

Bajaj Finserv Limited  
3rd Annual Report  
2009-10



**BAJAJ**  
**FINSERV**





Rahul Bajaj, Chairman; Sanjiv Bajaj, Managing Director and Nanoo Pamnani, Vice Chairman unveiling the new identity of Bajaj Finserv Limited on May 5, 2010

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## Board of Directors

**Rahul Bajaj**  
Chairman

**Nanoo Pamnani**  
Vice Chairman

**Sanjiv Bajaj**  
Managing Director

**Rajiv Bajaj**

**D J Balaji Rao**

**S H Khan**

**Naresh Chandra**

## Management

**Sanjiv Bajaj**  
Managing Director

**Ranjit Gupta**  
President (Insurance)

**Kevin D'sa**  
CFO & President (Business Dev.)

**Kamesh Goyal**  
CEO, Bajaj Allianz Life  
Insurance Company Limited

**Hemant Kaul**  
CEO, Bajaj Allianz General  
Insurance Company Limited

**Rajeev Jain**  
CEO, Bajaj Auto Finance Limited

**Arpit Agarwal**  
CEO, Bajaj Financial Solutions Limited

## Company Secretary

**Sonal R Tiwari**

## Auditors

**Dalal & Shah**  
Chartered Accountants

**Registered under the  
Companies Act, 1956**

## Bankers

Citibank N A  
HDFC Bank  
ICICI Bank

## Registered Office

Bajaj Auto Limited Complex,  
Mumbai-Pune Road,  
Akurdi, Pune 411 035.

## Corporate Office

Survey No.208/1-B, 6th Floor,  
Behind Weikfield IT Park,  
Off Pune-Ahmednagar Road,  
Viman Nagar, Pune – 411 014.



# Management Team

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Sanjiv Bajaj



Ranjit Gupta



Kevin D'sa



Kamesh Goyal



Hemant Kaul



Rajeev Jain



Arpit Agarwal



# Chairman's Letter

Dear Shareholder,

This is the third year of your Company's operations — and my third letter to you in the annual report.

Last year, I began the letter in a sombre tone. That was to be expected. It was a terrible year for the world economy, which started with global inflation across all commodity classes, followed by global financial meltdown and widespread economic depression. Although India maintained positive GDP growth of 6.7% in 2008-09, there was an acute credit crunch and a significant slowdown in consumer demand.

Thankfully, the Government of India came up with three stimulus packages; and the Reserve Bank of India (RBI) reduced all the key rates and pursued a highly accommodative monetary policy from December 2008 right up to the fourth quarter of 2009-10. These initiatives helped. From H2 2009-10, consumer demand has begun to grow, especially for motorcycles and cars. Home loans have picked up. There has been a distinct uptick in insurance products after a forgettable 2008-09. And real GDP growth is expected to post 7.2% for 2009-10 - if not a bit higher.

In India, therefore, the 'green shoots' have become healthy young saplings.

In such a milieu, your Company has performed well. Bajaj Finserv has always taken the stance that while growth is welcome and shall be pursued, safety and profit will remain paramount. This philosophy applies to all its businesses.

Let me share with you some key aspects of Bajaj Finserv's three major businesses: life insurance, general insurance, and consumer finance.

## Bajaj Allianz Life Insurance Company (BALIC)

BALIC has done well in a difficult year. Gross written premium has risen by 7.5% — from Rs.106.2 billion in 2008-09 to Rs. 114.2 billion in 2009-10. The company has taken a conscious decision to balance its new business growth and the resulting high first year cost with a strong focus on increasing persistency. Thus, new business premiums, which had fallen sharply to Rs.44.9 billion in 2008-09, remained low at Rs.44.5 billion in 2009-10. Simultaneously, it succeeded in raising renewal premium from Rs.61.3 billion to Rs.69.7 billion.

BALIC posted a shareholders' profit of Rs. 5.4 billion in 2009-10 and your Company's share stood at Rs. 4.0 billion. The capital base was maintained at Rs.12.1 billion, with no fresh infusions in 2009-10. BALIC's solvency ratio was 268% as on 31 March 2010, versus the minimum regulatory requirement of 150%.

Total investments as on 31st March 2010, stood at Rs. 334.2 billion.

As I write, there is a dispute between the Insurance Regulatory and Development Authority (IRDA) and Securities and Exchange Board of India (SEBI) as to which should regulate unit-linked insurance products (ULIP). I hope this will be sensibly and amicably resolved as soon as possible.

### Bajaj Allianz General Insurance Company (BAGIC)

BAGIC is the second largest private general insurance company in India, with a market share of 7.2%. The company has always been prudent in its selection of risks and businesses, which shows up in its consistent track record of profits since inception.

The gross written premium for 2009-10 (excluding premiums from the Motor Third Party Pool) was Rs.25.2 billion, versus Rs. 26.5 billion in 2008-09. Net earned premium for 2009-10 (excluding the Motor Third Party Pool) was Rs.16.7 billion, versus Rs. 16.9 billion in 2008-09. During 2009-10, BAGIC sold 6.0 million policies, compared to 7.6 million in 2008-09. The number of claims reported in 2009-10 was 525,258 versus 516,316 in 2008-09.

On account of capable underwriting and higher investment income, BAGIC's profit before tax (PBT) increased by 20.1% to Rs. 1.8 billion in 2009-10, compared to Rs.1.5 billion in 2008-09. Profit after tax for the year was Rs. 1.2 billion, as against Rs. 0.9 billion recorded in 2008-09.

Going forward, BAGIC will continue to focus on profitability by careful selection of risk, strong underwriting and targeting a healthy return of equity that adequately covers the cost of capital.

### Bajaj Auto Finance Limited (BAFL)

A listed company, BAFL is a leading diversified financier of loans to consumers and small businesses. Notwithstanding muted consumer sentiments, BAFL has had an excellent year.

During 2009-10, loan deployment grew by 87% to Rs.45.85 billion. Receivables under financing as on 31 March 2010 were up by 59% to Rs.40.3 billion. Total income was up by 53% to Rs.9.16 billion. BAFL's profits rose substantially in 2009-10. Profit before tax (PBT) increased from Rs.510 million in 2008-09 to Rs.1.34 billion in 2009-10. Profit after tax (PAT) grew from Rs.339 million last year

to Rs.894 million in 2009-10. And earnings per share (EPS) rose by 164% from Rs.9.27 in 2008-09 to Rs.24.43 in 2009-10.

In 2010-11, you will witness three other developments.

The first is the setting up of an asset management company as a joint venture with Allianz Global Investor (Allianz GI), one of the world's largest asset managers.

The second is Bajaj Financial Solutions Limited (FinSol), which will look after wealth advisory part of your Company's business. By understanding the portfolio needs and risk profiles of customers, it will offer portfolio advisory and investment planning services. Five cities have been identified for the pilot branches of the business, and these are expected to offer the services by the end of September 2010.

The third is your Company's branding initiative. Given the different business under its stewardship, the Company decided to have a visually appealing and unifying brand identity. It has been launched.

The brand is Bajaj Finserv. It is defined both by its logo – which contains the letters B and F in a single image – and by the words, Bajaj Finserv. This brand identity is expected to align the various businesses for consumers and partners. Clearly distinguishable from competing entities, it should promote the strong ethical and core business values of the Bajaj Group.

Given that India is back on its higher growth path, I expect your Company to do well in 2010-11, and in the near future. On your behalf, I congratulate the managing director of Bajaj Finserv and his team – by which I include the heads of BALIC, BAGIC and BAFL – for delivering an excellent performance in a difficult year. I urge them to do even better in 2010-11.

Thank you for your support.



**Rahul Bajaj**  
Chairman

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# Management Discussion and Analysis

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Bajaj Finserv Limited ('Bajaj Finserv' or 'the Company') came into being on 30 April 2007, out of a demerger from the erstwhile Bajaj Auto Limited, with the objective of being the financial services arm of the Bajaj group. This is the Company's third annual report to its shareholders.

Bajaj Finserv is the holding company under which various businesses reside. These are:

- **Protection**
  - Life Insurance, under Bajaj Allianz Life Insurance Company (BALIC).
  - General Insurance, under Bajaj Allianz General Insurance Company (BAGIC).
- **Consumer Lending**
  - Structured under Bajaj Auto Finance Limited (BAFL), a company listed on the Bombay Stock Exchange and the National Stock Exchange
- **Investments**
  - Asset Management. Bajaj Finserv has proposed to form an asset management company (AMC) in a joint venture with the Allianz group for which necessary application papers have been filed with the regulatory bodies.
- **Financial Advisory and Wealth Management**
  - Bajaj Financial Solutions Limited (Bajaj Finsol). The objective is to offer portfolio advisory and investment planning services to its customers. The team is on board; and company proposes to launch this business by September 2010, starting with five offices-with a plan to increase the number of offices by another five in the next six months.

In addition, the Company has wind-farm assets, comprising 138 windmills in Maharashtra with an installed capacity of 65.2 MW.

Subsequent pages of this chapter give details on each of these businesses and their rationale. Before doing so, it is important to discuss two aspects. The first is Bajaj Finserv's new brand identity. And the second is its emphasis on profits and shareholder value-versus growth at the expense of profits.

## The New, Unifying Brand Identity

Given the different financial service businesses under its stewardship, the Company decided to have a visually appealing and unifying brand identity that shares Bajaj Finserv's values of Reliability, Innovation and Efficiency. It has been unveiled on May 5th, 2010.

The brand is Bajaj Finserv. It is defined both by its logo-which contains the letters B and F in a single symbol-and by the words, Bajaj Finserv.

The brand has a distinctive and contemporary character. It will be used consistently across the Company's businesses and will serve as an immediately recognisable identity-common, yet subtly differentiated for each of the businesses, and be the platform for all future marketing and communication activities.

## Focus on Profits

Bajaj Finserv has always centred on profits. After the slowdown in 2008-09 and most of 2009-10, the Company decided, more than ever, that profits will not be sacrificed for top-line growth. The focus on each of the businesses is to improve profitability – focus on profitable lines of business, cut expenses and increase productivity.

Thus, even in a very difficult year, the life insurance business earned its best profits; general insurance gave up some revenue but also reported its best bottom-line ever; and Bajaj Auto Finance tightened costs, focused on better customer selection and earned its highest ever profits.

Bajaj Finserv has taken a conscious decision. All companies under it will focus first on customer service, productivity, efficiency and profits, and then on revenue. None will sacrifice profits to the altar of top-line growth.

## Protection

### Bajaj Allianz Life Insurance Company Limited (BALIC)

Life insurance in India has seen rapid growth from when the sector was opened up in 2000-01 till today. In 2000, there was just one company-the Life Insurance Corporation of India (LIC). Today, there are 23 companies in the life insurance space: 22 in the private sector and the LIC. Total premium of the industry has increased eight fold, from Rs. 271 billion in 2000-01 to Rs. 2,218 billion in 2008-09, of which 29.1% was accounted for by the private sector.

The potential is significant. While penetration levels have increased to around 4% of GDP, the per capita spend on insurance is poor compared to other emerging economies. If one considers a realistic scenario of India's nominal GDP doubling in the next five years, the opportunity in life insurance is enormous.



## The Life Insurance Market

Growth of life insurance is closely linked to disposable income and savings. The global economic crisis and the growth downturn in 2008-09 had their consequential effects on consumer income and household savings. This led to fall in new business premiums - for the first time after posting years of double-digit growth.

Table 1 gives the data from 2004-05.

**Table 1:** Growth in New Business Premiums, Life Insurance

	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Private sector	12.4%	1.0%	73.6%	89.9%	84.5%	128.8%
LIC	33.9%	-10.5%	5.8%	118.1%	29.6%	21.8%
Industry	25.5%	-6.3%	23.9%	110.1%	41.6%	35.7%

Private sector life insurers saw negative growth in April-September 2009. Thankfully, sentiments picked up in the second half of the year. Private insurers were back to the growth track, and were able to achieve a growth of 34% in H2 2009-10 versus the same period in the previous year.

For 2009-10 as a whole, the life insurance industry registered a growth of 25.5%, and garnered new business (NB) premiums of Rs. 1,093 billion compared to Rs.871 billion in 2008-09.

Table 2 gives the market data.

**Table 2:** Industry Performance for the Year Ended 31 March 2010

(Rs. In Million)

Insurer	NB, YTD Mar 10	Market Share	Group as a % of NB
SBI Life	70,407	6.4%	36.2%
ICICI Prudential	63,343	5.8%	17.7%
Bajaj Allianz	44,511	4.1%	12.7%
Reliance Life	39,205	3.6%	13.6%
HDFC Standard	32,611	3.0%	15.5%
Birla Sun Life	29,584	2.7%	22.7%
Other Private	104,333	9.5%	8.1%
<b>Private Total</b>	<b>383,994</b>	<b>35.1%</b>	<b>17.7%</b>
LIC	708,910	64.9%	29.3%
<b>Total</b>	<b>1,092,904</b>	<b>100.0%</b>	<b>25.2%</b>

The fall in new business premium growth has made most industry players review their business models. The major effects of the business crunch were:

- Capital became scarce. This meant that companies which were ploughing in capital to fund losses in expectation of future premiums had to start looking at capital efficiency.
- Fixed expenses started becoming a constraint – which meant companies started cutting expansion of the branch and distribution network.
- It became vital for insurers to ensure that existing customers continued to pay their renewal premiums.
- Customers started looking more for guaranteed products like endowments. Private companies, in particular, which were heavily reliant on unit linked business, had to restructure their product range.

## Performance of BALIC

Even in such a difficult environment, BALIC performed well. BALIC's gross premium written for 2009-10 was Rs.114.2 billion, which was 7.5% higher than Rs.106.2 billion of 2008-09. The growth was due to the increase in renewal collections from Rs. 61.3 billion in 2008-09 to Rs.69.7 billion in 2009-10.

BALIC strategically chose not to chase new business (NB) at high costs. Consequently, new business premium for 2009-10 was Rs.44.5 billion-which was marginally lower than Rs.44.9 billion in the previous year.

Within the private sector, BALIC's market share of NB premium was 11.6% for 2009-10. Despite the slight decline, the company maintained its third position among the private life insurers on NB premium for 2009-10. BALIC ranks second among the private life insurers, based on the number of new policies issued - 2.23 million policies issued in 2009-10 versus 2.59 million in the previous year.

Among the new products launched by BALIC, the product guaranteeing highest NAV over a seven-year period (Max Gain) and single premium linked product guaranteeing 170% of the original NAV (Shield Plus) were the most popular-contributing 43% of the new business premiums in the last quarter. Unit linked premiums contributed 84% of BALIC's NB premiums in 2009-10, compared to 94% in the previous year. Group premiums accounted for 12.7% of the NB of 2009-10 for the company.

## Financial Performance

BALIC's financial performance in 2009-10 and 2008-09 is summarised in Table 3.

**Table 3:** Financial Performance of BALIC

(Rs. In Billion)

Particulars	2009-10	2008-09
Gross written premium	114.2	106.2
New business premium	44.5	44.9
Renewal premium	69.7	61.3
APE *	36.6	40.6
Policyholder surplus/(deficit)	0.1	1.1
Shareholder Profit/(Loss) **	5.4	(0.7)
Profit / (Loss)	4.3	0.4
Net contribution to policy holders account	0.7	1.6

\* Annualised Premium Earning (APE) = 10% of Single Premium and 100% of First Premium

\*\* After distribution of Surplus from the revenue account to the Shareholders, shareholders' profit stands at Rs 4,170 million and balance Par-Policyholders' profit is Rs 104 million. In addition to the distribution of surplus to the shareholders, there has been a transfer of Rs 1,253 million from Funds for Future Appropriation (out of Rs 1,253 million; Rs 1,100 million is on account of release from "Reserve for 'Lapsed unit linked' policies unlikely to be revived"). The total Shareholders' profit after tax thus stands at Rs 5,423 million.

BALIC posted a shareholders' profit of Rs. 5,423 million of which Bajaj Finserv's share stood at Rs. 4,013 million.

As can be seen from the Table 3, the company's strategy to pursue profitable growth with returns to all stakeholders is paying dividends. In the current financial year, the Company will continue to focus on improving employee productivity, policy persistency, operational processes and customer service levels.

## Investments

As on 31 March 2010, BALIC's total investments stood at Rs.334.2 billion, which included unit linked funds of Rs.284.1 billion. Thanks to the rise of stock prices in 2009-10, especially after the general elections, the unit-linked funds have increased by 102%, from Rs.140.6 billion as on 31 March 2009.

The traditional portfolios are carefully managed, keeping in mind the regulatory asset allocation requirements. Yield on non-unit linked instruments invested in 2009-10 was 8.37%, versus 9.08% in the previous year. This has much to do with the softer interest rate regime in the early part of the year.

## Capital and Capital Adequacy

BALIC's capital base was maintained at Rs.12.1 billion, with no fresh infusions in 2009-10. The company's solvency ratio was 268% as on 31 March 2010, versus the minimum regulatory requirement of 150%.

## Challenges

The downturn has underscored the challenges in the life insurance business. Companies now need to manage the strains caused by rapid expansion and the growth of new business, and focus on profits. They have to manage capital more efficiently than before. They have to maximise persistency and avoid cost overruns. With a large number of accounts having completed their lock-in period of three years, the more established players will need to carefully monitor surrenders and withdrawals-recognising that substituting withdrawals with new business means giving up accounts that have started earning profits with ones that strain profits and eat into capital.

No doubt, growth will return. But it will need to be addressed by sensible business practices that focus on taking care of customers and maximising persistency, thus conserving capital and earning profits. BALIC is well onto such a path.

## Bajaj Allianz General Insurance Company Limited (BAGIC)

### General Insurance in India

Since the entry of private sector companies in general insurance from 2000, the industry has grown from four public sector companies to 23 entities: 15 private sector companies, the four public sector corporations, two specialised health insurance companies, plus the Agricultural Insurance Corporation and the Export Credit and Guarantee Corporation.

Gross written premiums of the industry, excluding the specialised insurers, have grown from Rs.123.9 billion in 2001-02 to Rs.306.5 billion in 2008-09, and have crossed Rs.346 billion in 2009-10. The CAGR has been around 14%.

Nevertheless, penetration (as % of GDP) and per capita spend on general insurance remain below comparable emerging countries, let aside the developed nations.

As India's real GDP grows at a CAGR of somewhere between 8% and 9% over the next decade, spends on general insurance

is bound to increase. The potential is vast. But insurers need to figure out ways to profitably tap this potential.

The general insurance industry has been affected by two major adverse factors since 2007:

- Removal of tariff for the fire, engineering and motor insurance businesses has resulted in severe price deflation as competitors fought for market share.
- Introduction of the Motor Third Party pool, which has made it compulsory for all companies licensed to write motor business to share in the losses of the Third Party business of commercial vehicles. With pricing already under pressure, the industry is unable to pass this cost on to the policy holders.

Apart from these factors, there was a drop in volumes (sales of commercial vehicles, physical capital investments of companies, etc.) due to the economic downturn-beginning in the second half of 2008-09 and continuing up to the first half of 2009-10. Due to all these factors, the industry growth rate-measured by gross written premiums of insurers other than specialised insurers-was below 10% in 2008-09, for the first time since privatisation. To be sure, it has improved to 13% in 2009-10. But it is still a far cry from the kind of growth achieved in 2006-07. Table 4 gives the data.

Table 4: Gross Direct Premium Written in India (Rs. In Billion)

	2009-10	2008-09	2007-08	2006-07	2005-06
Bajaj Allianz	25.2	26.5	24.0	17.9	12.7
Private Sector	141.0	125.7	112.0	86.5	53.6
Public Sector	205.3	180.8	169.0	162.6	150.0
Industry	346.3	306.5	281.0	249.1	203.6
<b>Growth rates</b>					
Bajaj Allianz	-5%	10%	35%	40%	49%
Private Sector	12%	12%	29%	61%	53%
Public Sector	14%	7%	4%	8%	7%
Industry	13%	9%	13%	22%	16%

Source: IRDA website and the IRDA Handbook of Insurance Statistics, 2008-09. Excludes specialised insurers

Thankfully for the industry, volume growth returned quite strongly in the second half of 2009-10-driven by a significant increase in car and two-wheeler sales. Even so, however benign the growth condition, aggressive price competition and large underwriting losses can no longer be sustained. In such a scenario, companies having strong underwriting skills with a focus on profitability, prudent investment philosophy, efficient utilisation of capital and excellent customer service will be the winners. BAGIC is one such company.

### BAGIC's Business Performance, 2009-10

Under extremely testing conditions, BAGIC has focused on profitability by:

- Strong underwriting with careful selection of risk, and underwriting businesses which meet its profitability hurdle rates.