

Riding the Crest: Product Innovation and the Way Forward

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Agenda

1

Growth opportunity in Life Insurance

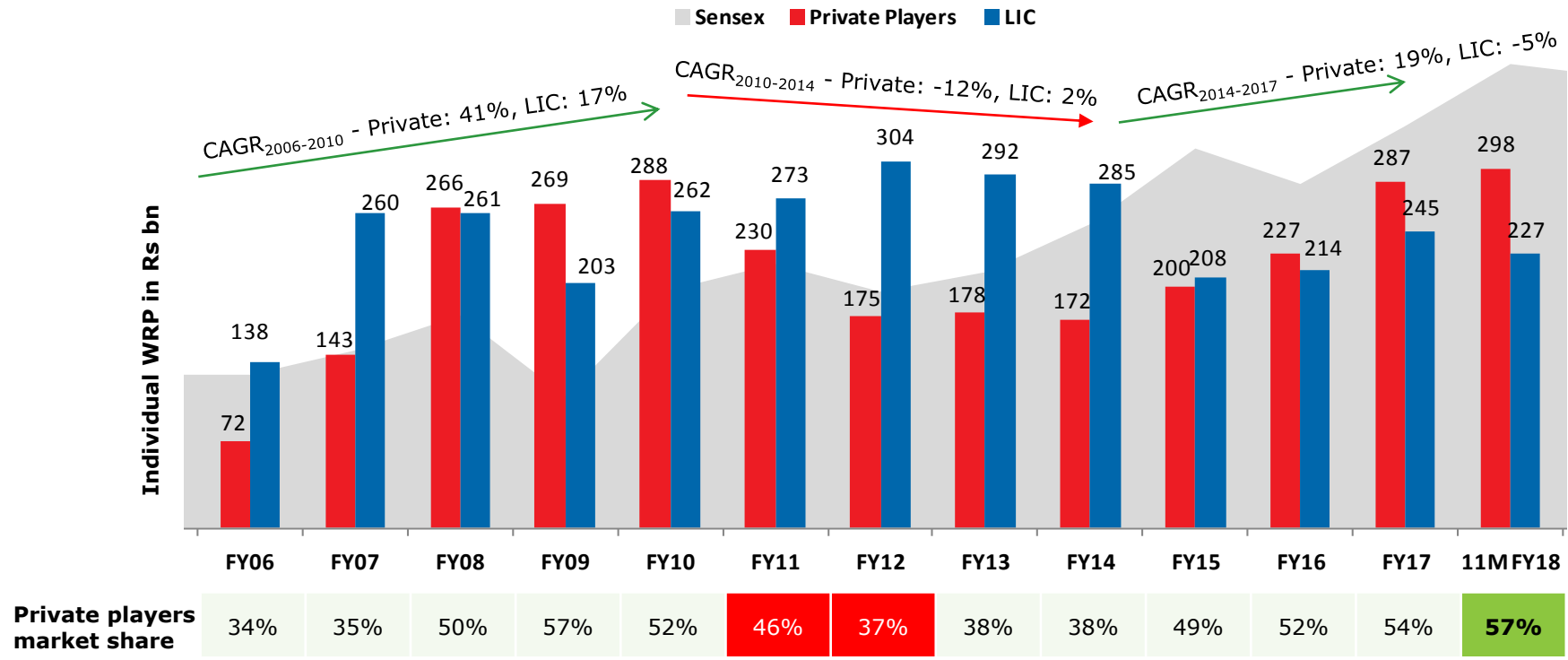
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Innovation in product design and product distribution

3

Product innovation at HDFC Life

The life insurance industry is on a growth trajectory with private players gaining market share



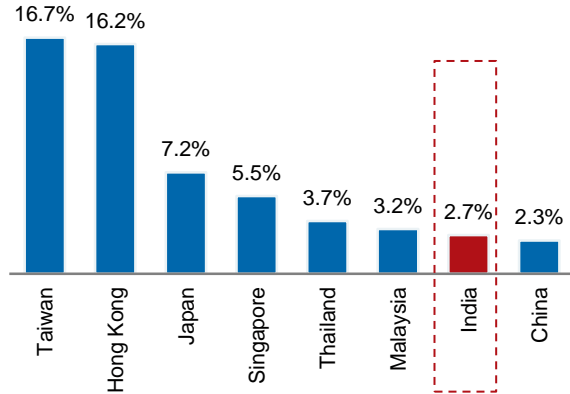
- India's life insurance Industry saw rapid 25% CAGR in the first 10 years post liberalization of the sector in FY01
 - From a monopolized market dominated by the state-owned Life Insurance Corporation of India (LIC), the industry achieved a balance in 2010 with private insurers forming 50% of the market
- Regulatory changes aimed at protecting policyholders' interests led to a slowdown post FY10
- Private players, with recalibrated business models, have gained market share since FY15

Source: IRDAI and Life Insurance Council

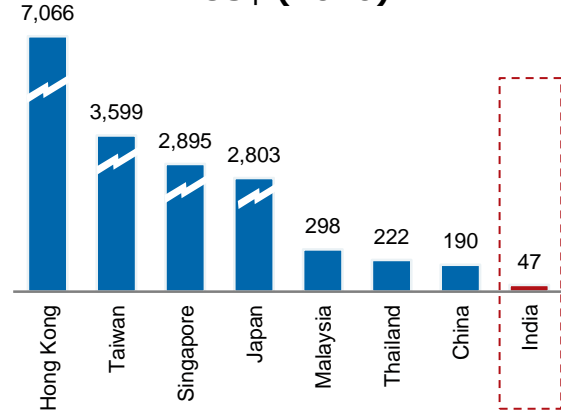


India's high protection gap presents a huge growth opportunity

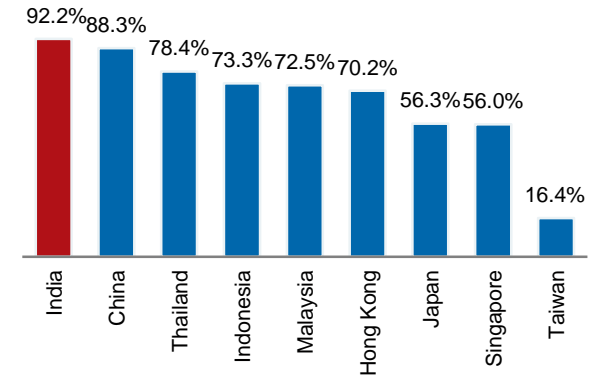
Life insurance penetration (2016)



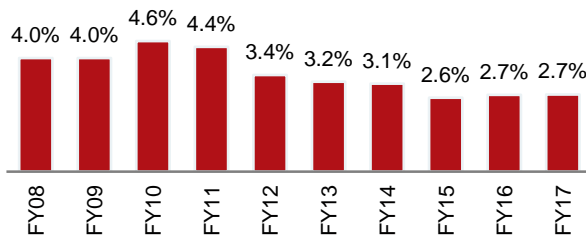
Life insurance density US\$ (2016)



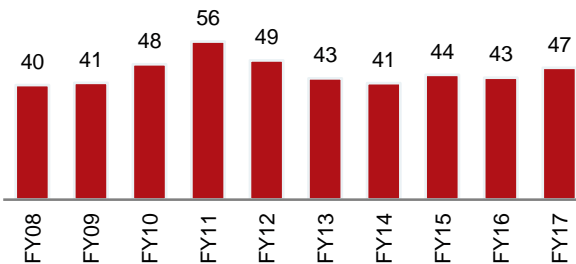
Protection gap (2014)



India life insurance penetration (FY08-17)



India life insurance density US\$ (FY08-17)



- India has **the highest protection gap** in the region, as growth in savings and life insurance coverage has lagged behind economic and wage growth
- Protection gap **has increased over 4x in last 15 years** with significantly low insurance penetration and density

Note: Penetration as measured by premiums as % of GDP, Density defined as the ratio of premium underwritten in a given year to the total population

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

The last few years saw several changes to support the changing needs of the business

Product Regulations



- Expense of Management
- ULIP & Non-Par Regulations

Strong growth led by Banca



- Higher branch penetration & activation
- Open architecture
- Increased financial inclusion & movement towards savings' products

Focus on margins



- Protection focus
- Expense efficiency to improve margins

Focus on quality of the book



- Emergence of customer friendly products
- Increasing persistency trends

Operational efficiencies



- Regulatory interventions
- Increased investments in technology and reducing turnaround times

Digital Sales



Growth of organic online platforms and entry of aggregators

Listing & Governance



- Initial Public Offerings
- Merger announcements
- Investor & analyst focus

Demonetization



Private insurers piggybacked on banks' growth post demonetization

Emergence of start ups



FinTech companies – Alternate sources of customer data
Entry into ecosystems

The changing landscape has opened a world of opportunities



Financialization

- Movement away from physical savings to financial savings as a % of household savings



Digitalization

- JAM Trinity – Universal presence of bank a/c; Aadhaar seeding for availing products & services; 1:1 mobile penetration



Networks / Ecosystems

- Evolution of payment systems, organic platforms and aggregators



Distribution in partnership

- Privileged relationships
- Co-dependent structures
- Placing customer journeys within customer journeys of partners
- Movement from push to nudge



Customer expectations

- Expectations being set by experiences outside of FS
- 360° customer view for omni-channel approach



Operations & Technology

- Re-imagined operations through social media, analytics and cloud
- Transition towards robotics, artificial intelligence and machine learning

Opportune time to seize the initiative



Stable and progressive regulatory environment

- Guidance related to management expenses, product structures, distributor commissions in place
- E-commerce and web aggregator regulations have set the stage for the next phase of growth



Insurers well-positioned to address white spaces

- Insurers have reached a size and scale that allows them to take the next leap
- Experience with multiple business cycles, listing has enabled insurers to recalibrate their business models



Cutting-edge technology at our disposal

- Cloud solutions, RPA allowing cost-efficient operating models
- Better customer and distributor engagement with analytics, big data and AI



Increasingly digital and more aware Indian consumer

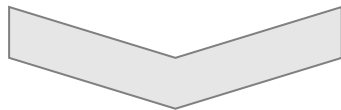
- Consumers leaving digital footprints - 1.19 Bn + Aadhaar enrolments, 810 Bn annual page views, 350 Bn annual search queries
- Government initiatives like PMJJBY have raised awareness about insurance needs

In the past, regulatory guidance has shaped product design

Key guidelines and impact

ULIP regulations (FY11)

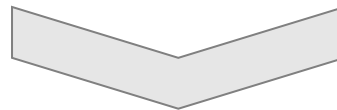
- Increased lock-in period for ULIPs from 3 years to 5 years,
- Age based minimum mortality cover at ~ 10 times premium
- Caps on surrender charges
- Cap on reduction in yield basis policy term
- Pension to offer a minimum 4.5% p.a. guarantee



- Drop in distributor commissions, product margins
- Improved value proposition for customers

Guidelines on pension products (FY12)

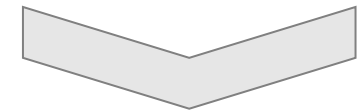
- Scrapped the 4.5% guaranteed annual return clause on ULIP pension
- However, all pension products to have a guarantee of a non-zero rate of return
- Company that contracts the original deferred pension policy is required to provide the annuity product to the policyholder



- For the first three quarters of FY12, only LIC had a pension product
- Dec 2011 saw more than 20 filings of linked pension products

Linked and Non-linked products regulations (FY14)

- Minimum death benefit specifications for single and regular premium products
- Minimum premium payment term of 5 years for non-single premium policies
- Cap on commission basis premium payment term



- Higher mandatory insurance cover on each policy
- Drop in distributor commissions across products

Need to adopt a nimble, three-pronged product strategy

1

Products that offer attractive customer value proposition

2

Innovative sales process for product distribution

3

Depth and breadth of distribution

Product innovation should meet the objectives of contemporary life insurance

Critical objectives to be met

1

Improve customer value proposition

2

Protect policyholder interest

3

Increase life insurance penetration

4

Enhance customer satisfaction through product suitability

5

Competitive offerings compared with other assets

6

Nurture non-traditional channels of distribution

Product design reflects the urge to meet the objectives

Improved customer value proposition

- **Low cost ULIPs** with minimal charges
- **Higher guarantees** on non-participating products
- **OTC** – Pre-approved sum assured for instant issuance

Cater to latent customer needs

- Low-cost **pure protection** products
- **Fixed benefit** on occurrence of an event e.g. dengue, cancer , accidental death through products and riders

Impetus to digital distribution

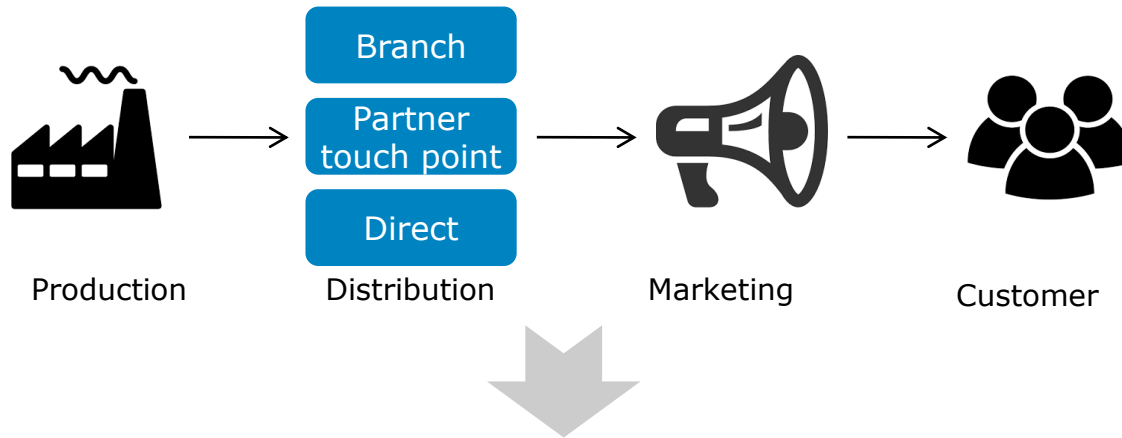
- **Exclusive products** for web aggregators
- **Lower premiums** on digital sales

Drive new partnerships

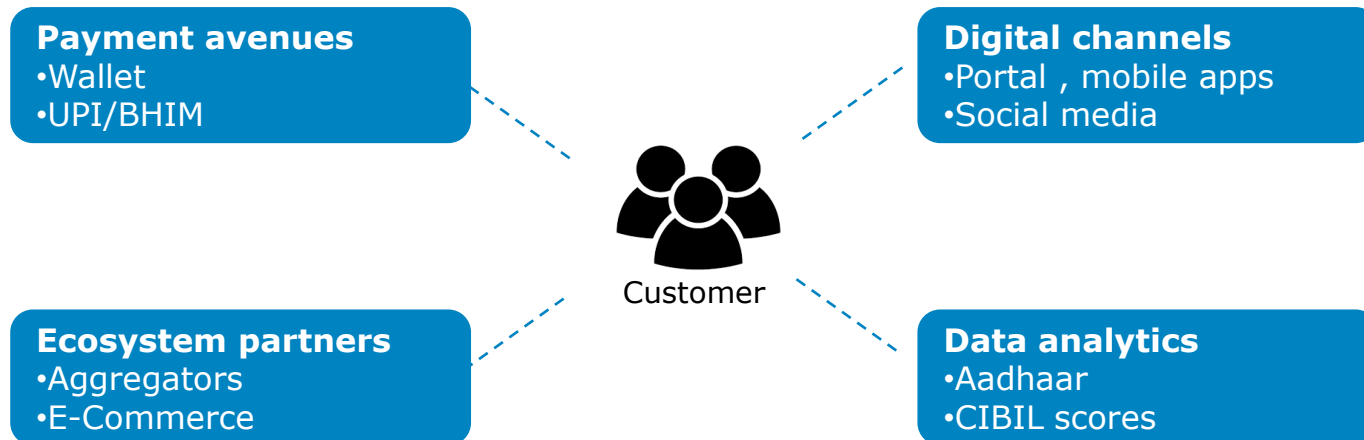
- Insurance **bundled** with premium services in non-insurance sector
- Life cover based on mobile **app activity**

Product sales process is also being re-imagined

From the traditional distribution at present..



..to being present where the customer is

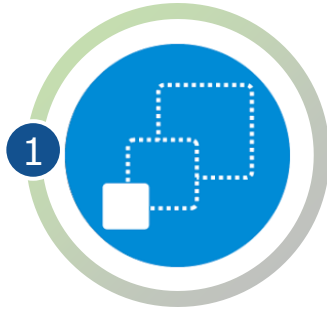


Ecosystems and platforms will be relevant across the sales process



Note: Brands depicted are illustrative to explain the concept

Regulatory intervention can play a key role in driving product innovation (1/3)



Outcome based regulations

- Move towards regime of output parameters based regulations
- Potentially result in allowing insurers to adapt to the changing ecosystem and reduce cost



Additional support to pension business

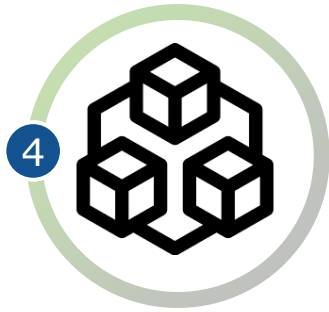
- Consistency with NPS on commutation and partial withdrawals
- Expense regulations to be relaxed to encourage Pensions
- Capital guarantee norms to be revised



Investment norms for life insurance

- Create level playing field vs. banks & mutual funds
- Relaxation of sector specific limits
- Flexibility to use equity derivatives for hedging
- Allow insurers to lend against their own insurance savings products over and above the surrender value

Regulatory intervention can play a key role in driving product innovation (2/3)



Widen scope for insurers' activities

- Allow distribution of non-life & health products and various banking / mutual fund products
- Explore sale of non-financial products and services like banks, to generate fee income



Level playing field for health business

- Current norms severely restrict participation of life insurers in the health insurance space
- Allow wellness benefit for life products as well
- Parity on distributor payouts, risk assessment and tenor between SAHIs / GIs and LIs



Product enablement

- Reduction in 'Go-to-market' lead time
- Move towards 'Use & File' process for non-par and UL products
- Modular approach for product creation - "Menu" to choose from when creating a new product

Regulatory intervention can play a key role in driving product innovation (3/3)



Discontinuance benefits on traditional products

- Phased increase in surrender values being proposed
- Consistent with Sumit Bose Committee principles to split risk and investment premiums
- Keep status quo as increase in values can be counterproductive in persistency control



Enable reinsurance regulations to mitigate risks efficiently

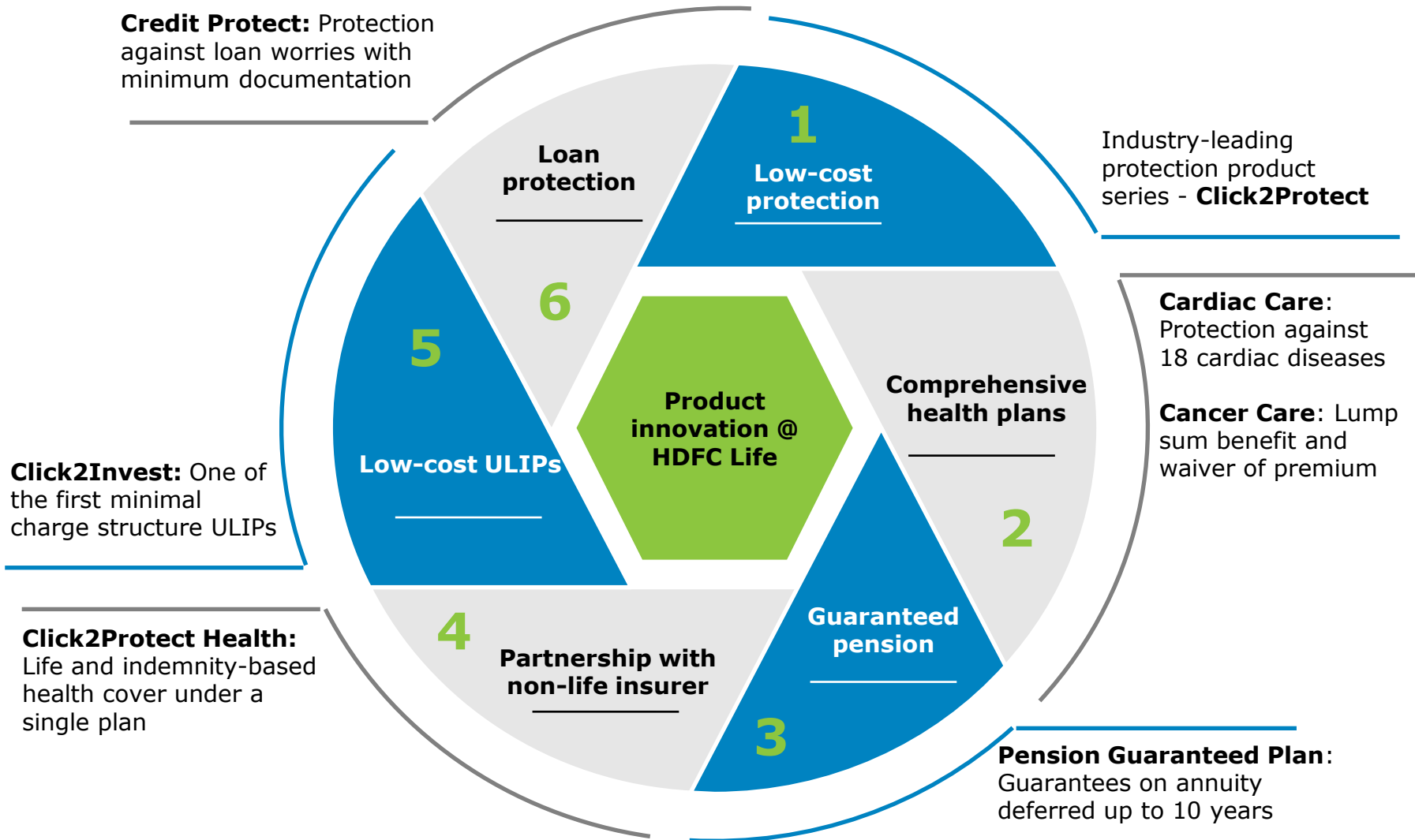
- More flexibility in the reinsurance regulations
- Allow use of Fin Re techniques for insurers to meet capital related requirements



Increase persistency levels

- Cumulative limits for payment of incentives to the distributors
- Flexibility to choose calculation of commission as a factor of premia, fund, sum assured etc.
- Secondary market for life insurance

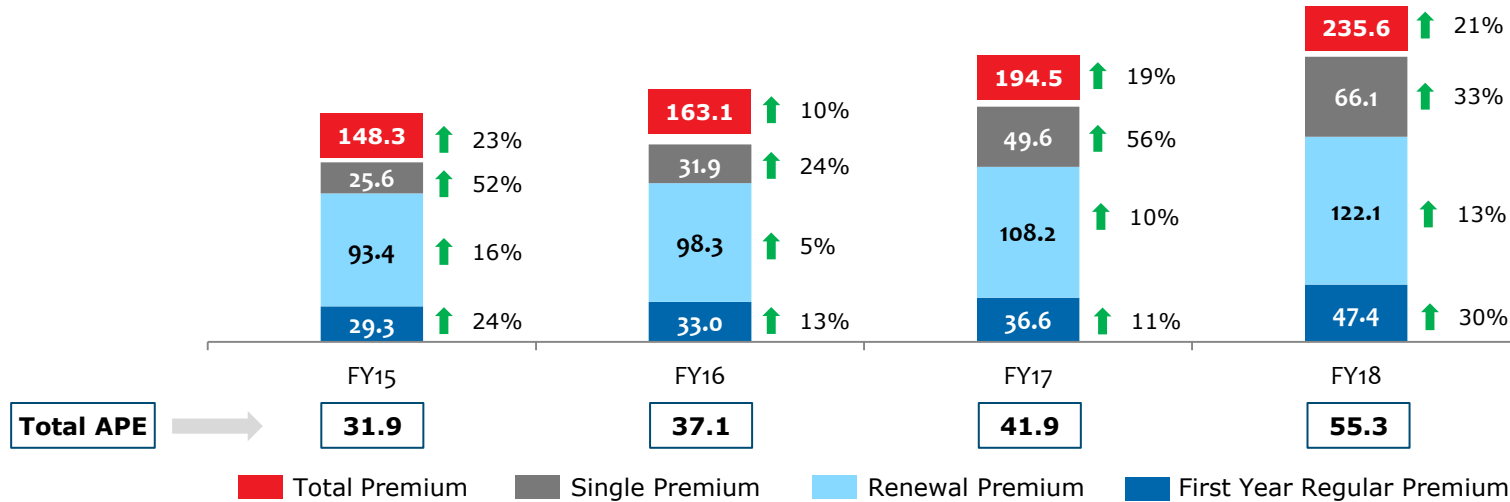
At HDFC Life, product innovation acts as a key differentiator



Customer-centric products have helped us register strong premium growth and market positioning

Consistent growth across premium categories¹

(Rs bn)



Private market share / Ranking

	FY15	FY16	FY17	FY18
Individual WRP	14.8% / 3	14.7% / 3	12.7% / 3	13.3% / 3
Group premium	17.8% / 1	18.3% / 1	24.3% / 1	28.5% / 1
Total new business received premium	15.8% / 2	15.8% / 3	17.2% / 2	19.1% / 1

Note:

1. Group premium numbers for FY17 have been re-classified, based on IRDA guidelines issued during the year

We have identified high-growth avenues and are developing products for them (1/2)

Health Insurance



Opportunity

- Health insurance offers a sizeable opportunity in the Indian market as penetration is low
- Size of Indian healthcare industry is estimated at Rs 4.8 trillion in FY 17

Current product suite

- A series of health products have been launched to cater to comprehensive health needs of customers such as:
 - Cardiac Care
 - Cancer Care
 - Click2Protect Health
 - Group Health

Millennials



- By 2030 around 60% of the population is expected to be between 20 and 64 years of age
- India is currently one of the world's youngest nations
- Millennial base of customers is expected to increase which means more and more policies will be bought online

- Click2 series of products have been launched keeping in mind the growing demand to buy insurance online

We have identified high-growth avenues and are developing products for them (2/2)

Retirement/Pension



Opportunity

- Demand for retirement policies to rise with increasing life expectancy, declining birth-rates and proportion of India's elderly population expected to increase by almost 50% by 2030

Current product suite

- Pension Guaranteed Plan launched in current year to address pension needs of growing elderly population.
- Offers attractive guarantee immediately, on annuity income that starts from a chosen retirement date in the future

Protection

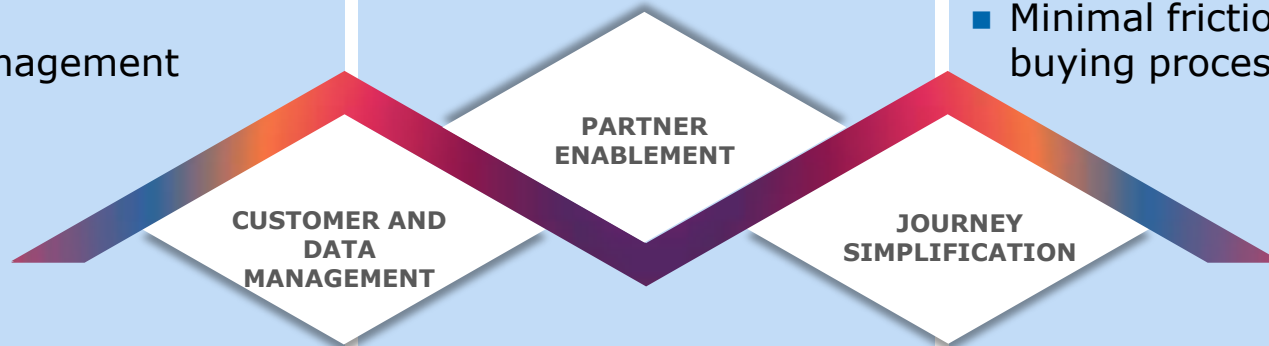


- Overall retail credit by banks has grown from Rs.7,828 Bn in FY12 to Rs.16,242 Bn in FY17
- Emergence of nuclear families and increasing life expectancy to facilitate need for protection based products

- Variety of term products like the Click2Protect series, Group Term, Credit Protect

We are redefining the product sales process to complement smarter products

- Digital forms across different sales processes
- 360 ° customer view
- Recommendation engines to ensure product suitability
- Predictive modeling
- Lead management engines
- Integration with travel, ecommerce platforms
- Collaboration with UIDAI for ease of documentation
- Jointly developed customer propensity models
- Biometric verification
- Straight-through processing
- Automated underwriting
- Dedupe for reduced efforts across touch points
- Minimal friction in the buying process



Platforms for agencies

Create digitally enabled platforms that will help engage customers

Thank you

