Future of Life Insurance in India

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SELECTED Superbrands INDIA Consumer Validated 2021

21 YEARS Protecting India with Pride

HDFC Life

Today we would discuss…

1 Reflections on the **broader environment**

2 Life insurance **opportunity in India**

3 **Life insurer of the future**

Reflections on the broader environment

We operate in an extremely dynamic and evolving environment…

Changing customer profiles and preferences
New segments (younger millennials, Gen-Z), demand for ***personalization and convenience***

Inflection in consumer digital ecosystems
Emergence of digital consumer ecosystems, exponential growth in ***online transactions, digital payments***

Evolution of India stack
Unique ***digital infrastructure*** *to solve India's problems towards* ***presence-less and paperless service delivery***

InsurTech coming of age
InsurTech funding nearly doubled in the last two years[1]; ***disruption round the corner***

Emerging opportunities in retirement, term products
India's changing demographics and vastly under-insured population present ***macro opportunities for protection***

Paradigm shift in regulatory landscape
New regulatory regime open to more flexibility for insurers; ***dawn of new reforms***

Notes:
1. BCG InsurTech Report 2022

…against this backdrop it becomes imperative for life insurers to protect their core whilst proactively reimagining insurance to '*scale*' up business

Protect the Core

1. **Diversify revenue sources** to *reduce dependence* on a particular line of business
2. **Lower long-term unit costs** enabling businesses to *improve their price competitiveness*
3. Set up moats to help **reduce vulnerability to external threats**; *keep competition at bay*

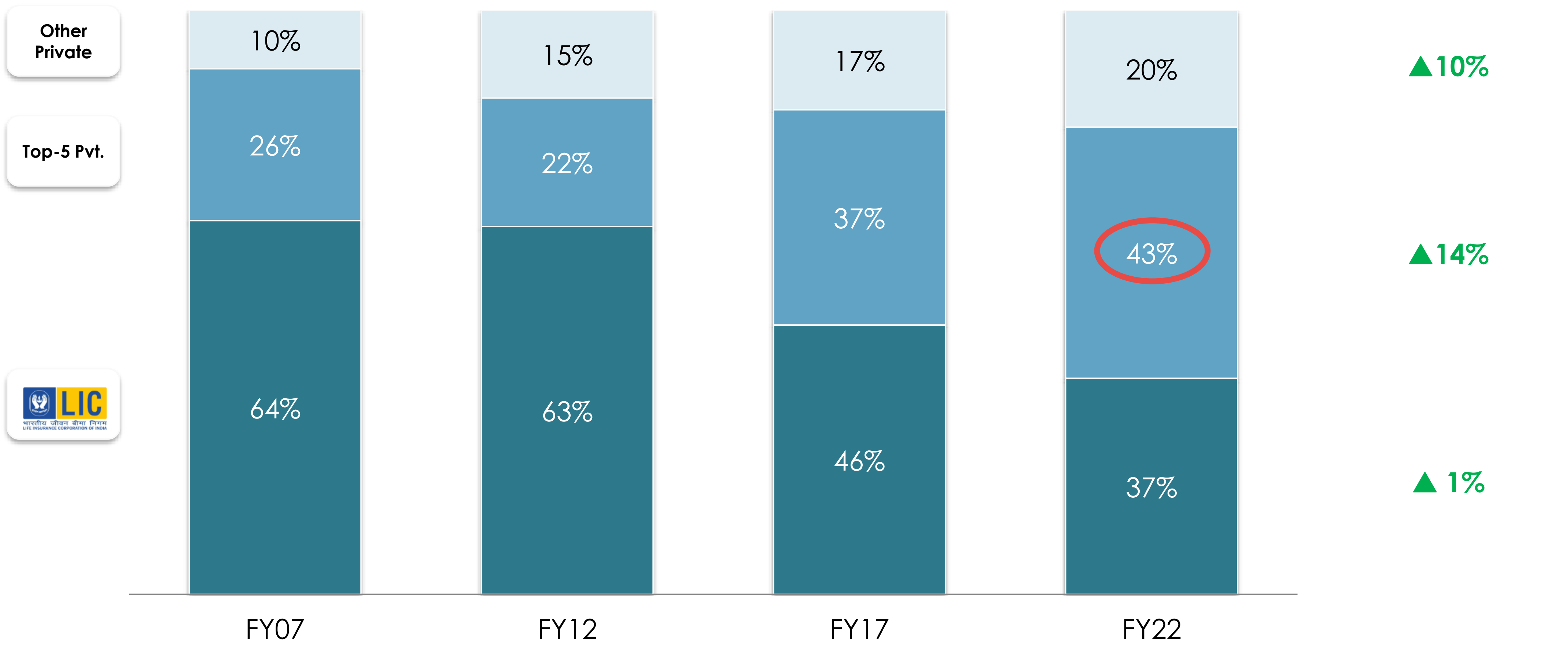
Reimagine Insurance

1. **Strong profits** enable growth through *increased technology investments* and *strategic initiatives*
2. **Enter into** diverse *distribution partnerships*, including new ecosystems
3. **Increase** in ability to *incubate ideas and innovate* on products, evolving customers needs and preferences

Bancassurance and product innovation have helped top private life insurers wrest share from LIC…

Individual WRP market share: LIC vs. Private Players

10-Year CAGR[1]



Notes:
1. CAGR of Individual WRP

Life insurance opportunity in India

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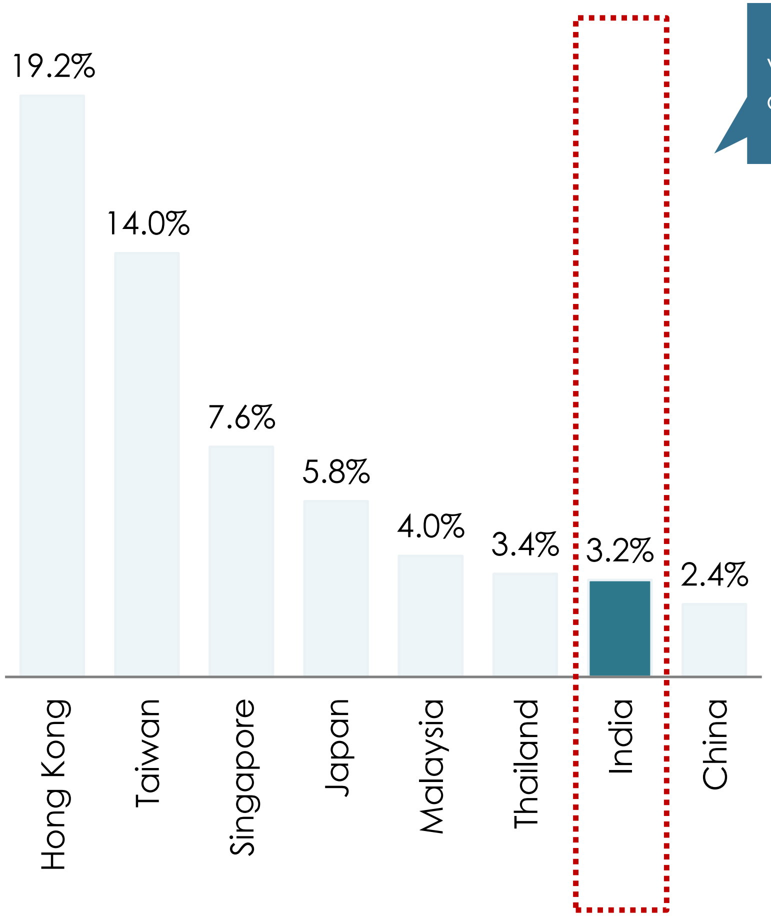
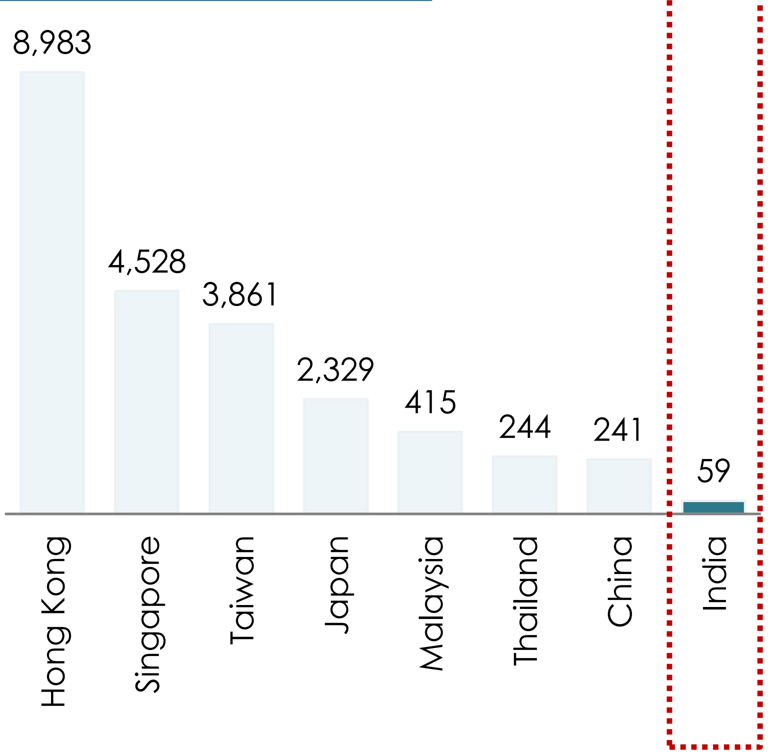
India remains vastly under-insured, both in terms of penetration and density…

Life insurance penetration[1]



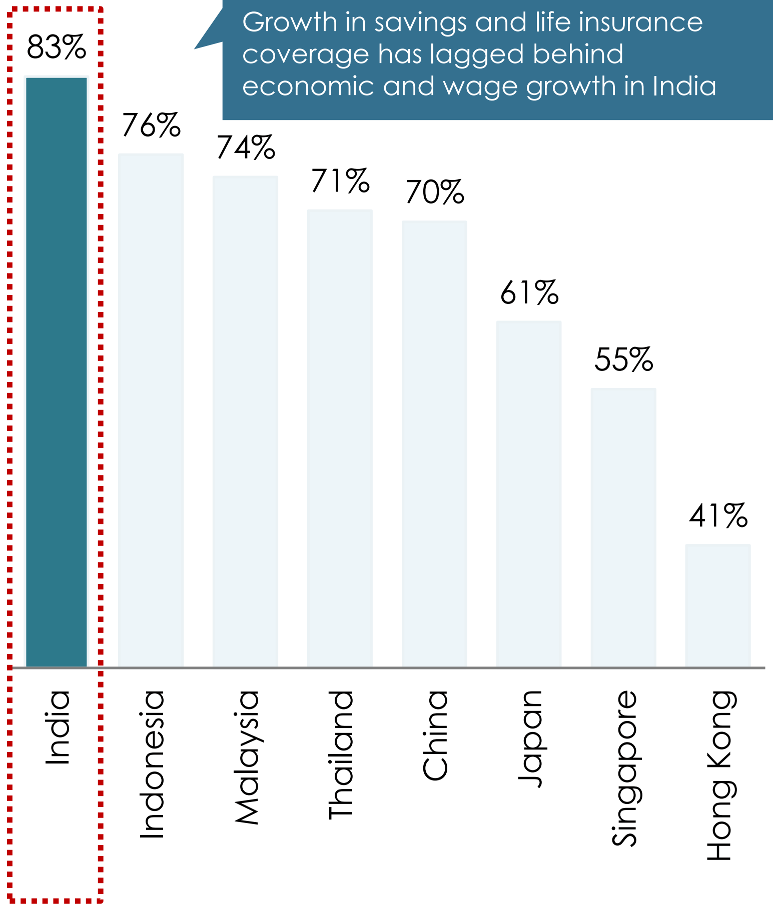
Vastly under-insured, both in terms of penetration and density

Life insurance density (US$)[2]



Protection gap[3]

Growth in savings and life insurance coverage has lagged behind economic and wage growth in India



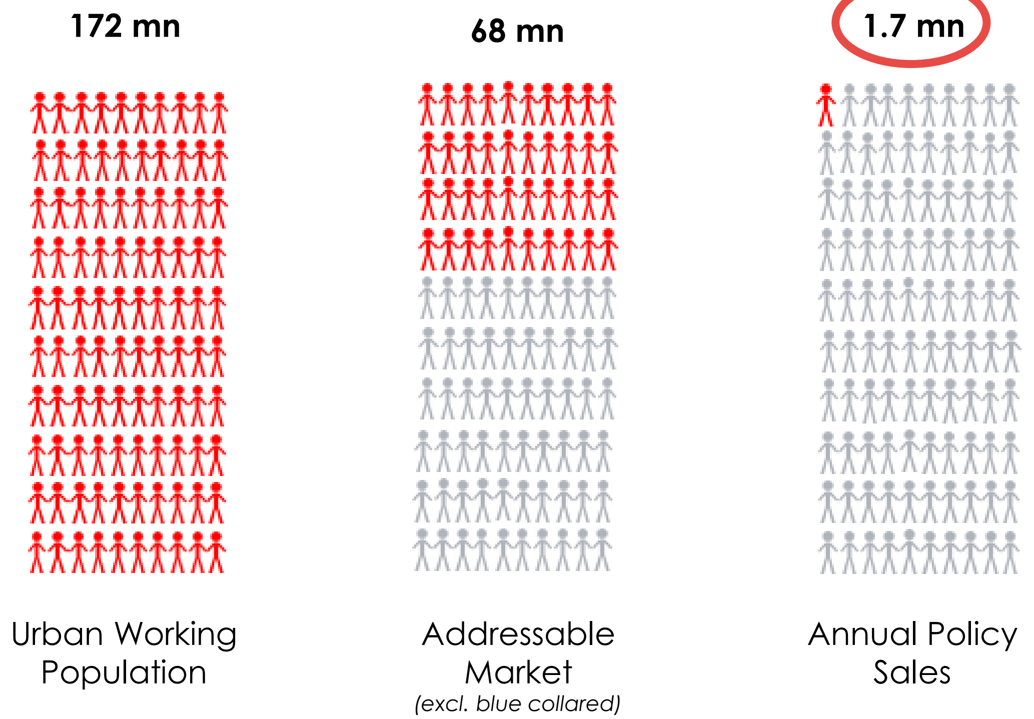
Notes:
1. *Penetration in FY21 as measured by premiums as % of GDP*
2. Density defined as the ratio of premium underwritten in a given year to the total population
3. Protection gap defined as the difference between the amount of insurance that is economically beneficial and the amount of coverage actually purchased

Source: Swiss Re (Based on respective financial year of the countries)

…presenting macro opportunities in the Protection space…

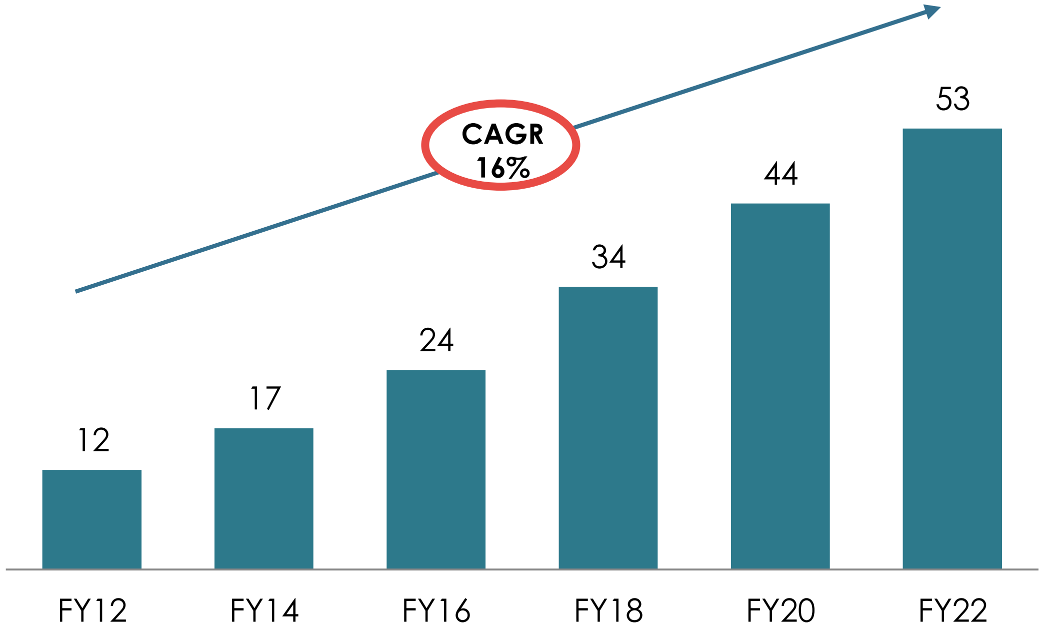
Large untapped addressable market…

Only 1 out of 40 people (2.5%) who can afford is buying a policy every year; sum assured as a multiple of income <1x



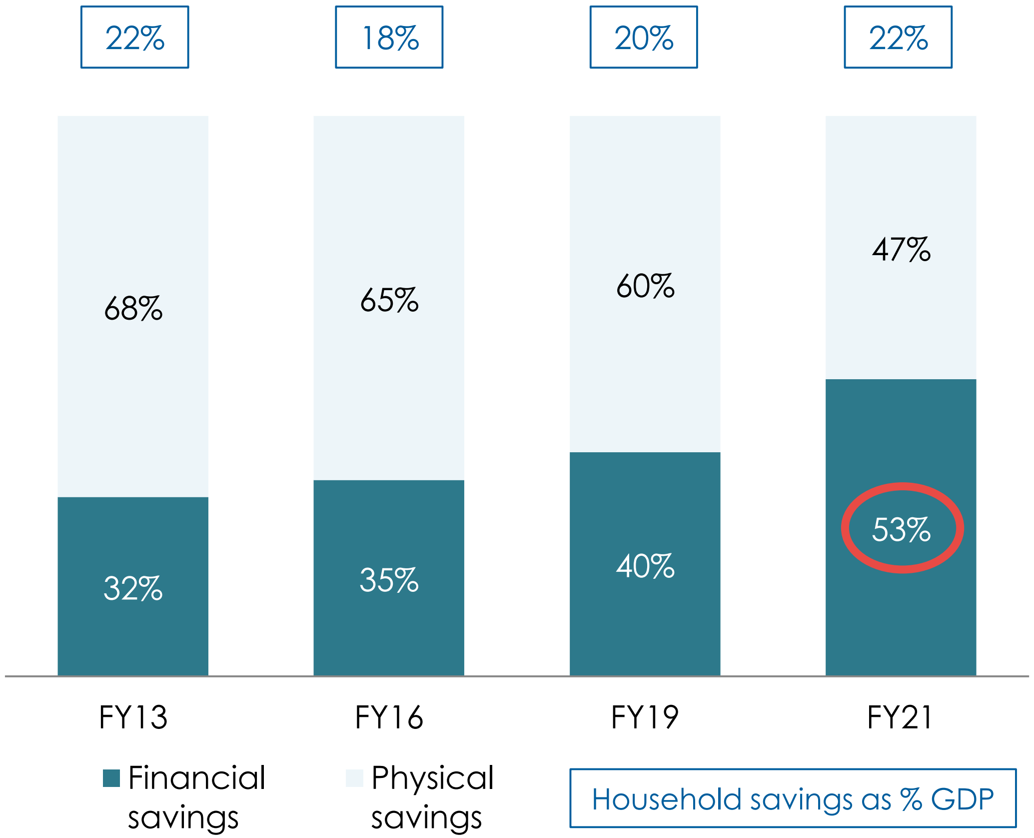
Spur in retail loans (Rs. Tn)

Increasing retail indebtedness to spur need for credit life products; enhancement in insurance attachment with retail credit products

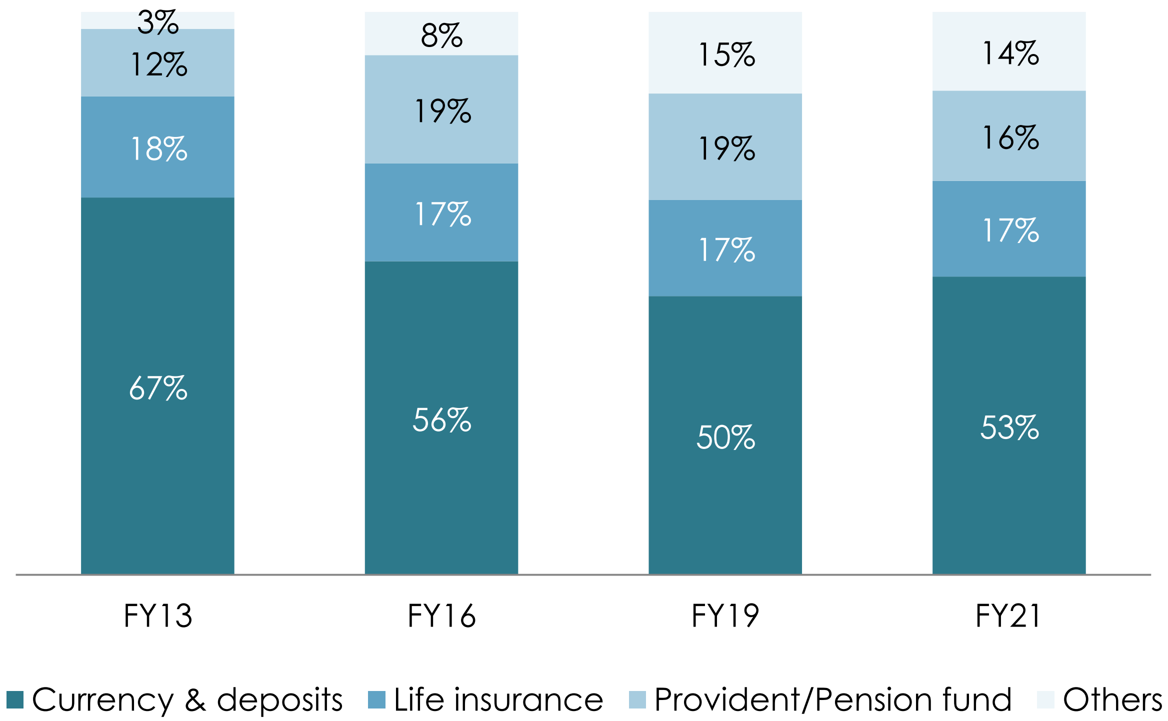


…Savings space, as household savings get financialized…

Financialization of household savings



Financial savings mix

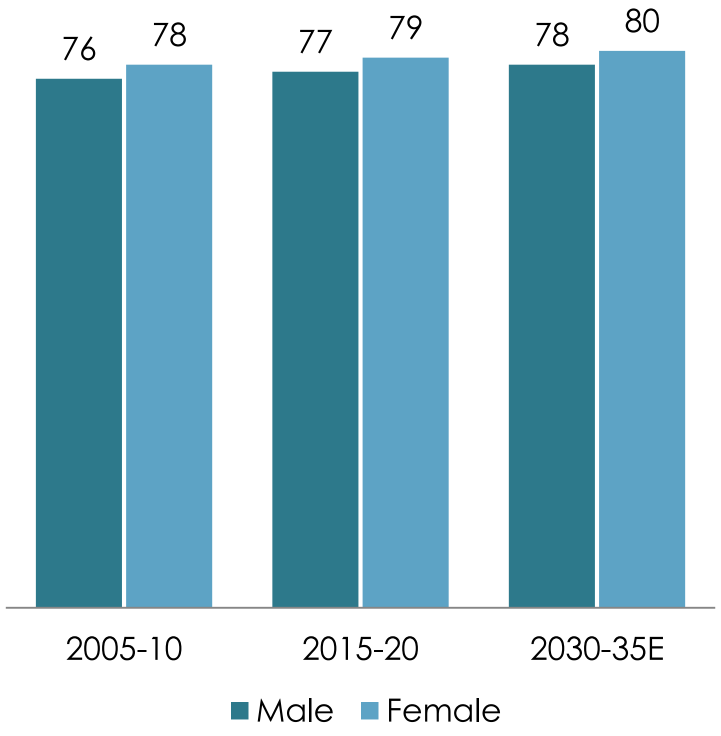


Source: DBIE-RBI Statistics, RBI Annual Report, Economic Survey, CSO, www.pmjdy.gov.in

…and Retiral space, as India's demographics change from '*young*' to '*aging*'…

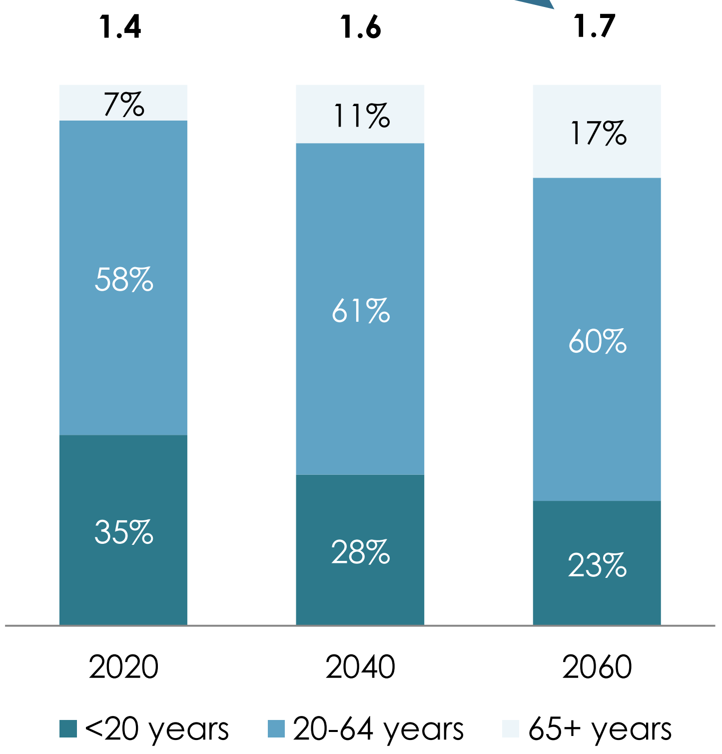
Life expectancy at age 60 years

Improvements in life expectancy will lead to an average post retirement period of ~20 years



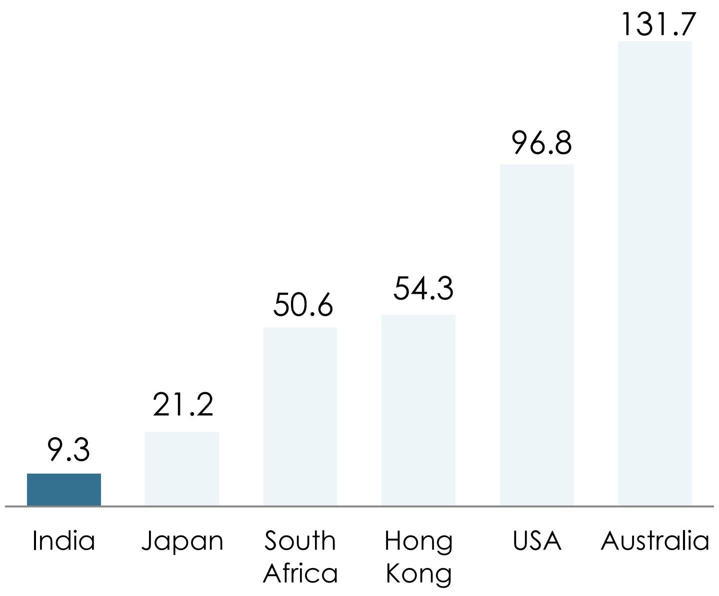
Population composition (billion)

Elderly population is expected to almost triple by 2060



Underpenetrated pension market

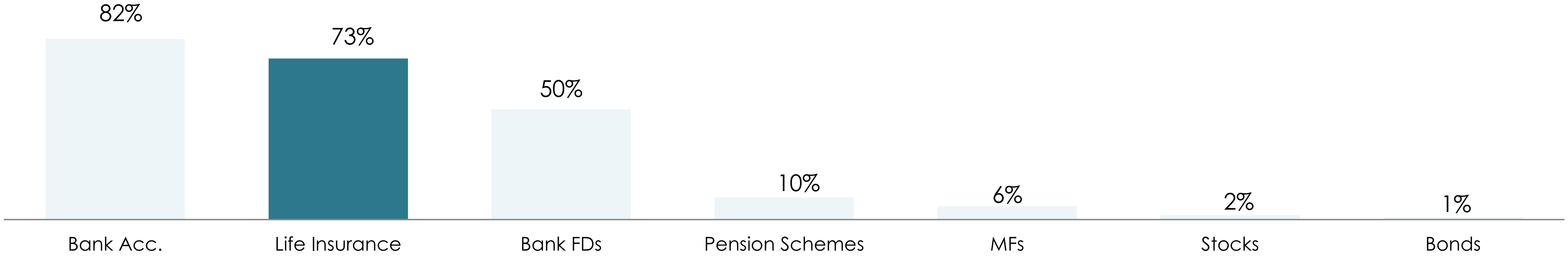
India's pension market is under-penetrated at 9.3% of GDP



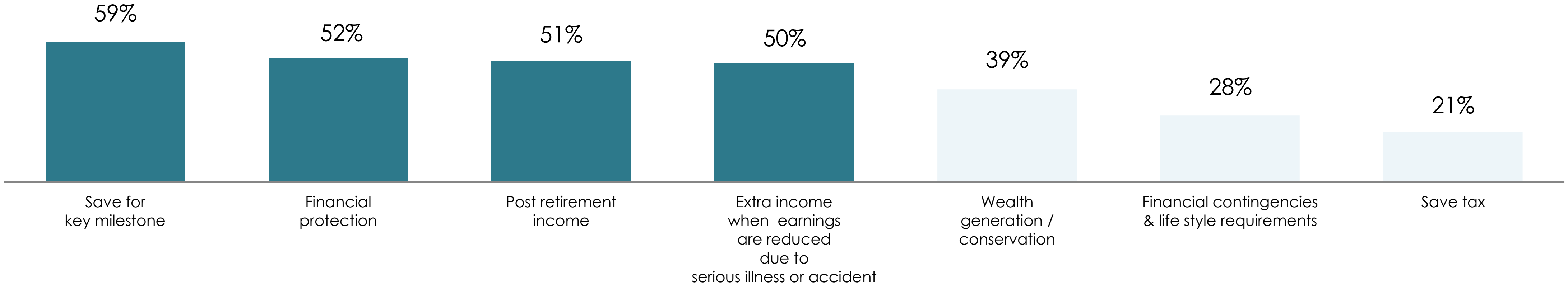
Source: MOSPI, United Nations World Populations Prospects Report

Life insurance as a preferred '*savings*' instrument will make it relatively easier to tap into the macro opportunities…

Life insurance ranks amongst top 3 financial instruments and the importance of life insurance as an instrument largely remains same across age groups and gender



Across age-groups, savings for key milestones in life like child's education, marriage, remains the top reason to buy life insurance



Source: Life Insurance Council IAC Study by Hansa Research, February 2022
% of respondents

Life insurer of the future

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Life insurer of the future…

Customer experience expectations

Product innovation

Digital distribution and operations

Data-led ecosystems

Prudent risk management

Changing customer experience expectations…

- Journeys in clicks vs. days
- Compare and buy
- Touch offline & buy online
- Blog & reviews
- Simple UI / UX

Perceptions that need to be worked upon:

1. **Term premium** is a **'cost'**
2. **Unbundling** is better
3. **5 year horizon** than long term horizon
4. **Annuity** is taxed – don't buy
5. **Savings products** – still need significant **human intervention to sell**

Broad-based product innovation driven by changing customer needs, preferences and easing regulations…

Combo products

1. **Two Savings plans** with distributed cashflow plans over the policy term / life time
2. **Term and Savings** to manage risks and address evolving needs across various life stages
3. **Life and health plans** to cover risk and address health care costs

Savings products

4. **Equity oriented savings plans** with lower cost structure, flexible investment terms and more fund options
5. **Par pension plans** allowing more flexible income streams during retirement

Embedded / co-created products

6. **Protection plans embedded with healthcare products / service** (e.g., Term plans with wellness ecosystem membership)
7. **Pay-as-you-live plans** to cover risk of aging / older population segment
8. **Co-created products** with related services (e.g., healthcare)

‘Phygital’ distribution and ‘digital’ operations…

‘Phygital’ Distribution

‘Bionic’ agents and brokers powered by digital tools

Digitally enabled **Point of Sale Products (POSP)** distribution

Insurance marketplace developed and managed by the regulator

‘Digital’ Operations

Digital experience & convenience for customers increasingly using digital channels in daily life

AI-powered 24X7 operations to serve customers, redefining the process and operations for ‘remote first’

Digital and data interventions for medicals, underwriting and claim decisions

Data-led ecosystems powering new business, servicing and risk management

Servicing

- ✓ Build customer profiles / views, 360˚ view, offers, targeted upsell etc.

New business

- ✓ Customer data management and sharing frameworks including AA[1], IIB[2], EPFO[3], Traces etc.

Risk management

- ✓ Early warning indicators to reduce frauds, persistency issues, mis-sale etc.

1. AA: Account Aggregator; IIB: Insurance Information Bureau;
3. EPFO: Employees' Provident Fund Organization

On the bedrock of prudent, time-tested risk management practices…

Mortality & morbidity risks
Balance pricing & U/W to limit impact on profitability and solvency

Active review & re-pricing
Identify outliers and take corrective actions

Proactive reserving
Well provisioned to prevent sudden shocks (e.g., Covid)

Product boundary conditions
Conditions based on customer profile & distribution channels

Interest rate risks
Prudent asset liability management and natural hedges

Cashflow & duration matching
Immunize portfolio to manage parallel shifts in yield curve

Dynamic hedging
Natural hedges and external hedging instruments

Stress test scenarios
Low sensitivity to economic market movements

Operational risks
Balanced, conservative and calibrated approach

Diversify distribution & products
Tap into new distribution partners and balanced product mix

Regular experience analysis
Review of experience vs assumptions; corrective actions

Conservative investments
Focus on delivering risk adjusted returns over the long term

Many moving parts in the medium term

Composite licence?

Health indemnity?

Access to national health data?

Risk-based capital?

Relaxed sand box?

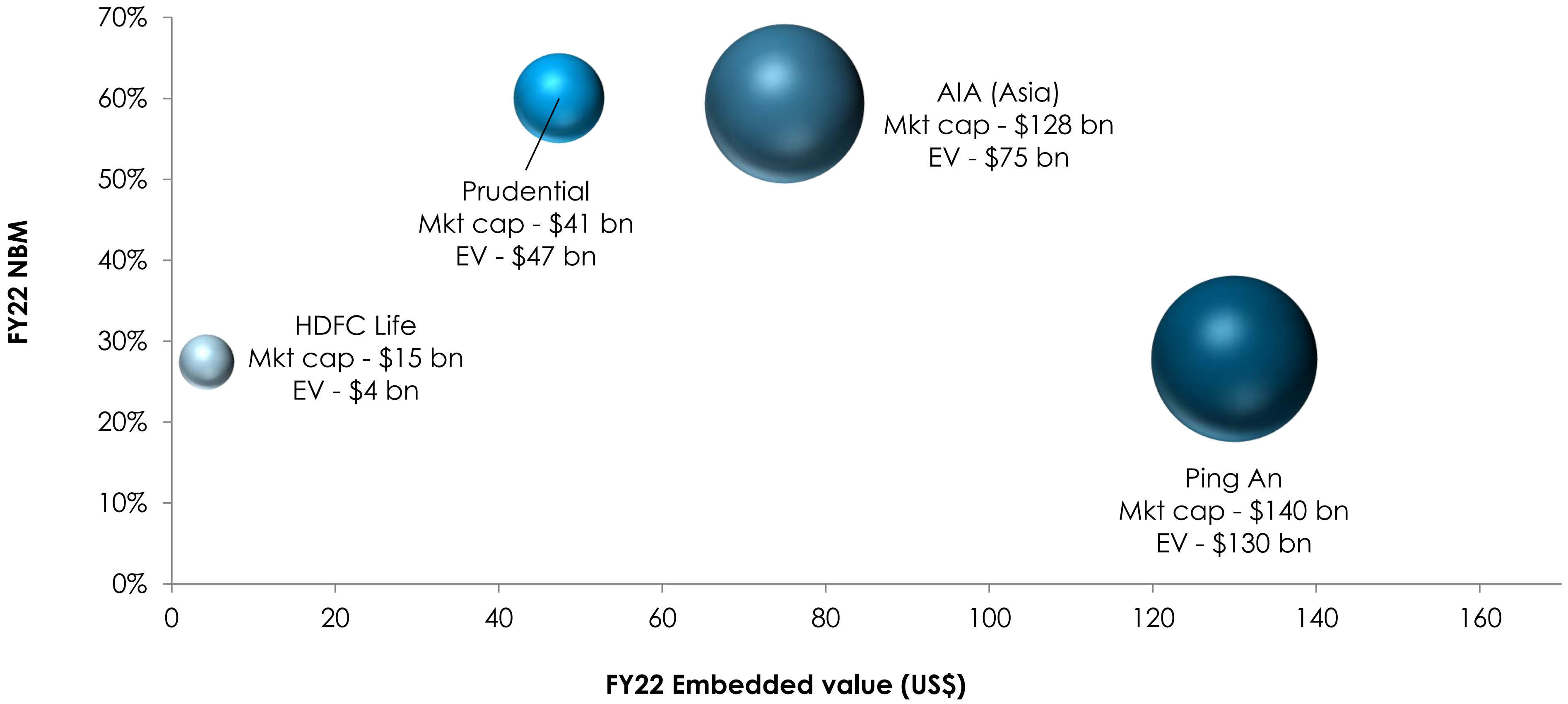
Expanded open architecture?

Fintech subsidiary?

Invest abroad?

Life council-led aggregator model?

This is just the beginning of a large opportunity…



Regional players 10-30 X larger in terms of EV and market cap; huge runway for Indian life insurers

Thank You