolio people are looking for increasing their sum assured at the time of renewal. So, how many percentage of customer would be actually increasing the sum assured or between the cover, between the pool?

Aditya Biyani: I'm sorry, I wasn't able to get that question. Can you repeat it?

Neeraj Toshniwal: So, increasing sum assured is higher new business which would mean that the older guys would have been increasing their sum assured by increasing the cover from Star Health, so how many customers would have availed that facility?

Aditya Biyani: So, I have mentioned, the objective of making the customer aware of a higher sum assured is to mitigate the medical inflation, it's a win-win for all the three parties which is the customer so that he can beat the inflation in the coming days. We ensure that our agents are trained in order to give the right advice, for the agents also, the average ticket size increasing, which actually leads to a better commercial for them also and for us obviously the loss ratio is much better if the higher sum assured is there so, that's a win-win situation which we want to create in the ecosystem.

Neeraj Toshniwal: I got it. My question was little different, in the sense overall sum assured seems to have increased higher in the new business. So, there is a disconnect because of the fact that, older customers are increasing the sum assured on their older policies at the time of renewal?

Aditya Biyani: No, absolutely as the customer start buying the policy, the customer awareness goes up. And then he actually decides what the right sum is assured in the coming days. So, the more he spends time as a health insurance customer, he understands that this is the standard of living which he would like to avail of when he gets hospitalized.

Neeraj Toshniwal: So, how many percentages of the customer of the pool would be on an average, who would actually go for an upgrade?

Aditya Biyani: So, it's almost, so what we can do is, this is a question which we would like to take it offline. But a lot of a good amount of customers, majority of the customers are being trained and made them aware of this feature.

Moderator: Thank you. Our next question is from the line of Nischint Chawathe from Kotak Institutional Equities. Please go ahead.

Nischint Chawathe: Just a small one, how far do you think we are from another tariff hike, I believe if your claims ratio remains like this. And you are guiding that, this year could be a little tough year. Are we sort of looking at another hike in the later part of the year?

Nilesh Kambli: I've mentioned we are looking at some other products which have reached the threshold level and we will continue to take price hike based on the performance of the product, what we have to see is the price hike that we have taken, the benefit of it has not come through, it's only five months and five months of portfolio, and this five month also it will come out 12 month's period. We have to see the full impact of earned premium benefit in our portfolio which should come by March end coming period.

Nischint Chawathe: So, that's what my question is that would you want to wait for the entire impact or given the fact that probably it looks like that things are a little tough to kind of go ahead and do a hike sooner than that?

Nilesh Kambli: Nischint, so what we are talking about is, other products which are reaching the threshold we are in the process of getting the price hike in this quarter.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question of our question-and-answer session. I now hand the conference over to Mr. Nilesh Kambli for closing comments.

Nilesh Kambli: Thank you all for joining the call. What we have seen is a good growth in the banca, digital business, our proprietary IC 38 agents and majority of our preferred geography for the agency channel. We continue to focus on growth and long term profitability in the near future as well as coming periods. Thanks for joining the call.

Moderator: Thank you. On behalf of Star Health and Allied Insurance Company Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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