Date: November 15, 2022
Place: Chennai

Ref: SHAI/B & S/SE/ 148/2022-23

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.
Scrip Code: **STARHEALTH**

Dear Sir/ Madam,

Sub: Transcript of Q2 & H1FY2023 Earnings Call – September 30, 2022.

Further to the Company's letter SHAI/B & S/SE/136/2022-23 dated November 07, 2022 regarding Earnings Call Intimation for Q2 & H1FY2023, please find attached the transcript of the call dated November 10, 2022.

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: 2022.11.15 14:45:48 +05'30'

Jayashree Sethuraman,
Company Secretary & Compliance Officer

Star Health and Allied Insurance Company Limited
Q2 & H1-FY2023 Earnings Conference Call
November 10, 2022

Management:

Dr. S Prakash – Managing Director

Mr. Anand Roy – Managing Director

Mr. Nilesh Kambli – Chief Financial Officer

Mr. Aneesh Srivastava – Chief Investment Officer

Moderator: Ladies and gentlemen, good day and welcome to the Star Health and Allied Insurance Company Limited Q2 and H1 FY23 Earnings Conference Call of. 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 your touchtone telephone. I now hand the conference over to Mr. Pratik Patil from Adfactors PR Investor Relations Team. Thank you and over to you, Mr. Patil.

Pratik Patil: Good evening. From the senior management, we have with us Dr. S Prakash – Managing Director, Mr. Anand Roy - Managing Director, Mr. Nilesh Kambli - Chief Financial Officer and Mr. Aneesh Srivastava - Chief Investment 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 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 may involve risk and uncertainties. Thank you and over to you, Mr. Roy.

Anand Roy: Thank you Pratik and good evening, everyone and thank you for joining the Star Health earnings call. I will take you through a brief overview of the industry trends and 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. My colleague, Dr. Prakash will cover the financial performance and aspects related to claims, including the steps that are underway to manage them. In Q2FY2023, the health insurance industry including PA has grown by 15.1% driven by 18% growth in the group health and 17% growth in the retail health segment.

Now we will talk about the growth and market share of Star Health Insurance. For H1FY2023, our retail health growth is 21% versus industries retail health growth of 14%, so we have grown one and a half times the industry's growth rate, as you are aware, with a very large base. In Q2 FY2023, our retail health segment has grown by 21.7% versus the industry retail health growth of 17%. We have grown impressively at 1.3 times the market's growth rate. Overall GWP grew by 11% in the Q2FY2023 over the same period of last year to Rs. 3,189 crore.

In Q2FY2023 Star Health registered 34% market share in the retail health segment, which is three times the second largest player in the industry. We continue to grow higher than the market growth rate and increase our retail health market share. For H1FY2023 our retail market share is 33%, an increase of 200 basis points over the previous year same period. As far as accretion share is concerned Star Health has registered 46% retail health accretion market share in H1FY2023.

Our agency business continued to contribute around 82% of the overall business. Our agency strength has increased to 5,86,000 agents with an addition of approximately 36,000 agents in H1 of FY2023. We are on course to add about 80 to 100,000 agents in the current financial year. With improving agency productivity, we are confident of maintaining our market leading position. For H1FY2023, the corporate agent segment that is banks and other tie-ups continues to remain strong and our premium from this channel has grown by 44%.

Some of the highlights in quarter two of FY23 for us were as follows: Regarding premium and distribution, our contribution from specialized products has increased to 16.5% in H1 FY2023 and we continue our journey of premiumization of our product portfolio. The accretion of specialized products is 31% in H1FY23. The average sum assured of new policies has increased by 14% on a year-to-year basis to Rs. 8.7 lakhs per policy. We have introduced one new product that is Star Extra Protect, which is an add-on cover available to our existing customers. This product is available for policyholders covered under Family Health Optima Insurance plan and Medi Classic insurance policy having sum assured of 10 lakhs and above and will enhance our portfolio yield on an aggregate basis.

We expect to tie up shortly with a South based small finance bank and we will announce once the tie-up happens officially. We continue to expand our distribution reach. Happy to announce that we have opened five new branches in Jammu and Kashmir. We are able to achieve good premiums in the northeast regions of the country, which started about two years ago, and we continue to explore untapped areas and improve the health insurance penetration in India. As discussed in the previous quarterly earnings, we have exited large group health insurance policies as demonstrated by the 54% reduction in group health premium during Q2 FY23. We continue to monitor the segment closely and we will make inroads wherever premium is adequate. As reiterated previously, we remain positive on the SME (small and medium enterprises) and non-employer employee groups. The non-employer employee segments group policies are largely sold to retail customers of the banca tie-ups which we have and if we include these policies also, our overall retail growth is 22% in Q2 FY2023.

We have recently on-boarded Mr. Mukesh Sharma, a senior tech resource as our CDTO (Chief Digital Transformation Officer). We continue to simplify our customer’s journeys by focusing on digital initiatives. Some of the outcomes of the digital initiatives were:

Our app downloads have reached 1.7 million downloads, 83% of our active agents are now using our digital solutions to provide services to the customers.

Digital sourcing defined as premium collected directly from our website as well as third party aggregators and online brokers has grown 28% year on year, and now accounts for 11% of our overall GWP for H1FY2023 which is a very significant milestone as we have crossed the 10% digital business share for the first time. IVR Calling BOT for Renewal Policy retention has been introduced in Q2FY2023.

Now I request my colleague, Dr. S Prakash to talk about the claims and financial initiatives.

Dr. S. Prakash: Thanks Anand let me brief on the claims initiative and we are working on a four-pronged approach to effectively manage our claim services:

Number one, prudent claim settlement based on rich medical wisdom and insurance expertise.

Number two, we have well negotiated volume-based pricing arrangement with our network hospitals which gives us operating leverage in terms of lower average claim size.

Number three technology enabled fraud detection and mitigation tools.

Number four, risk-based pricing through micro segmentation of portfolio.

81% of the amount settled in cashless claims during this H1 FY2023 or through cashless. Cashless turnaround time (i.e. claims settled within 2 hours) comes to around 90%. In cashless, we have introduced auto adjudication of claims and this helps drastically improving turnaround time and that way customer satisfaction. 8% of hospitals have been on boarded under this initiative, the number of claims under auto adjudication has risen to 33,000 in Q2FY2023 a growth of 95% versus Q1FY2023. We are stepped up our teleconsultation with 7.75 lakh consultations till date and they are also actively promoting our wellness initiatives and programmes. We continue to improve on the claims related milestones. Within overall cashless claims the share of hospitals with the pricing arrangements that is agreed network hospitals, the cashless claim is 66% versus 64% in FY 22. Based on our market intelligence, we find our average claim size continues to remain one of the lowest in the industry. In the last three quarters we are seeing a consistent reduction quarter on quarter in the average claim size. As you will be aware fraud control is one of the critical factors to address in retail claims business. Our anti-fraud Digital Initiative has become operational this year and has started to produce savings in claims output. It has resulted in 0.5% reduction in claims ratio in Q2FY2023. We expect more than 1% reduction in claims ratio in the subsequent quarters. We are planning to take a price hike in Q3FY2023 in this quarter in our flagship product Family Health Optima to combat the structural rise in medical inflation post COVID. We had taken a price increase in our product Medi Classic Individual which has started showing results in the form of lower loss ratios.

Let me take you through the financial performance. Our combined ratio in the first half of this financial year has improved to 97.9% versus 119.2% in the same period last year. Improvement in combined ratio is achieved through claims and expense ratio management. The combined ratio in Q2FY23 was 97.9% versus another 117.3% in Q2FY22. The claims ratio in H1FY23 has improved to 67.3% versus 88.2% in H1FY22. In H1FY23 claims ratio had 0.7% impact of COVID claims. The claims ratio in Q2 FY2023 was 68.2% versus 85.6% in Q2FY22. This year with staggered monsoons the impact of epidemics like Dengue, malaria, viral fever, this was high in Q2 of FY23 compared to historical averages. We are seeing a 9% decrease in reported claims in October 2022 versus the average of reported claims in Q2FY23 this year. While usually Quarter 3 is prone to epidemic related claims but so far in these 40 days of Q3FY23 we are not seeing any major impact. For the month of October, 2022 the loss ratio is approximately 63.5% and the YTD loss ratio as on October end is approximately 66.5%. We are positive and confident to achieve the loss ratio as per the guidance given for the financial year.

The expense ratio has also improved in H1FY23 to 30.7% on account of efficient cost management as evidenced by a fall in the expense ratio in Q2FY23 to 29.7% from 31.6% in Q2 FY22 that is a 1.9% improvement.

H1FY23 recorded a profit before tax of Rs. 409 crore and profit after tax of Rs. 306 crore. Adjusted profit after tax excluding non-business ESOP cost is Rs. 390 crore in H1FY23. For Q2FY23, the profit before tax is Rs.121 crore and profit after tax is Rs. 93 crore. Our investment assets have grown to Rs. 11,653 crore in H1FY23 versus Rs. 8,604 crore in H1FY22. Claims based solvency as on September 30, 2022 is 1.95x compared to the regulatory requirement of 1.50x which is achieved through only the mandatory 4% reinsurance arrangement that we have.

We have repaid sub-debt of Rs. 200 crore before 30th September 2022 and another Rs. 50 crore in October 2022. In spite of payment of this sub-debt, the solvency continues to be well above the required levels.

To conclude ladies and gentlemen, we continue to believe in the profitable growth opportunities available in the retail health segment and we are on our desired path of realising the same. Thank you.

Moderator: Sir may we open the night for questions now.

Anand Roy: Yes.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question on the line of Swarnabha Mukherjee from B&K Securities. Please go ahead.

Swarnabha Mukherjee: Yeah. Good afternoon, sir and thank you for the opportunity. So, I have three questions. First, on the loss ratio side, so as you mentioned, Q2 was impacted by epidemics related diseases like dengue, malaria, and in the first half our loss ratio is almost around 68%. Now, this number that you have mentioned for October 63.5%, if I read correctly, does this also have COVID elements that you had disclosed in first half and then I believe that we will have to maintain this kind of run rate for the next of the year in order to reach your 63 to 65% guidance. So, that I mean, if that is the case, then does that again, includes a structural element that you were seeing that is happening in the post COVID world.

Moderator: Can you repeat the last part of your question? I think the management was unable to hear.

Swarnabha Mukherjee: Yeah, sure. So, sir, in terms of loss ratio, in first half, you have the number was almost around close to 68%. Now, the 63.5% run rate that you have saved for October, I guess you will have to maintain that kind of run rate ratio to reach your 63% to 65% kind of guidance range that you have given. So, how confident are you about that and does this also factor in the structural changes towards the loss ratio, you know, slightly elevated loss ratio in the post COVID world. So, that was the first question.

Dr. S Prakash: So, in the first half particularly during July-August, the reported claims on infections due to fever and respiratory illness were very high, probably because of the southwest monsoon and we usually get the impact of monsoon during October and November, but this year, we saw the maximum impact of monsoon in July-August. So based on that, we have a feeling that the most of the impact due to the epidemics of monsoon already happened in the Q2FY23. So, that's the reason why we say in these 40 days of Q3FY23, usually these days are prone to monsoon related epidemic diseases, we don't see so much of epidemic diseases during the 40 days in this Q3 FY2023. So, that is the reason why I am having a lot of confidence that we should be able to reach where we are guided towards the end of this year.

Swarnabha Mukherjee: Okay. And so, the thing that I also noticed was that your share of cashless claims through the network hospitals have gone up, does that in any way positively impact the loss ratio or even how should we look into that because that did not pan out in the numbers. So, just wanted to know.

Dr. S Prakash: In general, I can say more the cashless it is more comfortable to the customer, and also less prone to fraud and unwarranted claims, because we are able to ascertain and get all the details, we know that infrastructure and expertise available in the hospital, we are empaneled with these hospitals and we know what are the systems and processes and we are at core of their performance also. So, based on these things as much as we get more traffic and more outgo on cashless related hospitals, we feel that we are giving no rooms for unwarranted and unindicated claims.

Swarnabha Mukherjee: Yeah, so, any internal calculations? Do you see a difference between you know, the loss ratio from these hospitals, where cashless is more vis-a-vis others?

Dr. S Prakash: See, not all hospitals have received, we categorize hospital according to the geographies, they are based in and the level of expertise. So, we have different weighing of hospitals and then we monitor the outgo, based on the average that we pay in that area. There is an index price that is a complex process that we follow and based on all that we ascertain that we pay less than what the hospital otherwise charges in that area for a particular procedure.

Swarnabha Mukherjee: Okay and the next question on the retail health renewal ratio. So, wanted to understand, I mean, we were at a number of 98% in FY2021. I understand that in the COVID period, there were Corona Kavach policies, etc., which were not renewed. So, last year, the numbers are not at that level, but this year, I think we do not have such kind of policies in the base, but still the renewal rates are in and around 94%. So, how to look into this and is there any persistency any kind of cohorts, how should we look at this.

Anand Roy: The retail renewal ratio continues to be the best in the industry, as far as you know, retail health insurance business is concerned at 94.4%, but there are some policies which were taken last year due to the fear of COVID, not COVID related policies, but some customers had taken some top up policies, which were not renewed this year. But we are not much concerned about this, we are very confident that, we will be able to maintain a good renewal ratios and it will be improving every quarter.

Swarnabha Mukherjee: Okay, in terms of renewals as we progress generally in the renewal cohorts will our loss ratios kind of increase because you know, age of the customer increases and then there could be probability of claims.

Anand Roy: We look at it on a combined ratio basis as the renewal cohorts age. So, on a combined ratio basis, we are able to maintain profitability at all the cohorts as far as our customer base is concerned and whenever it is required, we do go for a price revision as already Dr. Prakash had mentioned in his presentation.

Swarnabha Mukherjee: And one last question from my side. Sir, you mentioned in opening comments about the SME book continuing to be the focus area, but the number was a bit muted on that front for this quarter and even for the last quarter, I think single digit degrowth was there. So, what is going on there if you could highlight.

Anand Roy: The focus in the group segment is on the SME business, but even within the SME business, the company is very, very selective in terms of our pricing strategy and underwriting principles. So, even in the SME business, we want to be selective due to which there has been a little slow growth, but we are confident of the target that we have taken for the current year and we will achieve that.

Swarnabha Mukherjee: Okay, that's, that's helpful. Thank you so much, and all the best.

Moderator: Thank you. We will take the next question from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Firstly, could you tell me as to our investment books has grown, the yields are higher sequentially for the entire industry. But still, we saw our investment income being flattish on a sequential basis. How do we read that?

Aneesh Srivastava: See, if you compare it with respect to the last financial year, there was a profit that we booked in first half of last financial year approximately Rs. 110 crore of profit that we had booked and in full year last, we have booked a profit of approximately Rs. 160 crore and the reason was that yields were at the bottom and hence, we decided that perhaps it would be an appropriate strategy to do that. So, it was a tactical move, which we did, and hence, because of the high base of last year we are seeing the flatter base this year, otherwise, we are maintaining the yields of the portfolio.

Prayesh Jain: My question was more of a sequential quarter basis, Q1 versus Q2.

Aneesh Srivastava: I understand your point, see, what happens is that a large part of the AUM growth actually happens in the second half of the financial year. And since AUM remains flat and there is no incremental deployment which is happening except for what we get in maturities. So, basically, yields ultimately remained broadly the same. We would be in a position to take the benefit of rising yields in the second half of the year, as we start getting larger flows and obviously as mentioned here, we have paid back Rs. 250 crore of sub debt as well.

Prayesh Jain: Alright, and what is the quantum of price hike that you are contemplating and is it the only price hike or some other price hikes also being considered and when you say you will be able to maintain the 63-65%- kind loss ratio? Do you include the price hike in that when we say, or how do we read this in terms of output?

Dr S Prakash: See we are continuously monitoring product wise loss ratios and when they cross the threshold, we go for a price revision and at every product level, we want to maintain profitability and that is how the whole management works on that concept. For any product, when we find that it crosses a threshold we study the reason and then we find an alternate solution by repricing the product. Currently we are selling more and more of high sum insured policies, our fresh policies came close to 82% is 5 lakhs and above. So, there is a tremendous increase quarter on quarter on the sale of high sum insured policies in our fresh policies, so these along with the price revisions that we do and the age band were like, you know, there is a premium growth based on the age bend. Some of our customers enhance the sum insured, this post COVID we see a lot of people enhancing the sum insured during renewal. All these things contribute to our premium growth.

Prayesh Jain: I just want to ask one more question. If you look at your claims, what would be your claim filed versus claims delivered or claims settled? What would be that ratio and how would have that trended in the past, past year or so?

Dr S Prakash: The claims filed we call as the claims reported, like we see that close to 83% of the claims reported were the claims that are incurred by us and this consistently continues to last seven months of this year. We do not see any volatility in that.

Prayesh Jain: So, my question is coming from whether this 83% that you are saying is it in line with what the industry is doing? Is it better than industry or we or at a lower end? Is there a trend where the players are able to get more market share out of this?

Dr S Prakash: We do not have public disclosure on this but overall, the number of claims reported will depend on the type of portfolios that companies handle and their business model.

Moderator: Sorry to interrupt Mr. Prayesh Jain may we request you to return to the queue. There are several participants waiting for their turn done. We will take our next question from the line of the line of Jayant Kharote from Credit Suisse., please go ahead.

Jayant Kharote: Thank you for the opportunity and congrats on the growth sir. I have a couple of questions firstly, on the reserving you could break the URR into retail and corporate and also sort of give some colour on this bit of higher reserving this quarter. Then I will take the next question.

Nilesh Kambli: In terms of groups, because we are de-growing we have been grown almost 50% the earned premium is higher than the net written premium. So, the reserve release is higher compared to the creation that happened, whereas in the retail, last year we have grown by 22%, we continue to grow 20%. So, the reserve creation and the reserve release continue to match, so when we talk about the net written premium being lower than a net earned premium it is largely because of the group health business where we have de-grown.

Jayant Kharote: On the retail side if you could break down the growth into volume versus value that would be helpful.

Nilesh Kambli: 8 to 10% of our growth is value based and around 10 to 12% is volume based the split of 21% that we have.

Jayant Kharote: Now, in the second half, some of the impact of the price hikes would be already coming into the base. So, do we expect typically for us is the second half more heavy on the volumes than the first.

Nilesh Kambli: Yeah, definitely Q4 being a tax exemption period that is where the majority of the volume comes in and it should be good, I mean, first half because the base was higher this year like base effect coming into play for first half, but second half we believe, should be good.

Jayant Kharote: Two last questions, first is on the median age you had disclosed last time around the median age moving lower with the Young Star product penetration increasing. So, if you could talk a little bit about how the penetration of Young Star product is currently. It was 11 or 12% last quarter, and how is the median age moved qoq?

Anand Roy: The median age continues to be 41 years, as we speak, the Young Star product is doing well, it is one of our fastest selling products. So, the median age has not changed much.

Jayant Kharote: Does the Young Star grow faster than the overall retail growth meaning the share in the mix is it moving up or stable.

Anand Roy: Of course, because it is also coming up from a relatively lower base so the growth is faster and it is also very attractive to the younger age profile of the customers. So, definitely it is growing at a faster pace as compared to the overall retail growth of the organisation.

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

Avinash: Good afternoon, again delving a bit on claim and combined. So, like several factors that has helped it improving versus a last year of course, no COVID then you have steer your portfolio more towards retail, you have done kind of upselling and selling more specialized product, all these factors, and of course, has would have helped you. But again the vector borne diseases, and, sustained medical inflation that is acting against these factors are kind of part and parcel of the business sometimes dengue, malaria. Other time chikungunya, diarrhea whatever. Now, the question here is that, at this juncture, because I mean, almost we are eight months of this year, sort of comfortable, if not, the lower the upper end like a 65% kind of Claims ratio, and 95% kind of combined ratio for FY2023. I am asking particularly 2023 because the many of the steps in terms of price hike and other things, you will take me sort of a bear fruit in FY2024. But FY2023 we are like almost eight months into it, so the first question would be, I mean, that okay, how much comfort do you have around 65% claims and 95% combined ratio for FY2023 and then following on that, what sort of growth now because I mean, your portfolio balancing is done. For FY2024 what kind of growth sort of on top-line you are seeing. Thank you.

Nilesh Kambli: So, loss ratio, as spoken by Dr. Prakash during the script, we continue to maintain the guidance of 63-65% and, I have spoken that some of the Q3FY2023 impact has already come in Q2 FY2023 in terms of the epidemics that have come in Q4 FY2022 last year, if you see, excluding the COVID loss issue, it was 64% with a higher weightage of group health. So, Q4 traditionally has been much better than the first nine months or quarter two and quarter three. So, we are pretty confident of the full year guidance that they have given in terms of the loss ratio of 63% to 65%. In terms of growth again, H1 was around 12%. Avinash you are talking about the next year growth of the second half growth?

Avinash: No next year, because this year, I am sort of understanding you are shuffling between group and retail. I am saying that, okay, now, say for FY23, you achieve the portfolio where you want to be in terms of mix. Now, what kind of growth would you expect the next year, because now your portfolio balancing is done because this year, of course, your growth being hurt by portfolio balancing survive? So, I will take that next year, going, you will be taking certain price hikes, your portfolio based impact is there in between group and retail what kind of growth you see for FY24.

Nilesh Kambli: So, with a group base effect going out, and with price increases, and with a large base, we believe we should be in a position to grow at 20% to 22% going forward.

Avinash: Okay, and if you were kind of still confident for 63 to 65% claims that means a kind of a 95%, combined is also on target. I mean 30% ballpark expense ratio. Correct?

Nilesh Kambli: Yes, I mean, for quarter 2 expense ratio is slightly below 30%. But yes, I mean, we continue with the guidance of 93% to 95% combined ratio and 63%-65% loss ratio.

Avinash: Okay. In terms of on your solvency, we continue to improve because you have deferred tax assets will continue to grow faster. So, do you see again, a further scope to reduce sub-debt, or like, what kind of capital because again, most likely, you are going to end up the year around 210 odd percent solvency. So, we will continue with the sub-debt or exercise call option.

Nilesh Kambli: So, the solvency continues to be strong, it is still on claim basis at 1.95 times if take on premium basis, the solvency will improve to 2.08 times. In terms of the sub debt that is issued is for seven years with a call option after 5 years. So, this sub debt, which were issued in 2017, came up a call option now, which we retired. The Rs. 470 crore that we have raised last year in September, it will come up a call option after five years so and conditions will be not in a position to exercise the call option call for this sub debt before the due date. So, we will continue with the sub debt and it is sufficient it's at 8.75% interest rate.

Moderator: We will take next question from line of Shreya Shivani from CLSA please go ahead.

Shreya Shivani: Sir I had two questions. First is on the on the commission rate. So, I see for second quarter, the commission per net written premium is slightly lower at around 13%. It used to be at 13.7 or 14% previously, so has any change happened over there? Also, second, the second question is on the reinsurance. Your reinsurance is also reduced to under 5% now. I know that the mandatory level has been reduced to 4. So, any comments you would like to highlight, any change in the reinsurance agreement, now that it's a different focus in mandatory limits? Those are my two questions.

Nilesh Kambli: So, commission, structurally there is no change, but the business composition also impacts the commission ratio. So, as Anand sir mentioned that, the direct portion has now grown to 11% of the overall business, so on a portfolio basis, it has an impact on the commission and the composition of new as well so last year was the high growth period in retail, where the output is 90.5% on agency business. This year the growth is around 20%. The changing business mix portfolio has impacted the commission ratio. In terms of RI, the mandatory RI is reduced to 4% now. What we have is a personal accident and critical illness, benefit products where we have specific reinsurance arrangement. We had spoken on the last call that this portfolio is also growing for us. So, on a portfolio basis, it is in that range of around 5% even though the obligatory is 4%.

Shreya Shivani: **I**ncluding the personal accident, normalyl your health policy where your mandatory is reduced to 4%, the terms of agreement with the reinsurer remains the same.

Nilesh Kambli: Yeah. So, this is reinsurance with GIC Re and it is standard term across the industry.

Moderator: Thank you. Our next question is line of Sahej Mittal from HDFC Securities. Please go ahead.

Sahej Mittal: Three questions from my side. So, firstly what percentage of your existing customers are opting for an upsell or a higher sum assured and the existing policy if you could quantify that and give some colour around, what are the type of these customers, what kind of higher sum assured they are going for, say, for example, earlier, they had a policy with sum insured of say Rs.10 lakhs, now, they are opting for Rs.20 lakhs or any signs wherein customers are actually going for a reduced or sum assured that is, first, second is around other expenses, other than the related to the insurance business. So, that has already reached close to about Rs.150 crore in the first half. So, are we done with the changes related to ESOP to the CEO? Or are we expecting any further expenses in this line item? Those are the first two questions.

Anand Roy: Yes, as far as the upselling of renewal customers are concerned, we have a dedicated team which is focusing on renewal retention and we pride ourselves that, we have amongst the best renewal retention in the entire industry, and consistently, so for the last 15 years. So, upselling is a strategy that we follow, but the company also has a strategy to upsell only to customers where we see profitability once we upsell, obviously, that is an internal strategy that we adopt. So, we have a plan and we continue to do that, but we are not disclosing this number in the open forum. Maybe we can take it offline, and we can discuss this with you. As far as the ESOP cost is concerned, I think we have two more months, that is October and November, cost will be absorbed and after that I think the entire 100% of the cost gets absorbed.

Sahej Mittal: Sorry, sir if you can just reclarify on the ESOP front.

Nilesh Kambli: ESOP about 10 months are over as on 30th September, two more months remain before this whole costs will be absorbed. For October and November, there will be an additional impact of Rs.36 crore which we will come and that will close the matter in terms of the ESOP cost. It started on 1st November last year, it will end on 30th November this year.

Sahej Mittal: And one thing is on the restating which is done by Star Health when you are reporting the monthly numbers. So, I mean, after restating the base numbers, your growth optically looks better. Right. But being a market leader, this sort of raise doubts for us. So, if you could give us a convincing explanation for the restatement in the base? I mean, what was that relating to?

Nilesh Kambli: Yeah, so Sahej there is no restatement in the base. If you look at the financial quarter-end numbers, and what we are reporting, it is always in line, it is only the since inception we are following basis the transaction date, because we follow 64 VB cash before cover; the money comes in before the policy starts. So, during month ends, the first day premium used to come on 29th-30th, which is to get booked in the system and reported because we did our reporting from the system, which method we have changed last year, December. So, that is also one-year effect which we will get over I think in December, it is risk commencement date basis is what reporting we started, which was always there when we reported financial. So, it is only a monthly phenomenon. The quarterly numbers were always in line with what we report in the financials.

Sahej Mittal: Right and I was just taking a look at the balance sheet and there has been a degrowth in the provisions. So, ideally, if the business is growing, then the provisions for the general insurance company should grow because of higher unexpired risks. I am not sure if I am reading this correctly. Correct me if I am wrong.

Nilesh Kambli: So, the unexpired risk follows a pattern if you see compared to Q1 FY2023 the Q2 FY2023 to unexpired risk has grown. We always say that this is a retail business which happens more in quarter 4 so compared to quarter 4 is the maximum quarter where the risk gets the reserve gets created in terms of the URR the unexpired risk reserve, which keeps on releasing so one by 365 pattern will always be in line with the premium, which happens during the year.

Sahej Mittal: Sure. Thanks I will join back in queue.

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

Sanketh Godha: If I take the renewal rate of 94% and try to calculate the break up into new and renewal, it seems that new business has declined for us in first half of FY2023. Is that assessment right. So, just wanted to understand that, despite taking time price hikes and everything, the new business being degrowing in the current year and probably is it the high base as it is leading to that thing.

Anand Roy: So, Sanketh for the first half of the year, we have seen a flattish growth in new business and as rightly put by you it is because of the high base of the last financial year where the Delta variant had a huge impact and led to a very enormous growth in the health insurance business last year, but as we speak, when we are looking at the trends for the last three months, we are seeing very high positive growth and we believe that by the end of the year, we will end this year with a very-very good performance in new business also.

Sanketh Godha: Sir mid-teen growth or a low-teen growth, it is possible for the full year in new business not factoring the renewal part.

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Sanketh Godha: Sir I was asking that given the trend has improved because the fourth quarter is seasonally strong is it safe to assume that by the end of the year, the new business growth would be in mid-teens or low-teens compared to the flat trend what we see for the half?

Anand Roy: Yes, you can safely assume that it will be in the mid-teens, if not higher.

Sanketh Godha: Got it sir and sir that the second question which I have is that given the contribution of specialized products have increased to us, I just wanted to understand how the loss ratio of specialized products look versus the regular product or the company average how different they are how substantially lower they are and just wanted to understand the trend that specialized products which are currently around 16.5% of the total GWP in H1 FY2023, what is the likely number you want to target the to have a cushioning effect to the entire loss ratio.

Dr S Prakash: Yeah Sanketh, the specialized products are really doing well. There is a lot of acceptance from the market and our outgo is also relatively less compared to our other retail products. So, we are comfortable and we continue to accelerate our sales in the specialty product and we expect a 10% cushion on the ICR in specialty products compared to other products.

Sanketh Godha: So, if I understood it rightly given in H1, we have a loss ratio of 67.3. Is it safe to assume that the specialized products have somewhere mid-50s as a loss ratio?

Nilesh Kambli: What we have seen that the GWP is growing, the earning premium catch up will happen over a period of time. So, you cannot put it in proportion to the GWP right.

Sanketh Godha: Okay, okay sir and the last one, the quantum of price hike you have taken in Optima and the Medi Classic. I just wanted to understand what is the quantum of price hike it will be and what proportion these two products will contribute to the entire retail health portfolio of ours.

Anand Roy: So, we are taking a price hike already in our Medi Classic insurance, which is individual, which constitutes around 7 to 8% of GWP. We have taken a 24% price hike in that particular product only a couple of months ago so the price hike will still take some time to play out. We are evaluating a price hike in our Family Health Optima, which is our flagship product, which constitutes close to 50% of our business and we will get back to you with details once we have some clarity on that.

Sanketh Godha: Okay, perfect. Thank you.

Moderator: Thank you. The next question is from the line of Ansuman Deb from ICICI Securities. Please go ahead.

Ansuman Deb: So, the first question is regarding the expense ratio as it has gone down quarter on quarter and so is there arbitrage that we are likely to see versus our peers considering the scale that we have right now, in a little bit more control in the expense ratio. That is one number one question and the second question is that despite a higher retail mix, the price hikes and also targeting some of the newer lower age people, our loss ratios have increased because of the timing of monsoon as you said so, does your 63 to 65% guidance factor the effect of this price hikes coming in plus the mix improving. Yeah, these are the two questions.

Nilesh Kambli: So, in terms of expense ratio, our investment in technology, efficient processes, continue to yield us results. This is one of the best-in-class expense ratio, when you compare to peers doing retail business, and we believe, we should be in a position to take these benefits as we keep on moving forward. Your second question on the impact of loss ratio, due to price increase, what will happen is Medi Classic was taken in July 2022 with a 24% increase that will definitely have an impact on the year end loss ratio. When we talk about the other product, which will be effective hopefully in December it will first start for the new product for three months, and then it will start for the renewable product. So, the large benefit of it will come out in the next financial year. This financial year, it will be hardly anything, when we take this in December, but yeah, in spite of that, we are confident of maintaining the full year guidance of 63 to 65%.

Ansuman Deb: Right. So, my question for the loss ratio angle is that the hikes or the strategy that we are taking in terms of claims etc. should have some positive effect, right. So, it will balance the inflation or what is management’s view on the inflation versus the strategy that we are taking to counter the loss ratio.

Nilesh Kambli: The price hike that we take is considering inflation for the next two to three years, we don't want to go to the market with frequent price increases, any price increase that we take should at least be effective for two and a half, three years. So, that's the approach that we take.

Moderator: Thank you. The Next question from the line of Anand from WhiteOak. Please go ahead.

Anand: Thank you for the opportunity. Two questions. One is from an investment book perspective. What is the typical duration Incremental and what's the current duration? That is first and second there is a change in our outstanding claims of Rs.60 crore. If I were to use the previous quarters, stock of outstanding claims this comes to around 6%. So, there's been a 6% kind of outstanding claim reserve release, what is driving this. If you can give us some colour.

Aneesh Srivastava: Anand as far as duration is concerned broadly we are somewhere close to 4.2 years on modified duration terms and depending on the market conditions in your market marginally adjust with the rising yields maybe that we would look at it as a favorable opportunity for us to look at some duration but overall portfolio 4.2 years is what the duration is.

Anand: And the question on the release of outstanding claim reserve.

Nilesh Kambli: Yeah, as Dr. Prakash said in the script that proportion of cashless trend is increasing so as the proportion of cashless claims is increasing the settlement is much faster and hence outstanding claim gets reduced. Second thing the delay that we are seeing previously last year, because of COVID and other things, there were more of reimbursement claims, that trend is also coming down you know we see more of cashless sales coming in and the delay in reporting is also much lower. So, that you know, both these factors have led to a marginal reduction in the outstanding claims.

Anand: Okay, so just one thing in case of this improvement, give the consistently increasing technology for you consistently expect this claim reserve to get released due to this improvement in quicker reporting and more cashless claims. Is that a trend we should expect on ongoing basis?

Nilesh Kambli: No see it depends on multiple factors. Now quarter 3 and quarter 4 it is a function of the loss ratio also, if the whole proportion itself is reducing in terms of the lower loss ratio, then the claim outstanding will also reduce it is a function of the cashless settlement of claims efficiency the auto adjudication of claims, because it is happening through the system, which is much faster. So, we will have to look at the quantum of business, the growth in business, the cashless settlement, and the delay in reporting all these factors will contribute to the outstanding claims. It is not a static number; it is driven by four or five factors.

Anand: If I was to summarize, you mean that this Rs. 60 crore has been released because now we have to, we do not have to make as many estimates as we had to make the past and because of quicker processing and quicker cashless disbursal our provisions are more than expected and hence we are releasing. Is my understanding correct?

Nilesh Kambli: Yes. That is correct.

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

Neeraj Toshniwal: Sir I just want to know within digital, we have grown 20% what will be the contribution from own channel and what rate that have grown. That is first second, if we can have split between rural and urban growth is rural going faster due to CSC, just wanted to get some sense, whether that is helping because with the tie-up in the last quarter and third would be if we can have claim ratios between retail health and the group health that would be helpful.

Anand Roy: Yeah as far as the contribution of our rural vertical is concerned, it is definitely growing much faster because these are relatively newer channels, obviously, there is a smaller base. So, we are growing at more than 60 to 70% in the rural insurance. It is still work in progress. There are a lot of new opportunities out there and we are still exploring various new locations to open our satellite offices so that we can increase the penetration in the rural areas. We have also signed up more than close to 3000 hospitals to service our rural customers in this market, so that agenda has been pursued quite aggressively. As far as the loss ratio split between Group Health and Retail Health, we are not disclosing that in the public domain. So, unfortunately cannot reveal it here but probably you can take that offline with us whenever you feel.

Neeraj Toshniwal: And one more question on the digital contribution own channel and the third party and the kind of growth we have seen.

Anand Roy: Okay, so it is 70% own channel and 30% partnerships. Our focus is on growing our direct digital piece more aggressively. We have a fantastic team which is working on that improving our direct business, but we do have some partnerships and they are also doing well for us. So, overall basis we see a higher growth coming from our direct digital piece and a relatively lower growth from the partnership if that answers your question.

Neeraj Toshniwal: Can you quantify if handy.

Anand Roy: Okay, 70% is a contribution as far as growth is concerned, I would say the direct piece is growing 10% faster than the partnership piece.

Neeraj Toshniwal: Okay and one of the answers of previous participant, you mentioned that you will be doing a price hike on the Family Optima in coming months. I think the last call probably we mentioned that we have launched a new product similar on a related product Star Health Assure and that would have taken care of better pricing and better features. So, are we looking to again launch a new product over Star Health Assure or it is the totally different price increase.

Anand Roy: See the regulations as it stands today do not allow you to change the product features when you're taking a price hike you can just take a price hike depending on the performance of the product. So, that is what we are doing as far as our Family Health Optima is concerned, the features will remain the same. It will only be a premium rate revision given the dynamics of the product. Star Health Assure as mentioned by you is a fantastic product and is doing extremely well that will continue to remain as it is. It is only the Family Health Optima that is undergoing price increase.

Neeraj Toshniwal: Got it. That was helpful. Thank you.

Moderator: Thank you. Ladies and gentlemen, we take that as a last question. I now hand the floor back to Mr. Nilesh Kambli for closing comments. Over to you, sir.

Nilesh Kambli: So, thank you for taking the time today for attending the call and we are confident of the guidance that we have given and we will achieve our results as per the guidance, thank you very much.

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