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DISRUPTION SERIES
(VOL 10: General Insurance)

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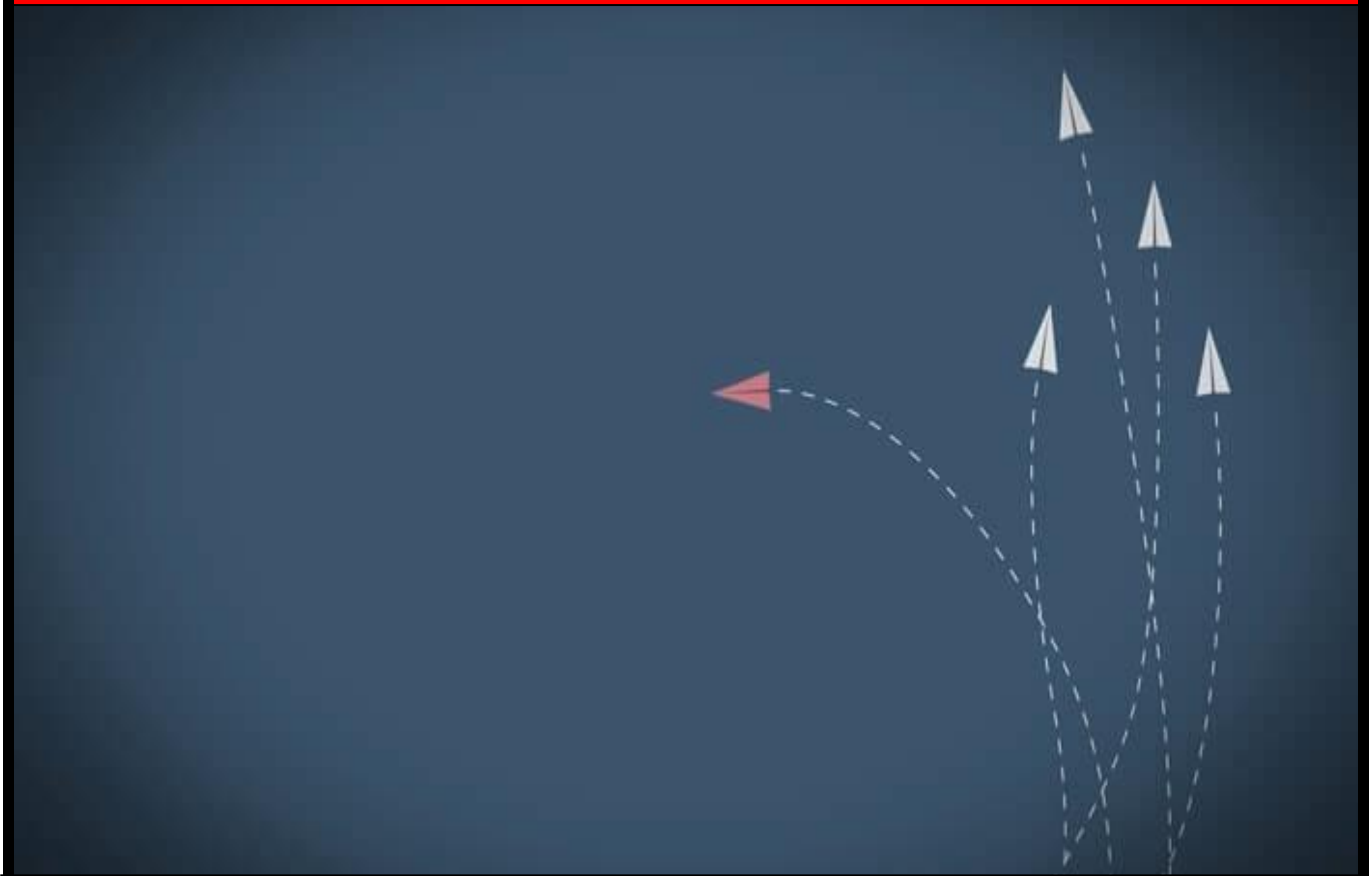

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Disruption is inevitable: We are prepared

We at Ambit are constantly trying to stay ahead of the curve by drowning out the noise and looking ahead. In keeping with our long term investment thesis, we like to stay up to date with not just the present impediments faced by your portfolio companies but also long term disruptions which can hit these companies. Hence we will regularly come out with our thoughts on disruptions in your portfolio companies/ sectors and for the tenth volume of this series we have chosen **General Insurance Industry** with a special focus on **ICICI Lombard General Insurance**

A disruptive technology/ innovation is one that helps create a new market and value network, and eventually goes on to disrupt an existing market and value network (over a few years or decades), displacing conventional wisdom or technology. This note takes a closer look at the General Insurance industry with a focus on ICICI Lombard's leadership, moats and the possible disruptors that may lie ahead for the company over the longer term.

ICICI Lombard – The Largest Private Player!

General Insurance in India – An Industry Transitioning from highly Regulated

Seventeen years after the privatization of Life Insurance Industry, the General Insurance Business (Nationalization) Act was passed in 1973 nationalizing the General Insurance Industry. ***Approximately 107 general Insurance companies were amalgamated into just 4 companies – National Insurance Company, New India Assurance, Oriental Insurance and United India Insurance***, headquartered in each of the 4 metro cities in India. The General Insurance Corporation of India (GIC) was incorporated to act as a holding company for these four state owned companies. It was only in 2000 that the sector was again opened for private players with the introduction of IRDA Act.

ICICI Lombard – Leveraging ICICI Bank's network and Lombard's expertise!

ICICI Lombard General Insurance (ICICIL) was founded in Oct 2000 as a 74:26 JV between ICICI Bank and Fairfax Financial Holdings – a Canada-based diversified financial services company engaged in general insurance, reinsurance, insurance claims management and investment management. It was one of the first private companies to commence operations in FY02 and took just 2 years to become the largest private-sector non-life insurer in India – a position which it has maintained till date. It successfully leveraged ICICI group's distribution network & brand and Lombard's expertise to build its portfolio mainly across Motor, Health, Crop/Weather, Marine, Property, & Specialty Lines. Today, it is the largest private sector player and fourth largest player in India in terms of GDPI as of FY20. It reported Gross Premium of Rs.133bn for FY20 with ROE of 20.8%.

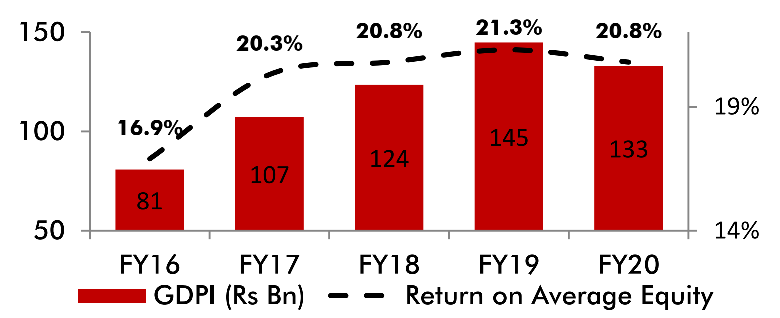
Key General Insurance Terms:

***1) Combined Ratio** – Total Expenses incurred by an insurance company. A ratio less than 100% indicates positive underwriting margin implying profit on core operations.*

***2) Float –** The extra surplus / money insurers hold between collection of premium and payment of claims.*

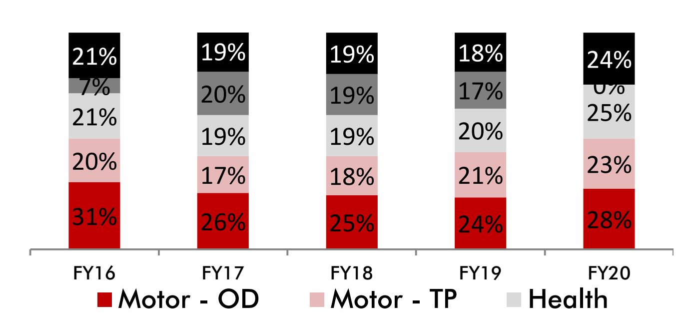
***3) Gross Direct Premium Income (GDPI) -** GDPI is the total premium received before taking into account reinsurance accepted.*

Exhibit 1: RoE improvement along with GDPI growth



Source: Ambit Asset Management, Company

Exhibit 2: Motor and Health form 75% of the portfolio



*Source: Ambit Asset Management, Company, *Others include Fire, Marine, Engineering, Liability, etc.*

Exit of Fairfax as a promoter

Faifax eventually exited the JV in July 2017 after one of its investee company - Oben General Insurance Limited **(Go Digit)** - received IRDAI approval to form an Insurance company in India subject to Fairfax reducing its Equity stake in ICICIL to below 10%. Subsequently, the trademark "Lombard" was transferred and assigned to the company for India. Fairfax, thus, started reducing its equity investment in the company, exiting completely by October 2019.

The secret sauce to its success!

Structural advantages in key products with focus on profitable business

- **A.** Strong track record in underwriting profitable motor business given strong OEM/dealer presence (presence across 95%+ OEMs and 55-60% dealerships).
- B. Strong banca tie-up with ICICI bank (5,228 branches as at 1HFY20) provides structural advantage in **Health Business.**

...While exiting non-profitable business

- A. Over FY16-18, ICICIL did not shy away from scaling down the unprofitable **group health insurance** business.
- B. Exited **Crop Insurance** business which constituted ~17% of the overall GDPI mix as of FY19, citing upward revision in re-insurance rates which increased the losses from this segment.

Maintaining strong underwriting standards and prudent Risk practices

(1) No investment default since inception, even during the IL&FS and DHFL crisis
(2) Positive claim reserve variance since accident year 12 **(3)** Conservative reinsurance cover **(4)** focus on granular low-loss-ratio retail/SME business.

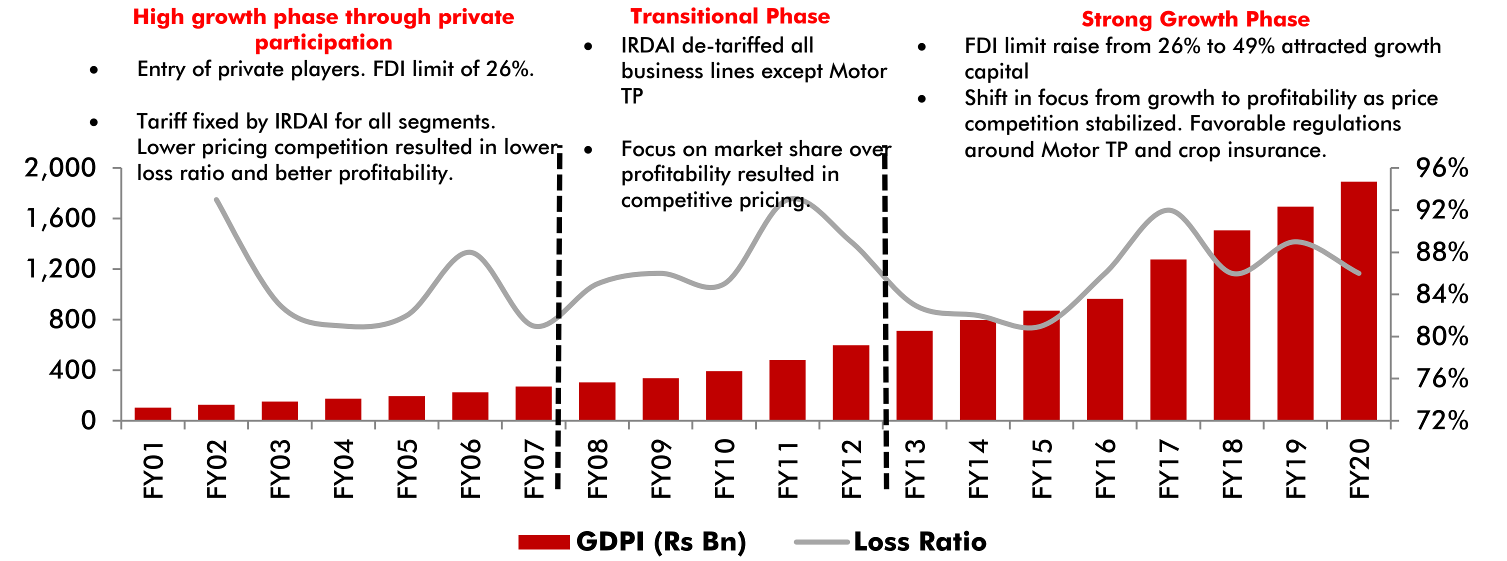
Exhibit 3: Backed by a highly experienced team

Name	Designation	Credentials	Prior Experience	Tenure at ICICIL	Key Skills
Mr. Bhargav Dasgupta	MD and CEO	Mechanical engineering from Jadavpur University PGDM - IIM, Bengaluru	ICICI Bank and ICICI Prudential	11+ Years	Project finance, corporate banking, e-commerce, international banking and life insurance
Mr. Gopal Balachandran	CFO	Associate member of ICAI	N.A. Shah Associates LLP	18+ Years	Accounting, financial reporting, management reporting, taxation and risk management
Mr. Alok Kumar Agarwal	ED and Chief Marketing Officer, Wholesale	B-Tech in Chemical Engineering - Jadavpur University; PGPM - IIIM, Calcutta	Reliance Petrochemicals	~18 Years	Banking and insurance
Mr. Sanjeev Mantri	ED and Chief Marketing Officer, Retail	Member of ICAI and ICWAI	BNP Paribas, ICICI Group	5+ Years	Corporate banking and rural marketing
Mr. Sanjay Datta	Chief Underwriting, Reinsurance & Claim	B. Sc. - University of Calcutta; MBA - Jadavpur University. Also an associate of the Insurance Institute of India	Royal Sundaram Alliance Insurance & Oriential Insurance co	19+ Years	Claims, underwriting, product development and pricing
Mr. Vinod Mahajan	CIO	University of Mumbai	Head-Investment (Debt & Alternate Investments) at ICICIL	~10-15 Years	Derivatives, treasury and investment management

Source: Ambit Capital Research, Company

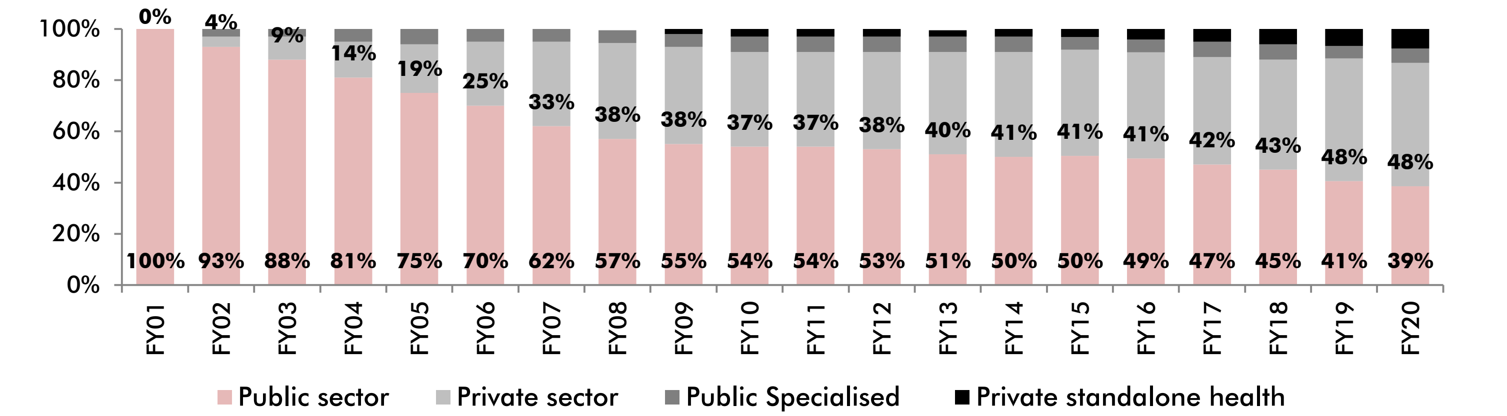
Industry overview – Story in charts

Exhibit 4: Industry GDPI growth over the years. ICICIL has grown ahead of industry at 17% CAGR in 3rd phase



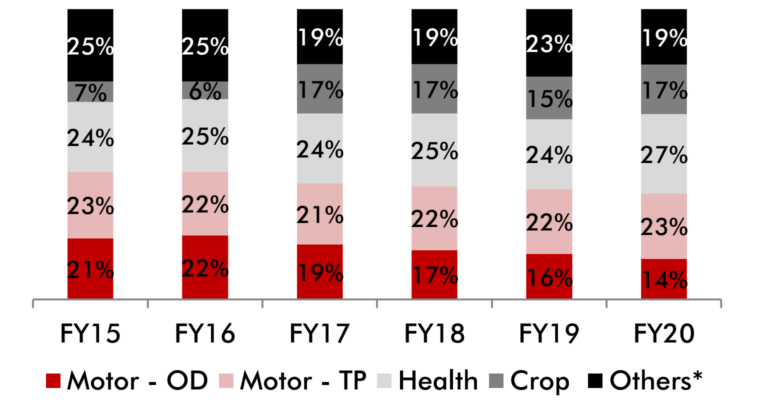
Source: IRDAI, Ambit Asset Management

Exhibit 5: Private sector grabbed 50% of industry share in a short span of 20 years



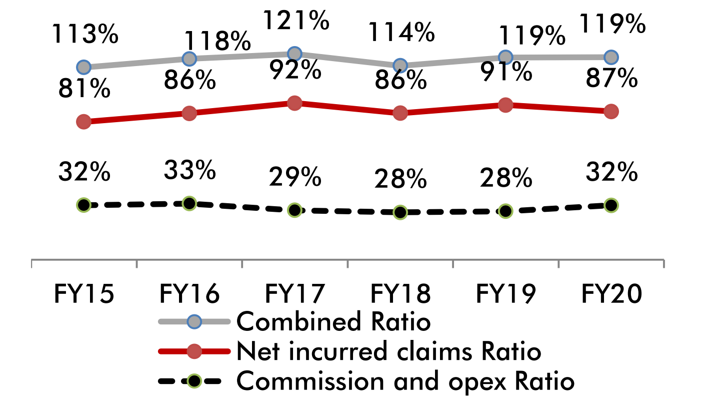
Source: IRDAI, Ambit Asset Management, Note: Public specialized – CGSIS, EXIM

Exhibit 6: Growing pie of Motor and Health is positive, however Crop Insurance is largely loss making…



*Source: IRDAI, Ambit Asset Management, *Others include Fire, Marine, Engineering, Liability, etc.*

Exhibit 7: …impacting combined ratios, despite claims and opex being under control



Source: Ambit Asset Management, IRDAI, GI Council of India

Exhibit 8: Top-8 private General Insurers in India

Private Insurer	*Market Share (GDPI basis) as of FY20*
ICICI Lombard	7.04%
Bajaj Allianz General Insurance	6.75%
HDFC ERGO General Insurance Co	4.92%
IFFCO Tokio General Insurance Co	4.21%
Reliance General Insurance	3.95%
TATA AIG	3.90%
SBI General Insurance	3.59%
Cholamandalam MS General Insurance	2.32%

Source: Ambit Asset Management, IRDAI

Exhibit 9: But only few dominant players across categories

	FY16	FY17	FY18	FY19	FY20
Fire	ICICIL	ICICIL	ICICIL	ICICIL	ICICIL
Marine	ICICIL	ICICIL	ICICIL	ICICIL	ICICIL
Motor OD	ICICIL	ICICIL	ICICIL	ICICIL	ICICIL
Motor TP	ICICIL	ICICIL	ICICIL	ICICIL	BAGIC
Health	ICICIL	ICICIL	ICICIL	ICICIL	ICICIL
Retail	NIA	ICICIL	ICICIL	ICICIL	BAGIC
Group	NIA	ICICIL	BAGIC	ICICIL	ICICIL
Mass	NIA	ICICIL	RELG	BAGIC	RELG
Crop	ICICIL	ICICIL	ICICIL	ICICIL	BAGIC
P.A	HDFCE	HDFCE	HDFCE	HDFCE	SBIG
Liability	TAIG	TAIG	TAIG	ICICIL	ICICIL

Source: Ambit Asset Management, BAGIC – Bajaj Allianz General Insurance Company, HDFCE – HDFC Ergo; RELG – Reliance General Insurance; SBIG – SBI General Insurance; TAIG – TATA AIG; NIA – New India Assurance

Changing Landscape -Changing ICICI L?

1. **Wrath of Nature… and Humans!**

A) **Threat from Man-Made Catastrophe –** Catastrophic events in quick succession can often devastate balance sheets and pose a substantial risk.

<u>Terrorism Insurance:</u> Following the 9/11 attack on Twin Towers in USA, the Indian Market Terrorism Risk Insurance Pool (IMTRIP) was constituted as an initiative by all non-life insurance companies and GIC Re to address such an uncertainty. Under this, all the premium collected by participating insurers is ceded to a common pool which is manage by GIC Re. The Pool enables members to provide insurance cover against terrorism risk in India on the combined underwriting capacity.

<u>Nuclear Insurance:</u> Similarly, in FY16, ICICI Lombard, GIC Re and 10 other non-life insurers formed a re-insurance arrangement (India Nuclear Insurance Pool) to provide coverage for Nuclear Risks.

Post the 26/11 terrorist attacks in Mumbai; all the claims settled by Indian Terrorism Risk Insurance Pool (ITRIP) amounted to ***Rs377Cr*** *– largest ever insured loss due to Terrorism in India.*
Source – GIC Re

B) **Global warming and climate change –** Global Warming is leading to increased climate fluctuation and frequency of catastrophic event like floods, drought and untimely rain. Such events may lead to increased claim costs for General Insurers in the affected areas. For Eg. The Chennai Flood in 2015 led to higher claims in and around that area ***(Refer to Exhibit: 10)***.

While fire, motor and health are impacted, the Crop insurance segment can see a devastating impact. ICICIL ahead of the curve has recognised its folly and virtually exited the crop insurance business sighting profitability challenges.

C) **Instances of Epidemics / Pandemics**
Increasing cases of Epidemics that may escalate to a global pandemic, as seen during COVID-19, could be a huge disruptor for Health Insurers. The high infection rate caused by such pandemics, which may even result in death, could shoot up the claims in a short period thus impacting profitability and solvency of health insurers.

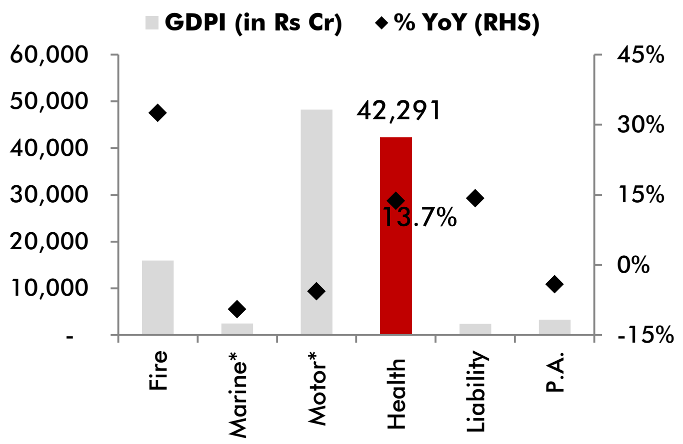
ICICI Lombard saw 17,000 COVID-19 claims for Rs115Cr up till September-2020. Additionally, auto claims went back to pre-COVID levels as the lockdown eased. This shot up the combined ratio to 102.6% in Q2FY21 from 99.7% in Q1FY21 *(Remember: Lower the combined ratio the better)*. ICICIL tried to tackle this with the help of higher automation. AI-Enabled claim settlements increased from 30% in Mar-2020 to 60% in Sep-2020.

Exhibit 10: Insured losses from a few catastrophic events can cause immense financial strain on insurance company's Balance Sheet

Catastrophic Event	Year	Economic losses (Rs bn)	Insured losses (Rs bn)	ICICIL share in insured losses
Cyclone Amphan	2020	1,000	15	4.8%
Maharashtra, Gujarat, Karnataka, Kerala & other states Floods	2019	709.70	20	3.4%
Cyclone Fani	2019	120	12.25	2.5%
Kerala floods	2018	300	25	2.7%
Chennai floods	2015	150	49.40	7.5%
Cyclone Hudhud	2014	715	41.60	2.2%
J&K floods	2014	388.05	15.60	2.6%
North-east floods	2014	393.30	15.60	**

*Source: Ambit Asset Management, Company presentation; ** There was no separate reporting of losses resulting from these floods since this did not rise to the level of a catastrophic event for ICICI Lombard*

Exhibit 11: Given increased uncertainty after COVID, people are buying increased health insurance which is evident in 14% premium growth YTDFY21



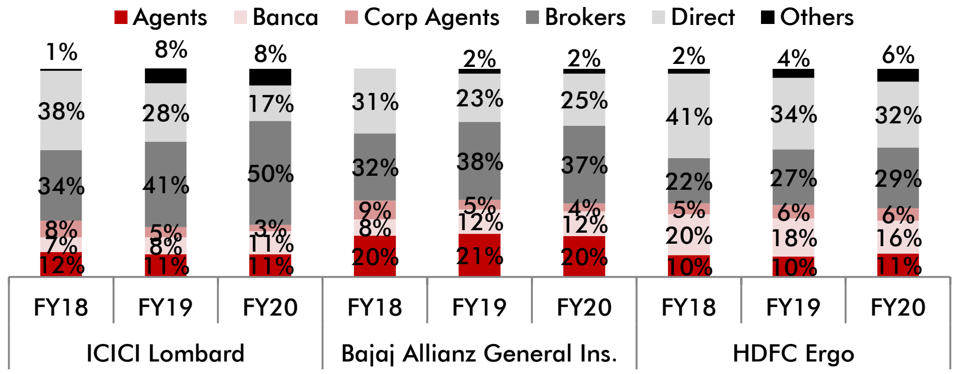
*Source: Ambit Asset Management, GI Council of India, Note – PA – Personal Accident; * - Total*

2. Possible changes in the Distribution and Sales channel –

Motor (OD+TP) forms ~50% of the portfolio for ICICIL. It enjoys much higher exposure of private cars and 2-Wheelers within motor GDPI (~84% vs ~62% for BAGIC as of H1FY20) courtesy its strong relationship with large OEMs / dealers (presence across 95%+ OEMs and ~60% dealerships) from where most of the new vehicle insurance business originates. Currently, the end-users do not have much say in terms of selecting the insurer and largely choose the dealer's preferred partner/s. ***Any future disruption in this channel, due to technology or regulation, where the end users have more say in policy selection, may impact growth from this channel.***

ICICIL, at its end, is trying to keep up with evolving trends. Virtual Offices are helping the company make inroads in Tier-3 and Tier-4 towns. It has also strengthened its agent workforce to 47,548 in FY20, almost doubling in two years. These will help ICICL stay ahead of the curve.

Exhibit 12: Distribution mix for General Insurers is dependent on Product Mix, unlike Life Insurance where Banca is the main Distribution Channel

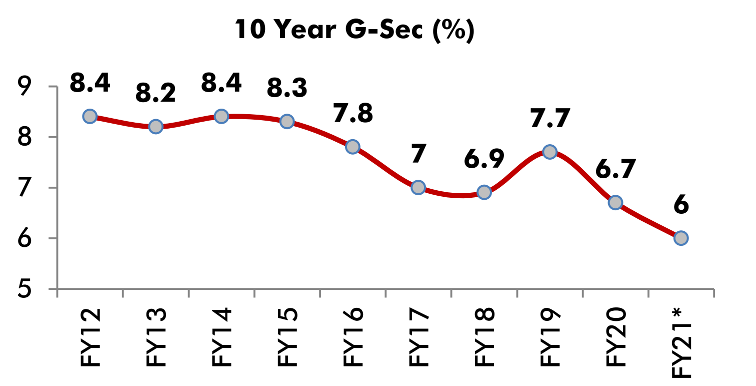


Source: Ambit Asset Management, Company, Research Reports

3. **Continuous decline in interest rate will increase the importance of underwriting profitability –** The float created from all the premium amount collected by general insurers is invested (mostly in Fixed instruments) to help generate return till the time the money is paid back towards the claims. Most of the general insurers in India do not make any Underwriting profit ***(Refer to Exhibit: 16)***. Even for those that do make an Underwriting Profit, it is very small compared to their investment income ***(Refer to Exhibit: 15)***.

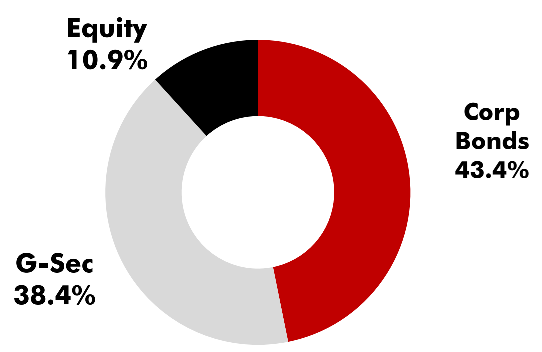
   Investment regulations require ~20-30% investment in government securities. A continuous decline in interest rates in the future – or even a negative interest rate scenario seen in some developed countries – would substantially impact the profitability of General Insurers including ICICIL. ***Such an event may compel General Insurers to change their business model to focus more on underwriting profit and improve their Combined Ratio in order to sustain their RoE. Thus, profitability will take precedence over growth (premium / incremental Float)***

Exhibit 13: Investment returns to decline in-line with G-Sec yield…



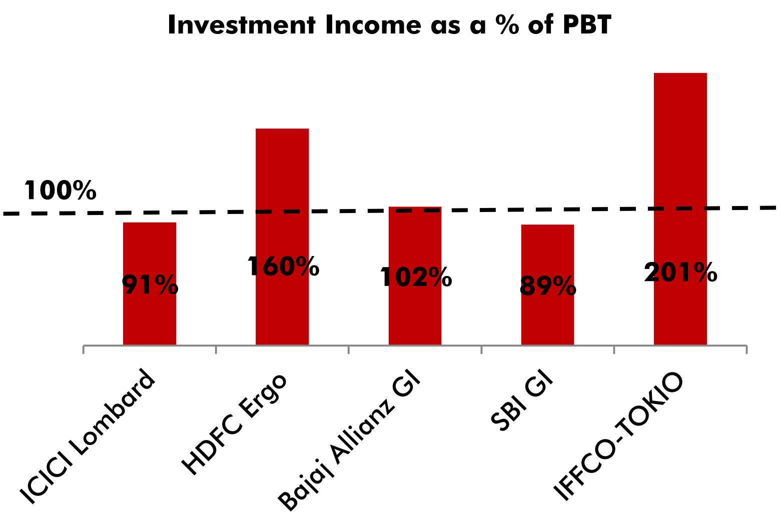
*Source: Ambit Asset Management, MOSL, *-As of 31st Dec 2020*

Exhibit 14: … as ~80% of portfolio is in interest earning debt instruments



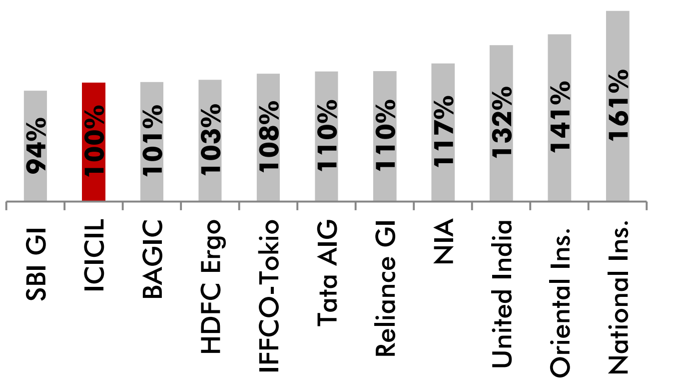
Source: Ambit Asset Management, Company

Exhibit 15: Investment income less than 100% of PBT indicates superior underwriting and operating performance



Source: Ambit Asset Management, Company , GI – General Insurance

Exhibit 16: Most of the large GIs did not make underwriting profit in FY20, as can be seen from their Combined Ratio



Source: Ambit Asset Management, GI Council of India, BAGIC – Bajaj Allianz General Insurance; NIA- New India Assurance; GI – General Insurance

4. **Technology – The inevitable disruptor; Learning from Developed Nations**
Technology is challenging the status quo and reshaping the Insurance Industry helping in cost reduction and improved consumer engagement.

We highlight some examples from Developed countries –

A. ***Aviva Canada*** is leveraging ***Big Data*** in home Insurance. By assessing the property's location it is able to ascertain how exposed it is to burglary / vandalism. For example, hidden homes are more susceptible to burglary, while close proximity to cinemas increases risk of vandalism.

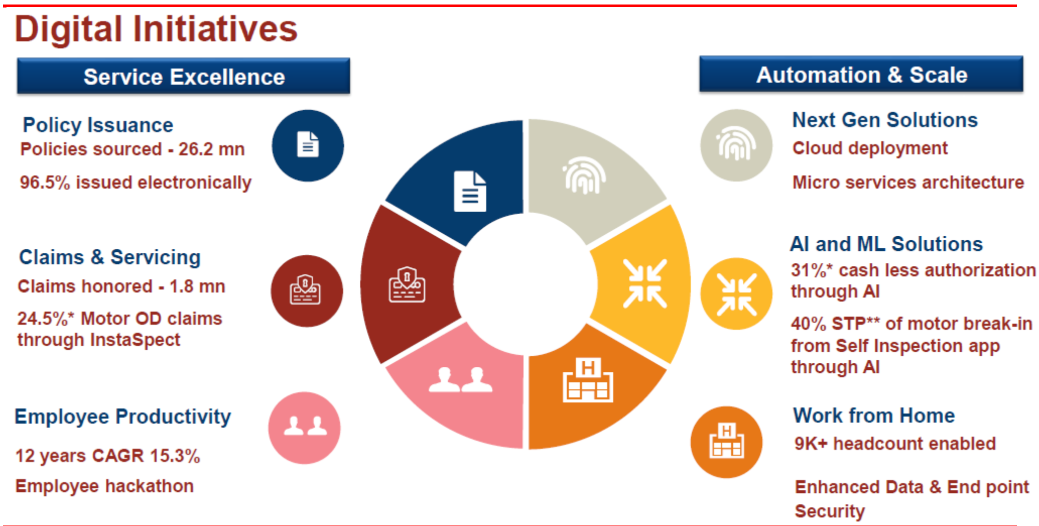
According to ICICIL, ~ 40% of motor claims in Dec-2020 were processed using ***InstaSpect*** *compared to 25% in March-2020. The photos and data collected are also being used for making better underwriting decisions.*

B. ***IBM***, for example, has developed **analytical tools** that help in fraud detection by validating the identities of the parties involved. It monitors social media to identify any inconsistencies in their claim details and scrutinize data associated with the event.

C. California based ***BetterView***, captures and analyses data through a network of 4,000+ drones. Multiple roof and property images are captured to prepare **3D models and digital elevation maps that help in prudent underwriting.**

Going ahead, it will be the survival of the most agile and nimble players that will adapt to the evolving trends and stay ahead of the curve. ICICIL has acquired a significant amount of data over the years which they can use in AI and Machine Learning to come up with innovative solutions for customers.

Exhibit 17: AI and Machine Learning helping ICICIL improve customer experience



*Source: Ambit Asset Management, Company, *Exit Rate as at Mar-2020, **STP – Straight Through Processing*

5. **Innovate or Perish - Survival of the fittest in a broader K-Shaped economic scenario -** Since Insurance was first established, the types of risks faced have evolved. Originally mooted for marine cover, it spread into new areas like cyber security, climate change, terrorism and nuclear threats. With the help of technology, new risk pools and new ecosystems are coming up. ***While these would certainly imply increased sources of premium and higher float, the understanding of underlying risks would be essential and require new expertise, failing which the risks could be multi-fold.***

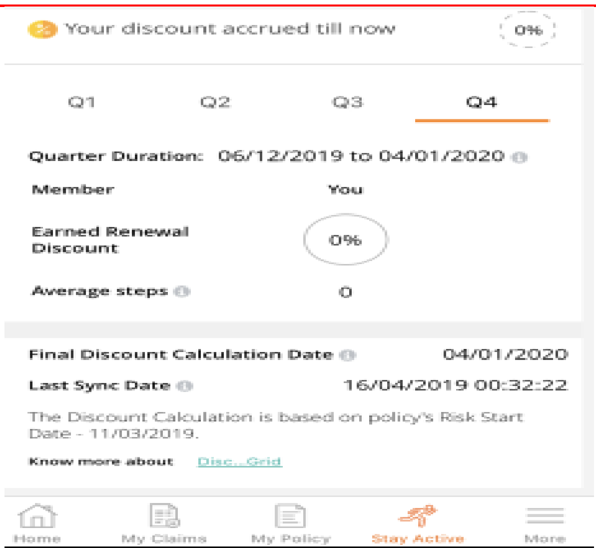
A. **Emergence of new risk covers - *Cyber insurance***, for example, is growing rapidly as cyber-crime and data privacy is amongst the most concerning risks faced by organizations today, especially post-COVID when remote-working will be the normal. In addition to this, we have already talked about ***Nuclear and Terrorism risk*** pools in Point 1.

B. **Emergence of New Ecosystems –** Telematics, IoT and Big Data are increasingly enabling insurers to offer customized products. Usage-Based-Insurance is becoming increasing popular where a person's driving behaviour or lifestyle is used via sensors / wearable devices. It helps insurers price the risk better and provide benefits to better positioned users via reduced premium. Not to mention, it also acts as a nudge to healthy living and rule-following.

***TELEMATICS** refers to satellite-based global positioning system (GPS) and other wireless technologies that allow a real-time, detailed data exchange between cars/drivers and third parties such as insurers.*

ICICIL has been using Telematics and launched (1) Pay-as-you-drive; and, (2) Pay-how-you-drive products under IRDAI sandbox model. The company expects a lot of data based underwriting over the next 3-4 years.

Exhibit 18: Apollo Munich (acquired by HDFC Ergo) offered discount* on health insurance renewal premium…



*Source: Ambit Asset Management, HealthJinn App, * This is for erstwhile Apollo Munich Health Insurance policy in FY20 before its merger with HDFC Ergo*

Exhibit 19: …based on average daily step count that the individual takes during a quarter

1 Year Policy

Avg. Daily Step Count Target	Max. Discount per quarter
5,0000 or below	0%
5,001 - 8,000	0.5%
8,001 - 10,000	1.25%
Above 10,000	2%

Source: Ambit Asset Management, HealthJinn App Note: This is for erstwhile Apollo Munich Health Insurance policy in FY20 before its merger with HDFC Ergo

6. **Increasing competition and scope for Consolidation**

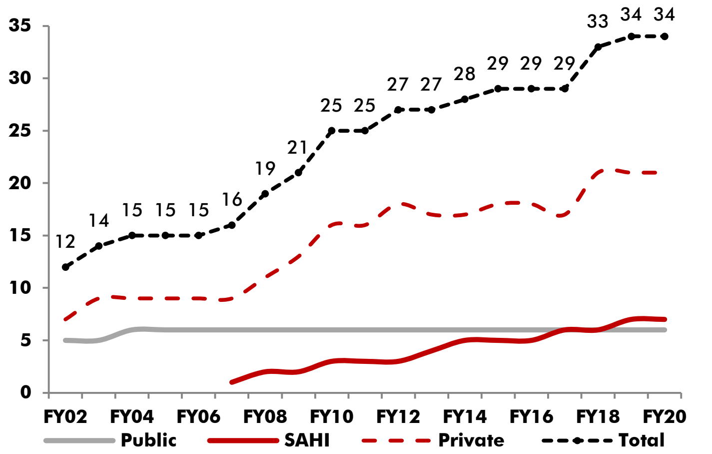
Challenges from New Entrants…

Customers are increasingly opting for Web aggregators / InsurTech companies such as PolicyBazaar.com when buying policies, as they offer flexibility, price and speed of obtaining insurance coverage. Amazon's entry as a corporate agent and its recent tie up with General Insurance startup - Acko, to sell motor insurance will give a fillip to new players by helping add scale and reduce cost (commissions). Competitors such as PhonePe and PayTM are also keen on similar tie-ups with insurers.

…..could lead to consolidation of traditional players.

Post opening up of the insurance sector in 2000, there has been mush-rooming proliferation of private players ***(Refer to Exhibit: 20)***. However, challenges like lack of distribution depth, growth capital and mounting losses, would increase consolidation in the industry. Stable, established players could use this as an opportunity, especially with mounting losses and COVID-19 hitting hard, to grow inorganically in a highly competitive sector. ***(Refer to Exhibit: 22)***. However, like all M&A transactions, integration with the Buyer could be a challenge impacting Combined Ratio and Claims Ratio of the merged entity.

Exhibit 20: High number of private players in the industry...



*Source: Ambit Asset Management, Company, * SAHI – Standalone Health Insurers*

Exhibit 21: ...with few dominant players in each category

	FY18	FY19	FY20
Fire	ICICIL	ICICIL	ICICIL
Marine	ICICIL	ICICIL	ICICIL
Motor OD	ICICIL	ICICIL	ICICIL
Motor TP	ICICIL	ICICIL	BAGIC
Health	ICICIL	ICICIL	ICICIL
Retail	ICICIL	ICICIL	BAGIC
Group	BAGIC	ICICIL	ICICIL
Mass	RELG	BAGIC	RELG
Crop	ICICIL	ICICIL	BAGIC
Personal - Accident	HDFCE	HDFCE	SBIG
Liability	TAIG	ICICIL	ICICIL

Source: Ambit Asset Management, BAGIC – Bajaj Allianz General Insurance Company, HDFCE – HDFC Ergo; RELG – Reliance General Insurance; SBIG – SBI General Insurance; TAIG – TATA AIG; NIA – New India Assurance

Exhibit 22: Spate of M&As in General Insurance sector in the last 2 years

Company	Acquired by	Year	Value (Rs Cr)
Bharti AXA General Insurance	ICICI Lombard	2020	4,630
Raheja QBE	PayTM, Vijay Shekhar Sharma	2020	586
DHFL General Insurance	Sachin Bansal (Flipkart Co-Founder)	2020	100
Apollo Muncih Health*	HDFC Ergo / HDFC	2019	1,347*

*Source: Ambit Asset Management, * - Acquired 50.8% stake of Apollo Hospitals*

7. Impact of future regulation changes in a highly regulated industry –

- We highlight a few regulations in the past in ***Exhibit: 23*** and look at possible introductions in the future that may impact the industry

Exhibit 23: A look at few important regulatory changes in the past and possible changes in the future

Regulatory changes	Brief Description
Motor Insurance Service Provider (MISP) guidelines	▪ Recognized auto dealers as insurance intermediaries and capped the maximum pay out by the insurer
Long term Third Party Insurance	▪ Mandatory Long term third party insurance cover. For new passenger vehicles – 3 years; and for new 2-Wheelers - 5 years.
Investment Regulations and Solvency	▪ Minimum Solvency requirement of 150%. Minimum 20% investment in Central Government Securities and 15% Investment in Housing and Infrastructure
Rural and Social Sector Obligation by IRDAI	▪ A minimum percentage of Premium (GDPI) to come from policies sold in Rural and Social Sector. It ranges from 2% in 1st year to 7% from 9th year onwards
De-Tariffication in 2007	▪ In 2007, all products except Motor TP were de-tariffed ***(Ref to Exhibit: 24)***. ▪ This led to increased competition (entry of new players) and aggressive pricing. Quality of underwriting deteriorated. GIs had to settle higher claims. On the flip side, General Insurance Penetration as a % of GDP improved.
Standard Products for risk of Fire & Allied Perils which will reduce product complexity (wef Apr-21)	▪ Bharat Griha Raksha - for home building and home contents ▪ Bharat Sookshma Udyam Suraksha – For enterprises with Vale At Risk (VAR) up to Rs5Cr ▪ Bharat Laghu Udyam Suraksha – For enterprises with VAR of Rs5-50Cr
Possible regulations in the future	**Brief Description**
De-Tariffication of Motor Third Party (TP) ***(Ref to Exhibit: 24)***	▪ Dismantling of the tariff would lead to risk based premium. It will increase price competition and impact profitability of General Insurers
Regulation on introduction of traffic violation Premium	▪ IRDAI has set up a working group to look at linking motor insurance premium with traffic violations. Individuals will be assessed for their traffic violations and the traffic violation premium would have to be paid
Regulations on shareholding	▪ In Dec 2019, RBI proposed rules to limit lenders' shareholding in an insurance company up to 30% for Banks and 50% for NBFCs. ▪ Current norms mandate that a bank can hold a maximum of 50% in an insurance venture with exemptions on a case-to-case basis. ICICI Bank has been exempted from paring stake in ICICIL and ICICI Prudential Life Insurance for 3 years. A requirement to dilute post would increase equity free float.

Source: Ambit Asset Management

Exhibit 24: All products were de-tariffied in 2007 except Motor Third Party, the pricing for which is still regulated by IRDAI

1994	2005	2007
Motor TP	Motor TP	Motor TP
Motor OD	Motor OD	Motor OD
Fire	Fire	Fire
Engineering	Engineering	Engineering
Marine Hull	Marine Hull	Marine Hull
Marine Cargo	Marine Cargo	Marine Cargo
Aviation	Aviation	Aviation
Liability	Liability	Liability
Health & PA	Health & PA	Health & PA
	Tariffed	
	De-tariffed	

Source: Ambit Capital Research

8. Changing consumer preferences and lifestyles

(i) **Jump in Healthcare expenditure –** As more and more nations increase their healthcare budget and assistance programmes to bear the incremental healthcare expense of the population (Eg – US and other developed EU countries), individuals might be less inclined to purchase Health Insurance (or Mediclaim) from their own pocket in the future. This has a two-fold effect: **(1)** Lower number of people seek out health insurance; **(2)** Government clubbing insurance for individuals will lower the cost for government and reduce insurer's margins.

(ii) **Declining preference for Group Insurance –** If businesses stop taking group insurance and retain the risk on their books instead, that could lead to this business substantially declining for general insurers over the decades to come. ***ICICIL, however, did scale down its group portfolio from FY16-18 sighting profitability challenges.***

At Ambit we believe in wealth creation by long term equity investment and through the power of compounding. We constantly try and stay ahead of the curve on what may possibly impede the growth of our portfolio companies. While ICICI Lombard has had an early mover advantage in the General Insurance industry, we do a long term scenario analysis on what could be the possible disruptions to the company and the industry. ***In our view: (1) Ability and agility to innovate with evolving technology trends (2) Impact of Exogenous events like Climate Change or Pandemics (3) Movement in interest rates driving investment strategy and returns (4)Consequences of changes in Industry Regulations*** *will be the things to watch out for in the case of ICICI Lombard over the next decade.*

Appendix

Glossary

1. **Gross Direct Premium Income (GDPI) -** GDPI is the total premium received before taking into account reinsurance accepted.

2. **Insurance underwriting-** The process by which an insurance company examines risk and determines whether the insurer will accept the risk or not, classifies those accepted and determines the appropriate rate for coverage provided.

3. **Combined Ratio (CoR) -** It is the measure of profitability of a non-life insurance company and is sum of loss ratio & expense ratio.

4. **Expense Ratio -** Expense ratio is the ratio of the sum of operating expenses related to insurance business and commission paid (net) to the NWP.

5. **Loss Ratio -** Loss ratio is the ratio of claims incurred (net) to NEP.

6. **Investment leverage -** Investment leverage is the ratio of total investment assets (net of borrowings) to net worth.

7. **Loss Reserves -** Loss reserves are the reserves (or provision) for outstanding claims, IBNR and IBNER.

8. **Net Earned Premium (NEP) -** Net written premium adjusted by the change in unexpired risk reserve for a year.

9. **Solvency Ratio -** The ratio of available solvency margin to the required solvency margin.

10. **Sum Assured -** The amount that an insurer agrees to pay on the occurrence of a stated contingency.

11. **Motor Insurance Service Provider (MISP) -** A Motor Insurance Service Provider (MISP) is defined as an automobile dealer appointed by the Insurer or an insurance intermediary to distribute and/or service motor insurance policies of automobiles sold through such dealer.

12. **Non-Life insurance density -** The ratio of overall GDPI in the non-life insurance industry to the population of a country.

13. **Non-Life Insurance penetration** - Overall GDPI in the non-life insurance industry as a percentage of Gross Domestic Product of a country.

For any queries, please contact:

Umang Shah - Phone: +91 22 6623 3281, Email - aiapms@ambit.co

Ambit Investment Advisors Private Limited -

Ambit House, 449, Senapati Bapat Marg,

Lower Parel, Mumbai - 400 013

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