Star Health and Allied Insurance Co. Ltd.

Date: February 04, 2023
Place: Chennai

Ref: SHAI/B & S/SE/ 208/2022-23

To,
The Manager
Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400001
Scrip Code: **543412**

To,
The Manager
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot C/1,
G Block, Bandra-Kurla Complex
Mumbai – 400051.
Scrip Code: **STARHEALTH**

Dear Sir/ Madam,

Sub: Transcript of Q3 FY2023 Earnings Call – December 31, 2022.

Further to the Company's letter SHAI/B & S/SE/202/2022-23 dated January 27, 2023 regarding Earnings Call Intimation for Q3 FY2023, please find attached the transcript of the call dated 31st January, 2023.

The above information is also being hosted on the Company's website at www.starhealth.in

This is for your kind information.

Thanking You,

For Star Health and Allied Insurance Company Limited,

SRINIVASAN VENKATARAMAN
Digitally signed by SRINIVASAN VENKATARAMAN
Date: 2023.02.04 12:51:03 +05'30'

S.Venkataraman
Vice President & Compliance Officer

Star Health and Allied Insurance Company Limited
Q3 & 9M - FY2023 Earnings Conference Call
January 31, 2023

Management:

Dr. S Prakash – Managing Director

Mr. Anand Roy – Managing Director

Mr. Nilesh Kambli – Chief Financial Officer

Mr. Aneesh Srivastava – Chief Investment Officer

Moderator: Ladies and gentlemen, good day and welcome to the Star Health and Allied Insurance Company Limited Q3 & 9MFY23 Earnings Conference Call. As a reminder, all participant lines will be in listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Mr. Pratik Patil from Adfactors PR, Investor Relations Team. Thank you and over to you sir.

Pratik Patil: Thank you, Aman. Good evening everyone. From the senior management we have with us Dr. S. Prakash – Managing Director, Mr. Anand Roy – Managing Director, Mr. Nilesh Kambli – Chief Financial Officer and Mr. Aneesh Srivastava – Chief Investment Officer. Before we begin the conference call, I would like to mention that some of the statements made during the course of today's call may be forward looking in nature including those related to the future financial and operating performances, benefits and synergies of the company's strategies, future opportunities and growth of the market of the company's services. Further, I would like to mention that some of the statements made in today's conference call may involve risks and uncertainties. Thank you and over to you Mr. Roy.

Anand Roy: Thank you Pratik and good evening to everyone. And thanks for joining the Star Health earnings call. My name is Anand Roy, Managing Director of the company.

I'll be taking you through the performance of the company for Q3-FY2023 and 9M-FY2023. I'll give you a brief overview of the industry trends and developments that we have witnessed in the last few months as well and walk you through the company's performance in terms of premium and distribution. My colleague Dr. Prakash will cover the financial performance and aspects related to the claims including the steps that we are taking to manage them.

In Q3-FY2023, the health insurance industry including personal accident has grown by 24.6% driven by 32% growth in group health and 17% growth in retail health.

Now, we will talk about the growth and market share for Star Health. For 9M-FY2023 our retail health growth is 19.4% versus the industry retail health growth of 14.9%, so we are able to grow at 1.3 times our industry's growth rate despite a very large base. In Q3-FY2023 our retail health segment grew by 17.9% versus industry retail health growth of 16.8%. Overall GWP for Star Health grew by 15% in Q3-FY2023 versus 11% in Q2-FY2023 over the same period of last year. In Q3-FY2023 Star Health registered 34% market share in retail health, which is 3x, second largest player in the industry. For 9M-FY2023 our retail health market share stood at 33% an increase of 120 bps over 9M-FY2022. We continue to grow higher than the market growth rate and continue to increase our retail health market share. As far as, accretion share is concerned Star Health has registered 42% retail health acquisition market share in 9M-FY2023.

Agency business continues to contribute around 82% of the overall business for our company. Our agency strength has increased to 6,09,695 with an addition of approximately 23,700 agents in Q3-FY2023. We are on course to add 80,000 to 1,00,000 agents in the current financial year which was our target. With improving agency productivity, we are confident of maintaining our market leading position in this business. For 9M-FY2023 corporate agents that is banks and other tie ups continues to remain strong and our premium has grown by 49% from this particular channel.

Some of the highlights in Q3-FY2023 for us were as follows: We are focusing on premiumisation of our policies. The average sum assured of new policies has increased by 13% on a year-on-year basis to 8.8 lakhs per policy.

We have implemented a hike in our flagship product which is called the Family Health Optima to combat the structural rise in medical inflation post COVID of approximately 25% premium increase effective from 1st February, 2023 that is tomorrow on new policies and 1st May, 2023 on our renewal book.

We have renewed our partnership with one of our leading bank partners Punjab National Bank for a long term period. And we have also tied up with a reputed foreign bank and since the paperwork is in progress, I'm not able to give the name now, but we will be able to further strengthen the sales of our products through the Bancassurance channel.

The premium from benefit products has grown by 70% in 9M-FY2023 over corresponding period last year, the share of such products within overall GWP has increased by 79 bps to 2.3% in 9M-FY2023 from 1.6% in 9M-FY2022.

Rural business for us has grown by 48% during quarter three of this financial year over quarter three of last financial year. The number of rural agents has also grown by 69% to 3,861 agents in this particular quarter.

Some of the outcomes of our digital initiatives are, our app downloads have reached 1.85 million downloads. The Star Power customer facing app is now available both on the Android and iOS platform. And the digital sourcing of our business, which we define as a premium collected directly from our website, as well as through third party aggregators and online brokers has grown by 27% Y-o-Y and now accounts to close to 10% of our overall GWP in 9M-FY2023. Organic traffic to the website has grown by 44% in Q3-FY2023 over the same period last year, and 14% sequentially over Q2-FY2023.

I now request my colleague, Dr. Prakash to take you through the highlights and financial matters.

Dr. S. Prakash: Thanks Anand. Let me talk about claims initiatives and outcomes. We are working on a four-pronged strategy to effectively manage claims.

1. Number one prudent claim settlement based on rich medical wisdom and insurance, etc.
2. Well negotiated volume based pricing arrangement with network hospitals, which gives us operating leverage in terms of lower average claim size.
3. With technology enabled fraud detection and mitigation.
4. The fourth one is risk based pricing through micro segmentation of portfolio.

So we can say today that 80% of the amount in 9M-FY2023 were settled in claims through cashless. Cashless turnaround time, remained around 90% within two hours.

Auto adjudication of claims has drastically improving turnaround time and thereby customer satisfaction, 17% of network hospitals are being on boarded under this initiative. The number of such auto adjudicated claims settled as rationed to 40,000 in Q3- FY2023 which is a growth of 21% versus Q2-FY2023.

We continue to improve on the claims related milestones, between overall cashless claims, the share of hospitals with pricing arrangements, hospitals pricing arrangements for surgical packages, room rent, professional charges, all these things are around 76% versus 64% in FY2022.

As you will be aware fraud control is one of the typical factors to address in a retail health insurance business. Our anti-fraud digital Initiative has become operational this year which has started to produce savings in claims outgo. There is 1.2% incremental benefit in terms of lower claims ratio in Q3-FY2023 compared to Q3-FY2022 which is in line with our expectation of more than 1% reduction in claims ratio mentioned in the previous results call.

Coming to the financial performance, we are focused on sustainable and profitable growth and also taking our decisions to achieve that goal. Combined ratio for the 9M-FY2023 has improved to 96.9% versus 125% in 9M-FY2022. Improvement in combined ratio is achieved through claims ratio improvement. Combined ratio in Q3-FY2023 was 94.8% versus 135.7% for the quarter Q3-FY2022. Claims ratio for 9M-FY2023 has improved to 66.1% versus 94% in the same period last year. 9M-FY2023 claims ratio has 0.5% impact of COVID claims. The claims ratio in Q3-FY2023 has improved to 63.7% versus 104.6% in Q3-FY2022 and this was 68.2% in Q2-FY2023.

As mentioned, in the H1-FY2023 results call while Q3 is prone to epidemic related claims generally, we did not see any major impact during this quarter. For the month of January, 2023 also the claims ratio is approximately around 62.3% and the YTD claims ratio as on January end is approximately 65.7%. We reiterate our claims ratio guidance now, that we are 10 months in the year.

Expense ratio has fallen slightly in nine months to 30.8% on account of efficient cost management as evidence reduction in expense ratio in Q3-FY2023 to 31.0% from what was 31.2% in Q3-FY2022. You will appreciate that the expense ratio has remained stable in spite of a significant cutbacks in the group business which has a lower expense ratio.

So the 9M-FY2023 recorded a profit before tax of Rs. 690 crore and profit after tax of Rs. 517 crore. Adjusted profit after tax excluding non-business infra cost is Rs. 627 crore in 9M-FY2023. For Q3-FY2023 the profit before tax is Rs. 282 crore and profit after tax is Rs. 210 crore. Our investment assets have grown to Rs. 12,079 crore in the 9M-FY2023 versus Rs. 10,441 crore in the same period last year.

With stability in place in the trailing 12 months, we have successful transition to the premium basis of solvency during this quarter. Solvency as on 31st December, 2022 is 2.17 times compared to regulatory requirement of 1.50 times which we were able to achieve only through mandatory 4% reinsurance.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Sahej Mittal from HDFC Securities. Please go ahead.

Sahej Mittal: Sir, firstly on the loss ratios, right so if you can just give out some numbers around what are our loss ratios in the FHO book, Star comprehensive book and Young star book for nine months and Q3 because it becomes very important to understand where this improvement in claims ratio is coming from, which product is actually driving the improvement given that we have already taken a price hike of 25% in our flagship product. So, the claims ratio were inferior. So, if you can give us something from that, that's the first question.

Dr Prakash: See, this is what we have always adapted comprehensive approach in controlling claims. And we monitor every product and we see whether it remains within the thresholds and if it is close to or if it is crossing the threshold, then we go for pricing revision. But product wise may or may not be like an overall approach is on how we can effectively manage claims, look at a better pricing arrangement with hospitals, address potential frauds, detecting the frauds and mitigating the frauds like we saw the priorities that we know we have adopted to achieve our ICR.

Sahej Mittal: No sir, I mean our loss ratios for Family Health Optima was at 93% for FY2022. So where are we on this book for nine months FY2023 given that this is the largest portion of our book, so what is the claims ratio for Family Health Optima versus a 93% in FY2022?

Nilesh Kambli: See Sahej, the product level loss ratios are not in the public domain as that is a competitive information. The price hike is effect to 1st February, 2023. We have given guidance that whenever a loss ratio reaches a certain threshold, we go in for a price increase, it's 65% to 70% that we have maintained that, once it starts touching that level we go in for a price increase.

Sahej Mittal: I was reading into the loss ratios from the public domain itself on what you have disclosed for FY2022, which says that the loss ratios for FHO book was at 93% and for Star Comprehensive and Young Star at 64% - 65% for FY2022.

Nilesh Kambli: Yes, so that's a full year disclosure that is mandated as per IRDA. So once the full year is over, we'll put that in place.

Sahej Mittal: Right. So even if you don't want to give out those numbers, if you can give us some sense that the loss ratio for Star Comprehensive and Young Star if they were at 64%, for FY2022. So have the loss ratio in those buckets improved materially or they are itself where FHO book has seen?

Nilesh Kambli: FY2022 when you look at the loss ratios they have the impact of COVID. So, it's difficult to compare FY2022 vis-à-vis FY2023 because there is a COVID impact in FY2022.

Sahej Mittal: But then is it fair to assume that the improvement is largely from the back of FHO book?

Dr Prakash: It's an overall Improvement, I do not know how you are trying to understand whether it is through FHO book. FHO price hike is being contemplated, and it is yet to be rolled out.

Sahej Mittal: Right, got it maybe I'll take this offline. So if you can just share, what is the share of FHO in our current book as of for nine months?

Nilesh Kambli: Around 46%.

Moderator: We will move to the next question that is from the line of Avinash Singh from Emkay Global Financial Services. Please go ahead.

Avinash Singh: First one on this re-pricing of price hike on this Family Health Optima for new as well as renewal. The question is that, what sort of comfort do we have around retention in case of old book and in case of growth as far as the new business is concerned because of 25% kind of a price hike if I correctly is reasonably I would say a material price high for a health product particularly in a competitive environment. So, how comfortable or confident are you on the retention as well as a growth business standpoint side?

Anand Roy: Hi Avinash. So, we have of course evaluated all the various angles before we arrived at this price hike both from the competition point of view as well as from our internal strategy point of view. So, as you are maybe aware that the Family Health Optima has four zones in which it was divided though the overall price hike is 25% the zone wise price hike varies. So, we have kind of aligned the price hike to ensure that the retention book is not disturbed and total new business also can be assured. So, we are very confident of managing it.

Avinash Singh: And you have got this, regulator go ahead or it will like use and then file way of revising?

Anand Roy: We have got all the go ahead, all the systems are ready, we are rolling out tomorrow morning.

Avinash Singh: Okay. And secondly on the banca side now, of course you are adding incrementally particularly on the public sector banks. Now sort of, of course growth is strong, but what kind of eventually two, three year out what kind of a share from that distribution mix you see in your overall business mix, I assume that you would be offering kind of a group product or like it is sold individual product in bank branches?

Anand Roy: For Banca channel we have very aggressive plans to expand our book in the bancassurance space. We have shown very good performance in the first nine months, we believe that there is tremendous opportunity to grow further because of the regulations which have changed. Now, banks are allowed to have tie ups with nine insurance companies each. We are in talks with some of the potential partners. As we speak our contribution from bancassurance is, already more than 10% in terms of a new business contribution, we want to take this up further, this business is growing very fast for us and as the business is both retail as well as benefit products which are attached as a part of mortgage loans and other loans given by the banks. This is also a very profitable segment for us, we are focusing on this.

Avinash Singh: Okay. And the full year combined ratio for FY2023, 95% is maintained?

Nilesh Kambli: We have given the range of 93-95% we will stick to our guidance.

Moderator: Thank you. The next question is from the line of Swarnabha Mukherjee from B&K Securities. Please go ahead.

Swarnabha Mukherjee: So, first question is on the URR reserving. So, I just wanted to understand how to think about this number because in Q2 we reserved almost like Rs. 244 crore worth and this quarter where there will be a higher share of unearned premium we are reserving around Rs. 76 crore. So, I just wanted to understand, how to think about this number and what should we think about it for Q4?

Nilesh Kambli: See Swarnabha, when it comes to URR, you don't have to take the quarterly number, its trailing 12 months' number that you have to take, month wise you put the premium in the table and you take the URR charged every month on that basis because it's a 1:365 rule. It is very difficult to put a number on an incremental basis, it follows the trailing 12 months premium, so Q4 there will be a charge in the P&L because Q4 is the biggest quarter. Even now if we split the business between retail and group because we have de-grown in group, it looks like that the earned premium is slightly higher than the net written premium, but if we split into retail and group, in retail the net written premium is higher than the net earned premium.

Swarnabha Mukherjee: Okay, got it. And in terms of the guidance on growth, not for this year for the next couple of years. Given that we are almost more than a third of the industry and this year we have so far kind of grown in and around the lower end of the our guidance range. So how should we think about it going ahead, should we think about like a 20% kind of number for say FY2024, FY2025 your thoughts on that?

Anand Roy: See, the headline growth for this year may look little muted because of the strategic choices we made on group business, but our area of interest, which is the retail health insurance, we have out beaten the market by substantial margins despite having a large base so, the growth has been as per our plans. But more importantly, we are focused on a sustainable and a profitable growth model rather than just growth for the sake of growth, we have taken some calls even within the retail space in terms of acceptance of business, in terms of tightening or underwriting guidelines, so that we have a very long term view of this business and ensure that the quality is also maintained, rather than the quantity alone. Going forward for the next two to three years we believe that we will grow much faster than the industry, as far as, retail is concerned, the industry is typically growing at 14% - 15% so we should ideally grow at the similar rates at which we are looking at, and hopefully from next year the group business growth also will kick in, because of the 12 months of our plan is playing out this year. On overall basis, yes, we should be able to deliver around that number which you mentioned around 20% growth is something that we look forward to.

Swarnabha Mukherjee: Sure sir. And just about an indication for Q4, if you could maybe give some colour on what would be, the loss ratio which we have maybe we are seeing in January and given that Q4 would be a higher scale quarter. So should we be seeing a significant better profitability outcome as compared to what we have seen in Q3?

Nilesh Kambli: Historically, Q4 is better in terms of loss ratio, as well as combined ratio. So whatever guidance we have given for the full year we will achieve that guidance of 93% to 95% combined ratio.

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

Ansuman Deb: The first question is like, our guidance I am just rechecking, it is anyways factoring the price hike that we are contemplating. So that is question number one and the question number two is that, in terms of new business growth, in terms of we have been able to increase the sum assured, but what is the outlook looking at, for example, in the new business growth in terms of new policies or what is the outlook so that was a little muted in nine month. And my last question is on the life insurance kind of, composite license, and what our take on that is, and if any possible little threat can come from LIC agents going to maybe selling an LIC product going ahead, instead of any other companies just casing point of the threat from opening of this composite licensing. That are the three questions.

Nilesh Kambli: I will answer the first question. So, in terms of price hike, it will happen in February 2023 for the new policies. The guidance in terms of loss ratio does not change because, the earned premium will come in the next year and the current price hike will get applicable only for the new policies for the next two months and after three months, it gets applicable for the renewal business as well. Does that answer your question?

Ansuman Deb: Yes, got it.

Anand Roy: See, as far as the new business growth is concerned, on the retail side, the first quarter was a very negative growth for us as well as for the entire industry because of the huge base of last financial year the same period, because of the Delta variant sales were very high. We have seen very positive growth in quarter two and quarter three. And as we end the year with the lag effect of the first quarter still remains as you rightly said so it's kind of neutral growth right now but as we end the year, we are confident that we will achieve good positive numbers. Traditionally our new business has been growing very positively and we don't see any reason why that will not happen this year too. As far as your second question about life insurance companies coming into this domain. We have been reading about that and we are still in the exposure draft stage, we will see how that pans out but as far as our business model is concerned, Star Health is not a new startup, we are a 15 year old market leader in this industry and as much as other companies have affinity towards their agents, our agents have a strong affinity with Star Health and many of the people who are working with us for a long time have a very strong customer base and trailing commission with the company so we do not see any major threat in terms of anyone taking away our channels and our distributors. We believe that, this may affect the smaller players but being a very large player in this segment, we don't see any major challenges.

Ansuman Deb: Understand sir. And sir there was also media news that we have applied for a life insurance licence, any kind of insights on that?

Nilesh Kambli: It's just an exposure draft, it will have to go through various stages.

Moderator: Thank you. The next question is from the line of Shreya Shivani from CLSA. Please go ahead.

Shreya Shivani: I have three questions. First is on the Insurance Amendment Act, there are multiple unanswered questions in the draft, obviously as you've mentioned, so I just wanted your insights into in case there is any change in the way agent relationships are defined, like right now SAHI have an advantage of onboarding life insurance agents, what kind of targets would you keep for your agent addition, will that get disrupted, what are your views on that, first is that. Second is on the benefit policies, if possible can you share the kind of loss ratios that you see on this book and how large do you plan to make this book like if it's around 2% of your portfolio right now how large would it become over two, three years, what if any guidance you can give about that. Last is, if I calculate the retail premium of new business, removing the renewal part over nine months, over nine months, 1H last year, seems like the new business premium has sort of slowed down, it's more or less flattish now and more growth coming from the renewal part. So any insights you can give to us about what is happening with the new business part of the book. Thank you.

Anand Roy: See, on the agent addition side, we will be adding close to 90,000 to 100,000 agents this year also and we hope to continue doing that, given the regulation, as it stands today. The draft regulations do not talk about taking away the benefits of SAHI**,** the draft regulations talk about allowing composite licenses to come into play. So we will see how that pans out, but just for your information you might be of aware that, we also do have a very large proprietary agency force of about close to 1,00,000 agents who are licensed with Star Health Insurance exclusively from us so that will continue to be our focus area also and we'll continue to add agents in that category. As far as our benefit plans are concerned right now as you mentioned it is 2%, it is still a very small base but growing fast and this will grow further because we have tremendous focus on our bancassurance and partnership model. Within our own ecosystem, we want to distribute retail benefit plans, we have a wonderful critical illness product which is very unique and very beneficial to the customer. So from 2% our aspiration is to take it to around 10% level in the next two to three years' time with our partnership as well as direct distribution. And new business I've already mentioned, our new business growth is positive for the last two quarters in fact, quite handsomely positive. But the first quarter of this financial year was negative growth for us as well as for the industry because of the large base effect of the previous financial year. And we hope to end this year in a very positive note, even on the new business.

Moderator: Thank you. The next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: Firstly, on the loss ratio, so you think that you are already at 62.4% for the month of Jan, and the price hike is not kicked in yet. So do you think that your loss ratios could actually be go down below 60% as well after the price hike because it contributes to 25% price hike on a share of 46% is a big number that will come through. So, do you think that the loss ratios can go below 60% as well in time in say possibly first quarter or second quarter of next year wherein the full benefits will start pouring in of this price hike?

Nilesh Kambli: Prayesh, what happens is, the new business price hike will be effective 1st February, 2023 and the renewal business will be effective from 1st May, 2023. The earnings will happen over 18 to 24 months, the price increase of the premium does not reflect the earnings which has a bigger impact on the loss ratio. Second is as you keep on taking the price increase, there is inflation and other products as well. So, it will move in cycles.

Prayesh Jain: So, in a way you are anticipating the claim ratios to the claims to move higher and that's the reason you are taking these price hikes. 62.4% with the current inflation with 62.4% loss ratio, why would we need a price hike?

Dr Prakash: Price hike is not decided based on the overall loss ratio, we have our strategy to study behaviour of the product wise, study the loss ratios of individual products and we take a call.

Nilesh Kambli: To add, 62.4% is only for the month of January 2023 for quarter three it is 63.7%, so there is seasonality and cyclicality also in the business. So, a month ratio cannot be a guiding factor.

Prayesh Jain: So, this 62.4% is more because of frequency rather than severity, right?

Dr Prakash: We cannot say that, that severity does have a role and frequency we don't see huge fluctuation in this nine months of this financial year.

Prayesh Jain: Now, coming to another part wherein now that you will be taking a 25% price hike. And in a way you have answered this question, but from a retention perspective, even in terms of your claim rejections has gone up. So, while you are right in terms of rejection of fraudulent claims, but do you see this coming to be out as a bad word of mouth and would impact your retention ratios, are you comfortable with the 94% level, how do you see this panning out going ahead?

Dr Prakash: Decision to reject a claim has no correlation to the overall ratios that you're talking about, it all depends on a claim to claim basis. Our prudency is in studying the admissibility of a claim and our business model is more agency driven. We are looking at every claim based on so many factors and trying to see that, if a claim is not admissible as per the policy term, then it cannot be entertained**.** And there is no big change in the rejection numbers if I look at the last three quarters.

Prayesh Jain: Okay, got that. So, from a growth perspective you mentioned that the group business can see a recovery now that the entire piece of business is gone that you wanted to move out is now out of the base. So, one obviously what kind of growth we should presume FY2023 base in the group health business for say in next couple of years and this would be driven by what kind of policy?

Anand Roy: So, as far as group business is concerned, our strategy is to focus on the SME segment, which is the sweet spot that we prefer. Typically, companies with 500 lives or maximum 1000 lives in their roles are the sweet spots for us and we're looking at that segment, this is almost a quasi-retail model, most of this business comes from our agency force from some of the broking relationship and the bancassurance partnerships that we have. And while the group business, the negative effects of that will get completed by the end of this financial year and next year we hope that we should be able to grow this business also in line with our retail business. So, achieve an overall growth, which we are aspiring for which is around 20%.

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

Sanketh Godha: I have a question with respect to the third quarter results on the reserve release I mean Rs. 100 crore of reserve release has played a meaningful role in improvement in the loss ratio from previous quarter, sir just wanted to understand what is this release about and how do we see, is it a sustainable number given the over provided in the first quarter and we expect this release to play out even in fourth quarter that is my first question?

Nilesh Kambli: Sanketh, reserve claim outstanding plus IBNR reserve it is a function of the claims ratio. As the claims have reduced and we keep on paying the claims so it is not that it is gone out of the books the claim outstanding gets converted into claims paid what remains is outstanding claims as on 31st December 2023. So, as the claim ratio has seen an improvement there is a corresponding improvement in the claim outstanding. In terms of IBNR we still continue to maintain similar levels of IBNR which we had in 30th September 2022 as well. So, there is no release in IBNR at all.

Sanketh Godha: Sir, basically on the reported claims your experience has been better than what you have provided for the outstanding claims and that is why the reserve release has happened, that is the way I should understand?

Nilesh Kambli: No, see claim outstanding as on 30th September,2022 is a function of the claims reporting that has happened for the month of September and earlier period those 30th September 2022 claims which were outstanding gets paid in October, November and what remains as on 31st December, 2022 is the claims which have got reported in December 2022. So, that is the kind of improvement that we are seeing as the claims get start getting paid the outstanding claims keeps on reducing the new claims keeps on adding I think there is an improvement in the loss ratio the overall claim outstanding has reduced.

Sanketh Godha: And the second question was basically if I see the number of claims settled at the network hospital the number has meaningfully improved in 9 months' number which is at 76% to the 65% number which was there for H1, sir do I need to attribute to that factor also which has played a role in implementing the loss ratio and this 76% number the sustainable going ahead or not?

Dr Prakash: Certainly that is a dual advantage in improving the loss ratio and also it gives a lot of immense satisfaction to our customers. So, we are very keen to achieve customer satisfaction so this actually gives us a dual advantage.

Sanketh Godha: But sir this 76% compared to improvement from 65% is sustainable which means that predictably you are seeing more claims settling at your preferred hospital and you get a claim size benefit or lower claim seniority benefit and therefore the loss ratios could be better going ahead?

Dr Prakash: I agree with your views. I think our efforts to have a constant engagement with service providers and hospitals has yielded in a very beneficial support from our service providers and we are able to increase our cashless participation.

Sanketh Godha: And the last one see 25% price hike what you are taking on the family FHO see completely cannot be claimed inflation or the hospital inflation, so some portion of that 25% should trickle down into improvement in the loss ratio in FY2024 as the books get renewed, so if I want to breakdown if you can give a waterfall the 25% breakeven how much is because of the hospital inflation and how much will result into the improvement in the loss ratio because anecdotally we do not get a understand from speaking to the hospital that there was a hospital inflation of 25% in the current year?

Dr Prakash: See price revision is not done anticipating a medical inflation. A price revision is not done in anticipation, but it is based on experience. So, based on our product experience we go in for a price revision to achieve sustainable ICR for each and every product and the price increase is taken considering that it will be sustainable for three years it is not every year that you take the price increase.

Sanketh Godha: That is the point that immediate benefit given you have taken a price hike from three-year perspective so the immediate benefit probably will be more in FY2024 and it will taper down as we move into the next years of the price hike?

Dr Prakash: Sanketh this remains to be seen we are going to update you and we appreciate your good wishes.

Sanketh Godha: And last one sir so this is the last price hike or which are pricing around 8% of the portfolio in second quarter got repriced today now it is 46% so we are seeing a 57% book getting repriced, so can we expect another round to happen in other products or this is broadly what we are going to experience in large part for next two years?

Dr Prakash: That will again depend on the ICR of the particular product. We only say that we have a closely do analysis and watchful of every product and when that ICR of the particular products crosses that threshold we will look into it.

Sanketh Godha: And lastly data keeping question if you can disclose loss ratios broken down into group health, retail health and maybe personal accident?

Nilesh Kambli: See that is an annual exercise which will happen, on a quarterly or 9 months basis that is not available in the public domain.

Moderator: Thank you. The next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: Just few questions from my side first if you can give the trends and the retention renewal ratio on the medi classic product where you have taken price hike somewhere around June, July that was the first question, second we have asked many times in this call on the new business growth and it seems that at least for the third quarter specifically there has been a decline at least based on the calculation, so just wanted to get some sense if there is something that are missing or some trend particularly out there, third on the regulatory changes in case you decide you venture into life insurance business or protection of some of the product segments, would it be organic or inorganic in nature and is there any capital raising plans out there in case you had to take the route and lastly and lastly on the agent productivity it seems that on a YoY basis for 9 months and Q3 your productivity levels have been broadly flattish while the vintage of the agency base continues to increase, so just wanted to get some colour on what is happening out there?

Anand Roy: So, first let me come to the Medi Classic retention so after the price hikes what we have taken we have not seen any major drop in the retention. In fact our retention continues to be good and we are very confident that price hike is being well accepted by the market and that is being reflecting in the initial results so I think that is quite good. As far as, our new business for the third quarter is concerned we have a positive growth, we are not declaring those numbers, but we do have a significant positive growth in our new business for the third quarter it is not negative as mentioned by you and the last point about agents' productivity what was the question again can you please repeat?

Dipanjan Ghosh: So, on the agent productivity it seems to be broadly flat for some time while the vintage of the agent pace is growing, so just wanted to get some colour on that?

Nilesh Kambli: So, agent productivity is a function of the addition of new agents as well we have been adding 80,000 to 1 lakh agents. So, if you exclude the new agent that has got added the productivity is improving it is a function of new versus old agents.

Dipanjan Ghosh: And lastly on the regulatory change part whether you want to venture into the life in case the composite life insurance is allowed and will there be any capital deployment plans?

Anand Roy: See few years ago we had a product called Star-Combi where we had a term life, health indemnity and personal accident built into one plan and there was quite a decent acceptance of that product in the market, but we had a partnership with one of the life insurance companies at that point of time. If regulations do allow we do not mind evaluating that business again because I think there is a need for that product in the market, but we will see as the goes, capital requirement will not be a challenge for a company like Star which is focused on sustainable profitable growth I do not think capital will be a challenge for us.

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

Sahej Mittal: Sir I mean given that we will be taking a 25% price hike in the FHO plan I mean we are taking it because we have seen some bad claims experience in this product line, but just understanding it fundamentally what makes us so confident that the new business growth in this product will not be affected despite a 25% price hike given that a pricing family floater plans is more or less comparable to peers?

Anand Roy: So see first of all let me clarify that the product experience has not been bad, you are comparing last year loss ratio which was because of COVID.

Sahej Mittal: I was speaking this from what I heard that you take a price hike on the basis of product level experiences or the claims ratio which you face not on an aggregate level, but on the product level?

Anand Roy: Yes, you are right so that is what we do. We take a price revision based on the product experience and we have done for this FHO product. So, as far as new business is concerned we have done detailed analysis of the market, of our competitors, product pricing with the similar product offerings and we are quite confident that we will be able to pass on this price increase in the market.

Sahej Mittal: I mean a 25% price hike seemed a large one for someone even an agent selling that policy in the market for him a 25% price hike seems a big one?

Dr Prakash: See we are very cognizant of that this 25% what we are talking about is in aggregate. It ranges based on the geography and based on the age group. So, it is not uniform for across the country.

Sahej Mittal: And one clarification on the retail growth aspirations so for the next two years what kind of growth in the new business so for the retail new business should we assume, can we expect maybe?

Anand Roy: See our aspiration I have told you that we want to grow at 20% plus on the retail side at least for the near future and if you assume renewal retention to where it is right now we should have the balance coming from new business which should also ideally grow at the same levels that is our expectation.

Sahej Mittal: So of the 20%-22% given that large portion would be coming from price hike, is it fair to assume that 4% to 5% of this would be coming out of new business?

Anand Roy: No definitely not, we would do much better than that we are hoping that new business growth should be in mid-teens if not better.

Moderator: Thank you. The next question is from the line of Manish Gupta from Solidarity. Please go ahead.

Manish Gupta: Sir, what I wanted to understand is it you have one-third of the market of retail health by definition would your loss ratios be higher than your peers because you are more mass market vis-a-vis them?

Nilesh Kambli: So, it is a function of two things. One is the maturity of the portfolio and the market share. So, considering the maturity of the portfolio when you compare to peers like SAHI, we are slightly ahead of them higher than in terms of the loss ratios, but based on our scale and size of operations it is in line with our internal expectations and they got a measure as a combined ratios where we have been giving the guidance of 93% to 95% and that is our target basically.

Manish Gupta: You mean to understand that our strategy is to grow at a certain rate let us say 18% to 20%, I am just picking the 20% number as you said 18% to 20%, so is the strategy that we will grow at 18% to 20% with 93% to 95% combined ratio and if our peers have a lower combined ratio that is fine, our strategy is balancing this growth with this combined ratio, am I right in understanding that?

Dr Prakash: Yeah you are almost right, but one thing we want to supplement here is it is not just a growth, it is a quality growth. So, we do not look into only the quantity, we look into quality growth. So, we are confident that this quality growth should bring a more and more sustainable profit.

Manish Gupta: So, what is quality of growth so can you please elaborate?

Dr Prakash: A proper underwriting done it is not undertaking it is underwriting the risk, assessing the risk and identifying a profit making channel so these are some of the elements of profitable growth.

Manish Gupta: So profitable growth implies 93% to 95% combined ratio is that understanding right?

Nilesh Kambli: Yes, so if you look at the peers none of the companies are operating at this kind of combined ratios levels that we are talking about.

Manish Gupta: I am not sure that is correct sir because if you look at Care health then for H1-FY2023 their combined ratio was 92%?

Nilesh Kambli: See Care health still falls at the 50% accounting methods so it is not comparable to that extent.

Manish Gupta: So, if we were to compare your claims by NWP will that be like-to-like comparison?

Nilesh Kambli: What we can do is we can take it offline.

Manish Gupta: Sir I have another one or two questions if I may your OPEX to GWP is 16%, so how much of that 16% would be fixed cost versus variable cost?

Nilesh Kambli: Around 50% is fixed and 50% is variable.

Manish Gupta: And my third and last question sir was that in this family product another participant had asked this question earlier in the call I just want to reconfirm this that the 25% price hike has this been approved by the regulator or is this we file a regulator will take a look at it later on or this is already been approved by the regulator?

Nilesh Kambli: This has already been approved by the regulator. The regulator has looked at the various parameters and have approved the product. So, they provide a UIN for the product Unique Identification Number which we have received.

Manish Gupta: My last question sir was that when the regulator examines your business and say you got a product where your loss ratios are much higher they allow you a price increase, but does the regulator ask you to give a discount, how does the regulator adjust for the price increase they are giving you on a loss making product vis-a-vis a product where your loss ratios might be significantly lower, so would the regulator examine this thing by product or as a portfolio?

Dr Prakash: By product, the regulator looks into the frequency, the severity, the loss pattern of every product and the rationale for which we are asking for price hikes. The parameters are verified, rationale is being checked and the features are also studied by the regulator to see whether the product deserves to be re-priced.

Moderator: Thank you. We take a next question that is from the line of Anand from White Oak. Please go ahead.

Anand: Couple of questions one is the payments that we make to hospitals and the network for any particular procedure as compared to the PSU insurer, do we on the same product we have a higher or lower can you give some colour?

Dr Prakash: See the payment to the hospital depends on so many factors the location of the hospital, the geography, infrastructure and bed strength of the hospital and the type of disease.

Anand: Same procedure if in the same geography, same procedure for the same person as a private insurer do we have to pay more than a PSU insurer because there are four of these PSU insurers who have higher bargaining power and maybe they might get lower rates so I am starting to understand if bargaining power is higher than us?

Dr Prakash: There are lot of things which you need to understand when someone utilizes a claim in the insurance policy. We keep cashless rate free at the point of delivery without any extra cost which is more important than the pricing arrangement, we are number one standalone health insurer today. We have a stronger pricing arrangement and a better relationship with the hospitals and we are guaranteed that so to our customers we not only pay the claims we also validate the need for an admission whether the necessary procedure has been done. We have given free electronic second opinion to our customers. So, our customers have lot of value advantage and we hand hold them, promote wellness in the present, we try and see that how best we can prevent in the admission rate and reoccurrence in our customers. So, we offer more than what like I do not want to be compared to others, but I can strongly say that we offer more than reimbursing at least.

Anand: And the purpose of understand this was I was wondering whether our claims ratio can still fall further if there is some unutilized bargaining power with the hospitals available to us?

Nilesh Kambli: See it is a continuous process we continue to negotiate our terms and conditions with the hospitals and take the benefit of pricing based on our area of operation.

Anand: And sir my second question was on claims by customer category and have you done any internal analysis on whether people who had contacted COVID are they seeing any higher claims on any medical procedures or any particular illness, is there any data for you to consider patient who have COVID infection to be more having higher claims than others?

Dr Prakash: COVID as a disease like there are lot of studies if you look at the post COVID complications be it lung related or blood vessel vascular complications and like in our experience we have only see that admission due to respiratory infection those seeking the help of a pulmonologist, the admission due to respiratory infections we see a small increase post COVID, but how many people are refers to COVID in India given that they might have got through infection or through immunization or through communal immunity. There are multiple factors by which someone would have got exposed to the virus and in our experience we do not see any alarming post-COVID related admissions, but overall there will be a small increase in the number of admissions related to respiratory problems.

Moderator: Thank you. The next question is from the line of Bhavin Pande from TrustPlutus Wealth. Please go ahead.

Bhavin Pande: Just couple of short questions first is that you left out all claims ratio guidance in the introductory remark and what sort of distribution mix are we looking at over the five year period as today 80% of our distribution happens by our agent partners?

Dr Prakash: Our distribution mix going forward is going to be more technology aided. We are going to bet more on digital means of procuring business, towards that direction we have invested a lot of time, money and manpower. We are very confident that we are going to have a huge business either directly or through our web sales and digital sales.

Bhavin Pande: But sir are we looking at any sort of breakup that you can give us in terms of numbers and channels?

Anand Roy: The distribution strategy for the next five years which you are asking is there are areas of improvement which we have identified which we believe will be our focus area. One is our partnership in the Bancassurance business today which contributes to around 10% of our new business which we believe should go up to at least 20% - 25% going forward. The opportunity is there now the regulations are also enabling that. The second piece is the digital business our digital business is also growing rapidly which is also contributing upwards of 10% of our new business as we speak. We would like to take that also to the levels of 20% - 25% in the next five years' time. The business would largely migrate towards a more wholesome distribution strategy where agency continues to be the mainstay of the business, but the other channels like banca, partnership, digital and other ecosystem players on the digital side will contribute more.

Bhavin Pande: And sir the claims ratio guidance number I missed out on the opening remarks?

Nilesh Kambli: On claims ratio guidance there was a comment made by Dr. Prakash that we reiterate our claims ratio guidance since we have completed 10 months and we maintain the guidance of 63% to 65%.

Moderator: Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: So, my first question was on just wanted to understand how the structure of the combined ratio works if we are at say 63% to 65% target ratio and our combined ratio is 93% to 95% is basically means OPEX ratio is about 30% which is roughly where we are today, but given we have say about 7% - 8% of our premium as fixed cost, should not we see operating leverage on these costs overtime and so overtime can the combined ratio which is 93% to 95% today actually go lower as we benefit from this or is there a possibility that the loss ratios could also go up overtime in this business as the customer vintage increases the loss ratios tend to increase also, how do we look at the combined ratio in the loss ratios evolving overtime for our business?

Nilesh Kambli: Over a period of time there will be efficiencies that will come into the expense ratio, but we will continue to invest in our business in terms of the digital, in terms of technology, in terms of refurbishment of our infrastructure so that will ensure that while we keep on reducing the cost and take benefits of the scale it should remain in that range or slightly lower than that. Same thing for the loss ratio as well as we take the price increase the loss ratio will decrease in across other products there will be inflation which will come through. We will continue to operate in 63% to 65% range whenever we take a price increase which is coming through in the next 12 months to 18 months in terms of the earned premium the loss ratio will tend to be at the lower end, it will increase and remain in that range over a medium to long period of time.

Anirudh Shetty: My next question was more on someone had asked whether we would consider doing life insurance if we are allowed to do it and I know you had mentioned that this is something you are evaluating, but my question was more on how do you guys think about your right to win in that category, so at this point in time there are multiple players who are there already and from our strength point of view whether it is our distribution channels, our brands and also our ability to price for risk because the risk was also very different, so how do you think Star would be positioned if you actually decide to get into term protection manufacturing?

Dr Prakash: Our brand image, our agency strength, our distribution reach and scale across the country. Our presence is across the country so we have lot of things to our advantage and this can complement to our existing portfolio, we are very confident and we are in the habit of creating benchmark in the industry. There are lot of people doing health we started and we know we are dominant player today. We are very confident about what we are doing with our scale, presence and reach, any of these things could only complement our existing portfolio and yes we are bound to grow more and more.

Anirudh Shetty: And as a approach do you all typically what we notice is any industry the top players tend to kind of dominate market share in the profit pool overtime, so when you all think about entering into a new category will you all do if you all see a roadmap do you all becoming a leader or will you all enter to categories to that you think it could be synergistic and the customer might appreciate you are having those products as well like how do you guys think about it?

Anand Roy: The strategy will always be to build our sustainable model which is also profitable. We are not going to be in business for the sake of doing business, but the fact of the matter is there are opportunities which are coming up and we are evaluating as we speak so, other lines of business being one, but there are also opportunities in various adjacencies to our own core business of health in terms of how we can provide more value added services, is there any measures to monetize those things. We are working on all of these areas and we hope that given Dr. Prakash mentioned the size, scale, brand and the trust that we have in the market over the last 15 years I think there are opportunities for us to leverage all of this and grow the business and you will understand also that in the insurance business the health is the toughest business to be in when we have overcome that milestone to some extent as we speak and for us to get into other lines of business is relatively simpler as compared to somebody else trying to get into health and establish a presence there. So, we will see how it plans out, but this is what we are thinking about right.

Moderator: Thank you. The next question is from the line of Pankaj Murarka from Renaissance. Please go ahead.

Pankaj Murarka: There have been lot of this questions on price hike I just want to understand what will this price hike do to your market share meaning are we saying that the market share will remain around where it is even after the price hike or does it change things?

Dr Prakash: Well I think I should clarify to the majority of crowd here. So, the price hike is not the first time we are doing. We are 15 years in the market and for the particular product FHO we are doing the second price hike in this 6 years and this will take at least two years for us to become fully alive for us to see the benefit. To be very fully active it may take another close to 18 months to 24 months and the price hike also is at a range of 8% to 10% at the lowest to 36% to 38% at the highest it depends on the geography, it depends on the individual and its age there are so many factors. So, I just want to clear this and I hope everyone of us can understand price hike is something which we regularly do, we are in the habit of selling a lot of a products, on a product-to-product basis and whenever there is a need we pitch in and we do a price hike where we are always working towards as my colleague was talking about sustainable profit and growth if I have to work towards that we work on every unit every fundamental unit that can help us to achieve that sustainable profit we worked on it and one of them is price hike for a product.

Pankaj Murarka: I get your point sir that your distribution is heterogeneous and your customer subset is heterogeneous and it is not homogenous my still remains that once this price hike is absorbed over the next 18 months as you said where do you see your market share one and second our related question is are we meaning since you have been around in business for long, but publically listed for brief hike are we seeing that this industry pricing power where you can raise prices at least linked to inflation or what is the long term price inflation in pricing for a like-to-like product that this industry sees over medium term-to-long term, if you can share some insights on that that will be helpful?

Dr Prakash: I do not see any correlation between market share and price increase irrespective of this price increase we are bound to hold the largest market share and as Mr. Anand Roy was pointing out in his deliberation that every year we are only increasing our market share. So, irrespective of this we are confident of increasing our market share because we have multiple strategies to infiltrate and enhance our penetration.

Pankaj Murarka: Can I ask one related question on a like-to-like basis where do you stand in your assessment in terms of pricing are you for a comparable product are you the highest pricing or somewhere in the middle or where do you stand in the industry in terms of pricing?

Dr Prakash: We are very careful in moderating this that we may be at the average or an inch less than the average also because we do not do premium loading on the products. We have one price for the product and if we receive guidance to the customers who approaches us and I cannot say that we are the costliest at the market. At the same time, I cannot say that our USP is the cheapest price. So, we are somewhere in between.

Pankaj Murarka: And that is the position you want to maintain?

Dr Prakash: Certainly.

Pankaj Murarka: Because when you are saying that market share is immune to pricing and there is some disconnect which I am not able to appreciate that you are saying that market share will not be influenced by pricing so I understand what you are trying to say influenced by other factors including servicing turnaround times and other things, but to say that it is completely immune to pricing meaning is that what you would say?

Dr Prakash: We are seeing the policy achieving customer satisfaction, maintaining a good relationship with the hospitals, these things are going to enhance our penetration. Star Health Insurance is a brand is dominant today because of our efficiency in servicing. It is a servicing of customers which has given us the brand image so we continue to do that and particularly when it comes to price revision we take into consideration our customers like needs and requirements and that is what we do all these things because we want to take our customers along with this. We are very cognizant of retaining our renewal retention and at the same time growing on fresh business subsequent to this revision that we have done in one of our products and health as you all know it is not a commodity product it is an engagement product. The way we have been constantly engaging with the customer has brought us to this stage.

Moderator: Thank you. The next question is from the line of Prayesh Jain from Motilal Oswal. Please go ahead.

Prayesh Jain: But is it fair to or you could you just highlight whether if the cohorts would that we are operating in today in that product that remains the same next year and the price hike is implemented your total premium of family health optima will grow at 25% or based on cohorts the growth could be different?

Dr Prakash: In the recent past we have also introduced other products like Health Assure and Women Care and those products are also doing very well in the market. So, every year with the introduction of a new product particularly a product with a lot of innovative and new features, for example, we have introduced a product where we had given day 1 cover to the new born. It is new for a insurance company to give cover for a baby born from day 1. Every product has got some attractive new features and when there are new products introduced naturally there may be some fresh customers attracted to that product.

Prayesh Jain: The question is very specific to Family Health Optima cohorts, so if you have the current cohorts whatever who have Family Health Optima product and you implement the price hike, would you see a 25% growth in that Family Health Optima premium for next year?

Dr Prakash: Technically what you are asking is right if the same cohorts remain there should be a 25% price hike across the board it will take as my colleagues have mentioned around 18 months to 24 months for the whole thing to play out, but we have seen in the past that in case there are certain cohorts of customers who may want to shift to probably some of the 1% or 2% there are dropouts from this product line. We will not comment that there will be a 25% price hike in the overall portfolio, but around that range is what I think we should be able to achieve.

Prayesh Jain: Just extending that point, so is it fair to assume that when you mentioned that the price hike ranges from anywhere between 13% to 36% that kind 36% - 40% kind of range, is it fair to assume that the higher end is towards more cohorts where you either way kind of want to exit and reduce that shares to possibly a senior citizen or a higher age not the senior citizen in the higher age bracket or geographies where you have a relatively higher loss ratio experience?

Dr Prakash: To a large extent your question is correct unfortunately the regulations do not allow us to price based on age wise cohorts reprice rather. We have done some geographical realignment of our the cities that we operate in and some of the higher ICR cities have been brought into the higher price bucket if you may say so, but that is the alignment based which we have done.

Prayesh Jain: And last bit in case whenever the risk based solvency is implemented what kind of solvency we would gain from it?

Nilesh Kambli: What happens is when it comes to risk based solvency all the factors are considered in terms of the investment portfolio, the reinsurance receivable which we do not have any because we do not have reinsurance, the claim outstanding and the business model. We had done some rough working basis the Singapore risk based solvency and we see that for us it is more than two times the required levels and what happens is in today scenario as we keep on growing because it is premium factor base the solvency drops by certain levels and we have indicated that it can drop by 8 to 10 basis points every year, but when it comes to risk based solvency since its balance sheet method there is no pressure on solvency as we keep on growing the business. So, it is more sustainable in terms of the capital requirement.

Moderator: Thank you. Ladies and gentlemen that would be our last question for today. I now hand the conference over to Mr. Nilesh Kambli for closing comments. Thank you and over to you.

Nilesh Kambli: Thank you everyone for joining the call. As spoken on the call we have focused on sustainable profitable growth and we are taking all the decisions to achieve that goal and thanks once again for joining the call.

Moderator: Thank you. Ladies and gentlemen, on behalf of Star Health and Allied Insurance Company Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.