

# Protecting our golden years...

## Opportunity in the retirement space in India

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# Most people bank on a default retirement plan - serendipity



# India, perceived as a “young country”, now has a rapidly increasing ageing population



Proportion of the elderly is expected to **double to ~17%** as of 2050



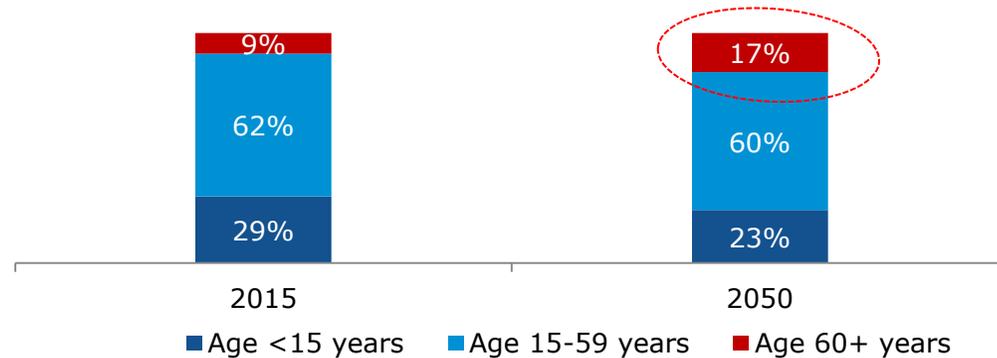
By 2050, **1 in 6 people** over the age of 60 will live in India, bringing the future market to **200 million** people



**41.5%** of elderly male (65+) are working to meet their retirement needs

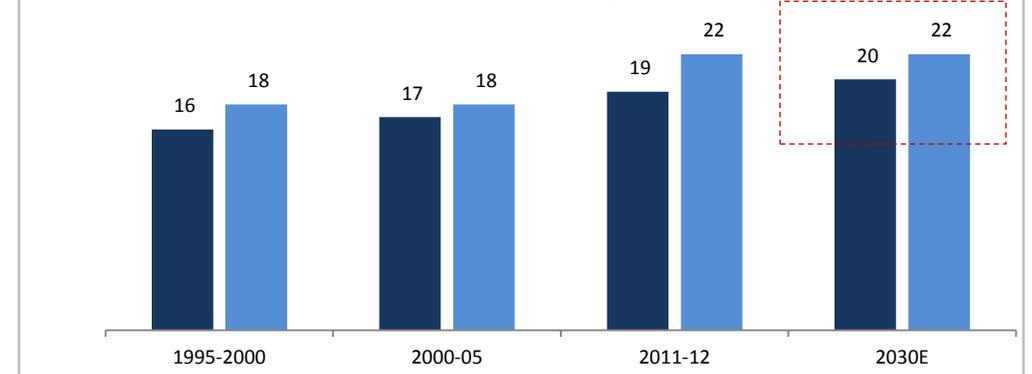
**By 2050, every sixth Indian will be a sexagenarian compared with every eleventh now**

Ageing population



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

Life expectancy at age 60



# Changes in our societal structures and lack of mindfulness about retirement savings have led to a ticking time bomb-ish situation



Financial literacy as % of population is **18%** as compared to global average of **33%**



Unorganized workforce not under any formal pension scheme is **82.7%**

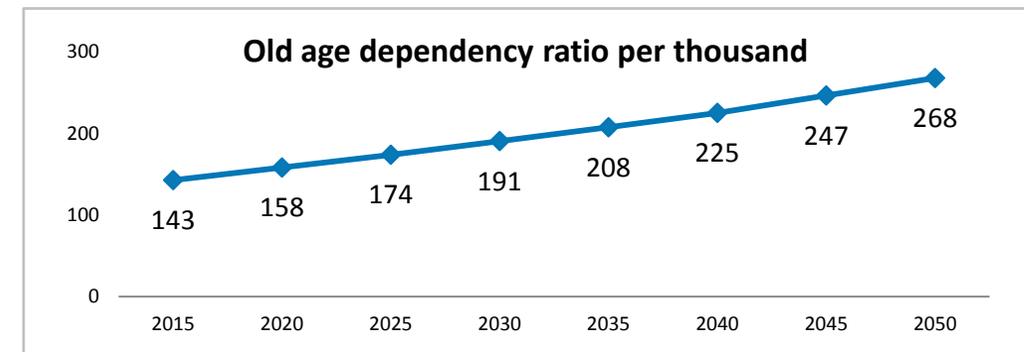


**52%** of elderly population in both urban and rural areas are fully dependent on others

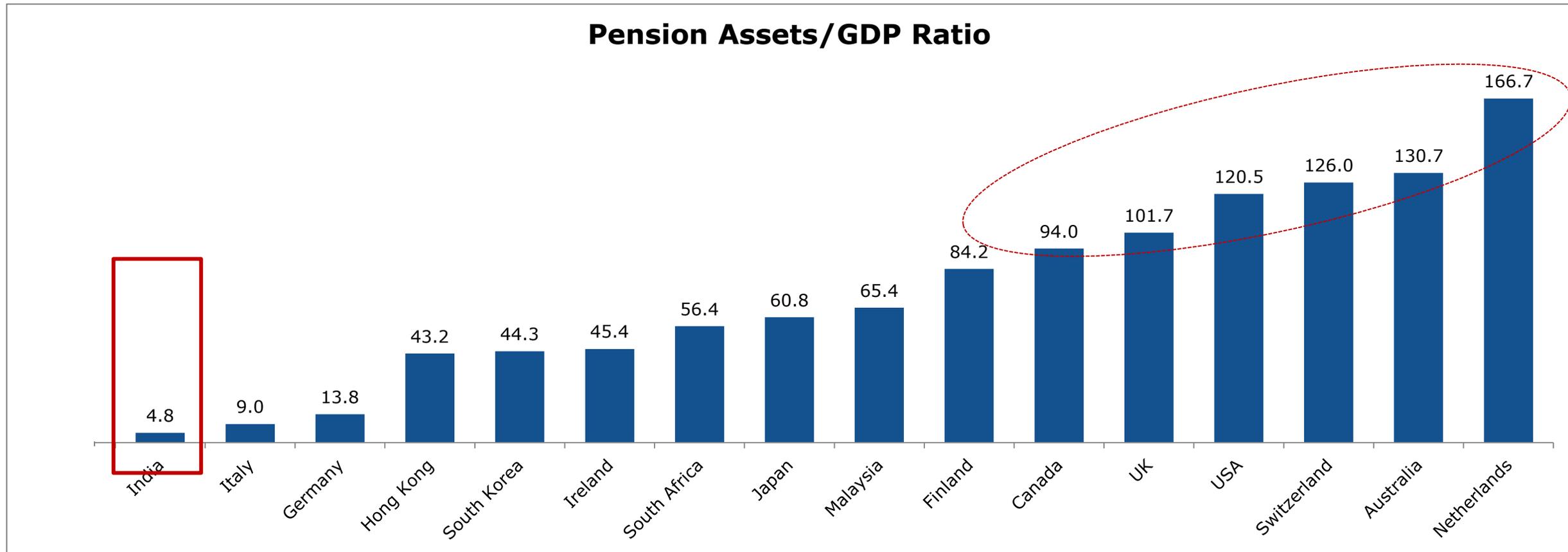
## Traditional support structures of joint families have been consistently declining thereby driving up the old age dependency ratio

### Decreasing average household size

1981	1991	2001	2011	2018E
5.5	5.1	4.6	4.2	3.9



# Compared to global benchmarks, India's pension market is woefully under-penetrated at 4.8% of the GDP

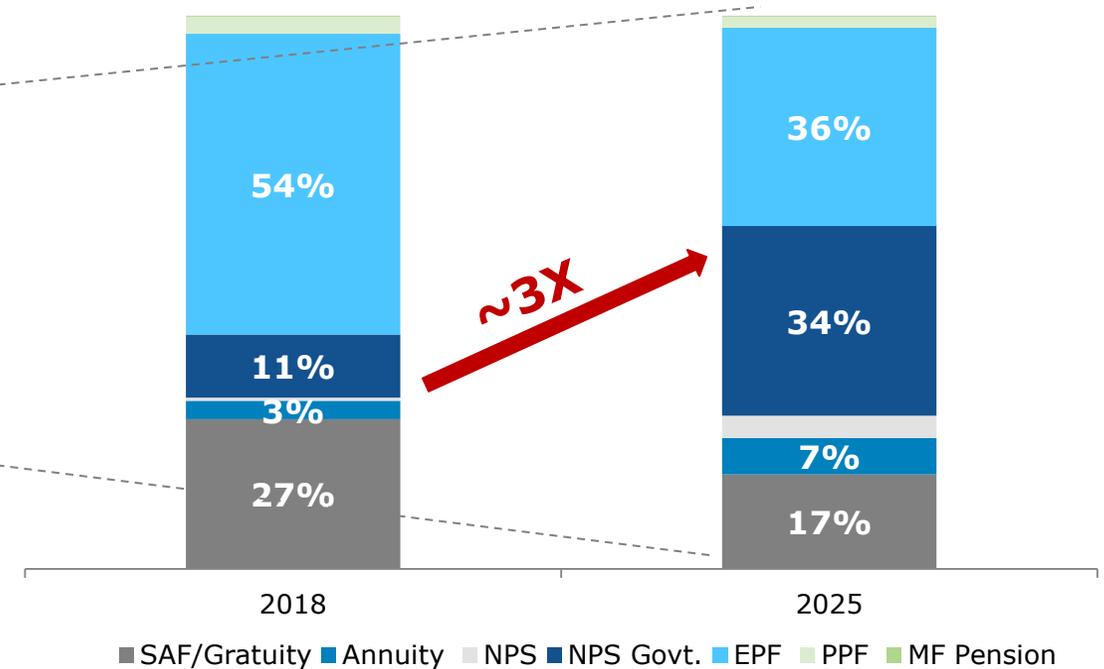
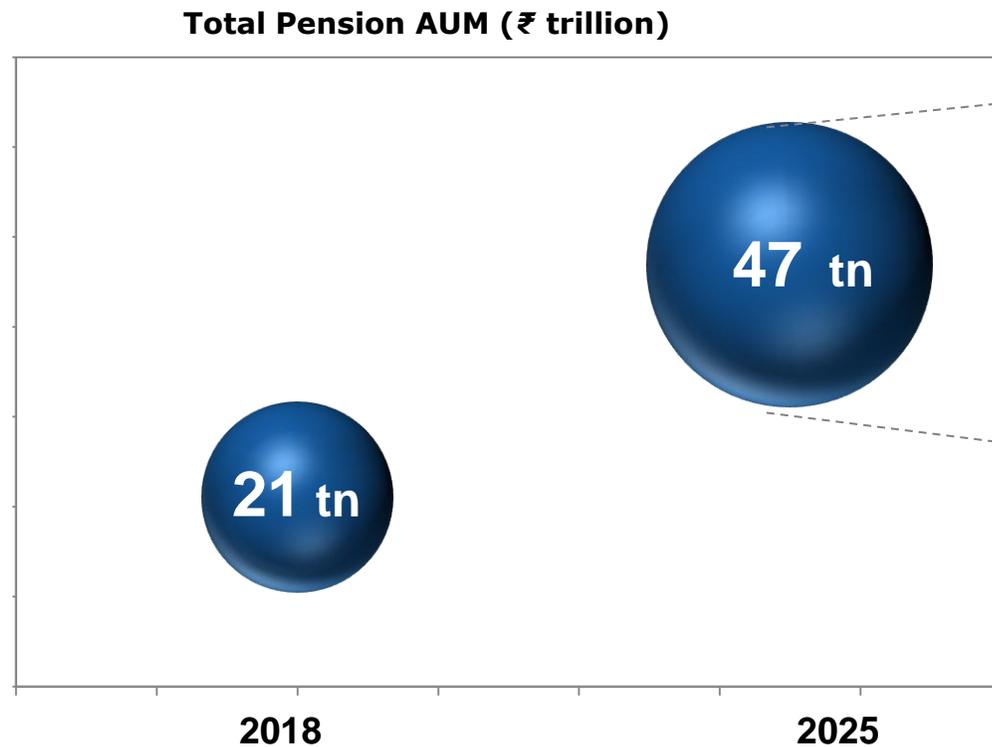


**India has a long way to go!**

Source: "Global Pension Assets Study 2019"; Thinking Ahead Institute - Willis Towers Watson (2019)

# So, what is the opportunity size ?

## Estimated market opportunity (organized sector)\*



**Unorganized sector accounts for 82% of the working population, which immensely increases the opportunity pie**

- Mandatory schemes will play a key role in increasing coverage for both unorganized and organized sectors
- Govt. schemes like Atal Pension Yojana (APY) currently limited to banks has scope for further penetration through insurers

But there are challenges...

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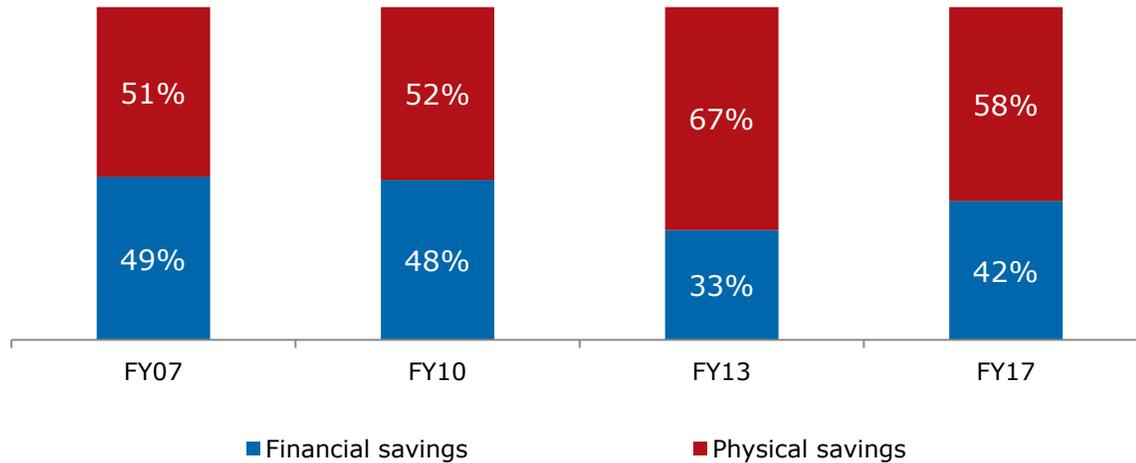
Inability to anticipate future  
financial needs

Deposits are popular choice  
with retirees

# There is a significant lack of awareness among Indians regarding systematic retirement planning

*With a culture of saving in physical assets...*

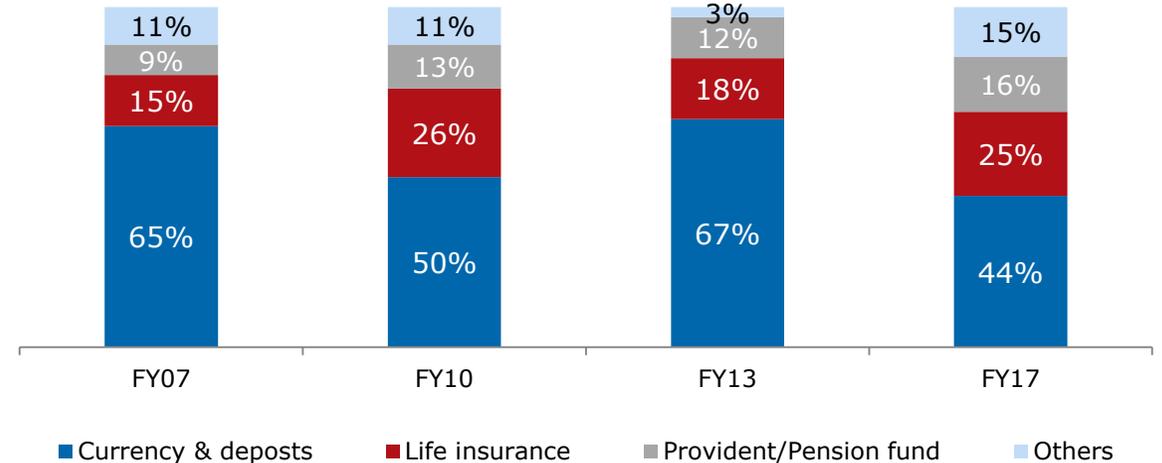
### Household savings composition



*58% savings are mostly in property and gold*

*..there a low mindshare to invest in pension savings for retirement*

### Financial savings mix



*Only 16% of financial savings are in pension funds*

**"Shifting to an opt-out model for pension schemes like NPS and tax incentives for annuities will help in gaining mindshare"**

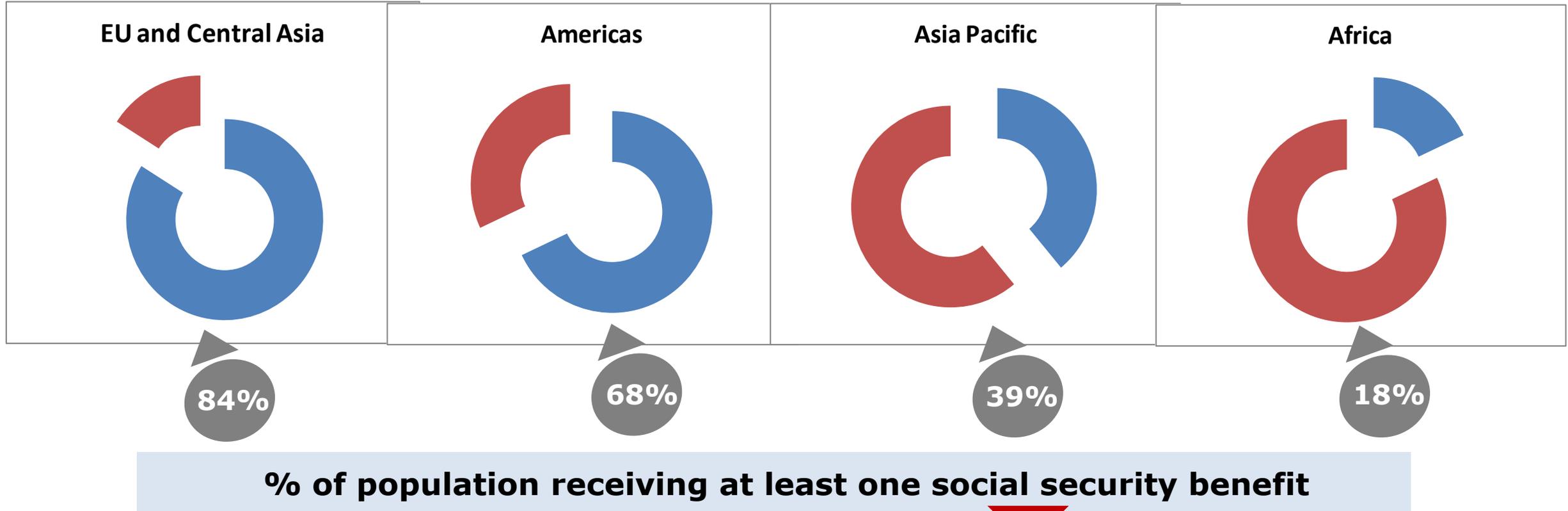
But there are challenges...

Social security is low in India

Mandatory pension schemes do not cover the large population

# Indians covered under formal social security is lower than the average of the region

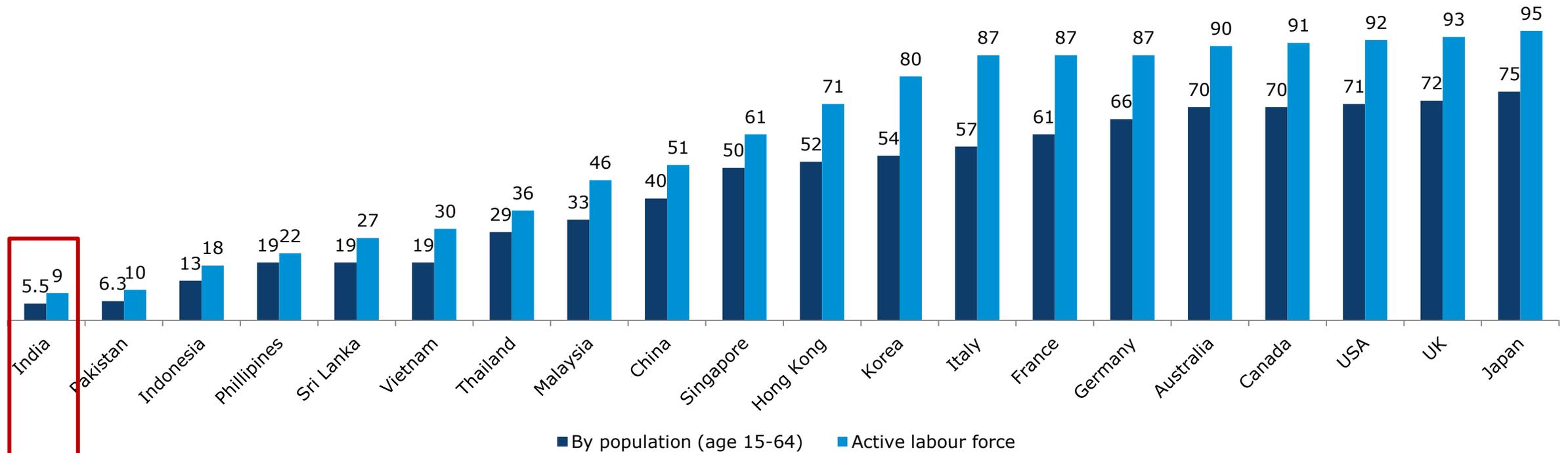
Significant scope for improvement within Asia Pacific and India in particular



In India, **only approx. 19%** of population covered under formal social security

# India's coverage of mandatory pension schemes is lowest amongst Asian counterparts

Coverage of mandatory pension schemes (%)



- Percentage indicates how effectively existing pension schemes are utilized
- India has less than 6% covered by a pension scheme, as opposed to countries such as USA, UK, and Japan (above 90%)

Source: OECD.

But there are challenges...

Low financial literacy

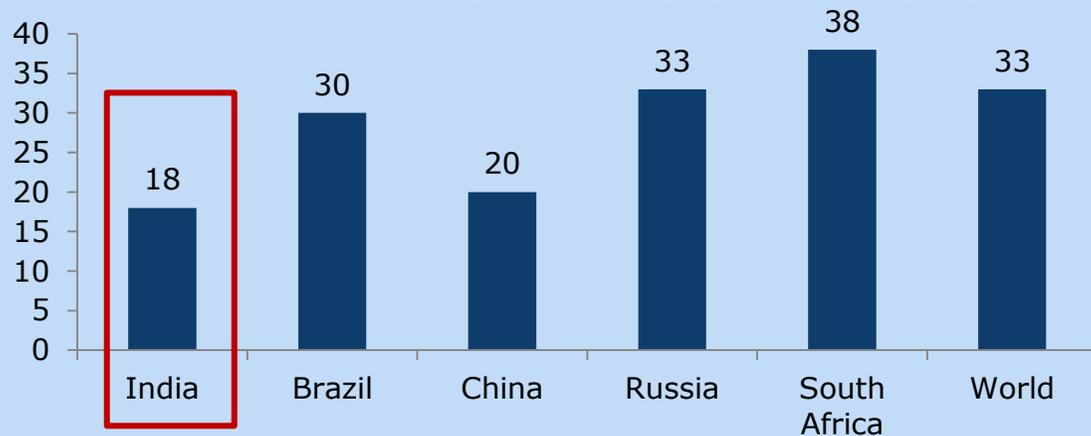
Low mindshare to invest in  
Pension

# Significant % of India's population is unaware of financial investment opportunities leading to low pension contribution

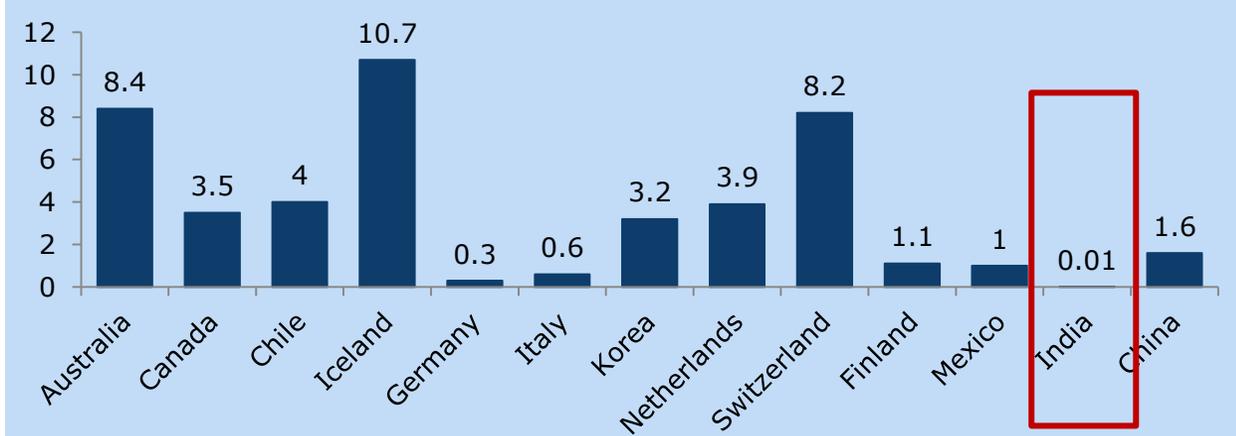
Awareness of financial investment opportunities is least in India as compared to global counterparts

Low pension contribution amounts, owing to low disposable income & awareness across India, do not provide sufficient cover for retirement

### Financial literacy among population (%)



### Pension contributions as a % of GDP



But there are challenges...

Fragmented and disjointed  
pension system leaving  
customers confused

Varied products with different  
tax treatment

# We also have a fragmented and disjointed pension system

4 Regulators	EPFO		PFRDA	IRDAI			SEBI
7 Different Products	EPF	PPF	NPS	SAF	Gratuity	LI Pension/ Annuity	MF Pension
Differences in Payout at Exit	Lump sum	Lump sum	Lump sum + Pension	Lump sum + Pension	Lump sum	Lump sum + Pension	Lump sum
Differing Tax Treatment	EEE	EEE	EEE/T	EEE/T	EEE	EET	EET
Tax Benefits at contribution stage	Employer Contri tax-free (12%) Employee Contri within 80C (12%)	Up to 150k within 80C	10% of basic by employer + 50K	15% of basic pay up to 150k	8.33% basic pay up to 20L	Up to 150k within 80C	Up to 150k within 80C
Varied period of Vesting	Post Retirement	15 years	Post Retirement	Post Retirement	5 years	10 years	3 years



**Multiple regulators, seven different products, different tax benefits and treatment are leaving customers confused**



Products that insurers / subsidiaries are allowed to sell

Can we make India a Pensioned  
Society?

# By addressing specific areas we do see an opportunity to boost pension coverage in India



1

## Distribution

- Increase adoption of NPS (tap increasing workforce)
- Leverage distribution scale of MFs & LIs



2

## Awareness about Pension investment

- Increase financial literacy
- Encourage investment in pension schemes



3

## Products & Implementation

- Allow flexible payment and withdrawal options
- Explore innovative annuity solutions
- Widen the investment avenues for annuity
- Process simplification from enrolment to exit



4

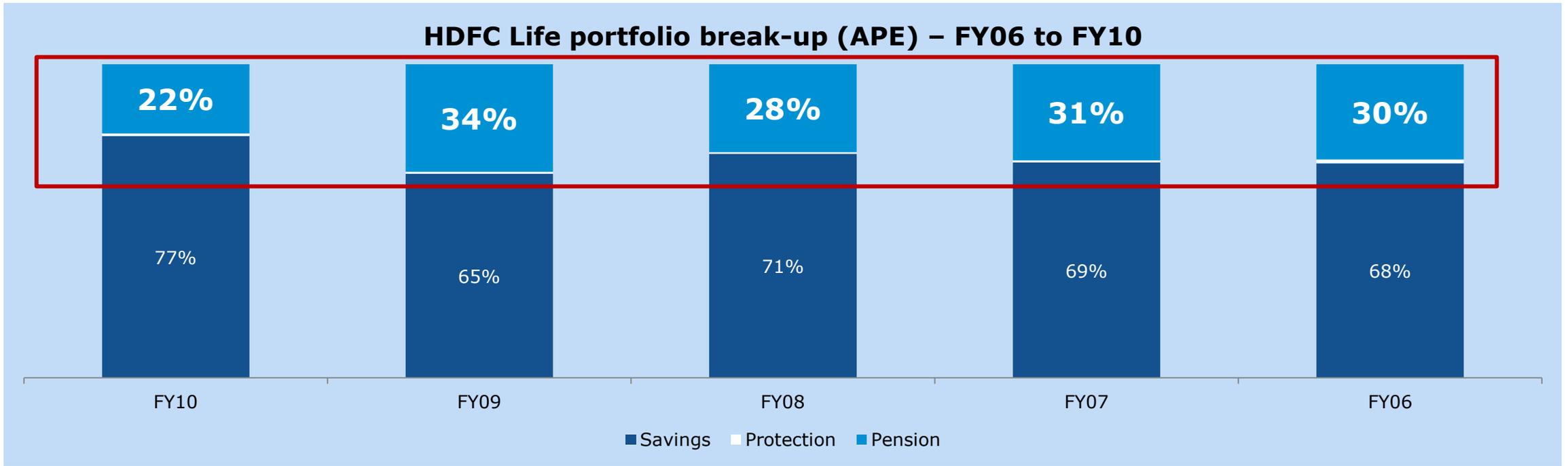
## Policy reforms & regulations

- Regulatory & tax consistency
- Low expenses for Pension – EOM for LI
- Requirement of non-zero returns in LI pension plans
- Low FMC(0.01%) for NPS

We are putting our money where our  
mouth is...  
(HDFC Life's ecosystem)

# HDFC Life identified the retirement opportunity early and has been a key contributor to uplift this category

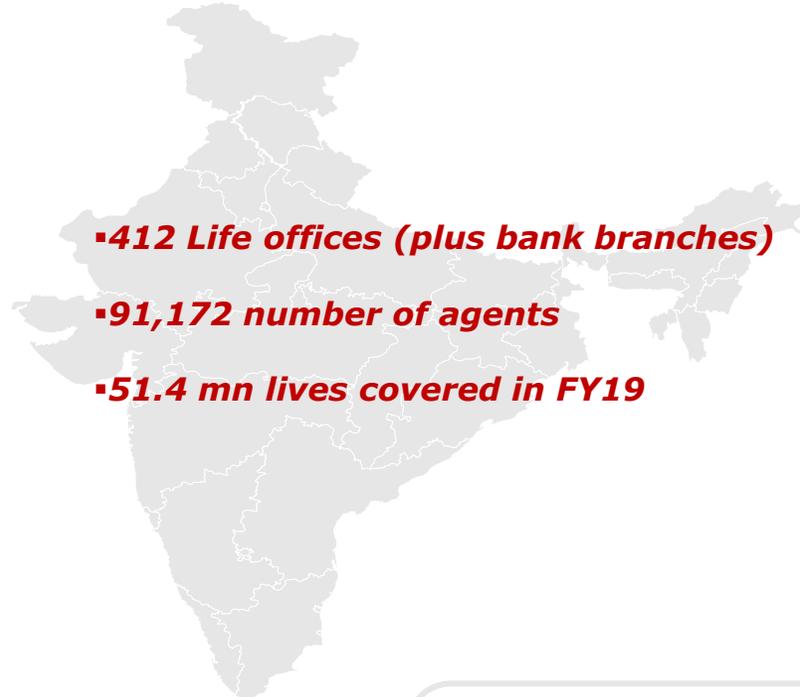
Retirement was a focus even in the initial years – Pension contributed to average ~30% share in the portfolio



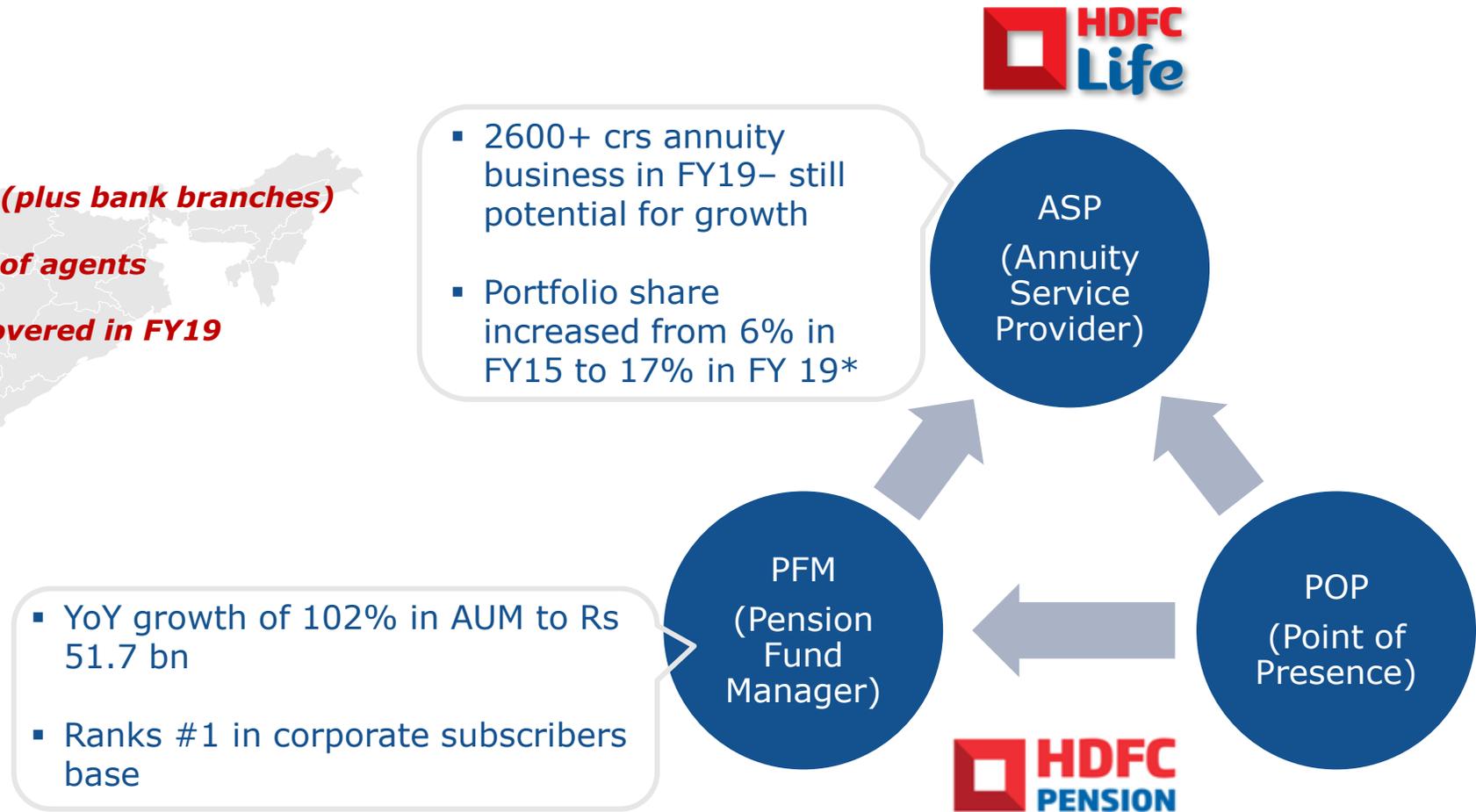
HDFC Life's core brand thought "Sar Utha Ke Jiyo" was inspired by essence of retirement savings - most of us do not want ourselves or our families to ever depend on somebody else

# HDFC Life is working to build a pension distribution ecosystem that will help deepen coverage

## Large distribution network that enables wider reach



## HDFC Life – Pension distribution ecosystem

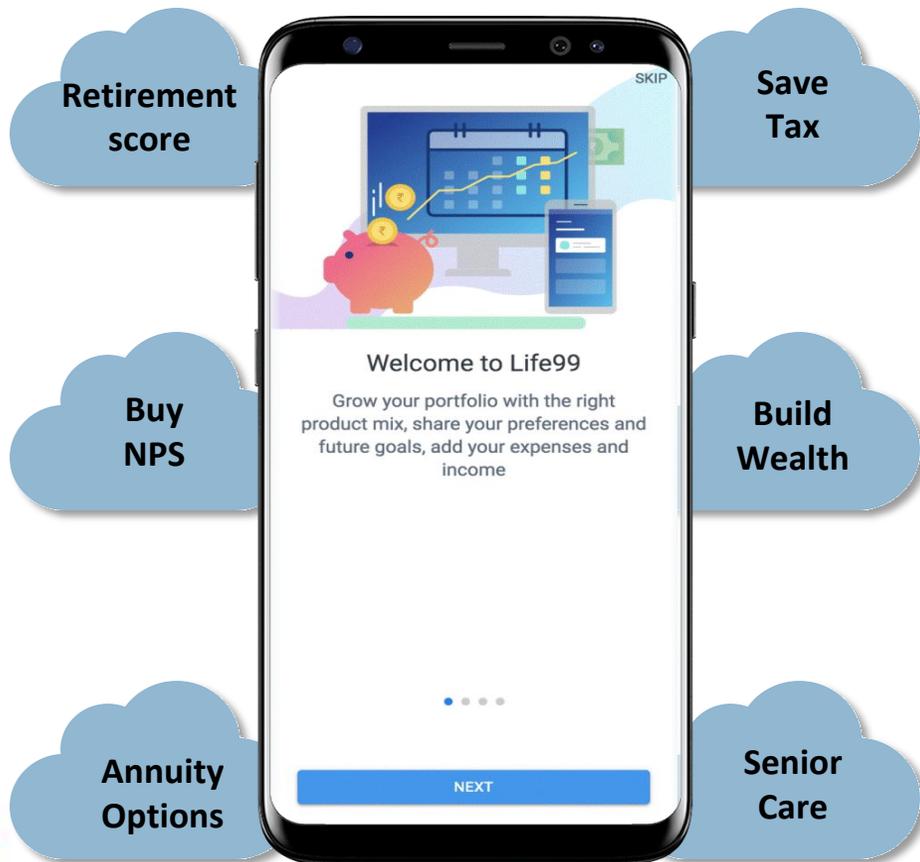


\*as % of overall NBP

# Creating adjacencies like Life99 platform, a one stop solution for all retiral needs across employee demographics, will enhance customer experience



## Retirement Platform | One-view | Buying Journeys



- 1 Get one-view of retirement corpus and plan for retirement
- 2 NPS subscription option to save taxes and annuity options for retirement income
- 3 Buy voluntary covers – NPS, Annuity
- 4 Avail services on the go (including value added services)



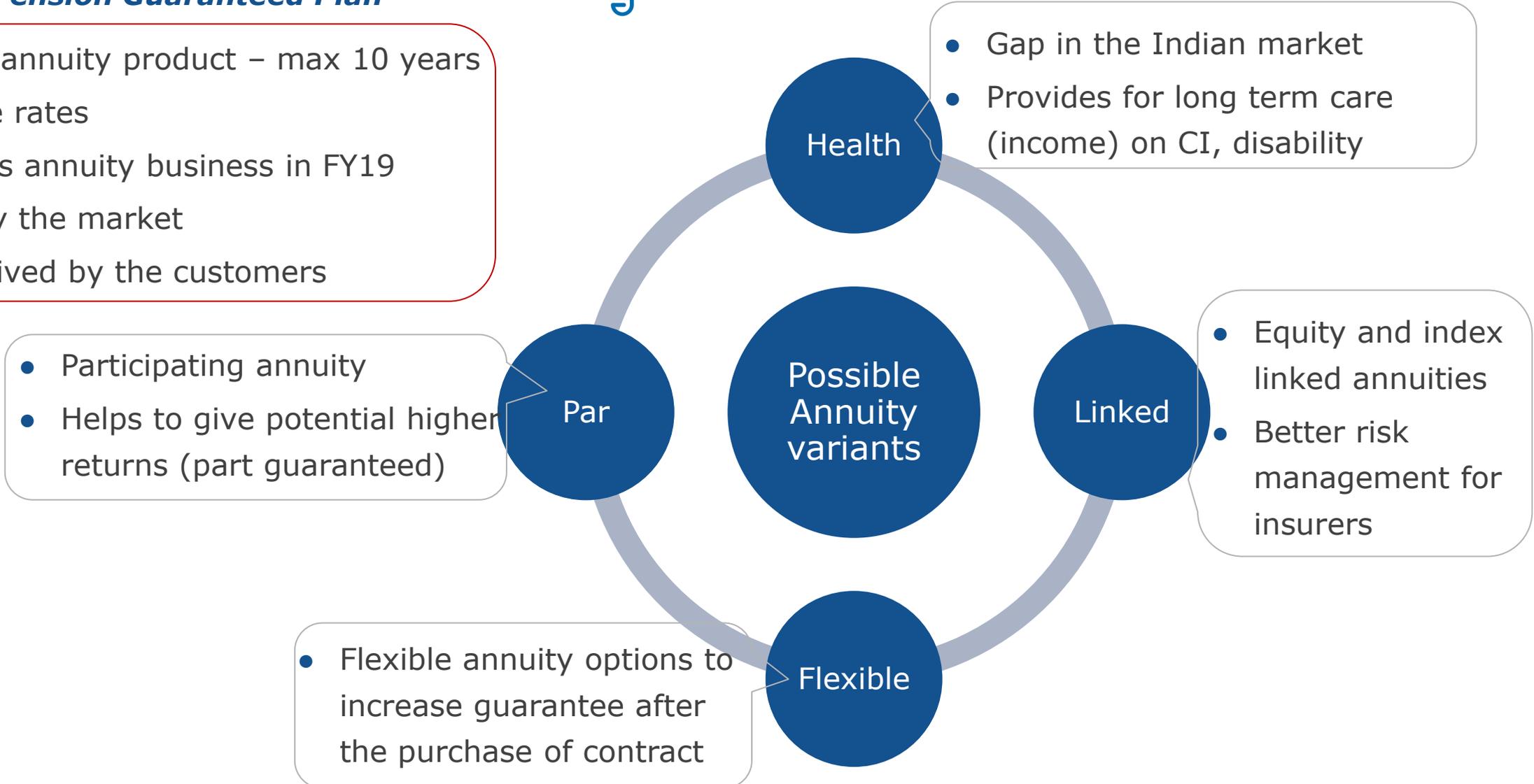
# We have also been innovating in the annuity space...

## ★ Breakthrough with innovative "HDFC Life Pension Guaranteed Plan"

- Deferred annuity product – max 10 years
- Attractive rates
- 2600+ crs annuity business in FY19
- Copied by the market
- Well received by the customers



## Immense scope for product innovation



# .....driven by risk calibrated investment opportunities

1

## Natural hedges

- Protection and longevity businesses
- Unit linked and non par savings products
- Quantum of retail guaranteed products <8% of AUM

2

## Product design & mix monitoring

- Prudent assumptions and pricing approach
- Return of premium annuity products (>90% of annuity); Average age at entry ~59 years
- Limited deferment period in deferred annuity (<5 yrs)
- Regular monitoring of interest rates and business mix

3

## ALM approach

- Long term government securities and partly paid bonds issued by top tier corporates
- Utilise excess asset duration from short duration liability products to support long duration liabilities

4

## Residual strategy

- External hedging instruments such as FRAs, IRFs, STRIPs amongst others

# Life insurers, with their vast reach and expertise can play a pivotal role in increasing pension coverage across the country

## 5 pillar Pension coverage in India

Caters to low income groups with low pension amounts

### Pillar 0

*Universal Social Security*

- **Non-contributory** social pension framework
- **Financed by govt** - IGNOPS & State Schemes
- **Payouts are meagre at Rs 200 p.m.** and varying contribution by states

Nearly non-existent

### Pillar I

*Pay as you go*

- **Defined benefit (DB)**
- Replaces portion of pre-superannuation income
- High stress on the fiscal system; **govt transitioned from DB to defined contribution (DC)** pension in 2004

### Pillar II

*Occupational Pension*

- **Defined contribution (DC)** - Mandatory, organized sector
- **EPF** - money invested in fixed income assets
- **Lacks depth** due to low share of the organised sector in the country's economy

### Pillar III

*Personal Pension*

- **Voluntary** - NPS, APY, MFs retirement plans, pension plans LIs & PPF
- **Variation** in the solutions offered - Annuity, Accumulation, fund options etc
- **Affordability & persistency issues** for low income segment

Vanishing support

### Pillar IV

*Informal support*

- **Family or other informal** financial and non-financial support
- **Failing in recent times** with the onset of urbanisation and nuclearization of families.

**Key to reduce financial burden on both society and govt.**

Thank You