

New India Assurance Ltd
Q2 FY18 Earnings Conference Call
16th November, 2017

Moderator: Good morning ladies and gentlemen. I am Vikram, moderator for this conference call. Welcome to the conference call of the New India Assurance Company Limited arranged by Concept Investor Relations to discuss its Q2 FY18 results. At this moment all participant are in listen-only mode. Later we will conduct a question and answer session. At that time if you have question, please press “*” and “1” on your telephone keypad. Please note this conference is being recorded. I would now like to hand the floor to Mr. David Franklin of Concept Investor Relations. Thank you and over to you sir.

David Franklin: Thank you Vikram and good morning once again to all participants. It is my great my pleasure to invite Mr. G Srinivasan – Chairman and Managing Director of the New India Assurance Company Limited. He will take you through the Q2 FY18 results and also discuss the road ahead. Now I invite Mr. G Srinivasan – Chairman and Managing Director of the company to take over this conference and start it. Over to you sir.

G Srinivasan: Thank you very much ladies and gentlemen. Good morning to every one of you who are in this con-call. I welcome you to this con-call on the second quarter results of New India Assurance. New India Assurance as many of you would know is an iconic institution, in the non-life insurance space of India with a great legacy of 98 years. New India is the market leader for many decades and has increased its market leadership in the last 5 years despite entry of many new players in the market. This has been largely possible because of the brand the company enjoys in the market, the customer base and loyalty, financial strength, the reach of the company in the market into the interior parts of India and also the customer service credentials of the company. In the first six months of the current financial year the company has recorded a premium of Rs. 12823 crores with a growth of 14.46%. Looking at the results for the second quarter as such, the company recorded a profit before tax of Rs. 907.37 crores as against Rs. 248.04 crores of last year in the same quarter. The PAT for Q2 was Rs. 748.27 crores as against Rs. 260.24 crores of the same quarter last year, a growth of 187.52%. The increase in the profitability was largely because of the drop in the combined ratio as well as adjusted combined ratio. The combined ratio for the quarter was 112.57% as against 124.24% for the same quarter last year. The adjusted combined ratio came down to 91.45% as against 103.65% for the same quarter last year. The drop in the combined ratio and adjusted combined ratio has been largely due to drop in the incurred claims ratio and also the operating expense ratio of the company. The incurred claims ratio for the quarter came down to 87.45% as against 95.88% for the quarter of the earlier year, a substantial drop. The expense ratio also came down to 17.02% as

against 21.65% of the quarter of the earlier year. The return on equity on an annualized basis for the current year second quarter is 23.43% as against 9.14% for the same quarter last year. The solvency margin of the company continues to be very strong, 2.24 and in fact has gone up from 2.04 of the same period last year. Going to the first six months results for the company of the current financial year, the profit before tax was Rs. 1508 crores as against Rs. 513.77 crores of the half year last year. The profit after tax substantially increased Rs. 1247.68 crores as against Rs. 478.40 crores of the last year. This is again largely because of the drop in the combined ratio and adjusted combined ratio. The combined ratio for the first six months stood at 111.76% as against 119.81% for the half year of last year. The adjusted combined ratio stood at 93.47% as against 102.08% of the last year. Again the drop in the combined ratio and adjusted combined ratio was largely due to reduction in the incurred claims ratio and operating expense ratio. The incurred claims ratio for the first six months came down to 87.54% as against a similar number of 92.13% for the half year last year. The operating expense ratio came down to 16.59% against 20.73% of the last year first half. So these two improvements, both in the claims ratio and expense ratio has contributed to the increased profitability. The return on equity for the first six months for the current year is 19.98% as against 8.52% for the last year. The solvency ratio is 2.24 as against 2.04 of last year. Solvency ratio continues to be very strong for the company. And friends as you would know, the company has declared an interim dividend of 75%. Indian non-life sector is poised for a great growth because there is a huge under-penetration because of increased insurance awareness and also increasing disposable incomes. We see the sector growing at a phenomenal pace and New India as a market leader will continue to play a dominant role in the sector for many-many years. With these introductory comments I now seek to move onto the question and answer session.

Moderator: Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. We have our first question from the line of Nidhesh Jain from Investec, please go ahead.

Nidhesh Jain: The question is on the health side still I see the operating profit is quite – so there is a huge operating loss. So how you are seeing, because we have increased our pricing I think at the start of this year but that has not slowed in the betting performance of the health business. So how do you see that panning out and the impact of that on the combined ratio of the company?

G Srinivasan: The health loss ratio has improved substantially. As you mentioned that we have handled this portfolio from two angles. One is we have done a price correction both in the retail segment as well as in the corporate segment. We also improved claims management steps like recruitment of doctors and utilization of our common TPA in an increased manner. The health loss ratio for the quarter has come down almost by about 16% and for the first six months it has come down by about close to 10% and we see this continuing in the current year. In fact the biggest challenge for us in terms of the claims ratio was health portfolio which we are now handling it in a very-very serious manner in terms or repricing as well as even giving up some accounts which where we do not get the right price. We see this will benefit in the coming

quarters as well in terms of further reduction in the health loss ratio and improvement in the operating profitability of the company.

Nidhesh Jain: Secondly what is the quantum of gains that we have booked on our equity, realized gains that we have booked in H1 and Q2 of this financial year?

G Srinivasan: Actually the investment income of the company for the first six months is about Rs. 2778 crores. About 40% of that is profit on sale of equities. 60% comes through the regular investment income like interest and other fixed income returns. For the three months the investment income was Rs. 1530 crores and again a similar trend follows as far as the realization from equity is about 40% and the remaining 60% comes from fixed income.

Nidhesh Jain: Last year also the trend was broadly similar?

G Srinivasan: Similar, the trend was broadly similar last year as well.

Nidhesh Jain: And sir lastly what is the reason for expense ratio reducing sharply in this quarter?

G Srinivasan: New India's expense ratio is the lowest in the market and we are extremely benefited by our scale of operations and also the technology we use. In fact if you look at the number of employees we have, the number of employees have come down from 20,000 three years back to about 17,500 and also I mean there are people retiring and we are recruiting new people so what we are seeing is entry of low cost new employees as compared to the advent of higher paid senior employees. So expenses are not increasing, even though our premium is increasing in a significant manner. That is the reason why our expense ratio is coming down substantially and this benefit will continue in the coming years as well.

Nidhesh Jain: So expense ratio will keep on reducing in the coming year?

G Srinivasan: Definitely.

Moderator: We have the next question from the line of Dhaval Gada from Sundaram Asset Management, please go ahead.

Dhaval Gada: I have got a couple of questions. Firstly sir if you could talk about all the other expenses basically, you talked about the operating leverage in the business so if you take some couple of big items there where you are seeing those benefits seeking in, that would be very helpful. So which are one or two line items there where the expenses are broadly stable and you are seeing benefit of operating **salaries**. The second question that I had was on the health portfolio, what is the weighted average price increase that you have taken on the health portfolio both on the retail as well as on the corporate side?

G Srinivasan:

So the expense side, I mean broadly if you look at it the expenses are mostly constant or even marginally declining. As I said in terms of employee cost we are seeing actually almost the same level because the number of employees is coming down on a month to month basis because of retirement, superannuation happening at this point of time. If you look at the other expenses, you know what we had in the Indian market, we used to pay outsourcing expenses to motor dealers which was treated as expenses of management but there has been a change in the intermediary remuneration in the current year wherein the rewards are being to the intermediaries. So the outsourcing expenses are also now coming down as a result of that. I mean 2-3 items like these are contributing to, I would not call it a drop in the expenses per se but the expense ratio was coming down because the premium is growing. Because of the scale we see the expense ratio coming down. So that is as far as expenses is concerned. In terms of health, in case of retail health the price increase has been around 25%, starting from 1st April for new policies, 1st August for renewal policies. So that is something now already in place. In case of corporate for the last 6 to 9 months there has been a correction ranging from 20% to 40% in case of those policies where the claims ratios have been adverse. We have also given up some policies in the corporate health segment because the price increase was not acceptable to the customers but we have been continuing these corrections because in our opinion corporate health needs to be corrected to improve the profitability of the company.

Dhaval Gada:

Yeah, so just a couple of follow-ups, if you could give some sense of the loss ratios now you are reporting on the retail health side versus the loss ratios that you would have reported same period last year H1 to H1 and some color there. And second, your thoughts on the MIDP guidelines effective November, how do you see that benefiting or not benefiting the company?

G Srinivasan:

Sir in case of retail health our current loss ratio is around 82% as against 87% of last year. The full benefits of price increase will be coming in the remaining quarters. As far as corporate health is concerned the loss ratio was around 125%. They have now come down to about 110% and with some more correction in the course of the current year they should drop further down to around 100%. Talking about the motor insurance service provider guidelines, I know it has come into effect from 1st November, the greatest advantage of this is it has kind of brought in the motor dealers who are currently selling policies are outside the purview of regulation and the industry was paying them infrastructure or outsourcing expenses. But that has been now structured and they have been brought under the regulator ambit through the concept of motor insurance service provider. So even they have to work with the brokers or with insurance companies but they have to be governed by the guidelines issued by IRDA and they can also be inspected by IRDA. What will happen is there is much more regulation of their activities. We also feel that this will help us in bringing down the claims ratio. Second thing the payments which are made to the dealers which are little on a higher side are now reduced and standardized. So the outgo for the company will also come down. So this is extremely positive for the insurance industry and I think it will certainly help us in better claims management and also reducing the expenses which were paid earlier as outsourcing expenses.

Dhaval Gada: Sir on the MISP guideline, there is a mixed review here I mean in terms of benefits are expected to keep in through this channel but one thought is also that you know it may largely pass there to the customers in terms of lower cost, lower producing. Is that correct or you will retain some of the benefits eventually if it comes through?

G Srinivasan: Sir I expect large part of the benefits to be retained by the industry because as you know the motor OD loss ratio has gone up in the last two years for the whole industry. And the industry has been taking a lot of steps to bring down the loss ratio. So the benefits of this will be largely retained. I mean I do expect that some part of it could be passed onto the consumers if the benefits are much higher. But to answer to your question at this point of time large part of the benefits will remain with the industry.

Moderator: We have a next question from the line of Jitendra Sriram from Max Life Insurance, please go ahead.

Jitendra Sriram: Just wanted to understand in terms of what you have achieved in Q2, any kind of guidance you would like to indicate for FY18 on an aggregate basis in terms of your expense ratio and your investment income which is likely to flow through?

G Srinivasan: Sir I do not want to give a guidance in terms of actual numbers but what I can really tell you is you have seen our Q1 results and also Q2 results. They have been broadly in conformity with what we have been saying. Our focus has been to bring down the claims ratio because the expense ratio is already the lowest in the market and it will further come down because of the increase in premium with the cost not going up. So expense ratio will continue to come down. In terms of claims ratio we have taken some very strong steps to correct the prices as well as to improve the claims management. So claims ratio will also come down. So the profitability of the company will continue to improve in the coming quarters. I mean this is what I would like to say rather than giving actual numbers.

Jitendra Sriram: No, no that is fine. One other follow-up I had was that 2 years back the general insurance industry had some torrid time with Chennai floods and this year also we have seen a lot of monsoons. What is your initial outlook on that because you have had lot of flooding and various other things in the city again?

G Srinivasan: Sir actually what happened 2 years back in Chennai was really a catastrophe event because the industry suffered about Rs. 5000 crores of loss and we also had a gross loss of Rs. 1000 crores but one good thing the direct insurers do is we have a reinsurance arrangement like catastrophe excess of loss of arrangement whereby we restrict our loss even in a major cat event. So the loss to New India in that event was only about Rs. 50 crores, even through the gross loss was Rs. 1000 crores. So that is how generally we derisk ourselves against catastrophe events but in the current year even though there have been events like Mumbai, Chennai, Bangalore, and even Gujarat but they are relatively smaller events. Like Mumbai the total loss

was about Rs. 35-40 crores. Chennai it is not even Rs. 10-15 crores. So even in the current year though a lot of publicity was given, the events are not serious for the insurance industry.

Moderator: We have the next question from the line of Charulata Gaidhani from Dalal & Broacha, please go ahead.

Charulata Gaidhani: I wanted to understand why the underwriting loss has come down?

G Srinivasan: Underwriting loss has come down largely because of improvement in the incurred claims ratio and also improvement in the operating expense ratio. So as I just mentioned a few minutes back, in the current half the incurred claims ratio came down to 87.54% as against 92% of the same period last year, the expense ratio came down to 16.59% as against 20.73% of last year. So the improvement in the claims position as well as the expense position has brought down to the combined ratio and adjusted combined ratio. As a result the underwriting loss has come down.

Charulata Gaidhani: Where do you see the GWP going forward? This quarter the premium has grown by 12%. On an annual basis what type of growth do you foresee for future?

G Srinivasan: For first half the growth has been about 14.5% and we expect the market growth to be around 17-18%. So this is what we would expect the current year going forward for the year as a whole.

Charulata Gaidhani: And you see, as you said that you have restructured the health insurance business in terms of price correction or corporate help policies. Is there any more restructuring that is pending?

G Srinivasan: The effects of restructuring will continue because as I said in case of retail we increased the prices from 1st April for new policies and 1st August for renewal policies. So that will continue for another year in terms of retail price correction. And in terms of corporate though we have done for the last 6 to 9 months that will still continue and some more correction will happen in the course of the current year. So benefits of restructuring will definitely accrue in the coming quarters as well. And again you know on the claims management side as I said we had recruited 20 doctors last year and 20 more are being recruited. I think this will also help us to manage claims in a more efficient manner. So we are continuing to focus to bring down the health loss ratio further in the coming year.

Moderator: We have the next question from the line of Hitesh Gulati from Hightown Securities, please go ahead.

Hitesh Gulati: Sir my first question is on net earned premium. The net earned premium to net written premium ratio if you look at Q2 this year is slightly higher than what it has been in the past. So is there any specific reason why net earned premium has grown faster than the gross and net written premium level?

G Srinivasan: Sir net earned premium is a function of when the premium incepts and how much premium is earned in the course of the year because we are adopting the 1/365 method. So that could be the only reason I could think of why there is a difference between the growth in net premium and growth in the net earned premium because net premium is actually the difference between the gross premium and reinsurance ceded. Whereas net earned actually depends on how or when the policy incepts and how much we earned during the quarter and during the half year. So this is a dynamic number based on the kind of risk we have and also the period when the risk gets incepted. It could have some variance over the quarters. It may not be identical to all the quarters.

Hitesh Gulati: And sir this methodology of 1/365 and 50%, I believe they are two methodologies. So is there an option that we have or is that we are choosing we are 1/365 method?

G Srinivasan: Actually 1/365 method is an ideal method because that really in a scientific way helps us to understand how the premium is earned by the company whereas the 50% method was a standard method used by the industry for many years because it is an approximation method. So most of the companies are moving to the 1/365 method because that is the preferred method by the market as well as by the regulator. So we have also put in place necessary systems, technology to do this and we have also moved to the 1/365 method which is the ideal method.

Hitesh Gulati: And on the crop business, what is the proportion of business that we are keeping on our books and what is reinsured?

G Srinivasan: 80% is proportionately reinsured. Only 20% is kept in our books.

Hitesh Gulati: As I said there is a small amount of gross NPA on our books. So what does that account mean? What is the reason for that?

G Srinivasan: Sir actually these were consortium loans we gave in 90s as part of, I mean when GIC was a holding company, New India was a subsidiary before liberalization happened. So these were loans given in those days where we had small participation and this has become NPAs and we had set up provisions for those NPAs at those points of time. So they are actually static numbers which will keep on coming down marginally but this happened almost 20 years back.

Hitesh Gulati: And sir my last question is on marine segment, marine segment has seen a pretty sharp pickup in profitability like from a loss to a big profit this year. So is there anything changing in the industry or is this a one-off? How do we read this?

G Srinivasan: Marine of course is a profitable line of business but you are seeing a substantial profitability in quarter 2, largely because we had a reserve release from one of the major claims. Otherwise the marine loss ratio generally tends to be around 60-65%.

Moderator: As there are no further questions, I would now like to hand over the call to the management for closing comments. Thank you all for being part of the conference call. If you need any further information or clarification, please mail at tarin@conceptir.com. Over to the management for closing.

G Srinivasan: I thank all the participants for being here and asking very relevant questions. I can assure you that New India is a market leader and has been a very successful company over the years. And we will continue to play a very-very important and dominant role in the insurance industry of India. We have many strengths and insurance industry is also poised for a great growth and New India will certainly be able to take advantage of the growth which is happening in the market to further improve our performance and also our financials. Once again thank you very much and all the best to every one of you.

Moderator: Thank you very much sir. Ladies and gentlemen this concludes your conference for today.