Management Discussion

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
We also have Jasleen Kohli, our MD and CEO, Ravi Kirtan, our CFO, Adarsh Agarwal, who is our appointed actually, and of course Piyush Bothra, who head our investor relations. So as again, like each time I speak, I just want to quickly refresh the framework which we have. Same framework every quarter. We explain how we think, not just what happened. 2 changes in how we are reporting this quarter. Uh, change one, uh, we now report only on, uh, Indian Accounting Standards, no IGAAP. Transition date, 1st of April, 2025.

Comparatives also on the same basis. In the Indian accounting system shows the economics more accurately. It obviously does not change them. The market is still soft other than property, where since mid-September we have seen some increase. Uh, no TP price hikes till now. Commissions continue to be high. And claim cost, especially in Q2, went up. One due to the floods in Gujarat, and, uh, uh, and twice actually in Gujarat, uh, and a smaller event in Northeast. And, uh, overall, we continue to choose profitability over growth.

And we continue to hold that choice as we speak. We always say that we do not worry about things we cannot control. We worry about things we can control. And like I said in the last couple of times, we are not betting on a TP price hike, on how courts read the judgment, or on capital markets. Uh, we just try and position ourselves looking at where the market is today. Uh, in, uh, Q2, flood losses were about 63 crores on net basis. The amount last quarter, uh, which is last year Q2, was about 10 crores.

So purely on that basis Uh, we lost about Rs 53 crores more compared to Q2. Uh, I have been for last 3 quarters speaking about private car own damage loss ratios. Uh, we'll follow with some details later, but, uh, it seems that the own damage loss ratio has started to turn for better. Like always, we'll take every question even if it means we have to slightly exceed 1 hour. Now going to slide number 4. Piyush, you can go to slide 4, uh, where we publish the numbers. So market, uh, motor market share is about 5.68% in Q2, slightly better than Q1 of 5.58%.

Own damage share improved from 4.76% in Q1 to 4.99% in Q2. August has been our best motor month in this financial year. AUM have gone up to now Rs 24,371 crore. This again is book value. We started looking at book value from last quarter, and this is up 15.9%. Uh, moving further Um, now going to actually slide 5, um, and I think this slide is something I'll maybe spend a bit of more time on this slide because, uh, as we said already, we are presenting this on the Indian accounting system. So insurance revenue moved to Rs 2,720 crores versus Rs 2,675 crore.

Uh, PAT, uh, excluding mark-to-market, uh, movement in capital markets, Rs 208 crores against Rs 277 crore. Flood losses, as I said, contributed Rs 63 crores this quarter against Rs 10 crores. Excluding flood, PAT would be Rs 255 crores versus Rs 285 crores. Last year. Uh, when we look at the overall, um, reconciliation from last year to this year in terms of profit before tax of, uh, 190 crores, uh, which is, uh, excluding mark-to-market, uh, and, uh, essentially excluding mark-to-market, uh, you will see that, uh, out of 190 crores and 270 Uh, 6 crores.

Mark-to-market was similar losses last year, 94 crores. This year, 88 crores. Flood losses this quarter, 63. Last year was 10. Uh, profit commission on reinsurance last quarter was 32 crores. This quarter is 4 crores. And private car own damage loss ratio has an impact of 23 crores. So when we look at this against Rs 348 crores of last year, with this reconciliation one can see that we are actually touching Rs 360 crore. And, uh, PAT also on a similar basis, we would be slightly better

compared to the last quarter.

The CISR combined ratio is Rs 99.8 crores. 99.8% versus 94.9%. Excluding flood, this 99.8% would actually be 97.4%, uh, versus 94.5% of last quarter. So about 2.9% higher. Solvency continues to be strong at 2.4%. ROE for this quarter is 4.4%. On IGAP, net worth because solvency is still on ICAP, and the additional, um, net worth which we have of roughly about, uh, Rs 3,300 crores plus, it cannot be distributed or used to write business today. This is also something which we have spoken in the past. So when we look at our profit after tax without MTM, Uh, for Q1 it was 239 crores, and Q2 without flood losses is 255 crores of this year.

So sequentially, Q on Q, there is growth only. Uh, moving further, I have already covered about, uh, AUM and profit details. Also, I think one point I also want to add here, which we always do- we can stay on the previous slide, Piyush. I'll tell you when we have to move. So one point I always have said that we always look at for fire engineering liability loss ratio on a gross basis because we are very conscious of the fact that ability to write commercial business requires not only high reinsurance capacity but also the flexibility in terms of pricing and underwriting.

Despite the flood losses which we saw in Q2, our fire gross earned loss ratio- and this is, I'm giving figures just on a gross earned premium basis, no discounting, nothing- is 59%, engineering is 62.4%, and liability is 25.7%. And, uh, for entire H1, we are looking at fire at 61.5%, engineering at 56.1%, and liability at 45%. So basically, our, uh, treaties, uh, especially for all commercial 3 lines of business, Uh, till now continue to show very favorable results. Now moving to the next slide, uh, when we look at this slide, insurance revenue is gross.

Reinsurance now is a separate line, uh, which is net expense from the reinsurance contracts. IDI loss ratios are gross, or combined ratios on a gross basis, and they leave reinsurance out. Claim ratio is 62.4% versus 48.2%. Combined ratio is 95.9% versus 79.7%. CSR, which includes The net cost of reinsurance, as I said, is already 99.8 versus 94.7. Excluding flood, this becomes better. So the difference from the IDA ratios is the reinsurance line, essentially net cost of 70 crores versus, uh, 382 crores.

So these 2 timing items drive most of it. Last year we had one-time release of reinsurer shares of IBNR after the Profit Commission review, and this year we earned Reinsurance Commission deferred from the treaties written in the H2 of last year. Flood recoveries obviously add to it. Now again, in the Indian accounting system, claims are booked at present value. The interest on that money is charged back as insurance finance expense. So Rs 171 crore this quarter is an expense against our investment income.

So one, do not get the full discounting benefit and income- investment income on top. The 2 offset. Uh, it is also important, uh, for investors and analysts. Uh, that is why I'm adding this point that, uh, CISR with the loss expense and commission split is the right comparison, uh, whether we are looking at insurers in India or as well as globally. Until other insurers, multi-line insurers, publish on Indian accounting system, I when we realize that the like-for-like comparison will be limited. I'm just looking at some of the other points which I want to expand.

I would say maybe 2 points more. New business in 2-wheeler in this quarter grew by 15% on non-collected basis, and our long-term advance premium as of September 30, 2026 stands at Rs 3,556 crores against Rs 3,209 crores in March '26. Now moving to next slide. So GDPi was minus 1. 1.2%, uh, versus industries +7%. GWP was -3.6%, uh, and flat, uh, I would say GWP if you exclude health reinsurance inward and government health, uh, business, which we had said already in Q1 we did not renew as, uh, pricing was found to be unattractive.

Motor, we have -4.1% degrowth, which is essentially driven by private car, which is -10.7%. And within private car, standalone own damage premium is down 40% after the price corrections we had taken specifically in April and May. 2-wheeler is up 18.6%. CV, commercial vehicle, is also down 20%, and within this, school bus, autorickshaws are a segment which has been degrowing, I would say, typically for the last 3 quarters, as we feel that the current commissions do not really make economic sense writing this business.

Fire gross written premium is -29.8%. In terms of number of accounts, etc., we continue to be present across. Some pricing discipline coming in from mid-September, and as I already said, that we continue in our philosophy to protect the treaty for all commercial lines of business. I am again just looking at a few more numbers. I think premium retention, a figure which we have continuously been sharing, uh, move increases to 84.3% versus 79.1%. Uh, higher retention continues to be a core strategy for us, and we have spoken in the past about, uh, the retention leading to a higher AUM.

Now moving to the next slide. And now I think most of the points in terms of CV, etc., we have covered. Uh, there was, uh, Uh, premium income of personal accident which moved to group health in Q2. So a bit of a change in classification. Uh, previously this was in our base in PA, now it has moved to group health. And, uh, again, uh, this year we have not booked 95 crores of government health and health reinsurance premium. If we exclude that, as I said, we would be more or less at, uh, at a flat growth rate.

Overall, I would say that compared to Q1, Q2 numbers in terms of, uh, growth, negative growth, uh, have reduced. Uh, and looking again with the festival season of October-November as we go forward, uh, We will, we will see on a month-on-month basis how Q3 goes. Now looking at this slide 9, I have already given numbers, but maybe I can cover a bit in more detail now. The private car OD, if you recall, in July we had said that we expect private car own damage loss ratio to stabilize in Q2. So the attritional loss ratio came down from 85.3% in Q1 to 81.1% in Q2.

So we actually saw the improvement. Frequency also fell in both August and September of this class of business, while severity stayed stable. Obviously, due to the impact of flood, the Q2 loss ratio, uh, is now 93. But, uh, as I said, uh, with the additional loss ratio showing improvement, we feel that the tide on, uh, on the private car loss ratio on OD side has actually turned. And, uh, whatever actions we had taken starting from February, but significantly more in April and May, this is something which is helping us to reach here.

Now we can move to the next slide on investments. I think, uh, you guys know this better. We had a fairly volatile quarter 2, both for equity markets, and we also saw interest rate spike. Uh, in equity, we are roughly, uh, at about 96 crores or so of unrealized capital gains. Uh, based on where the market is today, we feel this number would have doubled in unrealized gains. Equity mix now is 9.6%, uh, about 3 times of what it was in IPO. And, uh, we obviously, as I have been saying in the last 3 quarters, and we are also demonstrating that when the markets fall, we'll keep on adding equity.

And I would say in hindsight, one can say that to be sitting at a significantly higher target, close to 10% with unrealized gains in this market, is something which is satisfactory. When we look at debt, because you would remember I gave you some specific numbers, And, uh, if we look at March '25, our duration was 5.2. March '26, the duration had become 4.5. In June, it became 4.9. September, duration was 4.8. October, the duration was 4.9. So if I just look at from April to October, our reinvestment rate In fixed income in June quarter was 7.8%, September 7.7%, and October we have

been able to invest money at an investment yield of about 8%.

So on fixed income also, we are coming in from 5.2%, now we are at 4.9%. And this is also something I would say I have been saying in the past. That we have the ability to go up to 5.2 again in duration based on where we see the interest rates are. And again, I'm saying, like equity in hindsight, the fixed income play has also been consistent with whatever we have been doing in the last 7-8 years. Where our fixed income book has shown real good yield. So overall, when you look at the yield with the small capital gains, we are looking at roughly about 7.4%, close to 7.4% of the yield in this.

So again, I just want to reemphasize what we have been saying From day one, we look at core insurance profitability, which basically means dependence on capital gains, realized capital gains is a lot less. We can- we try and always go for a better asset allocation based on market, where we feel the market is, rather than taking a bet in a disciplined sort of a capital allocation. And despite significant flood losses in the quarter, our commercial treaties continue to show fairly good results. And quarter on quarter, excluding flood losses, we are actually showing increase in profit from Q1 to Q2.

I think I'll maybe- since I have covered most of the points, in equity and asset investments already. I think we can now probably move to the next slide. Now again, as I said, these are Indian Accounting Standards gross loss ratios discounted. Now when we I will just maybe add a caveat that they are not comparable with IGAP net ratios we used to show earlier. Uh, for example, TP is 4.2 here against 74.1, and difference is discounting, uh, in reserves, which comes back through insurance finance expense.

So this is just, uh, I'm repeating, I know, this point, but I just wanted to ensure that we are actually explaining the numbers in the way we see it. Overall, actually, if you look at from Q2, loss ratios are more or less stable between Q1 and Q2. If you obviously exclude flood, because this is on a gross basis, on a net basis then the loss ratios are showing a decent trend, including health, travel, and personal accident. And since some other companies have also started publishing a bit more detailed loss ratio in health, I just want to remind everyone that out of our entire book, less than 6-7% is retail health.

Rest is actually coming in from the group health insurance. I think that was the last slide. In this, we'll be now happy to answer any questions along with my colleagues.

Operator
Thank you, sir. We will now start with the question and answer session. Anyone who has a question, request you to kindly Press the raise hand icon at the bottom of your screen, and we can take questions one after the other. I repeat, anyone who has a question, request you to kindly press the raise hand icon. Yeah, we have the first question from Mahak Shah. Mahak, kindly state your name and organization and kindly go ahead with your question.

Mahak Shah - Analyst, MK Global
Yeah, hi, am I audible?

Questions & Answers

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Yes,

Operator
Yes, yes.

Mahak Shah - Analyst, MK Global
Yeah, so I am Mahak Shah from MK Global. I had this one question on the distribution paper. So the distribution paper just talks about benefit in terms of commission ratios, you know, moving down, especially for the TP book. So I just wanted to know, you know, what kind of benefit you are seeing in terms of your own TP book, how profitability is expected to move in terms of if at all the distribution paper is, you know, in the mirrors as per the final One. So just wanted to know your thoughts on how, you know, profitability is expected to move, especially with respect to the TP book.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Thanks, Mahesh, for the question. I would say I think discussion paper has come out with this new EOM guidelines and commission. And in the last almost 10 quarters since we have got listed, we have actually been saying that the EOM guidelines, the way they are, Uh, they have actually increased commission because some large companies who write crop, government health kind of a business, they use that to increase commission on the retail side. And the regulator's intent, which was correct to reduce the expenses, in fact the reverse has happened.

I have also been saying that our board decided and guided the management not to write loss-making business. Just to manage expenses. So I think when you look at this discussion paper, I think it acknowledges that the present EOM guidelines have not resulted, uh, in the outcome which was intended, and it has now suggested, uh, some action points, uh, where there is an EOM, but within that there is commission. It also has suggested as an example that business like crop should get 1/3 of the weightage.

I think at this stage, based on the discussion paper, we would not like to speculate as to what the final guidelines will be. As far as the financial modeling goes, I think you have all the disclosures of our company on the website. Split between commission and operational expenses. My suggestion would be you may want to run the financial modeling yourself. We have not really run that till now.

Mahak Shah - Analyst, MK Global
Got it, sir. Thank you so much.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Thank you.

Operator
Thank you. We have the next question from Sanket. Sanket, kindly unmute and go ahead.

Sanketh Godha - Analyst, Avendus Spark Institutional Equities
Thank you. Thank you. Thank you for the opportunity. This is Sanket from Avendus Spark. Sir, this question is on your loss ratio, which clearly includes discounting factor. And ideally, we would love to see loss ratios reported without factoring the discounting factor. So just wanted to understand if motor TP loss ratio is 44.3 for 1H or 45 for the quarter 2, how that number looks without discounting. And just from a like-to-like comparison, either from 1H to 1H, what is the discounting rate you have assumed in the current year and what was in the previous year and how much it would have helped in reporting either a higher or lower loss ratio?

And second, just wanted to understand this discounting factor is largely applicable only for motor third party or any other line of businesses which are little long-term in nature, or you have written long-term contracts like home fire insurance or long-term PA or credit businesses, credit protection businesses. There we have applied discounting approach, or, or we are just, uh, doing it on annual basis? That's, that's my first question, sir.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Thanks, Sanket. So before I ask Ravi to answer, or Adarsh to answer on the discount rate, I think, um, if I remember correctly, we had a short call after our Q1 results, and I think the question which was, uh, the something which you also mentioned is that we can only cover on what is published. And the challenge I would say we will see on a continuous basis. If we publish one number, uh, one would actually say, um, that no, what is it on the other side? So all I'll say is, which I said already earlier, Sanket, that if we look at- it's not that one is getting the full benefit of discounting on the loss ratio.

The investment income also gets reduced. And the number I gave, if I recollect, is Rs 171 crores just for Q2. Now the second point is discount applies to all lines of business. So that I would say is the second point. TP obviously being more long-term in nature, you would see the impact more on the loss ratio. But because the impact is more on the improving loss ratio, one would also have an impact, countervailing impact on the investment income where it will go through the investment expense. Now I'll pass it on now to Ravi and Adarsh to basically say what is the discount rate which was there in the first quarter, what is in the second quarter on this.

Adarsh?

Adarsh Agarwal - Appointed Actuary, Go Digit General Insurance Limited
So we are using the risk-free rate as the discount rate and each time we use the respective quarter closure rate. And we also adjust the discount rate for the illiquidity premium, where we use the gap between risk-free rate and the AAA corporate bond yield rate difference of that, and 25% of that goes into the discounting. So if we compare Q1 versus Q2, there is not significant impact on the discount curve and hence the discounting. And overall on motor TP line of business, of course it will vary from Period to period and accident year to accident year, but on overall basis on outstanding liabilities plus IBNR, we have close to about 20% impact for TP on of discounting.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Others, you want to also give the exact discount rate methodology you have explained of Q1 and Q2, what that number is, though not significantly different.

Adarsh Agarwal - Appointed Actuary, Go Digit General Insurance Limited
Just a second. So the discount rate will vary by the term of the liability, and I am looking at the September discount rate for the liabilities which are up to 1 year. The discount rate is about 6.2% to 6.6%. As we go longer term, then, you know, more than 8 years, discount rate becomes close to about 7.5%. But there is a curve by, you know, the duration of the liabilities, uh, and rates- discounting rate varies by that.

Sanketh Godha - Analyst, Avendus Spark Institutional Equities
Uh, sorry, Adarsh, I missed your illiquidity premium, what you've attributed while discounting.

Adarsh Agarwal - Appointed Actuary, Go Digit General Insurance Limited
Uh, so, Sanket, basically for discounting what we use is the risk-free yield curve, which is the government bond yield curve, and at the quarter end. And then what we also do, we calculate the AAA bond yield curve at the same time of period. And the difference between these 2 yield curves, 25% of that is added as an illiquidity premium. And the concept why we do add this illiquidity premium is because the assets that we are holding, ideally this discounting should, you know, replicate the assets we are holding and the return that we get there.

But that calculation becomes too dynamic and complicated, so this is the Approximation which is you know suggested in the IFRS and NDS guidelines. So the difference of the two and twenty five percent of that that is added as a illiquidity premium on top of the risk free yield curve to arrive at the actual yield curve for discounting of liabilities.

Sanketh Godha - Analyst, Avendus Spark Institutional Equities
Understood. So so so Adarsh in simple words in in a scenario when when the spread between government bond and corporate paper will expand meaningfully, maybe there will be times when it will happen, uh, if it is, uh, it, or, or if it is volatile across the years, uh, then, then accordingly it is fair to say that your illiquidity premium will also have its own, uh, creation of noise in the numbers.

Adarsh Agarwal - Appointed Actuary, Go Digit General Insurance Limited
Yes, it will have an impact on the discounting.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So, Sanket, I think the way one should look at it is whatever is the change in discount rate It will basically get unwinded in the next quarter. So sometimes one will benefit, sometimes one will see a negative impact of the discount

Sanketh Godha - Analyst, Avendus Spark Institutional Equities
Rate. My worry is that the predictability of the numbers, so, so how, how dynamic it could be, uh, because, because, uh, and, and, and to your point when you just mentioned that investment income is, is, is also lower because of the discounting factor, then ideally the combined ratio or CISR, what you are trying to- what we are trying to communicate, that also doesn't look logically right, right? Then we need to add financial result to the entire CISR and see how the trend is behaving. And that probably will be the more ideal way to analyze from KRA point of view how the company is looking if we use IFRS as a benchmark.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So, Sanket, I think we can, uh, in, uh, when we do in February our annual analyst day, we'll be happy to discuss some of these things in detail. But, uh, I actually had a chance to discuss with some couple of CFOs of maybe the top 3 insurance groups in the world when we were also moving to Indian accounting system or IFRS 17. Uh, everyone said that this small Um, I would say change can always be there, obviously a lot more in life, a lot less in P&C. But I did not hear from them or any of the analysts' report where any analyst has actually come to a conclusion that IFRS 17 will not give a better situation than the earlier accounting systems.

But as I said, we'll be happy to cover this topic in a lot more detail. In terms of where we are.

Sanketh Godha - Analyst, Avendus Spark Institutional Equities
In India, claims take a little longer period of time to settle compared to probably global economies in

motor TP especially. You

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Will see that in the triangles.

Sanketh Godha - Analyst, Avendus Spark Institutional Equities
Okay. Because

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
In Indian accounting system, triangles will get published every quarter. So once you will be able to see the movement of the triangles on TP claims. Also on a quarterly basis. So I honestly don't really see to be in- I don't see to be an issue from that perspective, because if discount rate is changing, then the liabilities will also change, you know, in the triangles.

Sanketh Godha - Analyst, Avendus Spark Institutional Equities
Yeah, yeah, got it. And, uh, and, uh, Kamesh, will you be comfortable to disclose the combined ratio, uh, of our previous practice of reporting only considering DAC but not factoring in the discounting factor kind of a number, which, which we, we did it till last quarter, uh, or, or IGAP combined, you can say, with, with DAC benefit.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So Sanket, I think, um, uh, this combined ratio in IGAP is something which from day one we have said it is not, uh, which gives logical answers. As far as what you have suggested, uh, I think we'll be more than happy to do this if we see other companies are also doing it.

Sanketh Godha - Analyst, Avendus Spark Institutional Equities
Understood.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So I think next year, after Q1 results in July, whatever others are publishing, all I can say is from our perspective is we are happy to be more transparent than others, and that is what we have been trying to do in the last 2 years also. Uh, but, uh, at this stage, um, I would- you would appreciate that for us to continue to give 2 or 3 set of numbers and then have a discussion on each of them, uh, it's not only confusing to others, but it's also confusing for us. But if it is required for peer benchmarking and others are publishing it, we'll be more than happy to give it.

Sanketh Godha - Analyst, Avendus Spark Institutional Equities
And yeah, fair point. And, and lastly, yeah, when, when we're trying to do onerous, uh, assessment, um, um, any, any, anything, uh, for example, I think we, we have a reversal in the current quarter, but we, we had an onerous contract in 1Q27 if I do a back calculation. Or, or so, so just wanted to understand, uh, these onerous contracts are predominantly Uh, sitting in, in which, uh, which product line, whether, whether it is group health or government health or, or, or, or motor or, or motor OD, anything.

Uh, and, and when you're trying to classify onerous, uh, are you following an approach, uh, whether OD is treated separately and TP separately, or it is OD and TP put together are treated, uh, this thing? See, see Honestly, you suddenly reported IFRS numbers and there are too many questions. I don't know whether this is the right forum or not, but just asking on onerous, at least if you can tell that point.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So basically, I think our onerous contract is coming from Motor TP and Group Health. And we basically, with auditors and everyone, one has come out fairly granular in terms of the lines of business where we are testing it for own-risk contracts. Now, this again, Sanket, will be more than happy, uh, as we get into next year, that if analysts, some investors, they want to come out with some sort of a standard reporting for own-risk contracts, we'll be more than happy to follow that along with other companies.

And as for having some additional questions, I would say, uh, we can pick it up again, uh, in the next 3-4 weeks post-Diwali. Um, I think, no, you can contact Ravi and Piyush for a discussion. But, uh, I'll again repeat what I said, we have anyway intended that sometime when we do our annual analyst meet in February We are going to cover Indian accounting system in a bit more detail so that as to how we are doing and as the entire industry moves from 1st of April '27, then that is also something which one can look at.

Maybe now we can go to some other questions because 3 participants I can already see

Sanketh Godha - Analyst, Avendus Spark Institutional Equities
Have

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Questions.

Sanketh Godha - Analyst, Avendus Spark Institutional Equities
Okay, I will join back in the queue.

Operator
Thank you. We have the next question from Ananga Rana. Request you to kindly go ahead with your question.

Ananga Rana - Analyst, A91 Partners
Hi, uh, I'm assuming I'm audible. Um, so yes, please. So given that we are in a soft market, why has our expense ratio gone up? Are there specific areas where we are investing in, as in hiring more employees, etc.? Are there specific areas that we're focusing on?

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So, uh, Ananga, if you look at- I think we have been saying it and it will be visible from the numbers- on an operational expense basis, we are, uh, if we look at the top 10 companies, despite writing more retail business, we are industry's best. Uh, why expense ratio goes up is essentially driven by 2-wheeler business, where proportion of 2-wheeler business is going up. And overall, commissions on that are higher than the other line of business.

Adarsh Agarwal - Appointed Actuary, Go Digit General Insurance Limited
Got it. Okay, thanks.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Thank you.

Operator
We

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Have anyone else?

Ansuman Deb - Analyst, ICICI Securities Ltd.
Yeah, we can take the call from Nitesh ji.

Operator
Nitesh, kindly go

Nidhesh Jain - Analyst, Investec Capital Services (India) Private Limited
Ahead. Hi, thanks. Hi, Kamesh. So in the insurance sector where there is a commission cap and motor TP remained tariffed, how Godigit will stand in that scenario and how you will position the company in terms of growth, etc.? Because Pricing is fixed, commission is fixed. So how do you place yourself to, let's say, gain market share in that scenario?

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So, Nidhesh, I think as far as this goes, it actually doesn't really change. When the- if you look at, we basically have 2 factors only on writing any business, whether it is TP or fire or anything else. One is price and second is commission. Now wherever pricing is fixed, now in the existing scenarios companies were playing on commission. Now in the new scenario, uh, if somewhere commission reduces, then one can say now at this commission what is the business, uh, I am happy to write. So if commission goes up, for example in case of CVs, school buses, autorickshaws I spoke about, and we felt it is not economical, we don't write that business.

If commissions come down somewhere, we'll start writing that business if we are not writing today. But the focus of any underwriting company has to be on risk selection and better underwriting. Now, that would not change irrespective of what expense of management regime one is in. Uh, in a way pricing or commission is driven by the market. You as an insurer have a choice to say what is a business I am willing to write and what is a business I am not willing to write. And obviously I'm saying it is a general philosophy, uh, because some business would be compulsory to write, uh, at whatever rate they are.

So from that perspective, we don't expect any change in the way we underwrite business.

Nidhesh Jain - Analyst, Investec Capital Services (India) Private Limited
Yeah, sure. Philosophy is understood, but how you source the business? I think because there could be repercussion on that front because right now one of the way to source business is to give better commissions. And now everyone is paying same commission. So how Godigit stay relevant to in minds of let's say distributor or customer to source that business?

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So, Nidhesh, I think if the- maybe if what you are trying to say, if I understood correctly, is that if we can't pay a higher commission, one cannot write that business. But commission has been fairly volatile this year. If you look at, we have actually lost market share in TP. Now it can only happen if Other companies are paying more commission than us, isn't it? So my sense is how we source business, distributors- you have to work with distributors. Obviously, we are a partnership-driven company.

You also have to look, keep looking at new channels and new partnerships, uh, through which you have to drive, say for example, motor business. So I think that is something we'll keep on doing. Uh,

it's not that before Digit came nobody was focused on TP business, because everyone writes TP business, or fire for that matter, or motor own damage. So we don't really see how, uh, fixed commission changes either the underwriting game or the distribution game. What is for everyone What is free is free for everyone.

Nidhesh Jain - Analyst, Investec Capital Services (India) Private Limited
So basically, in that regime, do you think Godigit will benefit or Godigit will be worse off?

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
In, in which case?

Nidhesh Jain - Analyst, Investec Capital Services (India) Private Limited
In case of fixed commission.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
I see no reason why we will be worse off.

Nidhesh Jain - Analyst, Investec Capital Services (India) Private Limited
Sure, sure. And, and secondly, uh, So you have been critic of IGAP accounting, IGAP combined ratio. Uh, do you still see some shortcomings in IFRS combined ratio, or they are the 2 reflection of economic profit?

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
I think this CISR, uh, and as I was replying to an earlier question, uh, whomsoever I've spoken to globally, both insurance companies and read a few analysts' report People feel that CISR is the best accounting system to show the results. What we have to keep in mind, and I think this is really important, and thanks for asking this question, whether you use IGAP or you use Indian Accounting System or IFRS 17, the basic economics never change. It's just the timing. Of profit recognition which changes.

Economics of business is driven around cash flows, Nidhesh. So

Dipanjan Ghosh - Analyst, Citigroup Global Markets India Pvt Ltd
Expense

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Is an expense, income is an income. So the issue is, in case of- if you look at, say, one big difference, if- or 2 big differences if I have to give. In IGAP, you can, uh, reinsure a 5-year portfolio and you can book the reinsurance commission of 5 years upfront. Which obviously shows massive improvement in your results. And we have discussed this in the past, that this has been a way where even a lot of bigger companies don't increase retention and, you know, keep reinsuring more and more for booking upfront profit.

Now this would change- places you must visit before you leave- uh, this would change in, uh, Indian accounting system because reinsurance commission will also get deferred. Now when we look at, say, claims, and, uh, in case of claims, uh, you- if suppose you are settling a claim of a particular line over 4 years, you will keep earning the investment income of that over 4 years. Now in Indian accounting system, you take a net present value, the present value of those claims today, so you reduce that But since you will not be- you are already reducing your value, you actually have to expense it out from your investment income.

So basically, economically, one will have to make money in this case, in case of claims, by earning more than what the rate at which you are discounting. So then again, this will not change the economics. It is just an issue of timing. So economics don't change under any accounting system. It will become significantly easier for people to compare results. Now, one question which a lot of international analysts and investors keep asking us is when in India you will see combined ratio below 100. And I would always say that if you look at IFRS 17 We were below 100 last year.

Even for a bad quarter, which is significantly influenced with the Gujarat flood claims, we are still below 100. So it's not that India as a market is terrible compared to other markets. Obviously, we are not sitting on 95, 96 sort of a combined ratio, uh, compared to some developed markets, but We can be there. Last year, if I remember, we were at 97.4 combined. This year, first quarter, we were again close to 97.4. So I think for global investors and analysts also, it gives them a true picture.

Otherwise, it becomes impossible for a person to understand how one market is and how one company is compared to the other if everyone is not following a same sort of accounting standard.

Nidhesh Jain - Analyst, Investec Capital Services (India) Private Limited
Yeah, sure, sure. And just one more question is on, uh, so I think couple of quarters back you mentioned that you are looking to introduce one product with on the commercial lines which can become sizable over 2 to 3 years period. So is there any update on that?

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So we have introduced the product, uh, also in the market. That product has come. Uh, so we have started now building good capabilities in that. Some sort of volumes have started coming in, but I would again wait for another 6 months to say that how substantial this business is. But in terms of starting the business, we have started. We are giving a lot of quotes. A full pricing and rating model has been developed on that. It is now also being put on the portal, though the number of quotes we are giving today may be less than 20, but we foresee that if it becomes 100 or 200, then we should be there when the market turns on this.

Nidhesh Jain - Analyst, Investec Capital Services (India) Private Limited
Sure, sure. And this last question is on Gujarat floods. So is your market share of losses similar to the industry, similar to your market share, or It's lower or higher in terms of Gujarat. So

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
I think this is easier to answer in case of non-motor claims because non-motor claims also flow through the to the reinsurers, etc., and one gets a better idea from the reinsurers as the data is collated. I think in case of non-motor, our share of or fire. I would say more precisely, our share of losses in fire would be less than what our market share is. And, uh, if you look at, uh, I think we probably are the only company which is still giving gross earned loss ratio. Uh, so I already mentioned those loss ratios.

For us, Q2 in fire is actually slightly better than Q1. So, uh, on the fire side, Uh, this is something which is, uh, I would say a good sign. Motor is very difficult to compare because when we look at floods, and, uh, why it is difficult is, uh, if you are writing electrical vehicles, the chances are your losses will be lot more in case of floods because, uh, lot of batteries of manufacturers can't be repaired. Uh, battery itself is 50% of the value of a vehicle. So the salvage values are a lot less in case of electric vehicles.

When it comes to petrol or diesel vehicles, the salvage value in a total flood claim can be between

50% to 60%, obviously depending upon make, model, etc. So of the market value. So motor is a bit difficult for- unless we really see the figures for us to say. But on fire, as I said, in our view, looking at the loss we had, looking at our overall treaty loss ratio, we would have done better than our market share and premium.

Nidhesh Jain - Analyst, Investec Capital Services (India) Private Limited
Sure. Thanks a lot, Kamesh.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Thank you.

Operator
Thank you. We have the next question from Dipanjan Ghosh. Dipanjan, kindly go ahead.

Dipanjan Ghosh - Analyst, Citigroup Global Markets India Pvt Ltd
Hi, good evening everyone. Sorry. So just on the health business, if I look at your NDA loss ratio on health, travel, and PA, both for 2Q and 1H, it has seen some improvement, especially 2Q. Now firstly, would it be fair to assume that a majority of that would be driven by the group employer-employee business, given that that would be the dominant portion of the business? So that would be my first question. The second, on similar lines, I mean, given that now you have seen a phase where the group employer-employee business loss ratio seems to have stabilized or maybe improved also, do you think the pricing regime has improved and maybe over the next few quarters growth trajectory can substantially improve?

And finally, within your health portfolio, you mentioned retail would be around Maybe maybe single digits within the group business. How much would be employer employee and non-employer employee mix for the first half? If you can give that number.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So Deepanjay, I would say in case of group health, loss ratios will be more or less similar compared to where we were, and so the combined ratio would be for employer employee. What I think we foresee. Can improve the pricing in employer-employee group health is that if the weightage given to it under EOM, uh, to this business is reduced. As we know, a lot of companies write this business to manage their EOM. So like crop, if this is also- the weightage is reduced to say 1/3, etc., we'll actually see this improving.

And this is not just about EOM. I think I have, uh, in the media recently have given an interview that in case of group health employer-employee, loss ratios are more than 100% for the industry, just the loss ratio. While in case of retail health, the loss ratios are more between 65 to 75%. So what is happening today is that these EOM guidelines are actually making retail customers subsidize corporate customers. And that is something which has to actually change. So this is way, way beyond the EOM.

My sense is that with the debate which is happening, the complaints which the discussion paper has given in case of retail health, etc., I think that is something which one should see some changes coming. If I see the recent media reports, I think 4 government companies who write very substantial group health business they have extremely high combined ratio on the group health. So group health, we have to see, um, if discipline has to come because it's already highly loss-making for the industry, is that people don't write this business to manage the EUM.

So that I would say is the issue in health. Secondly, I think we continuously have been building the capability in case of group health. For example, fraud engines are now getting better every month. Uh, we are now negotiating and discussing, uh, to have MOUs with more and more hospitals, uh, which are becoming more efficient, I think, from a cost perspective. So I think these are 2-3 areas also, uh, where we feel with the building of the capability. And also similarly on the pricing side, I think a bit of an improvement, just 5% increase in the pricing for group health will give us an opportunity to grow the business a lot more.

As for the split, I don't have it offhand, but my sense would be only on health because- or maybe health and PA together. The employer-employee would be 80%, slightly up and down, but it will be 80%. Retail would be maybe about 6% or so, and the rest could be non-employer-employee in health and group health and PA. But this I am saying from memory. I don't have an exact number in front of me, Deepanjay.

Dipanjan Ghosh - Analyst, Citigroup Global Markets India Pvt Ltd
No, that's fine, Kamesh. Just one small question if I can squeeze in. Uh, your equity, uh, REITs and InvITs are almost, almost touching 10%, maybe a fragment lower. Uh, do you see scope for that, uh, increasing over medium term?

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So, Dipanjan, I think, uh, we are at 9.6% on a book value basis. Market value would be slightly higher, uh, and this excludes 81 bonds. So I think, as I said, we have actually increased from roughly 3.4%, 3.5% to 9.6% or so in 2.5 years, and we still have, you know, small unrealized gains. Now, since we are at 10%, looking at our solvency where we are today, plus the fact that we don't have, touch wood, any unrealized losses sitting on it, I think now we are looking at moving to 12.5%. Of AUM to equity, including REITs.

But again, this is, uh, will be followed based on what we think, uh, according to our capital allocation model, when is the time for us to invest. And as I said, we have been doing it religiously, uh, quarter by quarter. Uh, with the growing AUM, we have been increasing the equity allocation. And secondly, also, I think we have to Um, keep in mind that fixed income, which is still 90% for us, uh, I gave details both on duration play as well as reinvestment yield. So fixed income, which has always been our real, real good strength, we continue to do very well there.

So on investments both in equity and fixed income, uh, we are sitting on some great optionality, Dipanjan, and I think this is something which I have been saying for the last two quarters, and also we are demonstrating how we are taking advantage on the market opportunities. Did I answer that question?

Dipanjan Ghosh - Analyst, Citigroup Global Markets India Pvt Ltd
Absolutely, Kamish. Thank you, and all the best to the team.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Thanks a lot, Dipanjan.

Operator
Thank you. We have the next question from the line of Anshuman Dev. Anshuman, kindly go ahead.

Ansuman Deb - Analyst, ICICI Securities Ltd.
Hi, thanks for the opportunity, sir. I have two questions. One is. If you can share something about the

possible role of, you know, IDBI Bank going ahead in our business journey, that is one. And second is, throughout your conversation, I picked up certain notes where you kind of indicated there's some improvement in certain lines right now. You know, I think motor OD you mentioned. So in terms of green shoots, uh, there has been some improvement is what I picked up. Uh, am I reading right? Uh, just, just these 2 questions.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Thanks, Anshuman. Uh, on motor OD private car, I think just to be clear, uh, in that I did not say today, but in the last 2 calls I have been saying when motor OD is a problem for us, it's only from a private car perspective. 2-wheeler, no problem. CV has been Consistently there. So private car motor OD in attritional loss ratio, I had said in July that we expect it to stabilize. Um, I think Q2 is showing us that it is maybe better than stabilizing because I gave the exact numbers. We have seen actually quarter-on-quarter reduction in attritional loss ratio by roughly about 3%.

Now if you just think from an earned premium perspective Or gross or net doesn't matter in OD because retention is more or less 95-96%, 4% obligatory. Uh, the actions which we have taken in April and May, uh, after that business which we are writing obviously will have better loss ratio compared to what we were earlier, but that earning in premium and summan will flow month on month. So based on that, one would expect- and I'm no forward guidance or anything- as the mix of business written after April increases, we will also see improvement going forward.

And it was the same basis, uh, on which I had said in July that we expected to stabilize in case of Uh, private car in Q2. Did I answer this question before I move to the next?

Ansuman Deb - Analyst, ICICI Securities Ltd.
Yes, sir, that's clear. Thank you.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Okay, now in case of IDBI Bank, I would say that first of all, this is something which is a transaction which is going between Fairfax and the Government of India. Um, and, uh, this is- I would say we are not privy to where the transaction, etc., is, when it is likely to be completed. And as Fairfax, uh, press release had also said that Fairfax intends to sell their shareholding in Digit GI, which is Fairfax Shareholding and Digit GI, to the IDBI Bank. Uh, now in terms of- so I, I just want to say that, uh, other than what Fairfax publicly announced, I have no real Um, uh, other information other than what the press release had.

I think when you look at, uh, bank assurance, and in case of Digit, uh, though we work with a lot of banks, uh, both large private banks- we recently started with the large public sector banks, we work with NBFCs- but obviously we did not have one large bank as part of the group. And we know that bank assurance business typically, uh, both in life, GI, health, is more profitable compared to the other channels. So I think if the transaction goes through and we are able to, uh, uh, become like a- the bank becomes a corporate agent of Digit, then obviously this is Something which we would want to, we would be happy to then try and develop a bank assurance relationship with a large bank.

Dipanjan Ghosh - Analyst, Citigroup Global Markets India Pvt Ltd
Understood, sir. Thank you. Thank you.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Thanks, Anshuman.

Operator
Thank you. We have the next question from Nishant. Nishant, kindly go ahead with your question.

Unidentified Participant - Analyst
Hi, am I audible?

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Yes, Nishant.

Unidentified Participant - Analyst
Hi, thanks. Uh, you know, I'm just looking at the, uh, you know, the acquisition cost line, uh, you know, which is, uh, B2 in your financials. Uh, you know, if you could just help us understand how much of it is to third parties and how much of it is, uh, not to third parties.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Sorry, not to third parties means, um, so some part

Unidentified Participant - Analyst
Of the acquisition expense is actually a commission which is paid out. And some of it could be, you know, which is linked to acquisition but not actually a commission.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Ravi, you want to answer? Because whatever we pay is commission, is commission, Nishant. But maybe I'll ask Ravi if you want to answer this.

Ravi Kirtan - Chief Financial Officer, Go Digit General Insurance Limited
Ravi, we don't have this, uh, like concept which we are talking. What is paid is commission only. There is no any kind of third party. commission. no no,

Unidentified Participant - Analyst
I mean to say that incentives that may be paid to the team, you know, or so on, which which is linked to business. Is that you know which does it come in B O B O? Ah, okay okay.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So Nishant, maybe now I have understood the question. So you are saying other acquisition expenses which could be related to your own employees. Would that be correct?

Unidentified Participant - Analyst
That's right.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
So Nishant, I don't have we don't have this number readily available. But on an overall basis, we would not expect this number to be more than 1.5% of the premium. This would be a small number.

Unidentified Participant - Analyst
Got it, got it. Thank you very much. That was my question. Thank you.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Oh, thanks, Nishant.

Operator
Thank you. Since there are no further questions, I would now like to hand over the floor back to Mr. Kamesh Goyal for his closing comments. Over to you, sir.

Kamesh Goyal - Non-Executive Chairman, Go Digit General Insurance Limited
Thanks, uh, everyone. Um, I think, um, as I said, we, we had a decent quarter despite, uh, the Gujarat floods. Investment, again, we are nicely positioned. And, uh, we also, as I said, we are looking at on a quarter-by-quarter basis in last 2 quarters The degrowth, etc., is now reducing substantially. And with some pricing discipline coming back in fire, um, we hope, uh, the next quarters and couple of quarters are better from that perspective. Uh, just want to thank you again for joining us. And from my and all my colleagues' side, Wishing you all a very, very happy Diwali.

Thank you.

Ansuman Deb - Analyst, ICICI Securities Ltd.
Thank you, sir.

Operator
Thank you, sir. Ladies and gentlemen, you may now disconnect.