Management's Discussion and Analysis

I. MACRO ECONOMIC ENVIRONMENT AND NON-LIFE INSURANCE INDUSTRY DEVELOPMENTS

Fiscal 2020 witnessed growth pressures led by subdued investment activity and weakness in the industrial sector. Agriculture sector growth improved as compared to previous fiscal led by normal monsoons.

GST collection for the fiscal 2020 stood at ₹ 12.20 trillion[1] witnessing a slower growth of 3.8% over the collection of ₹ 11.75 trillion[1] in the previous fiscal. Weak GST collection is attributable to the slowdown in the economic activity. GST collection in the month of March 2020 fell close to ₹ 0.97 trillion[1] due to the impact of COVID-19 across all the sectors. GST collections for first quarter of the fiscal 2021 is expected to decline sharply due to lockdown in the Country.

The second advance estimates of the National Statistics Office have estimated a GDP growth of 4.9%[2] for the fiscal year 2020 as compared to the GDP growth of 6.1% for the fiscal year 2019 which is the weakest estimate since 2008-09. The slump in the GDP growth was mainly driven by a contraction in the investment and weak consumption growth. The growth is also expected to be impacted in the fiscal 2021 due to the COVID-19 pandemic. CRISIL has also slashed the growth forecast for fiscal 2021 to 3.5%[3] from the earlier forecast of 5.2%. Standard & Poor's Global has projected growth rate of 1.8% for India during the calendar year 2020 with a rebound in growth to 7.5% for the calendar year 2021.

Several countries across the world have resorted to the fiscal as well as monetary stimulus inorder to mitigate impact of COVID-19 on global trade and their economies. In such an environment of weak growth, inflation is expected to remain subdued.

With growth expected to fall sharply for fiscal 2021 and an overall risk off environment globally, emerging markets including India have witnessed large outflows of foreign capital. The benchmark indices BSE[4] Sensex and Nifty[4] corrected by 23.8% and 26.0% respectively in fiscal 2020.

Non-Life Insurance Industry developments

(A) Regulatory developments:

The Indian non-life insurance industry has come a long way in the last two decades since the industry was opened for private participation in fiscal 2000. Liberalisation was the first big change in the sector. Subsequently, in fiscal 2008, the industry witnessed another major change when most of the segments were de-tariffed.

Fiscal 2020 saw a spate of regulatory changes, which, inter-alia, included the following:

The Authority issued a circular effective September 1, 2019 wherein the insurers shall make available standalone annual own damage covers. This circular is applicable for both old and new cars and two-wheelers, provided the Motor Third Party cover is already in existence or taken simultaneously.

Effective January 1, 2020, General Insurance Corporation of India (GIC Re) has increased the prescribed minimum rates for most occupancies under the Fire segment. Since GIC Re is the leading reinsurer in India, this development is expected to bring a positive impact on the growth of Fire segment over the long-term for the GI industry and the company.

Introduction of "Regulatory sandbox" to allow a conducive environment for insurtech and fintech companies to carry innovations in the insurance space. Under the regulations, the Authority approved 33 products on January 14, 2020. In the second tranche, Authority further approved 16 products on March 31, 2020. The Company in the first tranche received approval for five products and in the second tranche received approval for one product.

1 Ministry of Finance Department of Revenue monthly press release on GST collection
2 Mininstry of Statistics and Programme Implementation - Second Advance Estimate released on February 28, 2020
3 CRISIL press release dated March 26, 2020 titled 'Slashing India's growth by 170 bps'
4 Bombay Stock Exchange and National Stock Exchange

Management's Discussion and Analysis

The Authority has notified on March 27, 2020 that the insurance companies shall continue to charge the prevailing rates for Motor Third Party Liability Insurance Cover from April 1, 2020 onwards until further order is issued. This could impact the Loss ratio of the industry adversely.

The Authority announced the launch of standardised health insurance policy called "Arogya Sanjeevani Policy" w.e.f. April 1, 2020. This standardised offering should further help in expanding the penetration of health insurance.

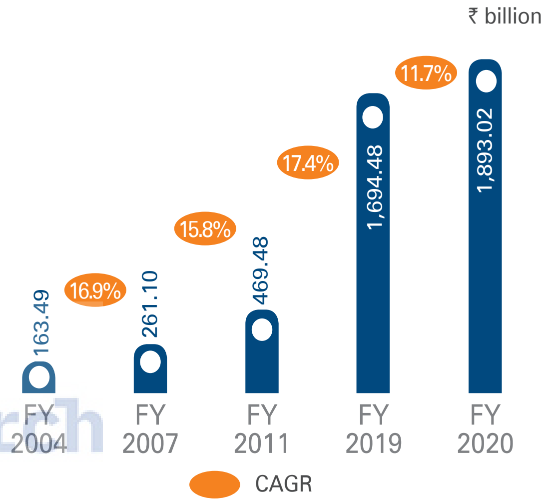
In the aftermath of COVID-19 break-out, considering the prevailing situation, on April 16, 2020 the Authority announced further relaxation for payment of premium on renewals for Motor Third Party and Health insurance policies till May 15, 2020.

The Authority instructed insurers to expeditiously settle hospitalisation claims related to coronavirus disease under health policies. It also advised the insurance companies to come out with policies to cover treatment costs for coronavirus infection, which has impacted millions of people worldwide. In response ICICI Lombard launched a benefit product which offers a particular sum insured on detection of the said virus, subject to terms and conditions of the product.

The Authority, vide its circular dated April 24, 2020, stipulated that, in view of the emerging market conditions and to conserve capital with the insurance companies in the interest of Policyholders and of the economy at large, urged all insurers to take conscious call to refrain from dividend payout from profits pertaining to the financial year ended March 31, 2020 till further instructions This position shall be reassessed by the authority based on financial results of insurers for the quarter ending September 30, 2020.

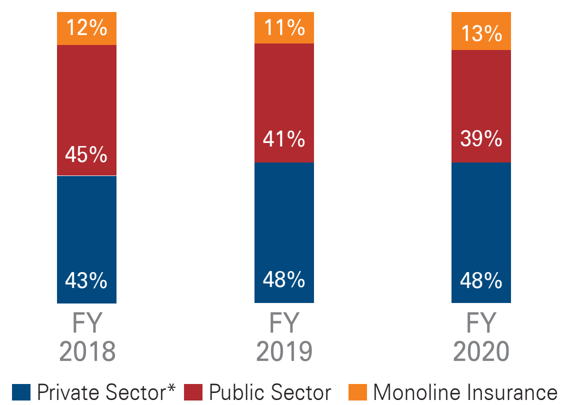
(B) Financial performance:

The non-life insurance industry registered growth of 11.7%[5] in fiscal 2020. The industry has grown at a CAGR of approximately 16.7% since fiscal 2001. Despite this, non-life insurance penetration in India continues to be around 0.97%[6] of Gross Domestic Product against world average of 2.78%[6] and given India's demographic dividend, the sector is poised to reach newer heights in the coming years.



The private multi product players contribute to approximately 48.2% of the market for fiscal 2020.

Market share of Industry Players

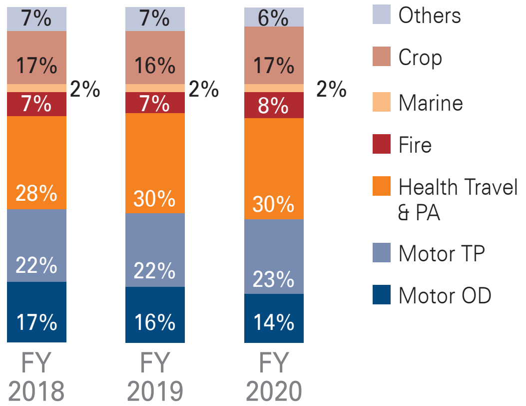


*excluding monoline insurers

[5] Source: IRDAI and GI Council
[6] Source: Sigma 3 / 2019 Swiss Re

The industry growth is driven by growth in Fire, Motor Third Party, Retail Health and Group Health insurance segments. Fire, Motor Third Party, Retail Health, and Group Health grew by approximately 36.1%, 12.1%, 12.0% and 23.3% in fiscal 2020.

Product Mix



Source: GI Council

II. DISCUSSION ON FINANCIAL PERFORMANCE AND ANALYSIS OF FINANCIAL STATEMENTS

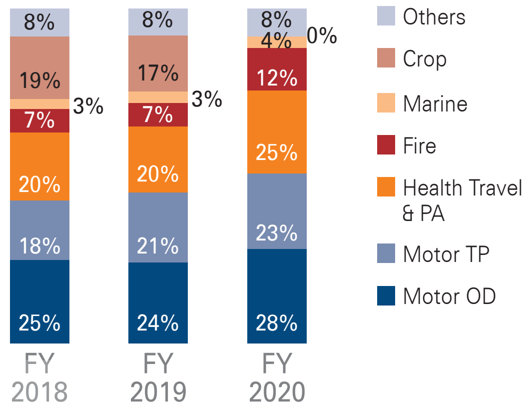
a. Overview of our business

We are the largest[7] private-sector non-life insurer in India based on gross direct premium income in fiscal 2020. We offer our customers a comprehensive and well-diversified range of products, including Fire, Motor, Health, Travel and Personal Accident, Marine, Engineering and Liability insurance, through multiple distribution channels.

For fiscal 2020, we issued 26.2 million policies and covered 40.9 million lives and our gross direct premium income was ₹ 133.13 billion, translating into a market share[7] of 7.0% among all non-life insurers in India and 14.6% among multi-line private-sector non-life insurers in India. Our key distribution channels are direct sales, individual agents, corporate agents - banks, other corporate agents, Motor Insurance Service Providers (MISPs), brokers and digital, through which we service our individual, corporate and government customers.

Our proportion of Crop segment to overall GDPI is negligible for fiscal 2020 which was consistent with our cautious approach in underwriting this underpriced segment. Further the company did not win any new tender in crop business during the year under review. The graph below depicts the product portfolio mix.

Product Mix



We have maintained leadership position among the private sector non-life insurers in India across Motor Own Damage, Health, Fire, Engineering, Liability and Marine segments in fiscal 2020. Our GDPI market share in Motor Own Damage segment improved to 13.9% in fiscal 2020 from 12.9% in fiscal 2019. The company witnessed accretion in market share across all the commercial lines such as Fire, Engineering, Marine Cargo and Liability.

As of March 31, 2020, we had ₹ 263.27 billion in total investment assets with an investment leverage (net of borrowings) of 4.21x. Our investment policy is designed with an objective of capital preservation and achieving superior total returns within identified risk parameters. Our philosophy of generating superior risk adjusted returns along with protection of captital has resulted in an annualised portfolio return of 10.2%[8]. Listed equities made up of 8.0% of our total investment assets, by carrying value, as at March 31, 2020. Since fiscal 2004, our listed equity portfolio has returned an annualised total return of 23.2%, as compared to an annualised return of 13.8% on the benchmark S&P[9] NIFTY index.

[7] GI Council Report
[8] CAGR (FY2008-FY2020)
[9] Standard & Poor

Management's Discussion and Analysis

b. **Competitive Strengths**

Our strategic objective is to build a sustainable organisation that remains relevant to the agenda of our stakeholders. We believe in providing value to our clients, while creating growth opportunities for our employees and generating profitable returns for our investors.

The following competitive strengths which contribute to our success and positioned us well for future growth:

Consistent Market Leadership and profitable growth: Our industry leadership has been reinforced by our comprehensive and diverse portfolio of insurance products that we continuously adapt to evolving needs of customers and changing industry dynamics. We have maintained leadership position among private sector non-life insurers in India across Motor Own Damage, Health, Fire, Engineering, Liability and Marine segments in fiscal 2020.

Diverse product line with multi-channel distribution network: We continue to offer products and solutions that address the untapped and evolving needs of customers and we have established ourselves as a reliable one-stop insurer for diverse customer requirements. Further, we have been expanding our distribution network so as to increase penetration in tier 3 and tier 4 cities. Our Virtual offices network stood at 840 as on March 31, 2020. Our individual agents (including POS Agents) increased to 47,548 as on March 31, 2020.

Excellance in Customer Service and Technology: Our customer-centric approach to delivering value focuses on providing convenience and customised solutions. The number of policies written stood at 26.2 million for fiscal 2020. We have been at the forefront of leveraging technology in the Indian non-life insurance industry. We leverage technologies such as Artificial Intelligence, Machine Learning, Advanced analytics, Internet of Things etc. from issuance of policies to settlement of claims and fraud detection. Our investment in capability building is focussed on building a culture of data-enabled decision making and enabling employees to deliver customer-centric solutions. As on March 31, 2020 the headcount of the company was 10,682.

Robust risk selection and management framework: We take a holistic approach to risk management, which includes a data-driven risk selection framework, conservative reserving and quality reinsurance. The company has historically witnessed lower proportion of losses from catastrophic events than overall market share. As per IRDAI guidelines, non-life insurers in India are not allowed to discount their reserves. We test our reserves regularly based on claim experience, claim inflation and other factors. We have been disclosing aggregate reserving triangles as part of our annual reports since fiscal 2016. When it comes to investment management, the company has tighter internal exposure norms as against regulatory limits.The company has invested in high proportion of Debt portfolio and has 81.7% in sovereign and AAA[10] rated securities. All the Bonds and Debentures are AA rated & above. The company has zero instance of default in Debt portfolio since inception.

Strong investment returns on diversified portfolio: Our total investments assets increased to ₹ 263.27 billion as on March 31, 2020 with an investment leverage of 4.21x. We have achieved an annualised realised return on total portfolio of 7.9% for fiscal 2020 after considering the impairment of ₹ 1.20 billion on investment in equity assets as per policy.

c. **Strategy and Future Outlook**

In fiscal 2020, the company continued to focus on its strategic priorities of sustainable profitability with diversification of product portfolio. With regards to improving profitability, the company focused on prudent risk selection whilst leveraging on technology and distribution

[10] Domestic credit ratings

network. The company maintained a strong capital position with the solvency ratio well above the minimum regulatory requirement.

Going forward, the company will continue to focus on underwriting profitable segments while maintaining cautious approach in underwriting lumpy tender driven segments. Through its customer-centric approach and digital initiatives, the company is geared to remain customer's preferred choice. The core strategy of the company for the ensuing fiscals will be to strive for increase in return on equity without compromising profitability and sustaining combined ratio at optimal levels.

d. Basis of preparation and presentation of our financial statements

The financial statements have been prepared and presented on a going concern basis in accordance with Generally Accepted Accounting Principles followed in India under the historical cost convention, unless otherwise specifically stated, on the accrual basis of accounting, and comply with the applicable accounting standards specified in section 133 of the Companies Act, 2013 read with Companies (Accounting Standards) Amendment Rules, 2016 dated March 30, 2016 to the extent applicable, and in accordance with the provisions of the Insurance Act, 1938, Insurance Laws (Amendment) Act, 2015 (to the extent notified), Insurance Regulatory and Development Authority of India Act, 1999, the Insurance Regulatory and Development Authority of India (Preparation of Financial Statements and Auditor's Report of Insurance Companies Regulations), 2002 ('the Regulations') and orders / directions prescribed by the Insurance Regulatory and Development Authority of India (the "IRDAI") in this behalf, the provisions of the Companies Act, 2013 (to the extent applicable)(the "Act") in the manner so required and current practices prevailing within the insurance industry in India.

The management evaluates, all recently issued or revised accounting pronouncements, on an ongoing basis. The Financial Statements are presented in Indian rupees rounded off to the nearest thousand.

i. Revenue Account and Profit and Loss Account

The revenue account contains income and expenses relating to policyholders, and the surplus or deficit generated in this account is appropriated to the profit and loss account every fiscal.

The statement below summarises the Revenue account

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Premium earned (net)	94.04	83.75
Income from Investments (net)	15.43	13.36
Contribution from Shareholders Funds towards excess EOM*	0.75	0.24
Other income	0.32	0.41
Total (A)	**110.54**	**97.76**
Claims Incurred (net)	68.52	63.08
Commission paid (net)	3.64	2.23
Operating expenses related to insurance business	22.94	20.14
Total (B)	**95.10**	**85.45**
Operating Profit / (Loss) (C) =(A)-(B)	**15.44**	**12.31**

*Basis IRDAI circular dated May 20, 2019

The profit and loss account contain the income and expenses pertaining to shareholders.

The statement below summarises the Profit and Loss account.

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Operating profit / (loss)	15.44	12.31
Income from investments (net)	4.64	4.60
Other income	0.16	0.14
Total (A)	**20.24**	**17.05**
Provision (other than taxation)	1.68	(0.41)
Other expenses	1.59	1.48
Total (B)	**3.27**	**1.07**
Profit before tax	**16.97**	**15.98**
Provision for taxation	5.03	5.49
Profit after tax	**11.94**	**10.49**

Management's Discussion and Analysis

Premium earned (net) (NEP)

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Premium from direct business written - net of GST or service tax (GDPI)	133.13	144.88
Premium on reinsurance accepted	2.79	3.01
Gross Written Premium (GWP)	**135.92**	**147.89**
Less: Premium on reinsurance ceded	39.52	52.51
Net Written Premium (NWP)	**96.40**	**95.38**
Less: Adjustment for change in reserve for unexpired risks	2.36	11.63
Premium earned (net) (NEP)	**94.04**	**83.75**

Premium from direct business written-net of GST or service tax, which we refer to as GDPI, is the total premium received by us before taking into account reinsurance assumed and ceded. This is calculated net of GST or service tax on such premiums.

Our GDPI de-grew to ₹ 133.13 billion for fiscal 2020 from ₹ 144.88 billion for fiscal 2019, de-growth of 8.1%. The de-growth was due to cautious call taken by the company to reduce exposure to the underpriced Crop segment. Ex-crop the GDPI of the company grew to ₹ 133.02 billion for fiscal 2020 from ₹ 120.36 billion for fiscal 2019, growth of 10.5%. The increase in GDPI ex-crop were primarily due to Motor, Health and corporate segments such as Fire, Marine Cargo, Engineering and Liability.

The increase in our GDPI from Motor segment can be attributed to change in product mix within sub-segments of Motor aided by rate hike in Motor Third Party segment and increased volume of policies. The composition of private car, two wheeler and commercial vehicle within Motor segment was 56.7%, 28.5% and 14.8% respectively in fiscal 2020 as against 50.0%, 27.2% & 22.8% respectively in fiscal 2019. The increase was also driven by enhancement in capital sum insured to ₹ 1.5 million for Compulsory Personal Accident (CPA) cover for owner driver liability. The increase in GDPI in Health insurance segment was contributed by Group Health segment and relatively higher growth from New Retail Health Indemnity business. Fiscal 2020 continued to witness relatively slower growth on the Benefit Health insurance segment in view of muted loan disbursements by Non-Banking Financial Companies (NBFCs) and Housing Finance Companies (HFCs). Individual, Group –Others, Group – Employer-Employee and Mass contributed to 24.9%, 37.3%, 37.7%, and 0.1% respectively of Health, Travel[11] & Personal Accident GDPI for fiscal 2020 and 27.2%, 34.3%, 38.0% and 0.5% respectively for fiscal 2019.

The Company continued to take a cautious approach in underwriting lumpy tender driven businesses viz. Crop/Weather and Mass Health segments during the fiscal. The contribution of Crop/Weather segment to overall GDPI of the company remained negligible. Further the company did not win any new crop tender during FY2020.

Premium on reinsurance accepted is the premium received by us due to risks that we reinsure, which we also refer to as "reinsurance inward". Premium on reinsurance accepted stood at ₹ 2.79 billion for fiscal 2020 from ₹ 3.01 billion for fiscal 2019, a de-growth of 7.5%. Fire, Motor Own Damage, Engineering, Health and Marine segments primarily contributed to premium on reinsurance accepted.

Consequently, our GWP stood at ₹ 135.92 billion for fiscal 2020 as compared to ₹ 147.89 billion for fiscal 2019, a de-growth of 8.1%

Premium on reinsurance ceded is the premium in relation to the risk that we cede to our reinsurers. In the case of non-proportional reinsurance, like risk, excess-of-loss or catastrophic excess-of-loss, this amount is the premium that we pay to our reinsurers. In the case of proportional reinsurance, this amount is calculated based on the premium we receive for insuring a particular risk and the proportion of such risk ceded to our reinsurers.

[11] Basis IRDAI circular dated May 20, 2019, Travel included as part of Health.

The premium on reinsurance ceded stood at ₹ 39.52 billion for fiscal 2020 from ₹ 52.51 billion for fiscal 2019, a de-growth of 24.7%. This decrease in premium on reinsurance ceded was higher than the GWP de-growth of 8.1% as the GWP de-growth was primarily driven with our cautious approach in underwriting Crop segment where the reinsurance ceding is higher.

Consequently, our NWP increased to ₹ 96.40 billion for fiscal 2020 from ₹ 95.38 billion for fiscal 2019, registering a growth of 1.1%

Our NEP increased to ₹ 94.04 billion for fiscal 2020 from ₹ 83.75 billion for fiscal 2019, an increase of 12.3%. The increase was primarily due to increase in NEP from Motor and Health segments.

Our segmental NEP is shown in the table below:

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Motor:		
Motor - Own Damage	31.01	27.14
Motor - Third Party	30.19	23.22
Motor - Total	**61.20**	**50.36**
Health Insurance	18.30	16.58
Crop / Weather	0.02	5.68
Marine:		
Marine - Cargo	2.53	2.31
Marine - Other than Cargo	0.04	0.06
Marine - Total	**2.57**	**2.37**
Personal Accident	4.32	3.16
Fire	2.74	1.58
Engineering	1.01	0.87
Aviation	0.18	0.10
Workmen's Compensation	0.56	0.49
Public / Product Liability	0.20	0.15
Credit Insurance	0.03	0.03
Others	2.91	2.38
Total	**94.04**	**83.75**

Our NEP from Motor segment increased to ₹ 61.20 billion for fiscal 2020 from ₹ 50.36 billion for fiscal 2019, an increase of 21.5%. The increase in NEP is primarily due to growth in our GDPI from Motor segment which can be attributed to change in product mix within sub-segments of Motor aided by rate hike in Motor Third Party segment and increased volume of policies.

Our NEP from Health, Travel[12] and Personal Accident insurance increased to ₹ 22.62 billion for fiscal 2020 from ₹ 19.74 billion for fiscal 2019, an increase of 14.6%. The increase in NEP is primarily due to growth in GDPI in Health insurance segment.

Our NEP from Marine segment grew to ₹ 2.57 billion for fiscal 2020 from ₹ 2.37 billion for fiscal 2019, an increase of 8.7%. This growth was largely contributed by Marine Cargo segment.

Our NEP from Crop/Weather insurance stood at ₹ 0.02 billion for fiscal 2020 as compared to ₹ 5.68 billion for fiscal 2019. This was consistent with our cautious approach in underwriting this segment.

Income from investments (net) (revenue account)

Income from investments (net) (revenue account) consists of net profit on sale and redemption of investments and gross interest, dividend and rent received from our investment assets. The table below summarises the Income from investments (revenue account).

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Net Profit on sale and redemption of investments	2.45	3.19
Interest, Dividend and Rent - Gross	12.98	10.16
Income from Investments (net) (revenue account)	**15.43**	**13.35**

Income from investments (revenue account) increased to ₹ 15.43 billion for fiscal 2020 from ₹ 13.35 billion for fiscal 2019, an increase of 15.6%.

[12] Basis IRDAI circular dated May 20, 2019 Travel included in Health .

Management's Discussion and Analysis

The increase in gross interest, dividend and rent (revenue account) to ₹ 12.98 billion in fiscal 2020 from ₹ 10.16 billion in fiscal 2019 was due to increase in total investment assets attributable to the revenue account. The increase in total investment assets was primarily due to improved cash inflows from efficiency in operations, realised investment income and inflows from introduction of long term policies in Motor insurance segment effective September 1, 2018.

Other income (revenue account)

Other income (revenue account) consists of foreign exchange gain or loss, investment income from the pools, contribution from Shareholder Funds towards excess Expenses of Management (EOM) and miscellaneous income. The table below summarises the Other income (revenue account).

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Foreign exchange gain / (Loss)	0.03	0.07
Investments income from pools (terrorism & nuclear)	0.25	0.30
Contribution from Shareholder Funds towards excess EOM*	0.75	0.24
Miscellaneous income	0.04	0.04
Other income (revenue account)	**1.07**	**0.65**

*Basis IRDAI circular dated May 20, 2019

Other income (revenue account) stood at ₹ 1.07 billion for fiscal 2020 as compared to ₹ 0.65 billion for fiscal 2019, an increase of 65.4%. For fiscal 2020, there was a foreign exchange gain of ₹ 0.03 billion as compared to foreign exchange gain of ₹ 0.07 billion for fiscal 2019. Additionally, the investment income from pools (terrorism and nuclear) was ₹ 0.25 billion for fiscal 2020 as compared to ₹ 0.30 billion for fiscal 2019. The Contribution from Shareholders Funds in excess of expenses of management have increased to ₹ 0.75 in fiscal 2020 from ₹ 0.24 for fiscal 2019. The miscellaneous income stood at ₹ 0.04 billion for fiscal 2020 as compared to ₹ 0.04 billion for fiscal 2019.

Claims Incurred (net)

Claims incurred (net) are the total claims incurred by us during a given period, both paid and outstanding including IBNR/IBNER reserves, net of claims recovered from reinsurance ceded. Under guidance issued by the IRDAI, IBNR and IBNER reserves, which also constitute claims outstanding, are not discounted. The statement below summarises the Claims Incurred (net).

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Claims paid - Direct	73.39	85.51
Claims paid on reinsurance accepted	1.41	1.92
Gross claims paid	**74.80**	**87.44**
Less claims recovered from reisurance ceded	23.51	38.89
Net claims paid	**51.29**	**48.55**
Add: Increase / (decrease)in claims outstanding (net)	17.23	14.53
Claims incurred (net)	**68.52**	**63.08**

Claims incurred (net) increased to ₹ 68.52 billion for fiscal 2020 from ₹ 63.08 billion for fiscal 2019, an increase of 8.6%. This increase was lower than our increase in NEP of 12.3% for the same period. There was an improvement in our overall Loss ratio to 72.9% for fiscal 2020 from 75.3% for fiscal 2019. Net claims paid increased to ₹ 51.29 billion for fiscal 2020 from ₹ 48.55 billion for fiscal 2019. The increase in claims outstanding (net) to ₹ 17.23 billion in fiscal 2020 from ₹ 14.53 billion in fiscal 2019 is mainly on account of Motor Third Party where the claim settlement happens through MACT (Motor Accident Court Tribunal) that takes longer time to settle the claims. The table below summarises the segmental Loss ratios.

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Motor:		
Motor - Own Damage	68.9%	59.2%
Motor - Third Party	84.4%	90.8%
Motor - Total	**76.5%**	**73.8%**
Health Insurance	80.5%	80.7%
Crop / Weather	110.6%	106.5%
Marine:		
Marine - Cargo	67.2%	85.3%
Marine - Other than Cargo	-69.8%	32.8%
Marine - Total	**65.3%**	**84.0%**
Personal Accident	24.9%	35.8%
Fire	64.0%	83.2%
Engineering	40.7%	37.1%
Aviation	79.4%	167.0%
Workmen's Compensation	59.6%	47.8%
Public/Product Liability	82.5%	73.6%
Credit Insurance	91.8%	48.7%
Others	46.1%	51.1%
Total	**72.9%**	**75.3%**

Commission paid (net)

Commission paid (net) comprises of Commission paid – Direct, Commission paid on reinsurance accepted deducted by commission received from reinsurance ceded.

Commission on reinsurance ceded refers to the commissions on reinsurance arrangements received by us. This commission is generally computed as a percentage of the premium on reinsurance ceded. In the case of certain proportional reinsurance contracts where the premium rates are defined, the difference between the premium we receive for insuring a particular risk and the premium rate so defined in the reinsurance contract is considered as commission on reinsurance ceded.

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Commission paid - Direct	12.47	11.09
Commission paid on reinsurance accepted	0.35	0.26
Gross Commission paid	**12.82**	**11.35**
Less: Commission received from reinsurance ceded	9.18	9.12
Commission paid (net)	**3.64**	**2.23**

Commission paid - Direct increased to ₹ 12.47 billion for fiscal 2020 from ₹ 11.09 billion for fiscal 2019, an increase of 12.4%. The increase was due to increase in retail line of business such as Motor, Health & commercial line of business such as Fire, Engineering etc.

Commission paid on reinsurance accepted increased to ₹ 0.35 billion for fiscal 2020 as compared to ₹ 0.26 billion for fiscal 2019, an increase of 31.0%. The increase is primarily due to higher commission pay-out on premium on reinsurance accepted under Health segment.

Commission received from reinsurance ceded increased to ₹ 9.18 billion for fiscal 2020 from ₹ 9.12 billion for fiscal 2019 primarily due to increase in premium rates under fire line of business leading to higher premiums ceded to reinsurers & consequently to increase in commission received from reinsurance.

Operating expenses related to insurance business

Operating expenses related to insurance business includes employees' remuneration, rents, rates and taxes, advertisement, sales promotion, business support service and others.

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Operating expenses related to insurance business increased to ₹ 22.93 billion for fiscal 2020 from ₹ 20.14 billion for fiscal 2019, an increase of 13.9%. The increase was primarily due to increase in employee remuneration & welfare benefits, fixed costs in the form of depreciation and other operating expenses on account of acquisition of CRM platform from Unbox Technologies and sales & promotion expenses.

Operating profit

Based on the above, operating profit increased to ₹ 15.44 billion for fiscal 2020 from ₹ 12.31 billion for fiscal 2019, an increase of 25.4%. Fire insurance contributed 6.2% and 4.7%, Marine insurance contributed 2.3% and (2.9)%, and miscellaneous insurance (including Motor insurance, Health insurance and other lines of insurance) contributed 91.5% and 98.2% of our operating profit for fiscal 2020 and fiscal 2019, respectively. The increase in operating profit is largely driven by improvement in Loss ratios across certain lines of business.

Income from investments (net) (profit and loss account)

Income from investments (profit and loss account) consists of interest, dividend and rent, and net profit on the sale and redemption of investments. The table below summarises the Income from investments (profit and loss account).

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Net Profit on sale and redemption of investments	0.75	1.07
Interest, Dividend and Rent - Gross	3.89	3.53
Income from Investments (net) (revenue account)	**4.64**	**4.60**

Income from investments (profit and loss account) increased to ₹ 4.64 billion for fiscal 2020 from ₹ 4.60 billion for fiscal 2019, an increase of 1.0%. The increase in gross interest, dividend and rent (profit and loss account) to ₹ 3.89 billion for fiscal 2020 from ₹ 3.53 billion for fiscal 2019 was primarily due to an increase in total investment assets attributable to the profit and loss account. The increase in total investment assets was primarily due to improved inflows from efficiency in operations, realised investment income and inflows from introduction of long-term policies in Motor insurance segment effective September 1, 2018.

Other income (profit and loss account)

Other income (profit and loss account) consists of interest income on tax refund, profit on sale/discard of fixed assets and recovery of bad debts written off.

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Interest income on tax refund	0.15	0.14
Profit on sale/dicard of fixed assets	0.00	0.00
Recovery of bad debts written off	-	-
Other Income (profit and loss account)	**0.15**	**0.14**

Other income (profit and loss account) increased to ₹ 0.15 billion for fiscal 2020 from ₹ 0.14 billion for fiscal 2019, an increase of 1.9%. Also, interest income on tax refund increased to ₹ 0.15 billion for fiscal 2020 as against ₹ 0.14 billion for fiscal 2019.

Provisions (other than taxation)

Provisions (other than taxation) consists of provisions for diminution in the value of investments, doubtful debts, future recoverable under reinsurance contracts, and other provisions.

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
For dimunition in the value of investments	1.20	0.01
For doubtful debts	0.47	(0.39)
For future recoverable under reinsurance contracts	-	(0.03)
Others	-	-
Provision other than taxation (profit and loss account)	**1.67**	**(0.41)**

Provisions (other than taxation) increased to ₹ 1.67 billion for fiscal 2020 from ₹ (0.41) billion for fiscal 2019 on account of impairment of investment on equity assets as per policy. The provision for doubtful debts of ₹ (0.39) billion for fiscal 2019 includes recovery of amount pertaining to reinsurance balances.

Other expenses (profit and loss account)

Other expenses consist of expenses other than those related to insurance business, which include certain employees' remuneration and other expenses, managerial remuneration, directors' fees and CSR expenditure, charges on issuance of the Debentures, expenses related to investment property and operating expenses borne by shareholders. Other expenses also covers, bad debts written off, loss on sale/discard of fixed assets and penalty.

Other expenses increased to ₹ 1.60 billion for fiscal 2020 from ₹ 1.48 billion for fiscal 2019, an increase of 8.0%. Other expenses for fiscal 2020 includes CSR expenditure, loss on sale of fixed assets and penalty. Other expenses in fiscal 2020 included ₹ 0.75 billion debited in profit and loss account being excess of IRDAI prescribed segmental limits pertaining to the Health Retail segment that are required to be borne by shareholders in accordance with the IRDAI (Expenses of Management of Insurers transacting General or Health Insurance Business) Regulations, 2016.

Profit

As a result of the above, profit before tax increased to ₹ 16.97 billion for fiscal 2020 from ₹ 15.98 billion for fiscal 2019, an increase of 6.2%. Profit before tax includes impact of impairment on investment in equity assets provided in fiscal 2020 as per policy.

Provision for taxation decreased to ₹ 5.03 billion for fiscal 2020 from ₹ 5.49 billion for fiscal 2019, a decrease of 8.4%. Provision of taxation includes effect of lower effective tax rate resulting from change in income tax regulations as announced under Taxation Laws (amendment) ordinance, 2019 which provides domestic companies with an option to opt for lower tax rates, provided they do not claim certain deductions. The Company has elected to exercise the option and has accordingly recognized Provision for Income Tax for the year ended March 31, 2020 and re-measured Deferred Tax Assets at the lower tax rate prescribed in the said section.

Profit after tax increased to ₹ 11.94 billion for fiscal 2020 from ₹ 10.49 billion for fiscal 2019, an increase of 13.8%.

ii. Financial Position: Balance Sheet

The following table sets forth, at the dates indicated, our summary balance sheet, which is based on our financial statements.

(₹ billion)

Particulars	At March 31, 2020	At March 31, 2019
Share Capital	4.54	4.54
Reserves and Surplus	56.80	48.66
Share application money - pending allotment	0.00	-
Total Equity	**61.34**	**53.20**
Current Liabilities	249.80	216.23
Provisions	58.73	56.37
Fair value change account	(4.29)	3.38
Borrowings	4.85	4.85
Total liabilities	**309.09**	**280.83**
Total equity and liabilities	**370.43**	**334.03**
Total investments	**263.27**	**222.31**
Fixed assests:		
- Cost / gross block	11.77	9.09
- Net block	6.77	4.65
Deferred tax asset	3.06	3.01
Cash and bank balances	0.33	4.02
Advances and other assets	97.00	100.04
Total Assets	**370.43**	**334.03**

Management's Discussion and Analysis

Total assets increased to ₹ 370.43 billion at March 31, 2020 from ₹ 334.03 billion at March 31, 2019, an increase of 10.9%. This increase was primarily due to an increase in total investments assets to ₹ 263.27 billion for fiscal 2020 from ₹ 222.31 billion for fiscal 2019. This increase in total investments assets was contributed by upfront premium received in the form of advance premium on long term motor policies, higher inflows from efficiency in operations and realised investment incomes. Advances and other assets decreased to ₹ 97.00 billion at March 31, 2020 from ₹ 100.04 billion at March 31, 2019, a decrease of 3.0%. The outsanding premium (net of provision for doubtful debts) decreased to ₹ 17.56 billion at March 31, 2020 from ₹ 22.07 billion at March 31, 2019, a decrease of 20.4%. This decrease was mainly on account of reduction in receivables from government on Crop insurance segment. Advance tax paid and taxes deducted at source (net of provision for tax) decreased to ₹ 1.37 billion for fiscal 2020 from ₹ 1.50 billion for fiscal 2019 primarily due to lower effective tax rate resulting from change in Income Tax Regulations.

Total liabilities increased to ₹ 309.09 billion at March 31, 2020 from ₹ 280.83 billion at March 31, 2019, an increase of 10.1%. This was primarily due to increase in premiums received in advance of ₹ 30.51 billion as at March 31, 2020 from ₹ 13.44 billion as at March 31, 2019, on account of long-term motor policies wherein the premium is received upfront and would get recognised in the future years. Further the claim outstanding (gross) increased to ₹ 180.07 billion as at March 31, 2020 from ₹ 164.26 billion as at March 31, 2019 due to increase in Motor TP claim outstanding (gross).The increase in Motor TP claim outstanding is contributed by increase in Motor TP Gross Written Premium.

Fair value change account–Shareholder funds decreased to ₹ (0.95) billion at March 31, 2020 from ₹ 0.80 billion at March 31, 2019, a decrease of 218.7%. This decrease was primarily due to the decrease in the market value of our equity portfolio compared to its cost price. Fair value change–Policyholder funds decreased to ₹ (3.34) billion at March 31, 2020 from ₹ 2.59 billion at March 31, 2019, a decrease of 229.1%. This decrease was primarily due to the decrease in the market value of our equity portfolio compared to its cost price.

Investments – Shareholders increased to ₹ 58.60 billion at March 31, 2020 from ₹ 53.43 billion at March 31, 2019, an increase of 9.7%. Investments–Policyholders increased to ₹ 204.67 billion at March 31, 2020 from ₹ 168.88 billion at March 31, 2019, an increase of 21.2%. This increase was primarily due to an overall increase in the investment book size.

Further, regulatory changes prescribed by IRDAI affecting the notional allocation of investments into Shareholder and Policyholder funds based on the ratio of their respective liabilities and assets also contributed to an increase in the Policyholders fund ratio.

iii. Liquidity and Capital Resources

The following table sets forth, for the periods indicated, a summary of cash flows from our restated summary statement of receipts and payments account.

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Net cash flow from (used in) operating activities (A)	34.33	29.76
Net cash flow from (used in) investing activities (B)	(33.82)	(28.56)
Net cash flow from (used in) financing activities (C)	(4.20)	(3.10)
Net increase / decrease in cash and cash equivalents (A)+(B)+(C)	(3.69)	(1.90)
Cash and cash equivalents at the beginning of the year	4.02	5.92
Cash and cash equivalents at the end of the year	**0.33**	**4.02**

Cash flows from operating activities

Net cash flows from operating activities increased to ₹ 34.33 billion for fiscal 2020 from ₹ 29.76 billion for fiscal 2019. This increase was primarily due to an increase in premiums received from policyholders and also on account of upfront premium received from long term motor policies, partially offset by an increase in the payment of claims, commissions and taxes.

Cash flows from investing activities

Net cash flows (used in) investing activities increased to ₹ (33.82) billion for fiscal 2020 from ₹ (28.56) billion for fiscal 2019. This was primarily due to an increase in net investments in money market instruments and liquid mutual funds, mainly from funds generated from operating activities.

Cash flows from financing activities

Net cash flows (used in) financing activities increased to ₹ (4.20) billion for fiscal 2020 from ₹ (3.10) billion for fiscal 2019. This was primarily due to payment of interim dividend for fiscal 2020.

iv. Contingent Liabilities

The Statement of contingent liabilities is provided below.

(₹ billion)

Particulars	Fiscal 2020	Fiscal 2019
Partly paid-up investments	-	-
Claims other than those under policies, not acknowledged as debt	-	-
Underwriting commitments outstanding	NA	NA
Guarantees given by or on behalf of the Company	-	-
Statutory demands / liabilities in dispute, not provided for	4.57	4.31
Reinsurance obligations to the extent not provided for in accounts	-	-
Others	0.05	0.00

v. Borrowings

As of March 31, 2020, we had long term borrowings of ₹ 4.85 billion, total net worth of ₹ 61.34 billion and a total debt to net worth ratio of 0.08 times.

Disclosure of key changes in financial indicators:

Pursuant to SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018, w.e.f. 01 April 2019, following details have been provided:

(a) Details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in the key financial ratios, alongwith detailed explanations thereof:

Sr. No.	Ratio	FY2019	FY2020	Change (FY2019 vs FY2020)	Reasons, if any
1	Gross Direct Premium Growth Rate	17%	-8%	-147%	**Refer Note 1**
2	Gross Direct Premium to Net Worth Ratio	2.72	2.17	-20%	Not Applicable
3	Growth rate of Net Worth	17%	15%	-11%	Not Applicable
4	Net Retention Ratio	64%	71%	10%	Not Applicable
5	Net Commission Ratio	2%	4%	62%	**Refer Note 2**
6	Expenses of Management to Gross Direct Premium Ratio	22%	27%	23%	Not Applicable
7	Expenses of Management to Net Written Premium Ratio	33%	37%	12%	Not Applicable
8	Net Incurred Claims to Net Earned Premium	75%	73%	-3%	Not Applicable
9	Combined Ratio	99%	100%	2%	Not Applicable
10	Technical Reserves to Net Premium Ratio	2.31	2.47	7%	Not Applicable
11	Underwriting balance ratio	(0.02)	(0.01)	-36%	**Refer Note 3**
12	Operating profit ratio	15%	16%	12%	Not Applicable
13	Liquid Assets to Liabilities Ratio	10%	12%	24%	Not Applicable
14	Net Earnings Ratio	13%	13%	1%	Not Applicable
15	Solvency Ratio	2.24	2.17	-3%	Not Applicable

Note1: Gross Direct Premium growth is derived by growth in GDPI in comparison with the previous year. The reduction was due to cautious approach taken by the company to underwrite the Crop segment. Ex-crop the company reported a growth of 10.5% in fiscal 2020.

Note 2: Net Commission ratio is derived by dividing Commission paid (net) by NWP. Commission paid (net) comprises of Commission paid – Direct, Commission paid on reinsurance accepted less commission received from reinsurance ceded. Commission paid - Direct increased to ₹ 12.47 billion for fiscal 2020 from ₹ 11.09 billion for fiscal 2019, an increase of 12.4%. The increase was due to increase in retail line of business such as Motor, Health & commercial line of business such as Fire, Engineering etc.

Note 3: Underwriting balance ratio is derived by dividing the underwriting result (Underwriting result = NEP – Net Claims Incurred – Net Commission Paid – Operating expenses related to insurance business) by NEP. The underwriting result for fiscal 2020 has improved on account of improvement in Loss ratio to 72.9% for fiscal 2020 from 75.3% for fiscal 2019. Accordingly, the underwriting balance ratio for fiscal 2020 is better than the ratio in fiscal 2019.

(b) Details of change in Return on Net Worth as compared to the immediately previous financial year alongwith detailed explanation thereof:

Return on Net Worth (RONW) is computed dividing the PAT by Net Worth (Share Capital + Reserves & Surplus + Share application money received pending allotment). RONW stood at 19.5% for fiscal 2020 from 19.7% for fiscal 2019. The increase in RONW was largely driven by increase of 13.8% in PAT for fiscal 2020.

III. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The internal controls of the Company are commensurate with the business requirements, its scale of operation and applicable statutes to ensure orderly and efficient conduct of business. These controls have been designed to provide a reasonable assurance with regard to maintaining proper accounting controls, safeguarding of resources, prevention and detection of frauds and errors, ensuring, operating effectiveness, reliability of financial reporting and compliance with applicable regulations. In addition, internal audits are undertaken to review significant operational areas regularly. The audit reports submitted by internal auditors are reviewed by audit committee and corrective actions are initiated to strengthen the controls and enhance the effectiveness of the existing systems. Statutory and Internal auditors are also invited to the Audit Committee meetings to ascertain their views on the adequacy of internal control systems.

The management believes that strengthening of internal controls is a continuous process and it will therefore continue its efforts to keep pace with changing business needs and environment.

IV. COVID-19 IMPACT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The COVID-19 pandemic outbreak has had far reaching impact on several critical risk areas of the business. The Company, on assessment of the associated risks, commenced preparation for risk mitigation at the beginning of March 2020. The Company activated the Crisis Management Team (CMT) that has been regularly reviewing the developing situation to calibrate the company's response. The CMT conceptualised and formulated the business continuity plans for the Company prioritising the dual objectives of employee safety and delivering customer commitments. The Company also undertook a comprehensive risk assessment activity to evaluate the impact of COVID-19 on all the key risk areas of the Company's Enterprise Risk Management framework namely credit risk, market risk, underwriting risk, operational risk and strategic risk (including therein reputation risk). From an entity level risk evaluation perspective, the Company believes that the risks arising out of the pandemic are presently at manageable levels for the organisation. Processes and controls followed to prepare the financials were also found to hold good and no new financial reporting risks were observed on account of COVID-19. The Company is closely watching the developing situation for appropriate risk mitigation and management.