digit
Insurance

Date: 1st August, 2024

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort, Mumbai – 400 001
BSE Scrip Code: 544179

To,
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051
NSE Symbol: GODIGIT

Dear Sir/Madam,

Subject: Transcript of earnings call of the Company for the quarter ended 30th June 2024

Pursuant to Regulation 30 and Para A of Part A of Schedule III and Regulation 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the earnings conference call on performance review of the Company for the quarter ended 30th June 2024.

The above information is being made available on the Company's website at www.godigit.com.

Kindly take the above intimation on record.

Thanking you.

Yours faithfully,

For **Go Digit General Insurance Limited**

Tejas Ramakant Saraf

Digitally signed by Tejas Ramakant Saraf
Date: 2024.08.01 14:57:05 +05'30'

Tejas Saraf
Company Secretary & Compliance Officer

"Go Digit General Insurance Limited

Q1 FY'25 Results Conference Call"

July 26, 2024

MANAGEMENT: **MR. KAMESH GOYAL – CHAIRMAN – GO DIGIT GENERAL INSURANCE LIMITED**
MS. JASLEEN KOHLI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – GO DIGIT GENERAL INSURANCE LIMITED
MR. RAVI KHETAN – CHIEF FINANCIAL OFFICER – GO DIGIT GENERAL INSURANCE LIMITED
MR. ABHISHEK SALUNKHE – HEAD OF FINANCIAL REPORTING – GO DIGIT GENERAL INSURANCE LIMITED
MR. PIYUSH BOTHRA – FINANCIAL ANALYST – GO DIGIT GENERAL INSURANCE LIMITED

MODERATOR: **MR. RUSHAD KAPADIA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Go Digit General Insurance Limited Q1 FY'25 Earnings Conference Call hosted by ICICI Securities. 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

And now, hand the conference over to Mr. Rushad Kapadia. Thank you and over to you, sir.

Rushad Kapadia: Thank you. Good evening, ladies and gentlemen. ICICI Securities is delighted to welcome you to the Q1 FY'25 Results Conference Call of Go Digit General Insurance Ltd.

Without further ado, I would like to hand over the call to their Chairman, Mr. Kamesh Goyal for his initial remarks, post which there will be a question-and-answer session. Thank you and over to you, sir.

Kamesh Goyal: Good evening and thanks for organizing the call, Rushad. I'm here joined by our CEO, Jasleen, our CFO, Ravi, our Head of Financial Reporting, Abhishek, and Piyush, who is our Financial Analyst and also helps with the investor relations. So before I start, I would request everyone to refer to the slide 2 of the deck which we had published yesterday about the disclaimer.

Having said that, we'll quickly go to slide 3. I'll keep referring the page numbers so that everyone can also refer to the relevant page. I think as we have been speaking about since our IPO time, in Digit we believe in giving as good a customer experience as possible and customers also include partners.

We obviously want to empower our distribution partners more and more in terms of service, in terms of policy servicing claims and things like that. We also believe in automated and predictive underwriting models and this is something which keeps on evolving. From the day we started, we have been focusing on big time on the platform and this is also an area which we are continuously investing in.

This ultimately is backed by a culture of continuous improvement, driven by a stable and a strong management team. Moving on to page 4, the gross return premium for the first quarter of this year is INR 2,660 crores. This is collected through more than 30 lakh policies which we sold and this is a growth of about 22.2% compared to Q1 of 24. The market share, if you look at the definition of the market share here, is about 3.6 in this quarter and more towards about 6%. We have almost all kinds of products in the market now, about 5.34 customers and more than 66,000 distributors. We have now settled more than 21 lakh claims.

On an average, now we are processing on a working day about 3,500 to 4,000 claims a day. Assets under management in this quarter have grown to INR17,773 crores. We'll come to that as to how this happened in the later slide.

Manual policy strength continues to be low and as I said, we try and believe in giving the good customer experience. While our motor and non-motor claims NPS is mentioned here, with more than 2.5 lakh reviews given by the customers on social media, we are rated 4.7 out of 5 on Google and 4.9 out of 5 on Facebook. Moving on to the next slide, which is slide 5.

This basically gives you the trajectory of the financial numbers of the KPIs since financial year 21-22. Obviously, the last two columns are only quarter 1 against quarter 2. The net earned premium of the company has also increased from INR1,475 to INR1,824 crores. Net retention in the quarter is more or less stable at 76%. There is a 0.8% improvement in the combined ratio. The profit after taxes increased from INR 58 to INR 101 crores.

I think this is the first time a company in a quarter has achieved a three-digit profit. The ROE, which again for both quarters is not annualized, increased from 2.5 to 3.3. What obviously one needs to keep in mind is that the net worth of the company has grown substantially, almost INR 1,300 crores, from INR 2,384 crores to INR 3,698 crores in this quarter. This is due to the primary days of capital, which we did in the month of May during the IPO stage.

The solvency margin of the company has now increased to 2.17 against the required regulatory requirement of 1.5. As you can see, the solvency ratio of the company is actually the highest it has been in the last more than three years. The return on average equity for the quarter 25 is obviously on the higher base, the average of starting as of 1st of April and also ending of 30th of June. Moving quickly to slide 6, this is more about the premium growth as to how the premium is growing.

If you see the slide on the left side or the portion on the left side, you can see that in motor home damage we have grown. These are the numbers for the previous years and also the GWP mix. If I move to the slide on the portion on the right-hand side where we are comparing the numbers only for the first quarter 24 and 25, you can actually see that our growth in GDP and GWP on OD was about 27% against market's 15%.

Growth in TP in this quarter was minus 2% compared to 10% for the industry. In health, travel, and PR, growth rate was 52% against industry growth rate of 17%. In this you can actually see a note below that in group health insurance or group medical MS referred here for employer-employee relationship, which is essentially the companies which they take health insurance for their own employees, this business has actually de-grown by 2%.

Though this data is not published separately, our sense is that this business would have also grown by about 12%-13% for the industry. This is one segment we have de-grown by minus 2%, but overall essentially driven by personal assets and business. Growth has been 52% against 17%.

Fire business, we grew by 16%. Sorry, this is a mix. We grew by about 11% compared to the growth of the industry of 6%. And others, we grew by 71% compared to the industry's growth of 13%. Overall, 22% compared to industry's growth of 13%. I think if you think in terms of mix, et cetera, one real change where motor TP has gone down from the previous quarter 36% to about 29% in this quarter while health, travel and PA has grown from 22% to 27%.

And as I said, this is really driven health, travel, and PA. This is despite us de-growing in the business of employer employee group health business. Moving to the next slide, this again gives you the whole trajectory of the combined ratio movement from FY'22 to now. As you can see, that claims ratio has moved up by about 2.4% while the expenses ratio went down by almost 3.2% giving us that savings of 0.8%.

As I have been saying in the recall also, as I said, we would look at loss ratios more over a period of one year and 2%-3% movement in a quarter can always happen. For example, I think if you look at the month of May, normally one sees lesser claims in the month of May on the health side, but this year the number of claims for the industry we believe for the Digit has been on the higher side. While May-June due to school holidays used to normally see a higher number of own damage claims, but this year we didn't really see that trend whether it was due to very high temperatures in June or otherwise.

It's very difficult to correlate to, but I think it's important, as I said, to look at loss ratios over a period of time and expense ratios are also driven by the mix, because commissions are different for say corporate business, group health, and crop compared to what the retail commissions are.

Overall in the profit after tax, I think last year, as you know, in Indian accounting we didn't achieve the breakeven in year 22, 23. Last EBITDA profit of INR 180 crores and this year a profit of INR 110 crores, INR1 crore against 58 in the same quarter in the previous year. Coming to slide 9, and here I think I wanted to say that if you look at our overall for financial year 24, we actually had a total increase of roughly about INR3,050 crores, out of which INR350 crores had come through year 2 capital, which was raised in December, partly and some in March 24, and this year there is a growth of roughly again about INR 2,000 crores from March 31, 24 to June 24, and out of this INR 2,000 crores, INR 1,065 crores the net proceeds of the IPO and the balance of INR 944 crores is coming in from the business.

Looking on the sidebars on the right-hand side on the same slide 8, if you look at you can notice that every last three financial years our investment income has been going up. Our portfolio is primarily fixed income. In the first quarter 25, we actually booked a loss of INR 19.5 crores. During COVID time we had bought some government securities which were becoming due or maturing in the next one year. And we decided actually to sell those securities and invest in corporate bonds with 3 years to 5 years duration. The economic logic of that is this loss, which we booked on this, will actually get more than offset in the next 12 months, and because all these securities are maturing in the next 1 years and now we have moved to bonds of INR 3 crores to INR 5 crores, this actually will give us the additional Alpha.

If we remove this, then our yield would have been 1.8%. That was the small, I would say, caveat I just wanted to put on the investment loss or the capital loss which we had. Moving to slide 9.

I think this speaks essentially about the asset allocation, and you can actually see that in equity our asset allocation has moved from 1.6% to 2.5% in quarter 1.

This additional investment, I would say, typically happened most of it on 4th of June when the market had dipped, and as I had mentioned earlier in our analyst call, that with this sort of a solvency margin, I think the company has enough room to move asset allocation towards non-fixed income also.

Other than that, I would say things are stable. Our duration is also similar of 5.1 years, 5.2 years range, and the sector-wise exposure is also mentioned on the right-hand side, and all this exposure sector-wise is within the guidelines of the investment regulations of the IRDA. Coming to the next slide, slide 10, where we are looking at the loss ratios, and here again, as I said, we look at it over a period of time.

You can actually see loss ratios in my view are more or less similar to the trend we have seen over a period of time. The only thing in loss ratios in fire or engineering or some of that is that in the first quarter, the earned premium is a bit lesser, so even a small claim or a medium-sized claim can move the numbers.

As I said, loss ratios are broadly similar to the trend what we have seen in the last 9 quarters or so, but I would again repeat that we should look at loss ratios over a period of a year. 2, 3 per Percentages, points, movement up and down can happen in the business. The last slide is on technology, and here again, I would say the left side is more or less the same what was mentioned last time.

But in terms of API integration, if you see from 1st April 24 to 30th June 24, we have added roughly about 140 more APIs, and as you know, in terms of policy issuance, almost two-thirds of the policy issuance are happening through the APIs, and this obviously helps us to scale the business better, have better controls, and also, equally importantly, to give better service to our distribution partners.

Moving to slide 14, which I think is all of the slides are a repeat of the 31st of March. As you know that the last time for the full year we had published our audited results on IFRS also, and also done this reconciliation between IGAAP and IFRS. The IGAAP results are obviously of limited review by the auditors, while, as I had mentioned in the last call, that IFRS results will only get audited at the end of the year, for the full year, and we'll be publishing those IFRS results, audited results also.

But this is more a reconciliation, un-audited, of the IFRS results, and here again, under IFRS 17, what the discounting impact is, what is deferred tax, deferred acquisition cost, so everything has been reconciled between IGAAP as well as on the IFRS side, and you can also see that the net worth is different between Indian IGAAP and IFRS. So that's really briefly about the comments. We'll be happy to answer any questions that you may have.

Moderator: Thank you very much. We will now begin the question and answer session. Any one who wishes to ask a question may press star and one on their telephone and if you wish to remove yourself from the question que, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen please wait for a moment while the question que assembles. The first question is from the line of Rishabh Gang from Sacheti Family Office. Please go ahead, sir.

Rishabh Gang: Okay, thank you. My question is more on the industry, right? So what do you think is the current and possible impact in 5 years to 10 years of a direct-to-consumer player on motor and health insurance business? These players have better control on relationship, higher ability to cross sell, and better retention rates. Also, the price offered can have huge difference since they don't have to pay hefty commissions year after year to the intermediary. So, any view on that, sir?

Kamesh Goyal: So, Rishabh, I think I'm giving the view which is my personal view, and need not necessarily be Digit's view. I think in the last, say, 8 years, 9 years, 10 years, when you have to build a direct brand, and obviously GEICO is a company which really started building this almost 60 years, 70 years back, you have to get the customers to come now to your website, which basically means you have to spend money to build your website, to get the customers to your website or the app, and not really go on the other platforms.

Now, when you attract customers, then you have to also, in the next phase, you have to do the conversion. Now, customers who typically come in the B2C space, whether on aggregators or directly to the insurance companies, either would have some brand affinity, they already have some products of the insurance company in place and they're coming, or they would be coming because they're price-sensitive.

Now, my experience is, as you said, in other markets also, it's very difficult for any insurance company in, say, Motor space, if I give an example, to be competitive, even very large players, and more than, you know, even GEICO, I think, has a Motor market share in US of less than 15%.

So, if you become too competitive in price to increase the conversion ratio, your loss ratios will go up, the expenses will go down, and if your conversion is low, then your expenses are very high. So, these are actually the things which one has to look at when one is building B2C brand. In Digit, we’re completely channel agnostic.

Our philosophy is that we should be there wherever customer wants to come, through any channel, and in our direct-to-customer segment, we actually now focus more and more on organic visitors, so customers who want to visit our website directly, and that is the philosophy is.

Rishabh Gang: No, so due to the direct relationship right, these guys can provide more ancillary and support services to customers, also have higher control on the claim cost, and also that they have a better retention rate and cross-selling rate. So, what do you think about that, on that business model?

Kamesh Goyal: Rishabh, I don't know enough for me, you know, comment on that in terms of what exactly the cross-selling experience etc. is of B2C players,

Rishabh Gang: That’s fine.

Kamesh Goyal: So I wouldn't be able to comment on that.

Rishabh Gang: What do you think about the support services, right, or ancillary services which we are able to sell because of the direct relationship? Any view on that?

Kamesh Goyal: My view is that I think understanding is that today IRDA regulations prohibit you from selling any ancillary services. So, at least from a Digit perspective, we haven't evaluated it because we are not supposed to sell anything other than insurance.

Rishabh Gang: Alright, okay. Thank you so much.

Kamesh Goyal: Thank you.

Moderator: Thank you very much. The next question is from the line of Kaushik Anand from A91 Partners. Please go ahead, sir.

KaushikAnand: Hi, Kamesh and team. My question is specifically on Motor TP, which is this quarter will be different compared to last year. Is there anything you are seeing in the market which is forcing you to pull back on the third parties of the market?

Kamesh Goyal: Hi, Kaushik. And I think as you know, in the last 5-6 years, we have focused a lot on the Motor TP business and we are a large or a decent-sized player here. The challenge we have seen in Motor TP business in the last 3 years is that there's hardly been any price increase. There is always a bit of inflation in the TP claims.

And the market in the last 6 months, I would say, has particularly been aggressive on the TP market. So, I think during this 6 months, when you look at our numbers from January to March and now from April to June, viz in the TP business, we have not been as competitive in the market, in that business, which has led to this de-growth in the last 6 months in the TP business.

But as I said, I think this is a business we are really focused on and we continuously will keep looking at the opportunities. But if we feel that the business is not profitable, it doesn't make sense for us to write it, then we will let it go. And I think that's what is happening in this quarter, and as in the last 6 months.

KaushikAnand: Thank you.

Kamesh Goyal: Thanks Kaushik.

Moderator: The next question is from the line of Arjun from SBI Mutual Fund. Please go ahead, sir.

Arjun: Thank you for the opportunity. Sir, within the NEP competition, our contribution from government-held business and crop business has increased, whereas Motor's contribution has come down. Could you please explain on cost basis or on profitability metrics, how government-held and crop would be?

My guess is that it will be ROE dilutive because of no float and higher core. If you can explain what would be the overall proportion that we intend to do for the entire year? How are the profitability metrics in this business? It will be helpful.

Kamesh Goyal: So, Arjun, as you know, I think we don't really give any forward-looking statement. But what I would say is that even in TP business, and I've said this before, or any business, you could be writing it at a core of 100, and the ROE could be zero or a bit negative if the commissions are high. On the other hand, a business that are combined of 110 can actually give you a positive ROE if the acquisition cost from that business is low.

So that's really at a broader level. This government-held business you spoke about, I think this we have been doing now for almost three quarters. And so this is not really a business which is new.

It is the same business for which I think every quarter we have been getting an instalment, and that obviously would be reflected automatically already in the loss ratio. As of now, Arjun, we are not declaring every individual line of business ROE separately. So you'll have to excuse me from giving very specific numbers on that.

Arjun: Sure, sir. This works. Thanks.

Kamesh Goyal: Thank you.

Moderator: Next question is from the line of Dipanjan Ghosh from Citi. Please go ahead, sir.

Dipanjan Ghosh: Hi, good evening, sir. Just two questions on my side. First, you know on the health insurance side of the business, if you can kindly mention how the overall claims environment is behaving in terms of frequency or incidence of claims. Some of your competitors seem to be highlighting that the claims incidence has kind of seen a little bit of an uptick during the past few months. Second, you mentioned that you know the overall environment on the payout side and the competitiveness on the Motor TP business have seen was high for the last few months.

I just wanted to get some sense of whether things have been improving in June or let's say early trends in July. How would you read into it? And lastly, in terms of your B2B businesses, which is fire or liability, I just wanted to get some understanding of the strategies for this business and how should one think of growth prospects for your company in this segment over the next maybe 12-18 months?

Kamesh Goyal: Sure. So I think on the frequency, as I said, that in May, June, or May especially we saw slightly higher claims on health and not that cyclical trend we saw in Motor where we didn't really see a higher frequency in May. But we need to keep in mind that I think now there are big climatic sort of a changes happening.

I'm not getting into the ESG side of it, but purely from a perspective that in June we saw very high temperatures, for example, in India in lot of places. And obviously, May, June, this quarter, there was hardly any rain. But if you look at July, just one month, there are lot of places where it has just poured one month's rainfall in one single day. So I personally, or we didn't believe that while we should look at a month-on-month and year-by-year sort of a trend. But these are things which will change and which are changing quite fast. Overall, I think frequency and severity, both numbers lead to the loss ratio.

So from the loss ratio, you can actually see, as I showed you in our slide, but broadly we haven't really seen a change. Some one or two lines can go up and some can go down. But we have not, I would say, seen anything dramatic as of now, either in terms of things worsening or things improving.

Coming on the TP, I would say that July has just started. And I think by the time we get the numbers, segment-wise numbers for July for Motor TP for the industry, it is difficult for us to judge as to what is really happening. So I would actually wait for the numbers rather than just go by what one hears from three, four, or five people.

In case of liability, our focus is on all sorts of liability catering to the corporate customers. I think this business has seen a good growth for us in the first quarter. And this is also an area with a full corporate marketing team in place and decent capacity in terms of ability to write the business.

We'll keep on exploring more and more business. But I think just to repeat that when we look at any opportunity, I'll say about two years back in in the year, 22-23, or even 21-22, this business, the corporate liability-related business, product liability, D&O, E&O, etc, this business was really small for us. But last maybe 12 to 15 months, we have seen a bit of a price increase here. And that is where we have started seeing growth.

So market is dynamic. And I think if we are getting the price which we are comfortable with, we'll write this business and it will grow. But if it suddenly becomes very aggressive like what we have seen in TP, then we would not write that business. And that is why it becomes almost impossible for us to give any kind of a forward guidance because we look at the opportunities, the rate, supply and demand situation. And obviously we want to be across all channels in most of the lines of business.

But how this will translate in the next quarter is almost impossible for us to predict because we don't really work like that from a philosophy perspective.

Dipanjan Ghosh: Got it. So just one last question if I can. How has been the traction in business coming through your bank apartments and how are the relationships shaping up?

Kamesh Goyal: So I think in the group business which is health, PA, etc, the group business where we have seen decent growth, I would say that since we have de-grown in the corporate employer and employee business, in the other business which is non-employer and employee and most of it would come through institutional partners like banks and these FCs, etc, that growth is really driven by that portion of the business.

Dipanjan Ghosh: Got it. Thank you, sir and all the best.

Moderator: Thank you very much. The next question is from Jayant Kharote from Jefferies. Please go ahead, sir.

Jayant Kharote: Thank you for the opportunity and congrats, Kamesh, on a good set of numbers. Two questions. one is on the motor only I would like to pick your brains a little. Can you elaborate on the trends in new versus renewals over here? We've seen some competition, seen very strong growth in the renewal business over here, especially given that new vehicle sales are moderating. So I would like to hear your perspective. And also within that, if you could spell out competitive intensity in those. I know it's slightly more granular, but any direction would be helpful over there.

Kamesh Goyal: Thanks Jayant! So in motor, if you look at the new car sales, might not have grown the way they grew last year, but at least there was some growth overall. And so from that perspective, the overall business of the new car sales hasn't really changed, hasn't really dropped compared to previous year. It might not have grown.

Secondly, I think when you look at somebody like Digit, which is about six years has completed into seventh year operation, and the new car sales have really been strong in the last two years, prior to that COVID year and prior to that, the lockdown year. So I think, obviously, our renewal base is increasing year by year now. So the renewals in absolute amount are definitely increasing.

And then there is the third component, which in the industry is referred to as the rollover business in private car, which basically means that these are the renewals of other insurance companies. Now, here also, obviously, because last year was so strong in new car sales and prior to that, so there is a lot of business which flows, especially in the first year, after year zero when the new car is insured, from one company to the other and also from one channel to the other. I would say in our case, I think all the three, new cars, renewals, as well as rollover business, are really increasing in terms of the volume.

Jayant Kharote: And competitive intensity, new versus renewal?

Kamesh Goyal: So I think renewals again, depends upon channel to channel. So if you look at, say, agency as a channel, that has really good renewal ratio. In our case, I would say when we look at renewals in first quarter, through agency channel, we would have seen similar sort of a renewal ratio compared to last year, though on a higher base.

In case of rollover, etc., difficult to give a generic answer because this would also depend upon which customer segment we are talking about. Geographies, make, model, all of that also play a role. So, you might feel that I'm trying to evade the question. There is actually no generic answer which one can give about our business because the way we see it in Digit is in a very granular way. And if I give you a generic answer that, okay, in motor we are growing, which I said in renewals and rollovers, there would be some geographies or some make, model where we would not have grown. So competition intensity also can be very different geographical-wise as well as make, model-wise.

So it's just that I don't know how to answer this question from that perspective. But let's assume that the competition intensity is high. Let's assume that. Then it will show every quarter in the own damage loss ratios of the company. And the way we see it in Digit is we always look at expense ratio plus claims ratio together. So it could also happen in our case, for example, that the loss ratio is going up but it is getting compensated on the expense ratio and then vice versa.

And that's why I would say if you're looking at our numbers, you should see it on the combined ratio basis. And you should look at all companies' loss ratio. I think only two companies have published in us. All the detailed numbers will be up in the next one, one-and-a-half months. And if you track this, you'll actually get an idea. Just to give you an example, in 22-23 year, the own damage loss ratios for everyone had jumped dramatically because during COVID people were driving less and this has been the global experience. I think Google will see that in the UK, motor prices are at an all-time high. And then people came back on the road more than what the normal was and suddenly own damage loss ratios went up.

And you'll see that also in case of Digit on our claim basis slide. In one of the years, in 21-22, that year the motor own damage loss ratio was 74. So, all this will actually start showing on the data. We try and look at all the loss ratios of everyone in the industry to try and see what our trend is because you might have a feeling which is based on the feedback you are getting from others. But it doesn't really tell you what the reality is.

Jayant Kharote: This is very helpful, Kamesh. If I could squeeze in one last question. In the PA, personal accident book, is the Banker channel sort of helping you grow so strongly over there?

Kamesh Goyal: That's what I think when I was answering to an earlier question that I basically said that since our employer-employee group health business has actually de-grown, the growth is happening through the institutional business which is essentially NBFCs, banks, and other similar sort of players.

Jayant Kharote: Very helpful. Thanks, and congrats, once again for a good set of numbers.

Moderator: Thank you very much. The next question is from Aditi Joshi from JP Morgan. Please go ahead.

Aditi Joshi: Thank you for the opportunity, Aditi here from J.P. Morgan. Two questions from my side. Firstly, on the product mix and on the overall product portfolio, I'm just wondering, what's your thought process on expanding this product mix or introducing new product categories?

Are you thinking of introducing any new product categories because what we have seen in the other markets, especially in case of online insurers, let's say some product categories of cyber insurance or pet insurance, for instance. So any thoughts on that? And also, because you've highlighted that you have very strong tech capabilities on the AI side and the automated claims processing, etc.

So just any plans of adding, let's say, a technology export segment to just help other insurers on a tech export business segment? And just lastly, on your investment side, I was just wondering, in terms of the equity exposure, it's somewhere around 2% level. So why is it low as compared to the peers? And do you have any plans on changing your asset allocation mix going forward?

Kamesh Goyal: Thanks, Aditi. So let me start with investment. If you look at last six years, the way we have grown and we needed in our business when we were growing well and especially in the initial years because of the iGAAP accounting, your losses are high because you have to up front all the acquisition costs. So we needed a lot of capital for the solvency margin perspective itself, not from a cash flow. Because cash flow, I think we have been having positive cash flow from almost the first or the second quarter since we started. And in investments, if you're investing in equity, then any loss in the equity actually goes through a solvency margin.

So our philosophy has been that since we needed all this capital for growth for solvency margin, we did not want to take a risk on the equity side because in a down market, you might actually have to raise capital if your equity allocation is high. Now I think if you think from a perspective of solvency margin in 2017, and I'm just giving some rough numbers, and you have 10% investment in equities and the market drops by 20% or 30%, your solvency could drop by 20%, 25%, you would still be comfortable.

So I think we would definitely be looking at now increasing our allocation towards equity. And as I said, this quarter we reinvested roughly about 150, 160 crores in equity because we had an opportunity on a particular day. Going forward, we'll keep increasing it, but we don't really have a fixed time frame to say that every quarter we'll increase it by 1%, 2%. I think we have a fairly experienced investment team and also a board member who is a specialist in investment himself. So I think our investment committee and our investment team really would decide as to when we increase the equity allocation.

On the product mix, as I was referring earlier and I'll answer the question on the new category, that we don't drive ourselves for a certain sort of a product mix. We don't have any ideal target product mix also in mind. In terms of new categories, we are continuously evaluating whether it was a government health or it is crop or it is something else as an area. This year we are consciously looking at doing something more in the rural areas.

I think the product, the process, all of that is set very early. Not very early times for us, I would say, in terms of selling a few policies. But I think if this develops well, maybe after about a year or so, I will be happy to talk about this as a category.

In terms of AI, etc., I think we use AI and I would also use attached analytics to it both in pricing as well as on the claims side. And when you look at automating decisions, whether it is in underwriting, policy issuance, claims allocations, claim assessment, I think this is something which is continuously we have been investing and that the scope of all this has continuously also been increasing. I think some of the examples of this we had covered in detail in our RHP.

So if that is of interest to you, the data might be now about 3-4 months or maybe 6-7 months dated, but it will actually give you a good idea as to how we are looking at this AI and analytics.

Aditi Joshi: Thank you so much.

Moderator: Thank you very much. The next question is from the line of Kartikeya Mohata from B&K Securities. Please go ahead.

Kartikeya Mohata: Hi, thanks for the opportunity. I just wanted to ask one question related to the management expenses. So we witnessed a steep decline this quarter in management expenses. Is there any one-off in that or will this be a sustainable trajectory in terms of the expenses?

Kamesh Goyal: So basically, I think if you look at the entire industry, both actually on the life and the GI side, till 2023, the commissions were actually fixed by the regulator. And other acquisition expenses were actually going as part of the management expenses. Now I think after this was liberalized as of April 1, 2023, you would see this across all companies that a lot of management expenses are now moving towards commission.

If you want to have an idea in terms of what the efficiency is on management expenses, my suggestion would be that you should actually look at this ADAPT product or a line of business level for the last three years where you are looking at management expenses and commission together. And then it will give you, I would say, a real good idea about each company. Making comparisons at the LOB level can also be a bit difficult at times because if you are writing more long-term business, writing more 2 wheeler, 5 plus 5 business, compared to somebody who is more focused on CV business, for example, or on private car, 1 plus 3, there also it can make a difference.

But for one company, looking at line of business, total expenses over the last three, four years will actually give you a good idea about this. But again, just to repeat what I said earlier, in Digit we look at overall expenses plus claims ratio together and we don't look at them individually. We are okay to have higher expenses if the loss ratio is low and we are also happy to have a higher claim ratio and a higher COR if the commission and the expenses are lower because, as I said earlier, at 110 you can actually deliver a positive ROE and at a combined of 100 you might actually have a negative ROE. So that's really the long answer to your short question.

Kartikeya Mohata: Sure. Thank you so much.

Moderator: Thank you. The next question is from the line of Mahek from Emkay Wealth Management. Please go ahead.

Mahek: Thank you for the opportunity. So I had this question on personal accident. So you have grown significantly during the quarter in this segment. So, do you expect further growth in this segment? And secondly, can you share your thoughts on how you would like to grow in the crop segment? These are my two questions.

Kamesh Goyal: So as I said, I think this quarter what we saw is also a large policy. I think we'll keep looking for opportunity, but I won't assume that this is something which will repeat every quarter. So that's the answer I can give.

Mahek: I wanted to know your thoughts on how you're looking to grow in the crop segment.

Kamesh Goyal: So I would say, Mahek, I think you can actually see what the portfolio has been developing. How exactly we intend to grow, etc., that is something I wouldn't really want to discuss because everyone has their own philosophy in terms of how you develop different channels or different lines of business. So all I can say is that this is a segment where we did a lot of business in year 18-19, which was our first full year of business. Then the business vanished. Now in a small way, significantly still less than what we did in our first year, the business has started again picking up. And that is where we are as of now.

And depending upon the rates, depending upon how we see the opportunity, we'll keep exploring this segment. We need to just keep this in mind that crop business, especially in India, is highly dependent on monsoon. And the results can be very volatile, which is absolutely fine with us. But one cannot really take a very long-term sort of a view in a business to say that, no, we'll always write this business, this is the minimum we'll write because things change dramatically. And the best case in Digit is to actually look at third-party business.

If I remember correctly, in 2021, the third-party premium would have been more than 50% or 55% of our total business. And now this has almost dropped by half in the last three years. So things can change dramatically, especially in our sort of a philosophy in the way we write and drive business. But we definitely keep our distribution channels, our operational ability, our ability to underwrite, handle claims in every single segment so that if there is an opportunity, we can take it. But if there is none, then it's not necessary that we'll write that business.

Mahek: Thank you so much, sir, for this great answer. Thank you.

Moderator: Thank you very much. The last question is from Sujit Jain from Bajaj Allianz Life Insurance. Please go ahead, sir.

Sujit Jain: Yeah, compliments on a good set of numbers. A few one-liners if you can give. If we look at our size versus the industry leader who has also reported numbers, these are roughly four times our growth rates are similar. So could the growth rate be higher? Improvement in car this time has come from expense ratio. So how sustainable this is?

The improvement in expense ratio, Q and Q from 12.8% to 9.6%, how much of that is because of leverage and how much of that is because of managing costs better and therefore likely to sustain? And finally, you explained some bit of it in terms of our equity exposure, but yield on investment has fallen QoQ from the investment yield from 7.3% to 6.8%, if you can explain that. Thank you.

Kamesh Goyal: So, Sujit, the investment if you see, I explained in the slide and also mentioned we booked a 19 crores loss because we sell some government securities which would be in the next one year and booked that loss and replaced them with a three to five year corporate bonds where this 19 crores loss will actually get recouped in less than 12 months. And because the duration is longer of the bonds compared to the government securities, this will also then be value accretive for the rest of the period. If we remove that, then our investment yield has been more or less similar, 7.2 if you look at on an annualized basis compared to 7.4 in the previous year. So that's on investment.

I would say, in terms of expense ratios and commission, etc, as I said in Digit, we look at combined ratios together, both of expenses and claims ratio. And as I also explained, that commissions, if you're writing government business, the crop business might be just 2%, management expenses might be another 3%- 4%.

In government health, your overall expenses might just be 5%- 6%. In group health, it might be 10% including the brokerage, while in motor business or two-wheeler it could be as high as 40% commission. So all that is actually a function of the product mix, which you have.

And you can also see in our case that the mix is increasing towards the non-motor side. So this would always be a function of the product mix. As for the core management expenses are concerned, I think in terms of premium per employee, including outsourced employee, etc, we believe that we are doing well on that front compared to others in the industry. And that obviously is due to the fact that we invested significantly in the tech upfront and the benefit of coming as, as the scale is increasing more and more.

As for the other players, industry, etc, as I said, everyone has published the numbers and others will publish too. And amongst the listed companies you mentioned, they obviously are a very good company and we also look at their results with as much enthusiasm as we do ours.

Sujit Jain: So basically, can we grow at a higher rate? Their GWP is four times ours.

Kamesh Goyal: That is true. That's a matter of fact, Sujit. They started in 2001 we started in 2017. And so about 16 years later, I don't know the numbers correctly, but if you look at the top three, four players and then see how many years people took to reach the 9,000 crores, which we reached in our 60th, compared to what they had, or even from a market share perspective, I would not say that we have done amazingly well, but we have done better than almost most companies globally, not just in India.

But I take your point that our size is much smaller compared to the largest private player and we have a long way to go. I think that point is well taken.

Sujit Jain: And one just last question is on health, which is roughly 14%, 15% of our midterm and as an absolute number also is smaller. What is our right to win in health? How do you view this business and how do you articulate your strategy there?

Kamesh Goyal: The same way we had a right to win in motor TP business earlier, where we became a third largest player in our fifth year or in our fifth year of operations. And now we don't have that right to win, where we are de-growing. So same way in every single line of business, in fire, for example, we have grown more than the industry.

So everywhere you have to keep trying and building some sort of advantage, whether it is in underwriting, whether it is in distribution reach. But the way we see this general insurance business, is at the end of the day, it's an underwriting business. It basically means you should know what you are writing. Then we can retain that business. And if you look at last year, our premium retention ratio is the highest in the industry.

And for every single line of business, if you look at the last three years, overall, I think we probably would be the best in class or maybe the second best in class, looking at each year, overall portfolio. But even on every single individual line of business, my sense is, and you should double check, we should be in the top quartile. So according to us and our philosophy, the right to win only comes from your ability to underwrite the risk and retain the risk. And that is where we keep striving towards building our capabilities.

Sujit Jain: Sure, all the best. Thank you.

Kamesh Goyal: Thank you. Thanks everyone for joining. Look forward to you joining in our next quarterly call again. Thank you so much. Bye.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.