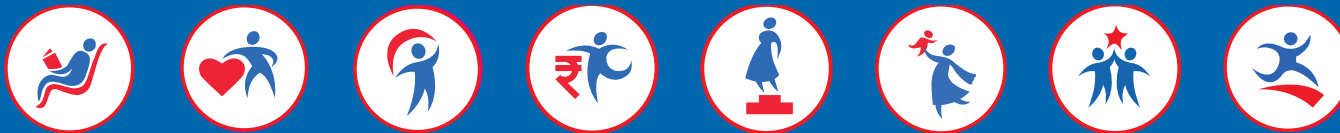






# HDFC Life Insurance

Investor presentation – Q1 FY20



# Agenda

<b>1</b>	<b>Performance Snapshot</b>	
<b>2</b>	<b>Our Strategy</b>	
<b>3</b>	<b>Annexures</b>	
<b>4</b>	<b>India Life Insurance</b>	

# Agenda



1

**Performance Snapshot**



2

Our Strategy



3

Annexures



4

India Life Insurance



# Executive summary: Q1 FY20

## Scale



New Business Premium	Rs (Bn.)	<b>39.3</b>
	Growth	<b>47%</b>



NB Sum Assured	Rs (Tn.)	<b>1.8</b>
	Growth	<b>46%</b>



AUM	Rs (Tn.)	<b>1.3</b>
	Growth	<b>18%</b>



Individual Mkt. Share	CY (%)	<b>17.5</b>
	PY (%)	<b>13.3</b>
Overall NB Mkt. Share	CY (%)	<b>25.1</b>
	PY (%)	<b>22.3</b>

## Profitability



Profit After Tax	Rs (Bn.)	<b>4.2</b>
	Growth	<b>12%</b>



New Business Margin	CY	<b>29.8%</b>
	PY	<b>24.2%</b>



IEV	Rs (Bn.)	<b>192.3</b>
	EVOP %	<b>19.9%</b>



Operating Exp. Ratio	CY	<b>13.5%</b>
	PY	<b>14.4%</b>

## Customer centricity



13 <sup>th</sup> month persistency	CY	<b>88%</b>
	PY	<b>87%</b>



Protection (Term) <sup>1</sup>	Rs (Bn.)	<b>10.1</b>
	Growth	<b>20%</b>
Protection (Annuity) <sup>1</sup>	Rs (Bn.)	<b>6.9</b>
	Growth	<b>70%</b>



Claim settlement ratio <sup>2</sup>	FY19	<b>99.0%</b>
	FY18	<b>97.8%</b>



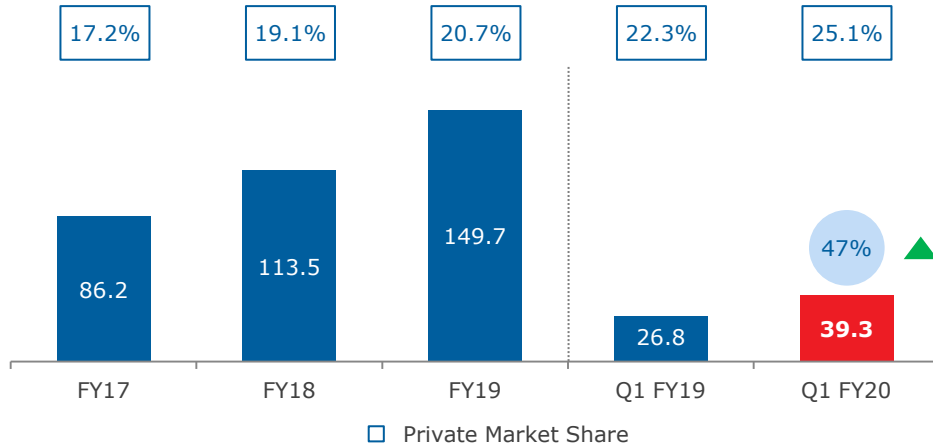
Complaints per 10k policies	FY19	<b>61</b>
	FY18	<b>70</b>

1. Based on Overall NBP

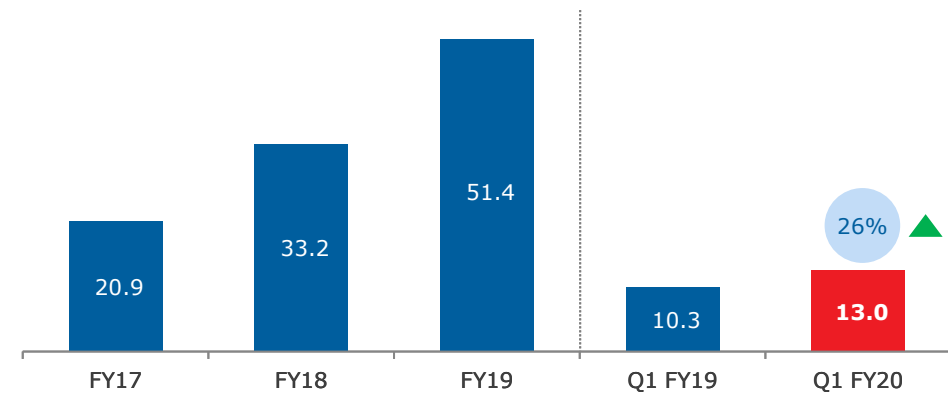
2. Computed basis NOPs for Individual Business

# Consistent performance across key metrics (1/2)

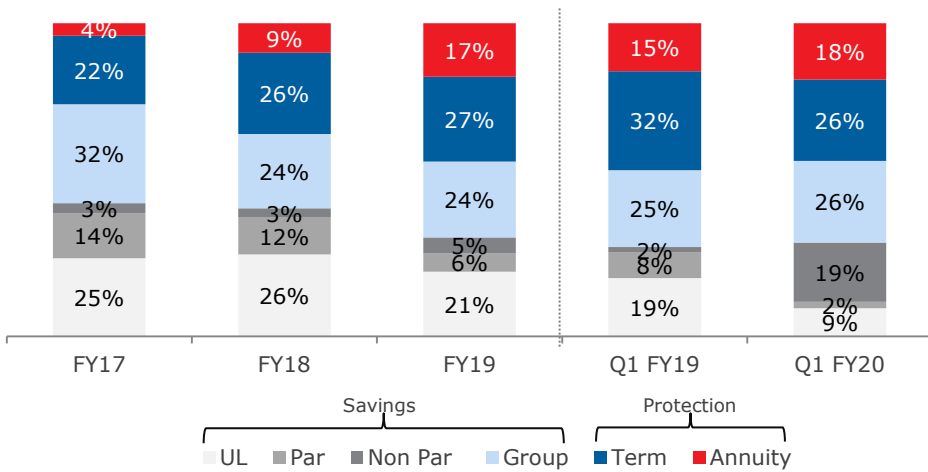
### Leadership in new business premium (Rs Bn.)



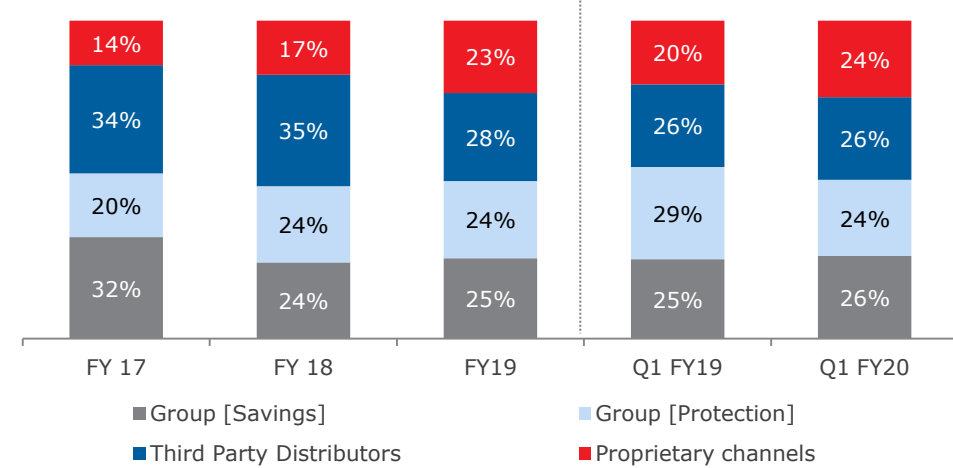
### Increasing number of lives insured (Mn.)



### Maintaining balanced product mix across cycles <sup>1</sup>

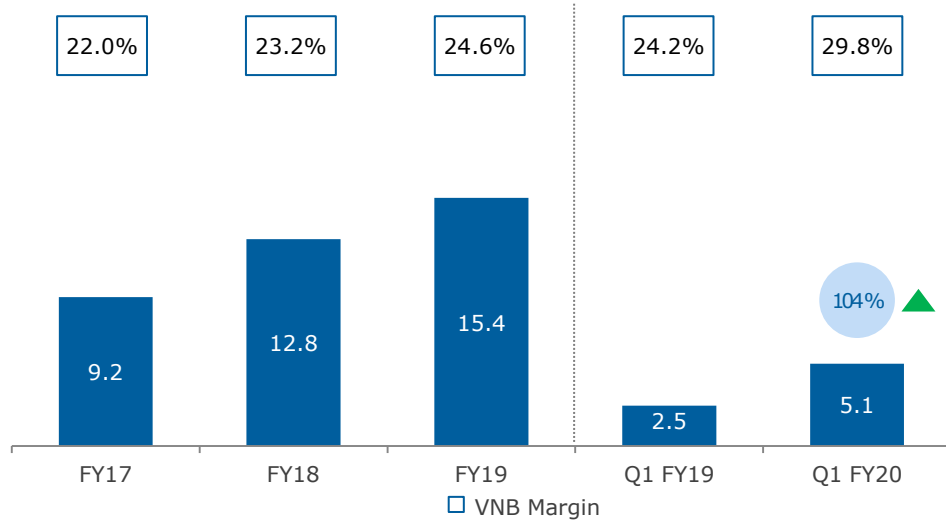


### Focus on scaling proprietary channels <sup>1</sup>

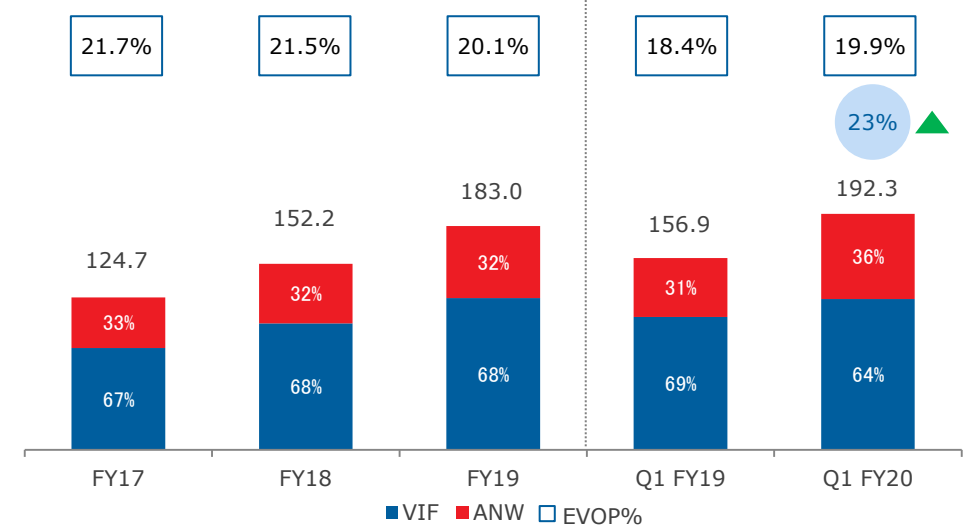


# Consistent performance across key metrics (2/2)

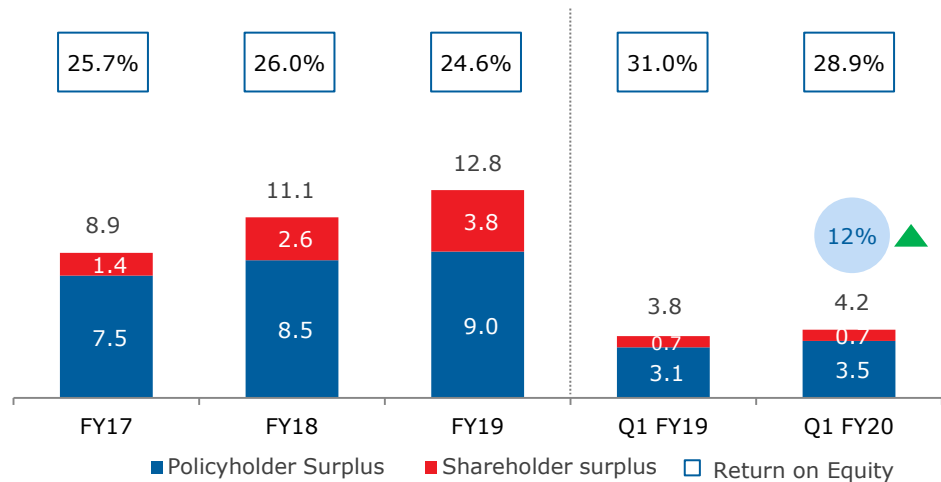
**Strong growth in VNB, industry leading VNB margins (Rs Bn.)**



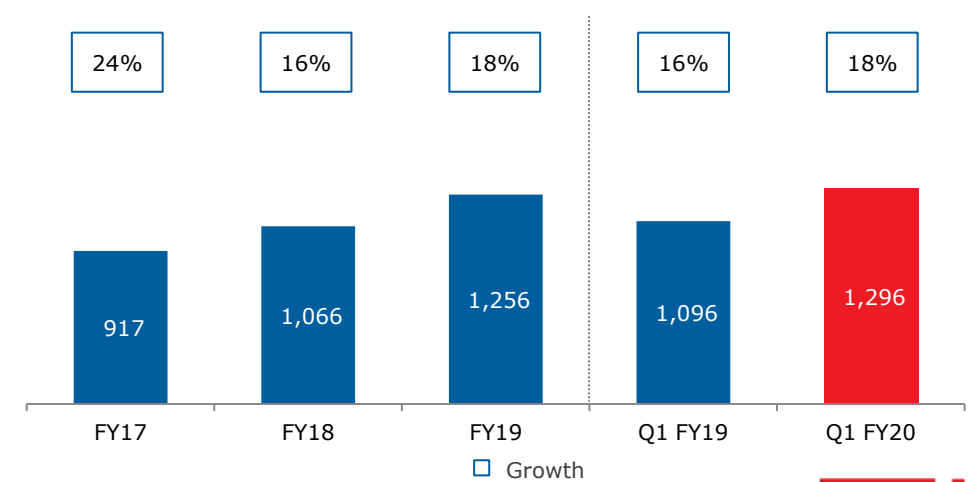
**Healthy growth in Embedded Value (Rs Bn.)**



**Consistent profitable growth (PAT in Rs Bn.)**



**Steady growth in AUM (Rs Bn.)**



# Agenda



1	Performance Snapshot	
2	<b>Our Strategy</b>	
3	Annexures	
4	India Life Insurance	

# Key elements of our strategy

1



## Focus on profitable growth

Ensuring sustainable and profitable growth by identifying and tapping new profit pools

2



## Balanced distribution mix

Developing multiple channels of growth to drive need-based distribution

3



## Market-leading innovation

Identifying latent customer needs to create new product propositions

4



## Reimagining insurance

Market-leading digital capabilities that put the customer first, shaping the insurance operating model of tomorrow

5



## Quality of Board and management

Seasoned leadership guided by an independent and competent Board; No secondees from group companies

**Maintaining a diversified distribution mix and profitable product suite powered by technology and backed by a customer-centric approach**

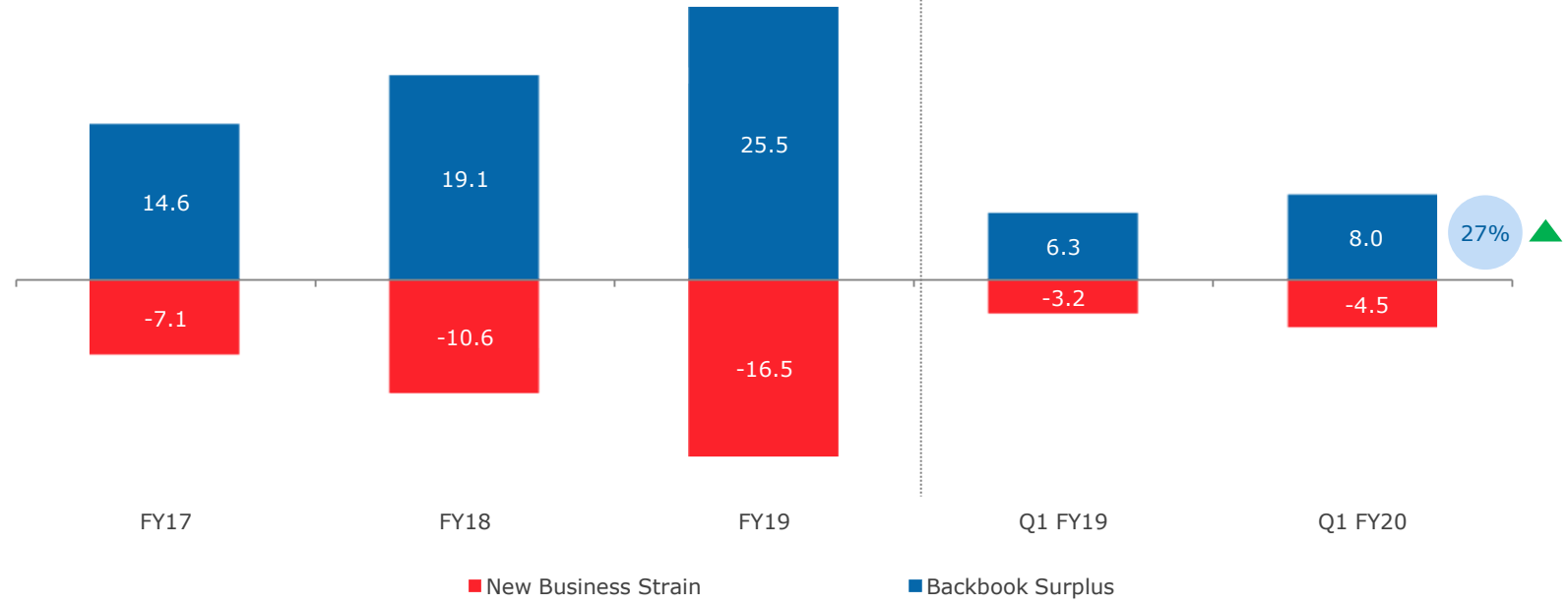


# Focus on profitable growth

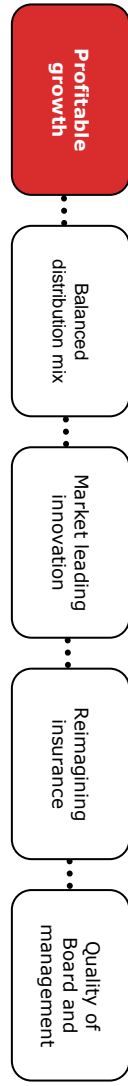
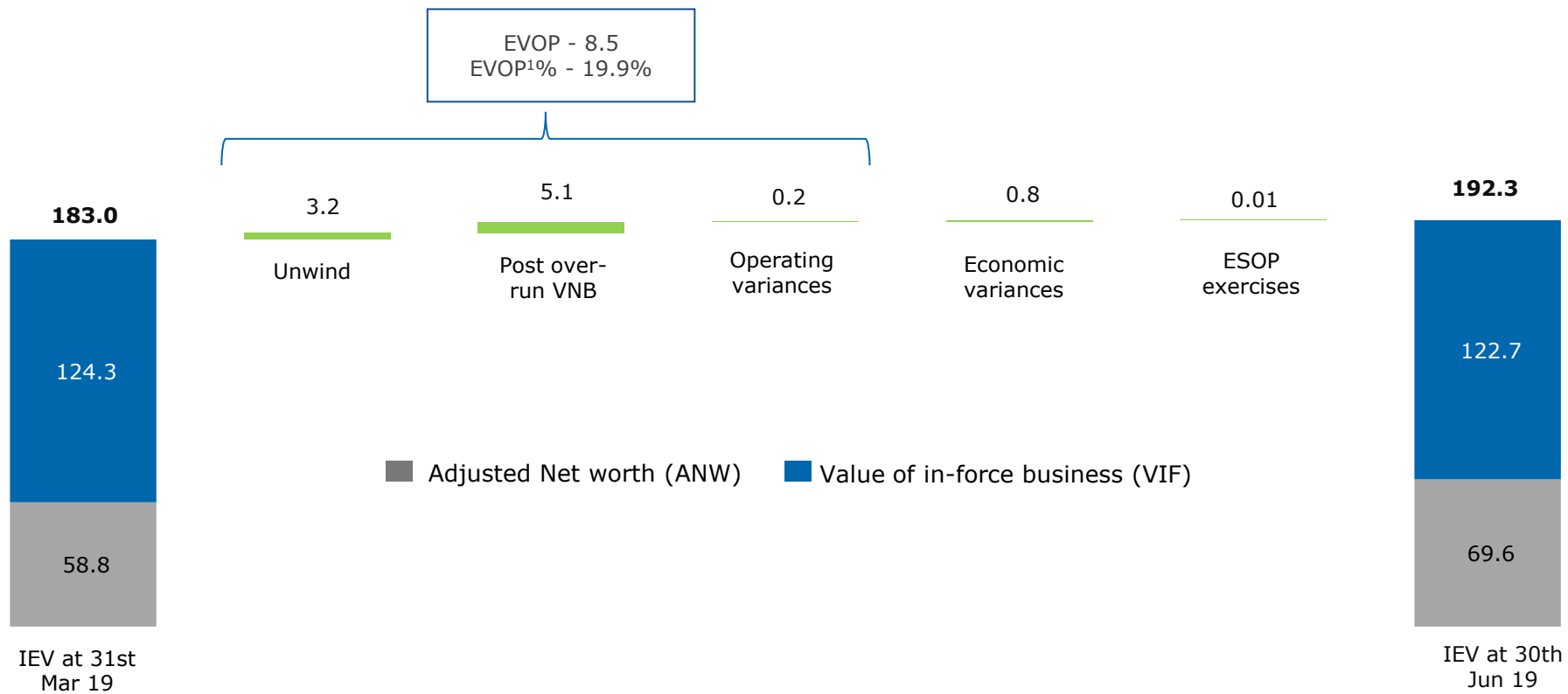
	FY17	FY18	FY19	Q1 FY19	Q1 FY20
New business Margins	22.0%	23.2%	24.6%	24.2%	29.8%
Value of new business	9.2	12.8	15.4	2.5	5.1
Profit after tax (PAT)	8.9	11.1	12.8	3.8	4.2
Underwriting profits	7.5	8.5	9.0	3.1	3.5
Shareholder's surplus	1.4	2.6	3.8	0.7	0.7

Rs Bn.

Underwriting profits breakup



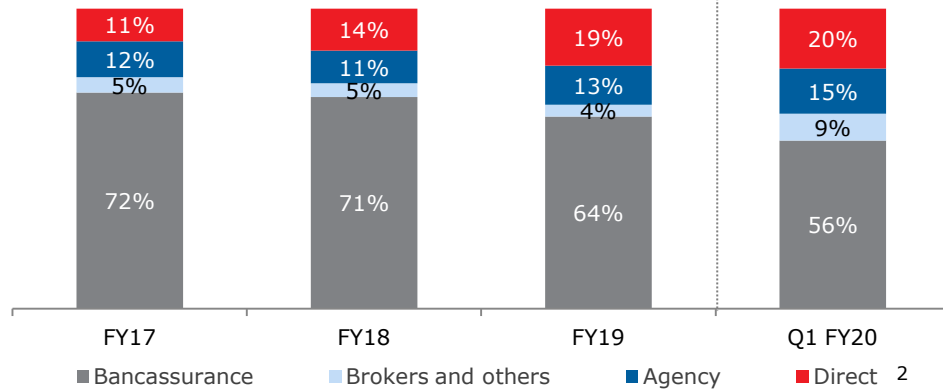
# Analysis of change in IEV



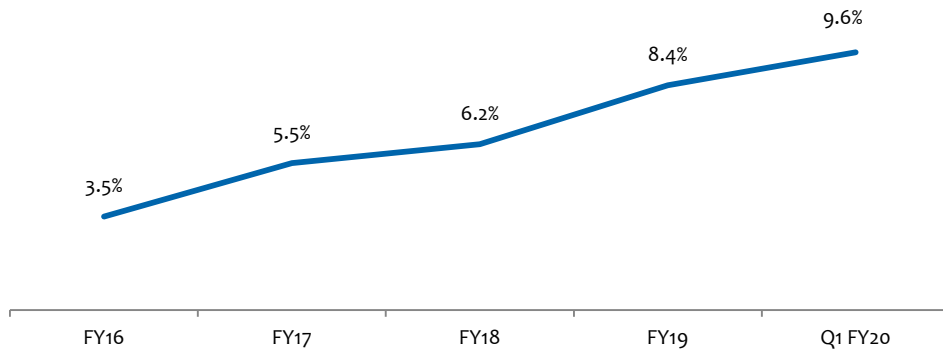
- Consistently delivered healthy operating returns on EV
- Positive operating variances in the last 10 years
- Witnessed positive experience across persistency, mortality and expenses during the quarter

# Balanced distribution mix

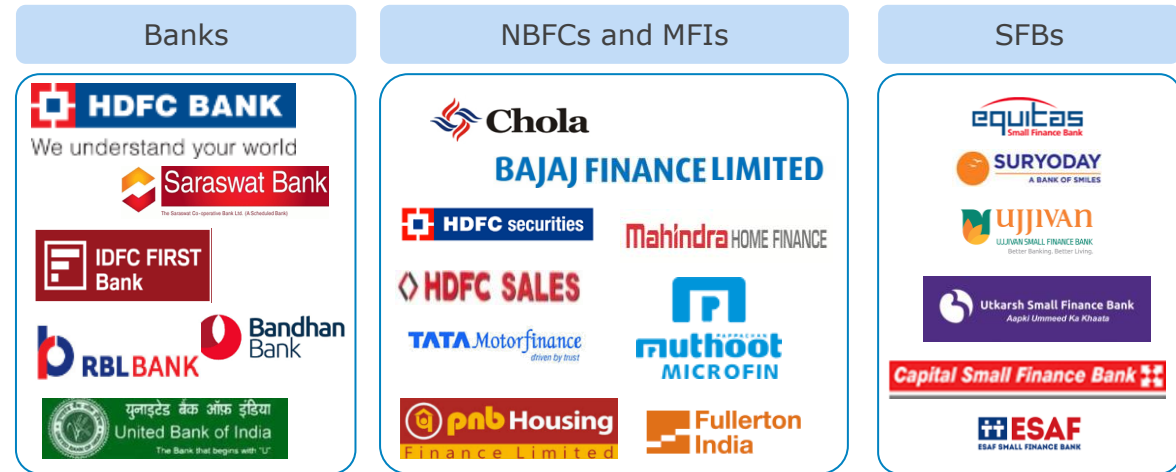
## Increasing share of proprietary channels <sup>1</sup>



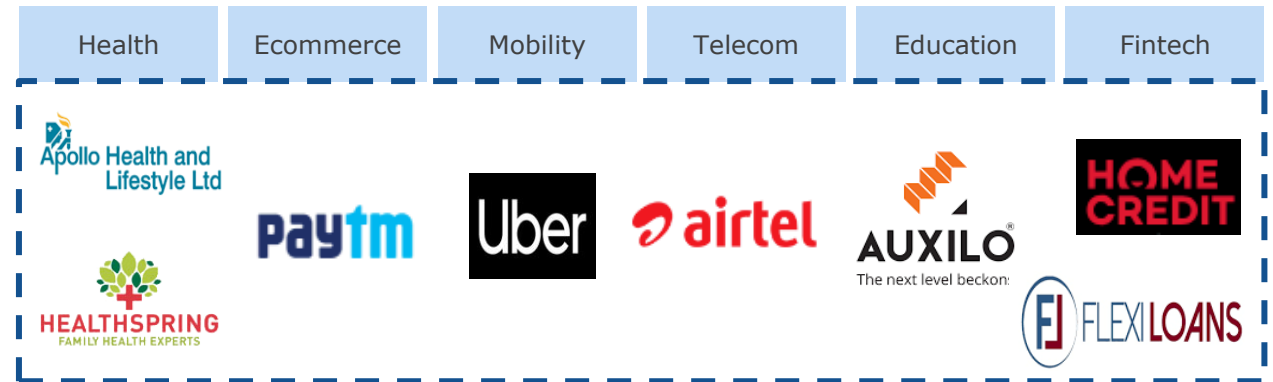
## Optimizing cross-sell opportunities <sup>3</sup>



## Strong and diversified network of 230+ partners



## Developing alternative channels of distribution: 40+ partnerships in emerging eco-systems



1. Basis Individual APE

2. Direct includes Online channel

3. Calculated as Number of policies cross sold to existing group customers / Total number of individual new business policies

# Update on proprietary channels

## Agency



Ease of doing business and greater agent engagement resulted in **FLS productivity increasing** by over 100%



Focus on quality of business resulted in best-in-class 13<sup>th</sup> month **persistence of 91%**



Recruitment of **higher quality agent profiles** helped increase new agent productivity by 82%



Healthy product mix is increasing **profitability** – 39% growth in term business

## Direct



**Multi-dimensional approach** – branch walk-ins, tele-sales, digital touch points, cross-sell to CP customers, Defence etc.



Improvement in **FLS productivity by 21%**



Mining enriched data and **leveraging analytics** for effective cross-sell / up-sell



Launch of **ML-based hyper-personalization** solution to enhance employee productivity



## Online



Strong growth driven by higher ATS and a **multi-platform, multi-partner, multi-product** approach



**Younger customers** (avg. age 31) as compared to company average  
Increasing contribution from **non-metros** (~50% of APE)



Using **machine learning** to improve search efficiencies and reduce acquisition costs



Expansion into **savings & longevity products**

Profitable growth

Balanced distribution mix

Market leading innovation

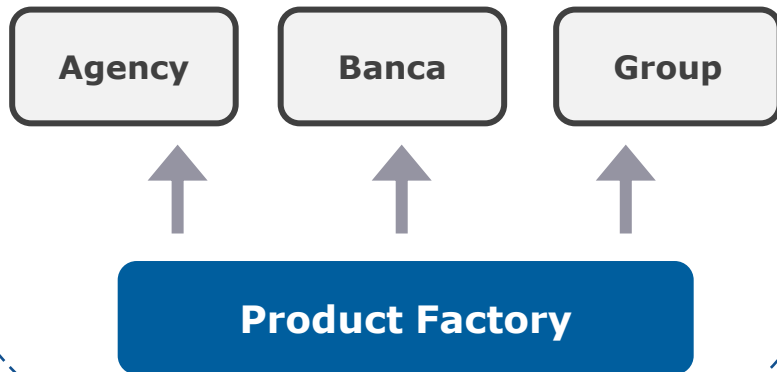
Reimagining insurance

Quality of Board and management

# Operating model moved from product centric to being customer centric

## From the Traditional Insurer...

*The Traditional Insurer  
(Top Line Marketing / Product Driven)*

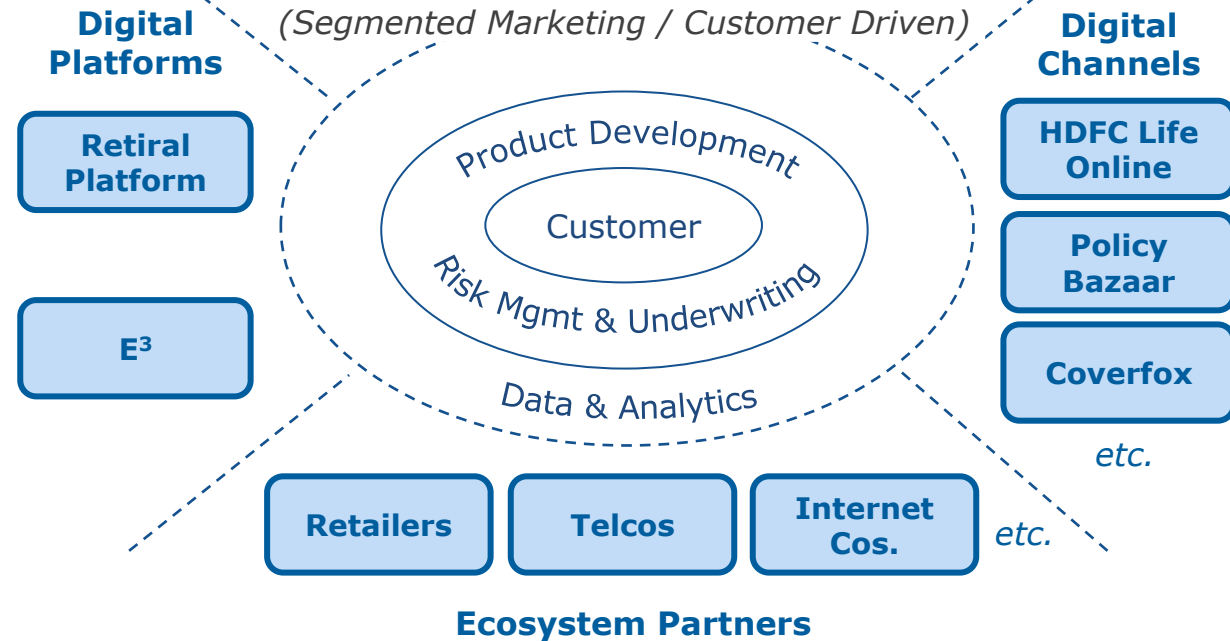


## ... to the Insurer of the Future

### Traditional Channels



*The Insurer of the Future  
(Segmented Marketing / Customer Driven)*



# Addressing customer needs at every stage of life



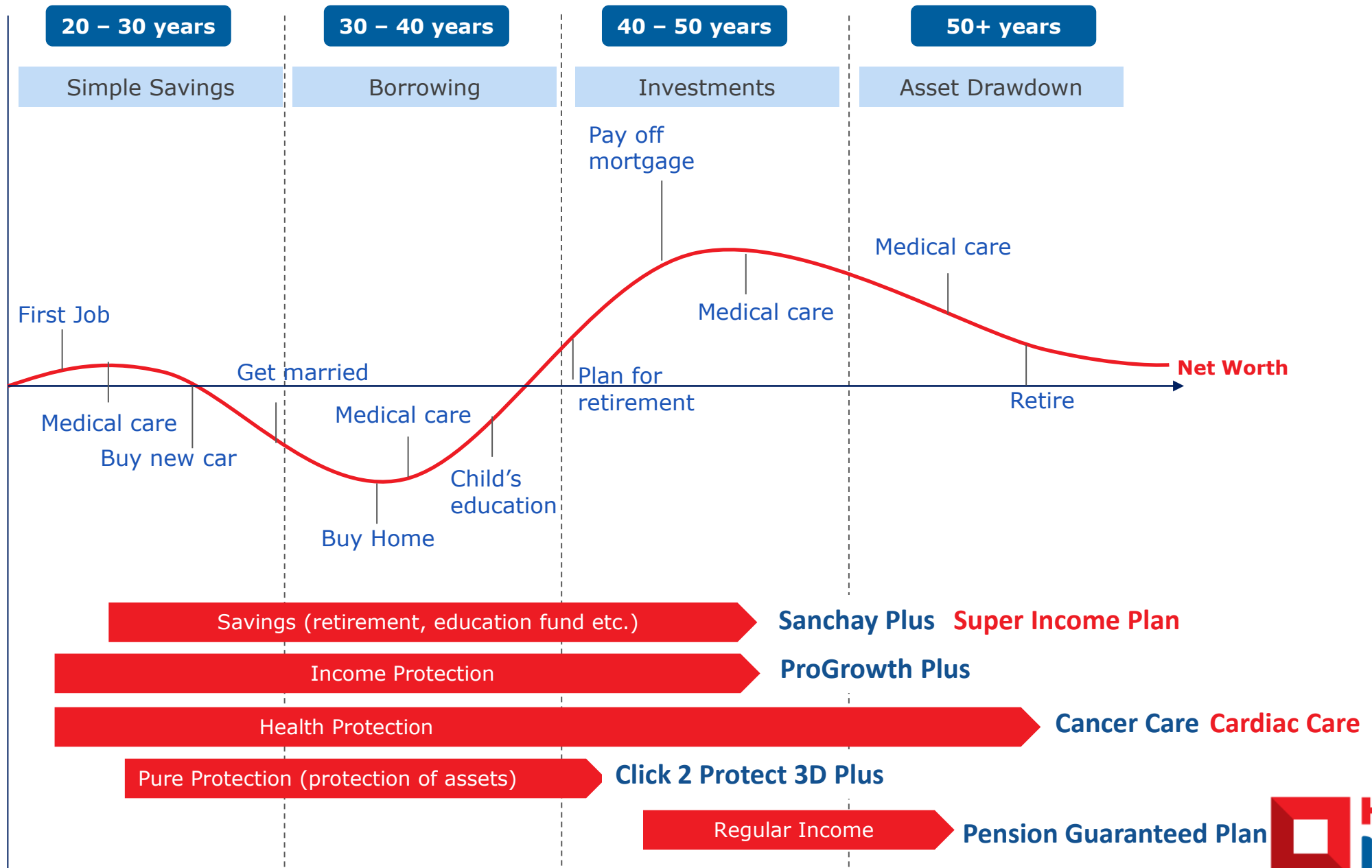
**Objective**



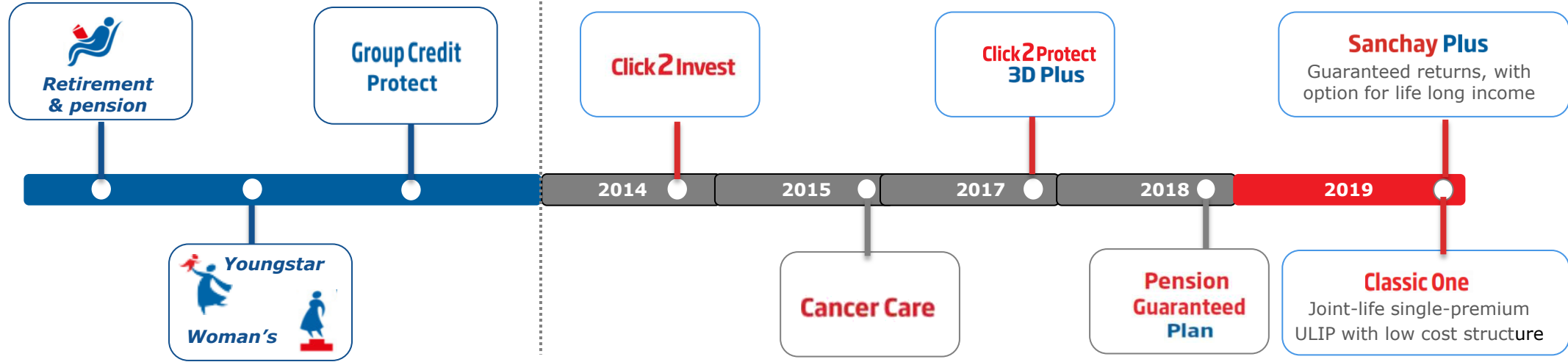
**Needs**



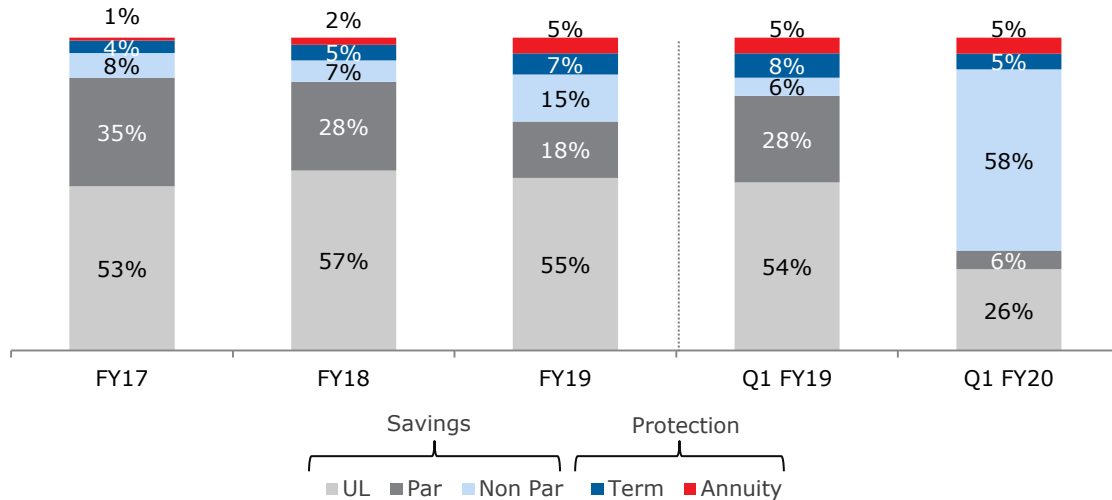
**Product Offerings**



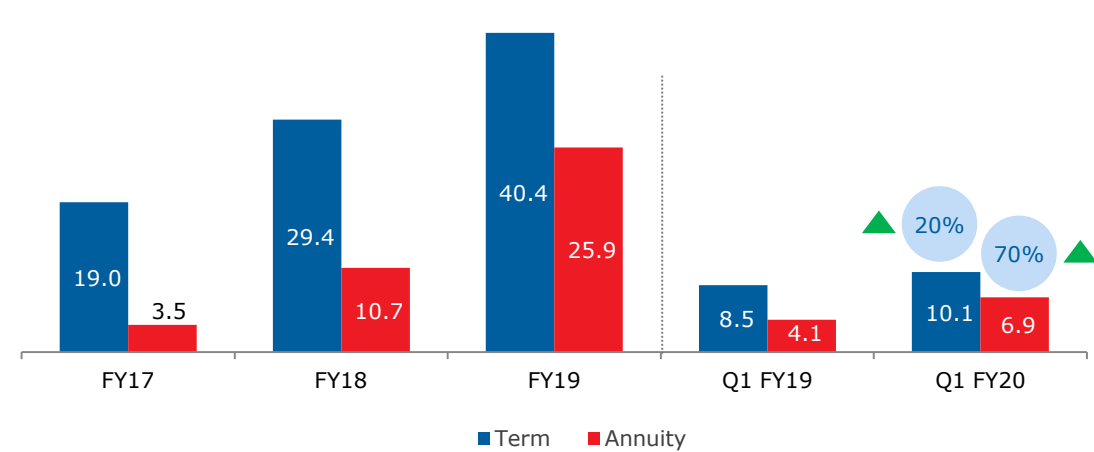
# Expanding market through consistent product innovation



**Diversified product suite enabling ability to manage business cycles <sup>1</sup>**



**Continued focus on protection <sup>2</sup> (Rs Bn.)**



1. As a % of individual APE  
2. Based on new business premium

# Product mix across key channels<sup>1</sup>

Banca <sup>2</sup>	Segment	FY17	FY18	FY19	Q1 FY20
	UL	61%	64%	67%	31%
	Par	30%	26%	14%	5%
	Non par savings	8%	8%	15%	60%
	Term	1%	1%	2%	2%
	Annuity	0%	1%	2%	2%

Direct	Segment	FY17	FY18	FY19	Q1 FY20
	UL	47%	58%	50%	34%
	Par	29%	17%	8%	2%
	Non par savings	11%	9%	12%	29%
	Term	6%	5%	6%	4%
	Annuity	7%	11%	24%	31%

Company	Segment	FY17	FY18	FY19	Q1 FY20
	UL	53%	57%	55%	26%
	Par	35%	28%	18%	6%
	Non par savings	8%	7%	15%	58%
	Term	4%	5%	7%	5%
	Annuity	1%	2%	5%	5%

Protection	Total APE	FY17	FY18	FY19	Q1 FY20
	Term	8%	11%	17%	18%
	Annuity	1%	2%	4%	4%
	<b>Total</b>	<b>9%</b>	<b>13%</b>	<b>21%</b>	<b>22%</b>

Agency	Segment	FY17	FY18	FY19	Q1 FY20
	UL	26%	33%	26%	7%
	Par	57%	48%	40%	9%
	Non par savings	6%	5%	17%	73%
	Term	11%	11%	12%	8%
	Annuity	2%	3%	5%	2%

Online	Segment	FY17	FY18	FY19	Q1 FY20
	UL	51%	47%	43%	40%
	Par	3%	1%	1%	0%
	Non par savings	1%	0%	15%	28%
	Term	45%	52%	34%	26%
	Annuity	0%	0%	6%	6%

Protection	Total NBP	FY17	FY18	FY19	Q1 FY20
	Term	22%	26%	27%	26%
	Annuity	4%	9%	17%	18%
	<b>Total</b>	<b>26%</b>	<b>35%</b>	<b>44%</b>	<b>44%</b>

Profitable growth

Balanced distribution mix

Market leading innovation

Reimagining insurance

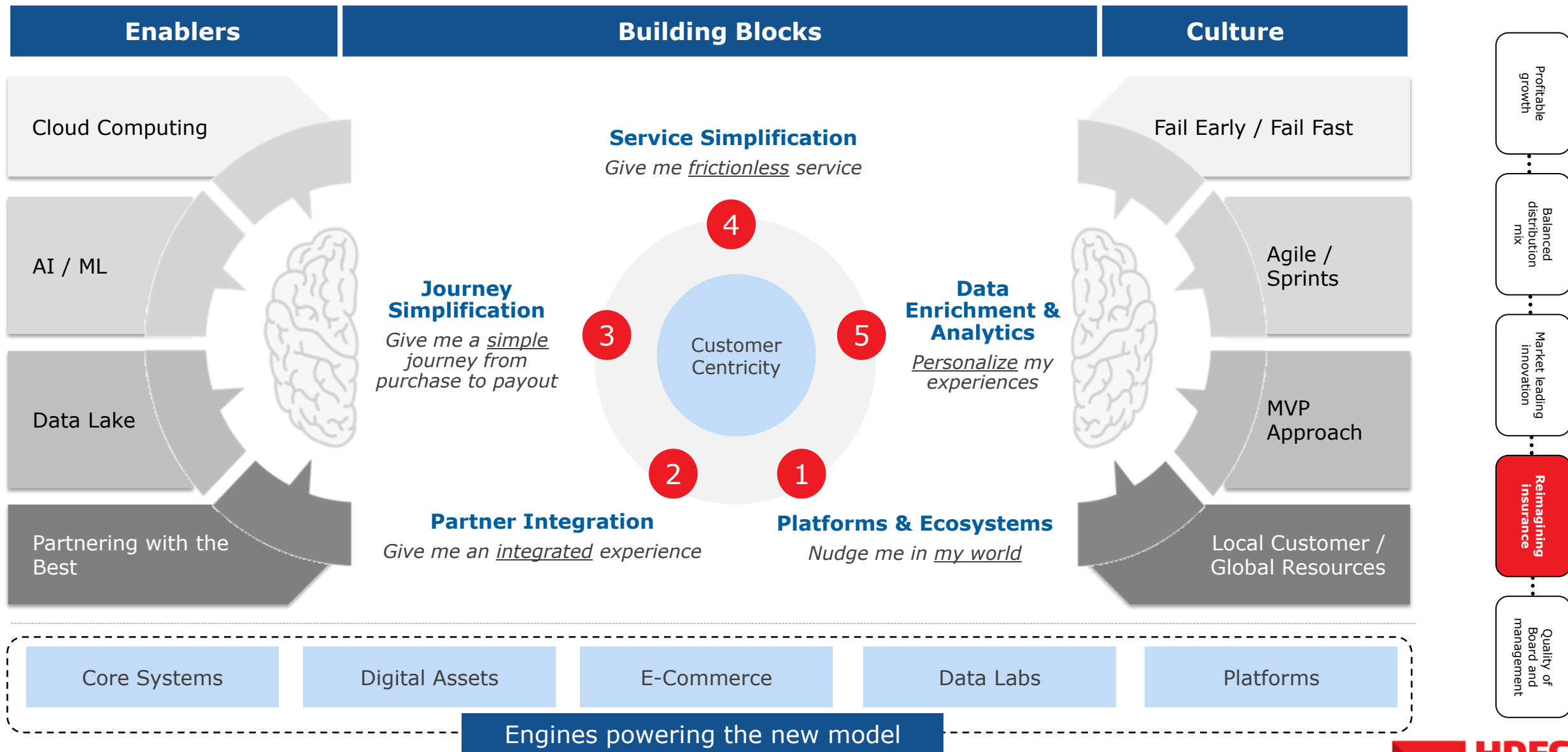
Quality of Board and management

1. Basis Individual APE, Term includes health business

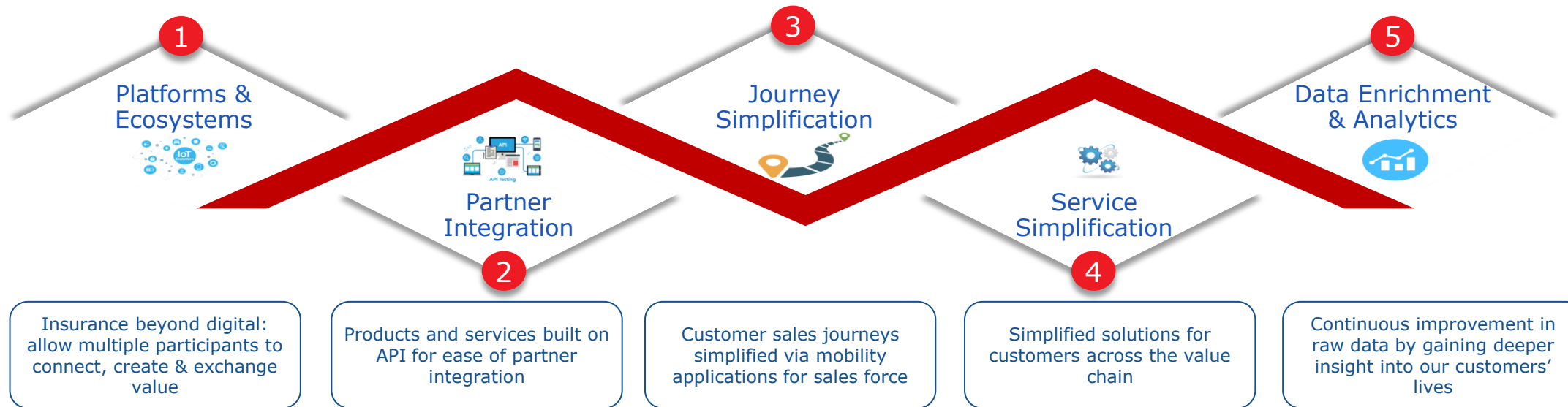
2. Includes banks and other corporate agents



# Created a new operating model to reimagine insurance



# Simplifying the customer journey using 5 building blocks



Insurance beyond digital: allow multiple participants to connect, create & exchange value

Products and services built on API for ease of partner integration

Customer sales journeys simplified via mobility applications for sales force

Simplified solutions for customers across the value chain

Continuous improvement in raw data by gaining deeper insight into our customers' lives



- One stop shop for retirement planning

## Instalnsure

- Get insured in minutes** - Hassle-free, automatic KYC and income verification (no documents required)
- We trust you** - No medical check-up required and zero documentation
- 3-step buying journey** - Total 37 fields in proposal form reduced to 6-8 fields that need user input

## Insta Suite

- Bringing our technological capabilities on the mobile platform in order to empower sales force



## InstaQuote!

- Online payments & services:** ~80% of renewal via online / debit mode



~90% of chats are self-serve via chat-bot



- InstaA:** Virtual Assist for Sales & Service, it has been accurately answering ~ 5 million queries per annum

- Robotic Process Automation:** ~160 bots deployed

- Artificial Intelligence:** Use of predictive analysis for persistency, underwriting and claims (fraud prevention)

- Big Data / Customer 360:** Brings all customer data – interactions, transactions & relationships in one place, in real time

- Cloud Storage:** Data Lake (repository for entire enterprise data management)

Lead Lake (For effective lead storage & enrichment)

Profitable growth

Balanced distribution mix

Market leading innovation

Reimagining insurance

Quality of Board and management



# Quality of Board and Management



**Active, well-informed and independent** Board oversees how the management serves and protects interests of all stakeholders



Seasoned senior management team with **rich experience in financial services**



**Encouragement from Board** to calibrate business strategies to harness new pools of profitability



**Track record of delivering consistent results** across business cycles

## Key governance forums

More than 25 governance forums run within the company

Policyholder Protection / Claims Review

Investment Management

ALCO

Product Council

Compliance Council

Risk management

Disciplinary Panel for Malpractices

Information and Cyber Security Council

Whistle-blower Committee / POSH



# Financial risk management framework

## Natural Hedges

- Protection and longevity businesses
- Unit linked and non par savings products
- Quantum of retail guaranteed products <9% of AUM

## Product design & mix monitoring

- Prudent assumptions and pricing approach
- Return of premium annuity products (>95% of annuity); Average age at entry ~59 years
- Deferred as % of total annuity business - 26%, Limited deferment period in deferred annuity (<4 yrs)
- Regular monitoring of interest rates and business mix

## Managing Risk

## 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

## Residual strategy

- External hedging instruments such as FRAs, IRFs, Swaps amongst others
- Reinsurance

Calibrated risk management has resulted in low EV and VNB sensitivity

EV and VNB Sensitivity	FY19		Q1 FY20	
Scenario	EV	VNB Margin	EV	VNB Margin
Interest Rate +1%	(1.70%)	(0.10%)	(1.30%)	(0.09%)
Interest Rate -1%	1.60%	0.10%	1.00%	0.10%

# Risk Management for Non Par products

	Key risks	Quantum of risk	Mitigation	ALM metric
<b>Annuity</b>	Interest rate risk	ROPP <sup>1</sup> : Low Life: Low	<ul style="list-style-type: none"> <li>Duration and cash flow matching</li> <li>No supply side constraints on the long dated Govt bonds<sup>2</sup></li> <li>Dynamic re-pricing in line with change in market yield</li> </ul>	Net Sensitivity Ratio#: 1.0
	Reinvestment risk	ROPP: Low Life: Low	<ul style="list-style-type: none"> <li>Coupons used to meet annuity payouts</li> </ul>	
	Longevity risk	ROPP: Low Life: High	<ul style="list-style-type: none"> <li>Life Annuity less than 2%</li> </ul>	
<b>Non - Annuity</b>	Interest rate risk	Savings: High Protection: Moderate	<ul style="list-style-type: none"> <li>Achieved at a portfolio level</li> </ul>	Net Sensitivity Ratio#: 0.95
	Reinvestment risk	Savings: High Protection: Low	<ul style="list-style-type: none"> <li>Well diversified portfolio over future time periods</li> <li>Internal cash flow hedges</li> <li>Assessment of slope change stress testing on cash flows</li> </ul>	
	Mortality risk	Savings: Low Protection: High	<ul style="list-style-type: none"> <li>Adequate reinsurance</li> </ul>	

Low and stable sensitivity to interest rate changes across product mix cycles

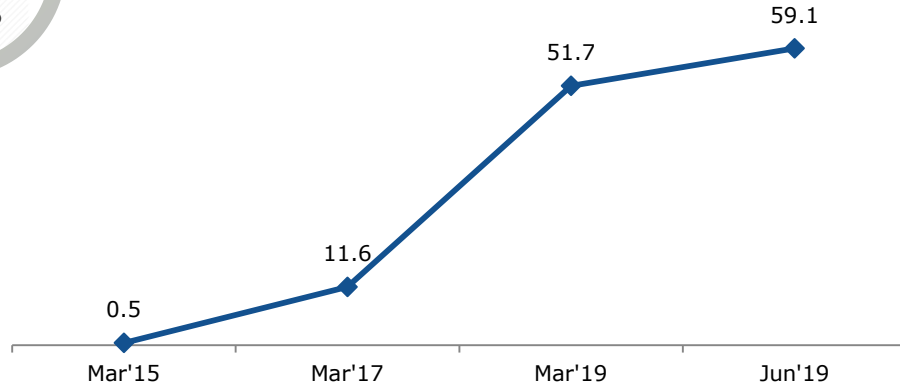
Non par Sensitivity	EV		VNB Margin	
	Scenario	FY19	Q1 FY20	FY19
Interest Rate +1%	(0.3%)	0.1%	Zero / No Sensitivity	
Interest Rate -1%	0.1%	(0.5%)	Zero / No Sensitivity	

# Performance of wholly-owned subsidiary<sup>1</sup> companies



## HDFC Pension

Rs Bn.



- Fastest growing PFM (Pension Fund Manager) under the NPS architecture (YoY growth of 96% in AUM)
- Market share grew from 23.0% in Jun'18 to 27.7% in Jun'19 amongst all private PFMs
- Ranks #1 in corporate subscribers base, #2 amongst all PFMs in net fund flow, retail subscriber base and AUM
- Received licence to operate as POP (Point of Presence)








## HDFC International Life and Re



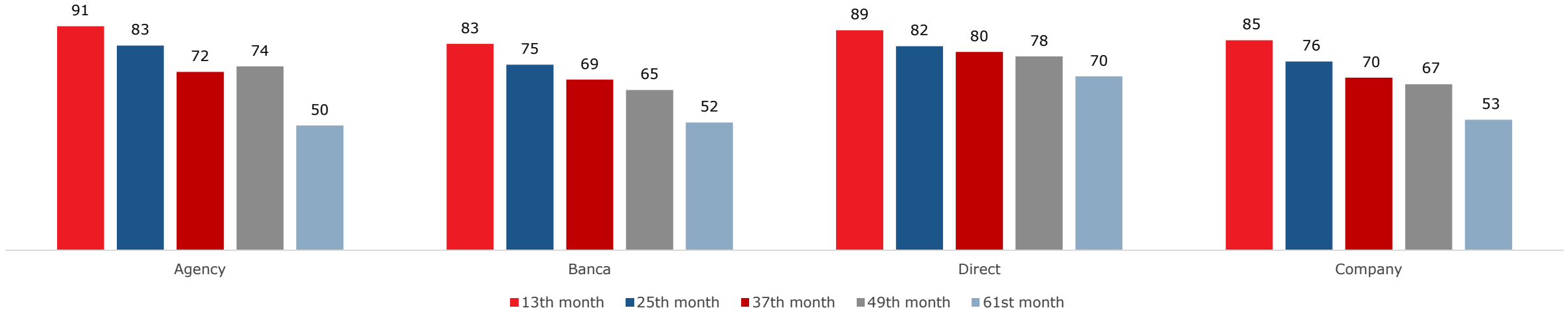
- Registered growth of more than 100% in revenue worth USD 1.7 Mn.
- Continues to trend positively on both technical & net profit
- Currently offers reinsurance capacity in GCC countries
- Has been assigned a long-term insurer financial strength rating of "BBB" with a stable outlook, by S&P Global Ratings

# Agenda

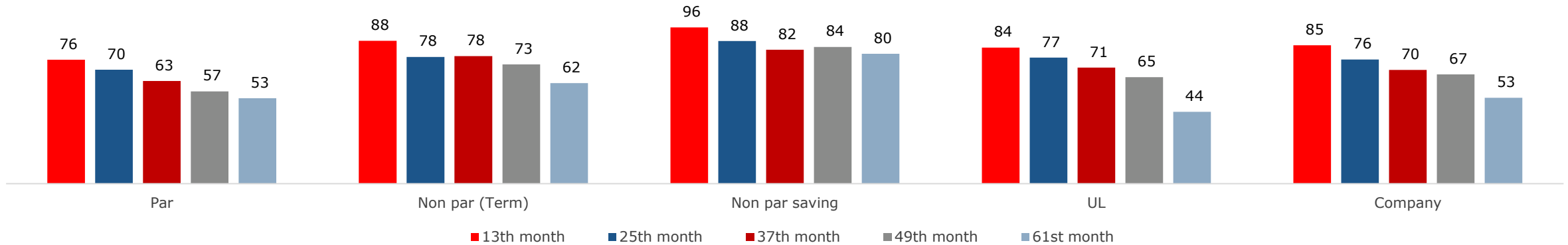
1	Performance Snapshot	
2	Our Strategy	
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# Individual persistency for key channels and segments<sup>1</sup>

## Across key channels (%)



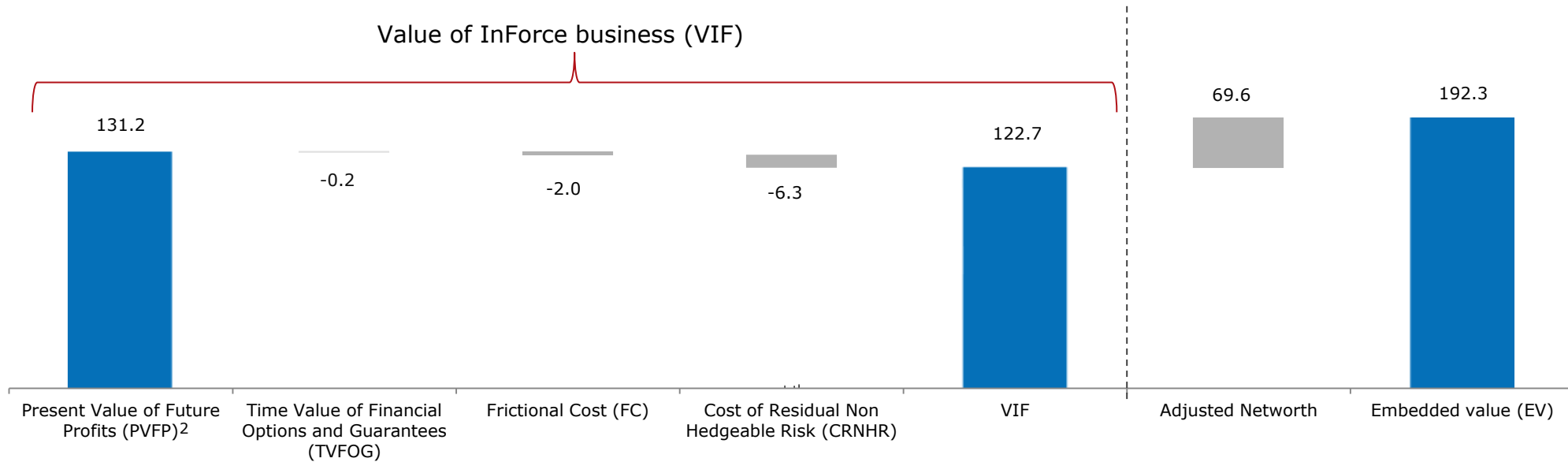
## Across key segments (%)





# Indian Embedded Value (IEV)<sup>1</sup>

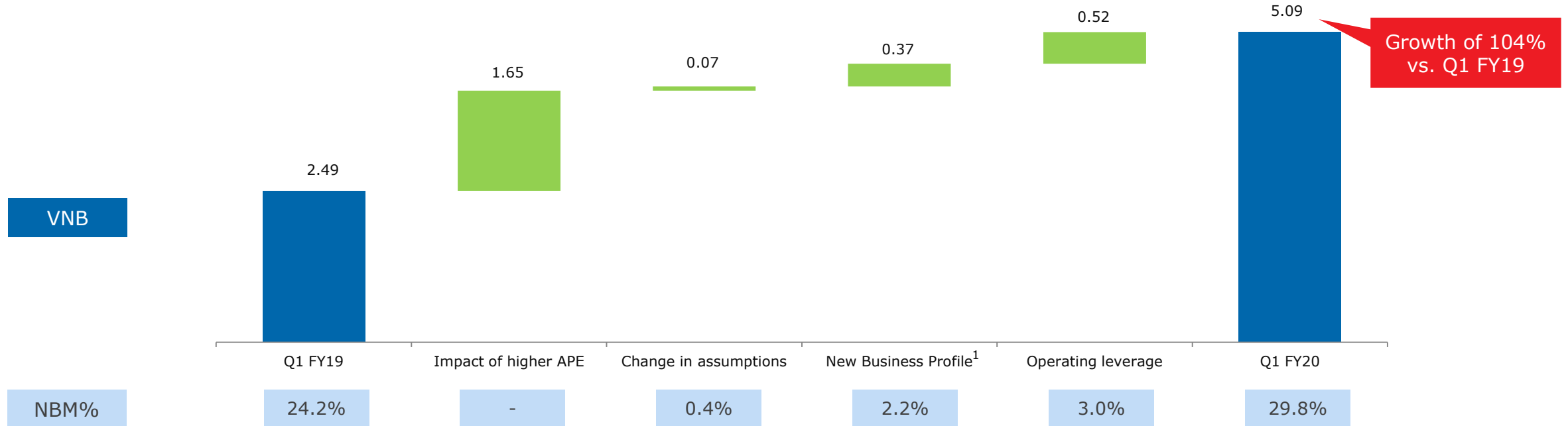
Rs Bn.



- Significant proportion of VIF at almost 2/3<sup>rd</sup> of the total Embedded value
- TVFOG includes cost of guarantees for conventional participating and unit linked products

# VNB and NBM walkthrough

Rs Bn.



1. Reflects the impact of difference in mix of segment/distribution channel/tenure/age/sum assured multiple etc

VNB – Value of New Business

NBM – New Business Margin

# Sensitivity analysis: FY19

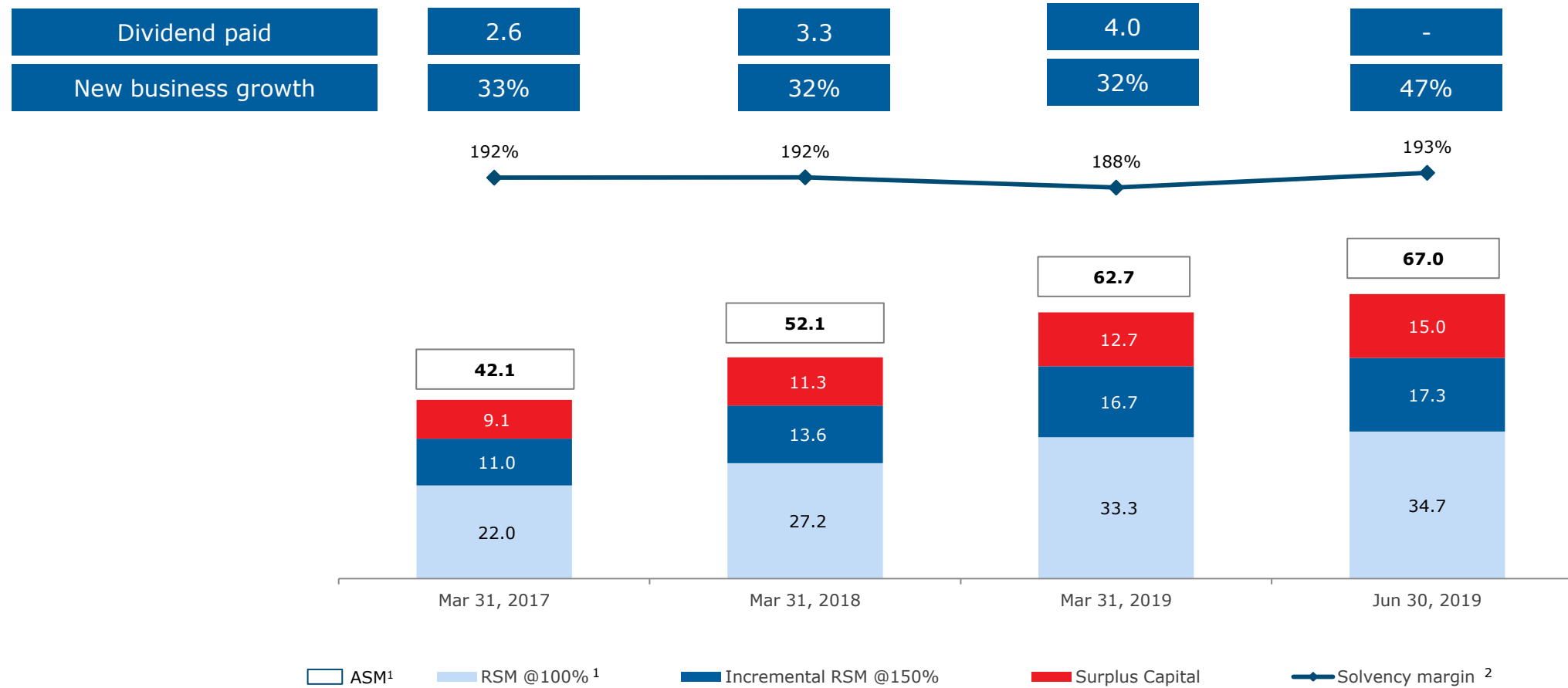
Analysis based on key metrics	Scenario	% Change in VNB <sup>1</sup>	Change in VNB Margin <sup>1</sup>	% Change in EV
<b>Change in</b>				
<b>Reference rate</b>	Increase by 1%	-0.4%	-0.1%	-1.7%
	Decrease by 1%	0.2%	0.1%	1.6%
<b>Equity Market movement</b>	Decrease by 10%	-1.4%	-0.3%	-1.7%
<b>Persistency (Lapse rates)</b>	Increase by 10%	-2.9%	-0.7%	-1.4%
	Decrease by 10%	3.0%	0.7%	1.5%
<b>Maintenance expenses</b>	Increase by 10%	-2.1%	-0.5%	-0.7%
	Decrease by 10%	2.1%	0.5%	0.7%
<b>Acquisition Expenses</b>	Increase by 10%	-18.1%	-4.4%	NA
	Decrease by 10%	18.1%	4.4%	NA
<b>Mortality / Morbidity</b>	Increase by 5%	-5.2%	-1.3%	-0.9%
	Decrease by 5%	5.1%	1.3%	0.9%
<b>Tax rate<sup>2</sup></b>	Increased to 25%	-13.8%	-3.4%	-6.6%

1. Post overrun total VNB for Individual and Group business

2. The tax rate is assumed to increase from 14.56% to 25% and hence all the currently taxed profits in policyholder/shareholder segments are taxed at a higher rate. It does not allow for the benefit of policyholder surplus being tax-exempt as was envisaged in the DTC Bill.

# Stable capital position

Rs Bn.

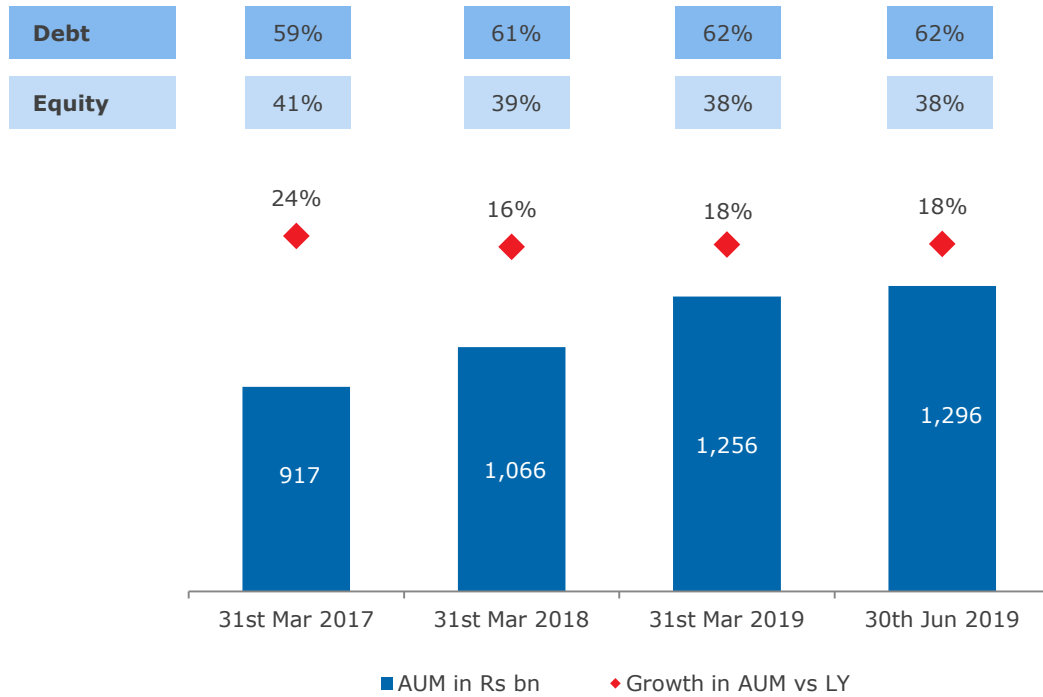


- Internal accruals have supported new business growth with no capital infused in last eight years (except through issuance of ESOPs)

1. ASM represents Available solvency margin and RSM represents Required solvency margin  
 2. Investment in subsidiaries not considered in solvency margin

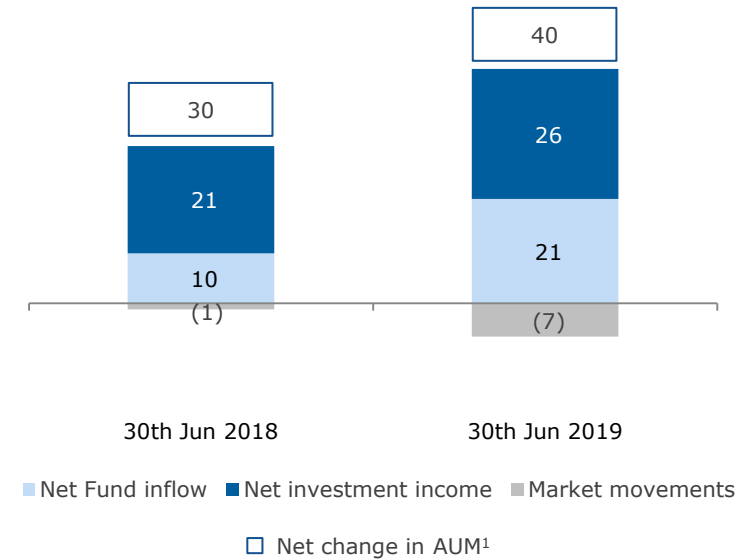
# Assets under management

## Assets Under Management








## Change in AUM<sup>1</sup>

Rs Bn.



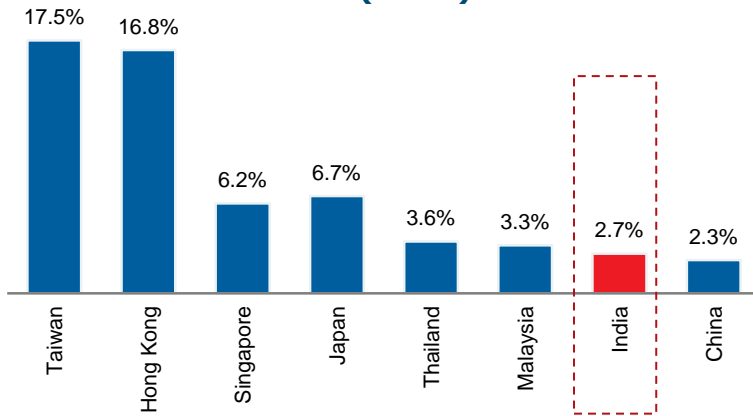
- Continue to rank amongst top 3 private players, in terms of assets under management<sup>2</sup>
- Almost 96% of debt investments in Government bonds and AAA rated as on Jun 30, 2019

# Agenda

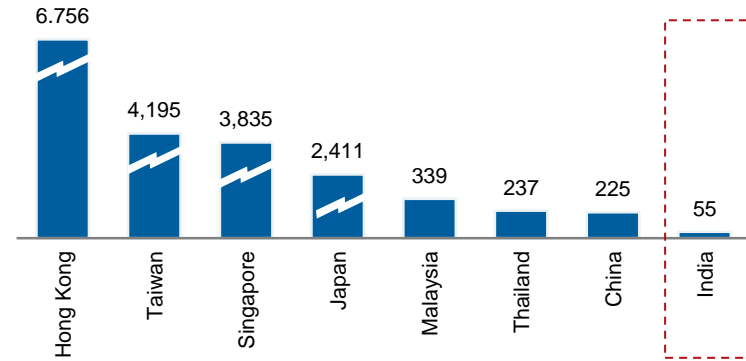
1	Performance Snapshot	
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# Growth opportunity: Under-penetration and favourable demographics

**Life Insurance penetration<sup>1</sup> (2018)**

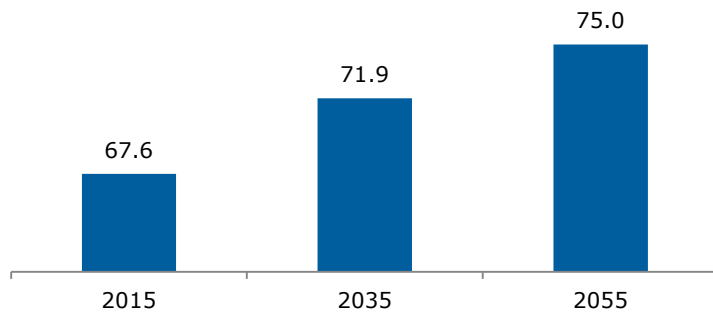


**Life Insurance density US\$<sup>2</sup> (2018)**

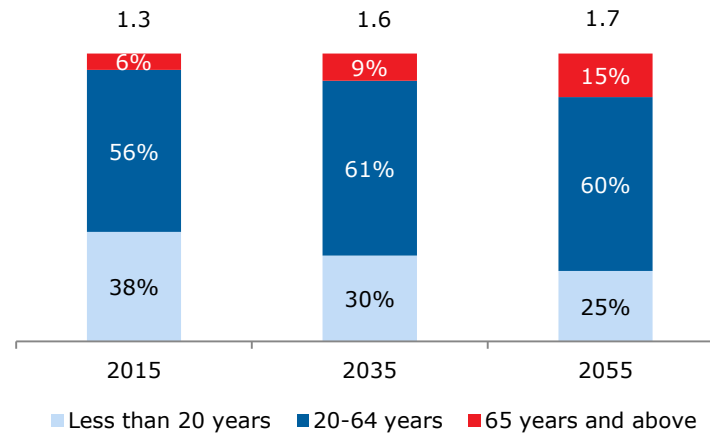


- India remains vastly under-insured, both in terms of penetration and density
- Huge opportunity to penetrate the underserved segments, with evolution of the life insurance distribution model

**Life expectancy (Years)**



**Population composition (Bn.)**

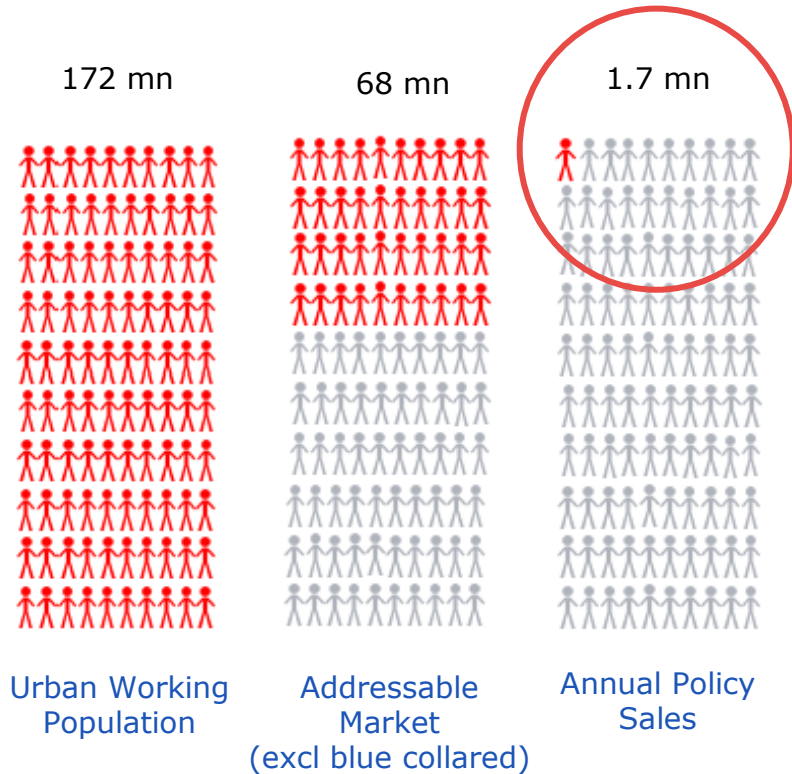


- India's insurable population is expected to touch 750 million by 2020
- India's elderly population is expected to double by 2035 (as compared to 2015)
- Emergence of nuclear families and advancement in healthcare facilities lead to increase in life expectancy thus facilitating need for pension and protection based products

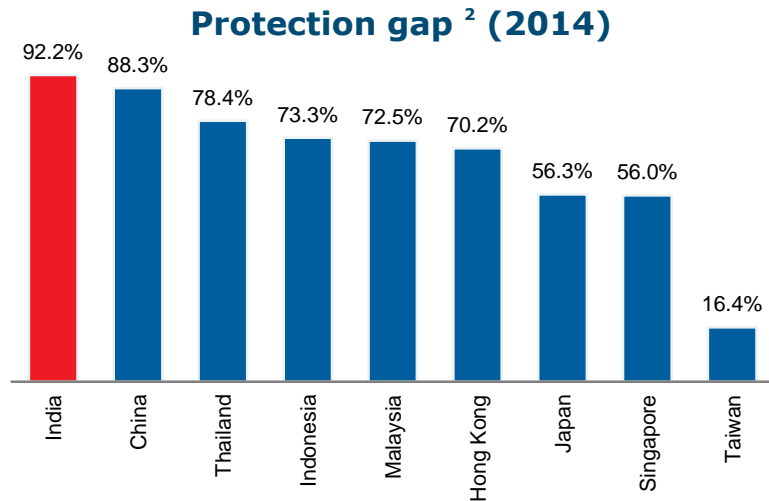
1. Penetration as measured by premiums as % of GDP,

2. Density defined as the ratio of premium underwritten in a given year to the total population

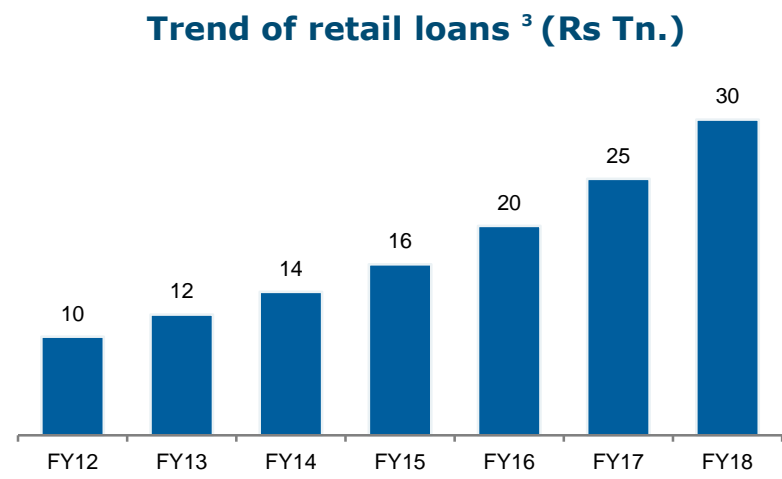
# Low levels of penetration – Life Protection



- Only 1 out of 40 people (2.5%) who can afford it is buying a policy every year 1
- Even within the current set, Sum Assured as a multiple of Income is <1x



- 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



- Retail credit has grown at a CAGR of 21% over last 6 years
- Increasing retail indebtedness to spur need for credit life products
- Immense opportunity given:
  - Increasing adoption of credit
  - Enhancement of attachment rates
  - Improvement in value penetration
  - Widening lines of businesses

1. Goldman Sachs Report, March 2019  
 2. Swiss Re (Based on respective financial year of the countries)  
 3. Kotak institutional equities





# India has a rapidly increasing ageing population with lack of awareness regarding systematic retirement planning



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

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

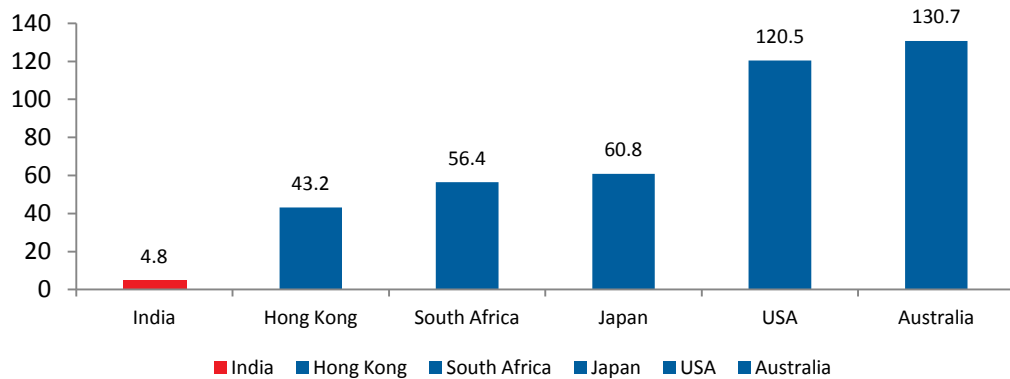
Unorganized workforce not under any formal pension scheme is **82.7%**

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

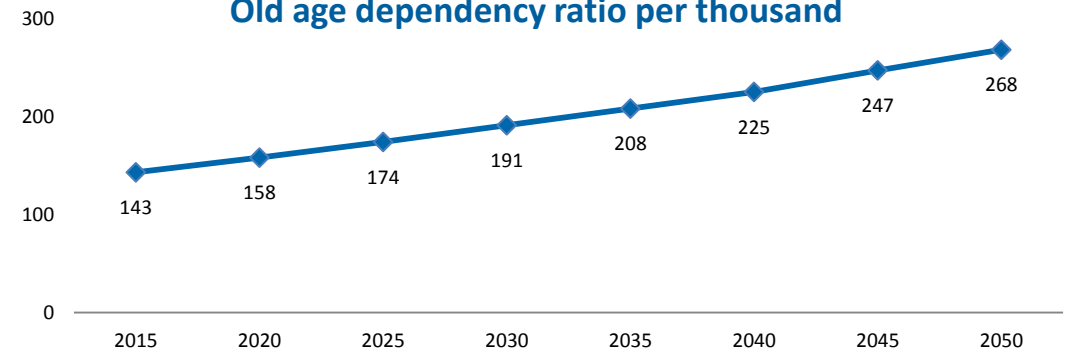
India's pension market is under-penetrated at 4.8% of GDP

Rising old age dependency along with emergence of nuclear families to drive demand for retirement saving products

**Pension Assets / GDP Ratio**



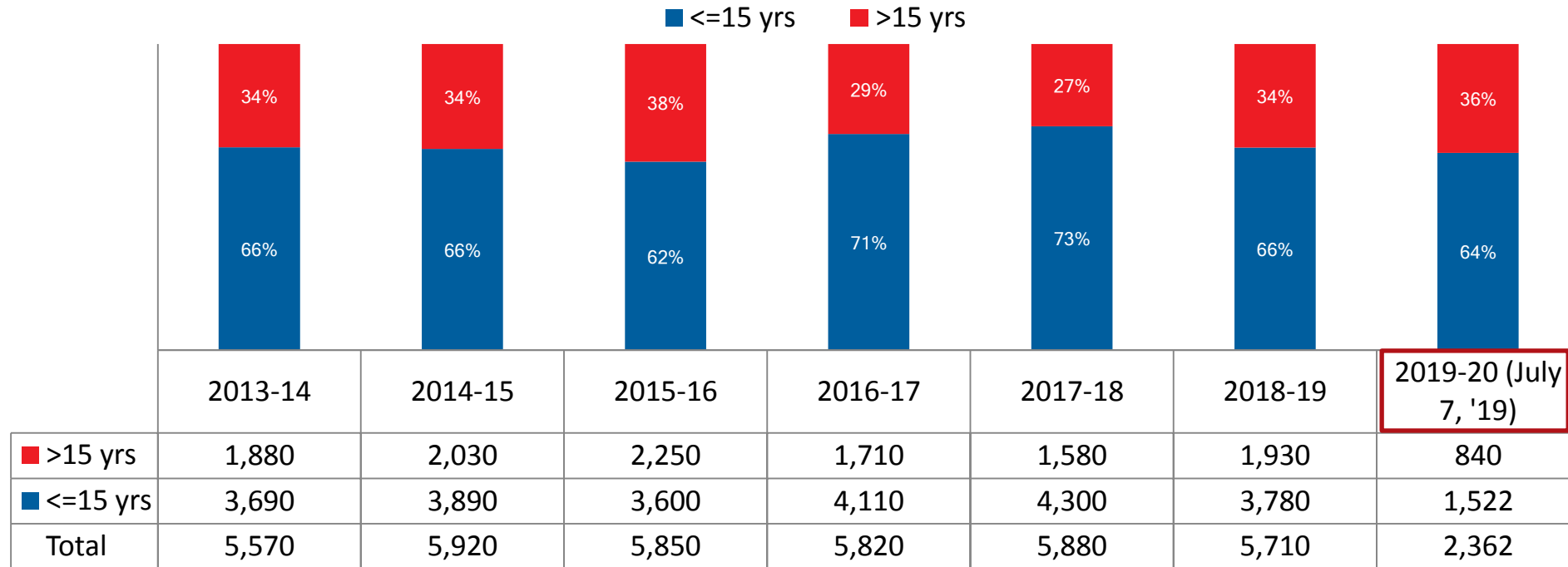
**Old age dependency ratio per thousand**



# Government Bond Auctions

## Government Bonds- Tenor

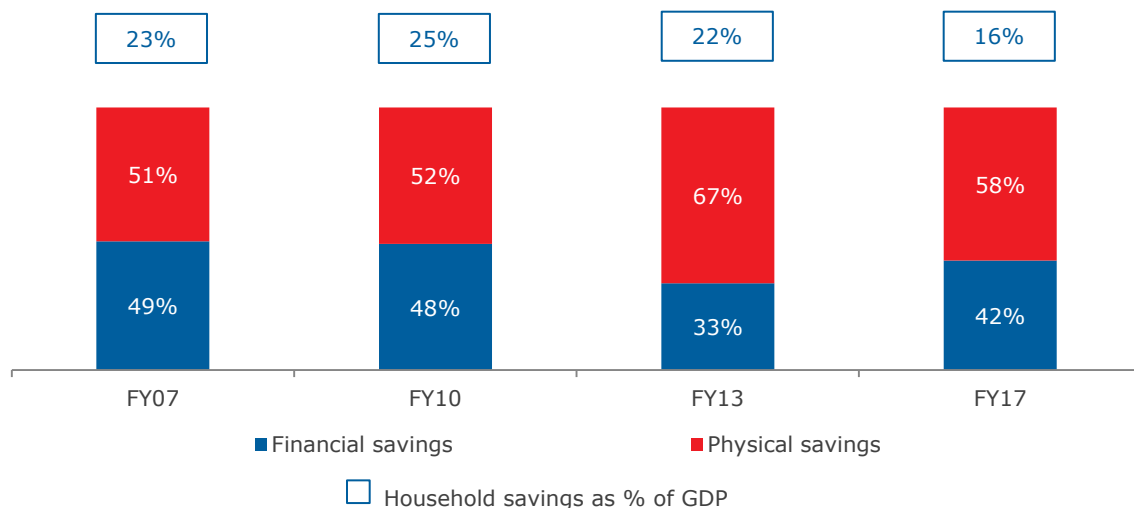
Rs Bn.



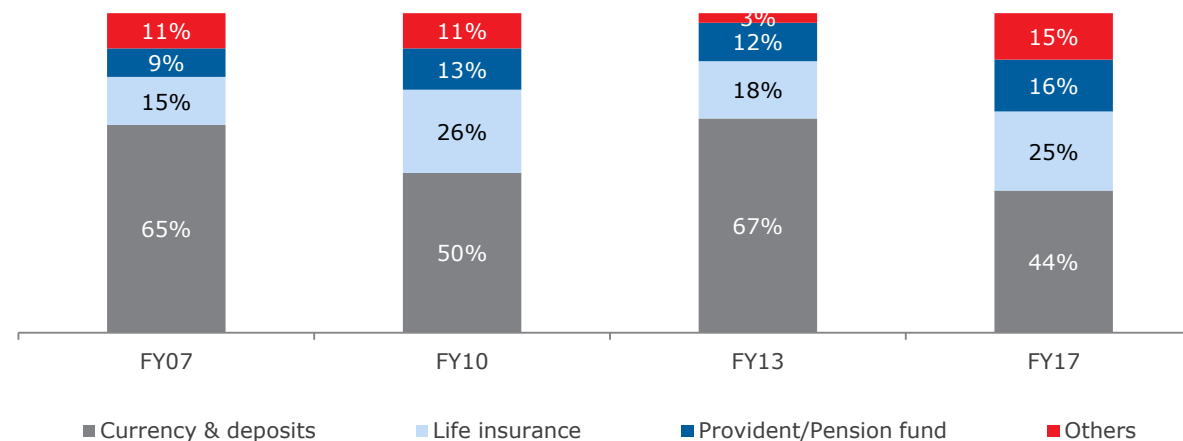
- Auction of >15 year maturity bonds has been ~33% on an average facilitates writing annuity business at scale
- Budget estimate for government borrowing for FY20 at Rs. 7.1 trillion on gross basis

# Life Insurance: A preferred savings instrument

## Household savings composition

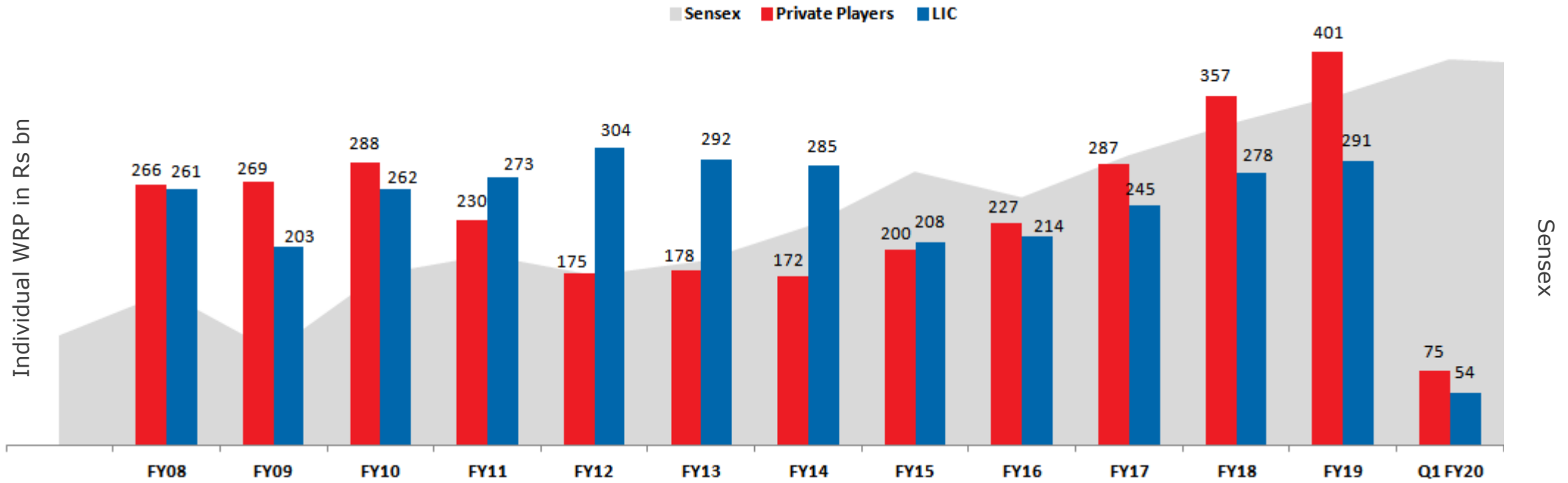


## Financial savings mix



- Increasing preference towards financial savings with buoyant equity Market returns, along with impact of demonetisation on physical assets return profile
- Increasing share of Life Insurance within financial assets, as it caters to long-term saving and protection needs
- Various government initiatives to promote financial inclusion:
  - Implementation of JAM trinity – around 361 mn new savings bank accounts opened till date
  - Launch of affordable PMJJBY and PMSBY social insurance schemes
  - Atal Pension Yojana promoting pension in unorganized sector
  - Set up of Small Finance Banks and Payment Banks to increase financial inclusion

# Industry new business<sup>1</sup> trends



## Private players Market share

Growth %

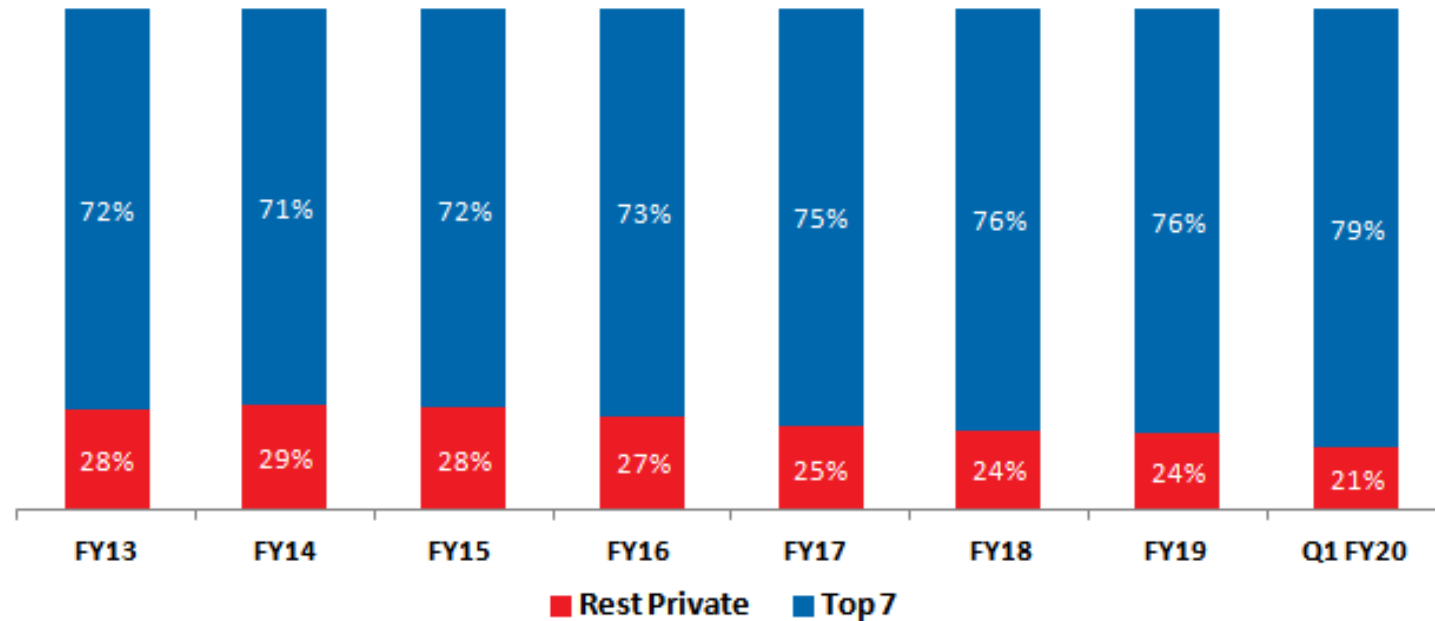
Year	Private	LIC	Overall
FY08	86%	0%	31%
FY09	1%	-22%	-10%
FY10	7%	29%	17%
FY11	-20%	4%	-9%
FY12	-24%	11%	-5%
FY13	2%	-4%	-2%
FY14	-3%	-2%	-3%
FY15	16%	-27%	-11%
FY16	14%	3%	8%
FY17	26%	15%	21%
FY18	24%	13%	19%
FY19	12%	5%	9%
Q1 FY20	24%	3%	14%

- Private sector gained higher Market share than LIC for the first time in FY16, post FY11 regulatory changes
- Based on individual WRP private sector has outpaced LIC since FY16

1. Basis Individual Weighted Received Premium (WRP)

# Private industry: Market share trends

## Top 7 private players vs other players



- Amongst private insurers, insurers with a strong bancassurance platform continue to dominate with increasing market share of the total private individual new business

Notes :

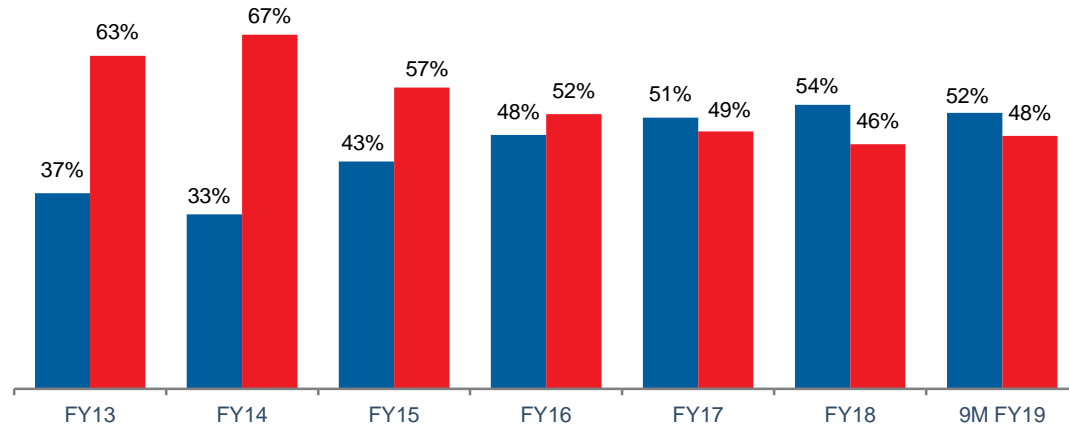
Basis Individual Weighted Received Premium (WRP) as disclosed by IRDAI, Life Insurance Council

Top 7 players based on Q1 FY20 business numbers, comprising of, SBI Life, ICICI Pru HDFC Life, Max Life, Tata AIA, Bajaj Allianz and Birla Sun Life

# Private industry: Product and distribution mix

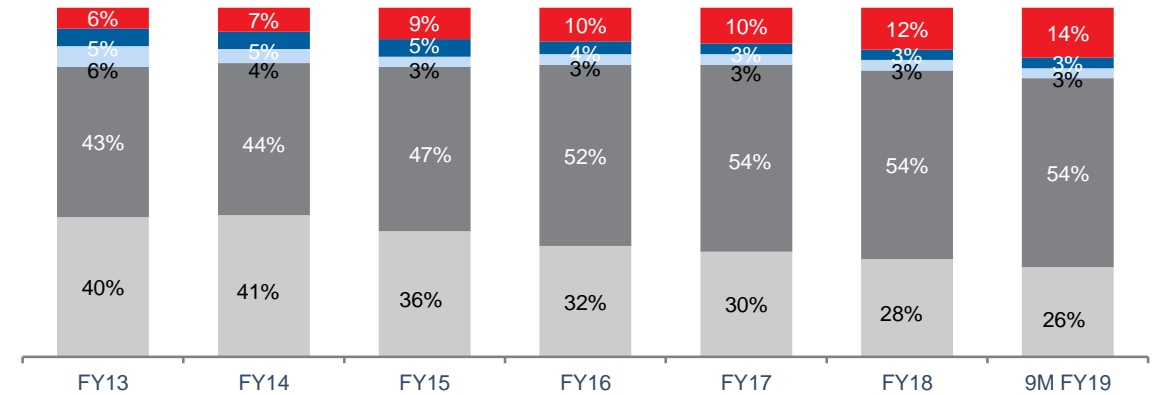
## Product mix <sup>1</sup>

■ Unit Linked ■ Conventional



## Distribution mix <sup>2</sup>

■ Individual Agents ■ Corporate Agents - Banks ■ Corporate Agents - Others ■ Brokers ■ Direct Business



- Reduced distributors' payout and high expense structure led many players to move to traditional products over last few years, however the focus is changing towards linked products with improved equity Market performance and increase in share of Banca
- Increasing thrust on protection business to help improve the new business Margins
- Banca sourced business has consistently increased on the back of increasing reach of banks while share of Agency has declined post regulatory changes in FY11

1. Basis Overall WRP (Individual and Group);

2. Basis Individual New business premia

# Appendix

# Financial and operational snapshot (1/2)

	FY17	FY18	FY19	CAGR	Q1 FY19	Q1 FY20	Growth
<b>Key Metrics (Rs Bn.)</b>							
<i>New Business Premium (Indl. + Group)</i>	86.2	113.5	149.7	32%	26.8	39.3	47%
<i>Renewal Premium (Indl. +Group)</i>	108.2	122.1	142.1	15%	23.8	26.1	10%
Total Premium	194.5	235.6	291.9	23%	50.6	65.4	29%
Individual APE	37.4	48.9	52.0	18%	8.4	13.8	64%
Overall APE	41.9	55.3	62.6	22%	10.3	17.1	67%
Group Premium (NB)	44.2	54.1	73.3	29%	14.4	19.7	36%
Profit after Tax	8.9	11.1	12.8	20%	3.8	4.2	12%
- Policyholder Surplus	7.5	8.5	9.0	9%	3.1	3.5	14%
- Shareholder Surplus	1.4	2.6	3.8	64%	0.7	0.7	1%
Dividend Paid	(1) 2.6	3.3	4.0	22%	-	-	NA
Assets Under Management	917.4	1,066.0	1,255.5	17%	1,096.3	1,295.8	18%
Indian Embedded Value	124.7	152.2	183.0	21%	156.9	192.3	23%
Net Worth	(2) 38.1	47.2	56.6	22%	51.1	60.8	19%
NB (Individual and Group segment) lives insured (Mn.)	20.9	33.2	51.4	57%	10.3	13.0	26%
New Business Sum Assured	(3) 3,887.6	4,734.5	6,058.2	25%	1,234.4	1,797.0	46%
No. of Individual Policies (NB) sold (In 000s)	(4) 1,082.3	1,049.6	995.0	-4%	202.5	203.3	0%

1. Including dividend distribution tax (DDT)

2. Comprises share capital, share premium and accumulated profits/(losses)

3. Comprises individual and group business

4. Including rural policies. Excluding rural policies, NOPs grew by CAGR of 8% between FY17-19



# Financial and operational snapshot (2/2)

	FY17	FY18	FY19	Q1 FY19	Q1 FY20
<b>Key Ratios</b>					
Overall New Business Margins (post overrun)	22.0%	23.2%	24.6%	24.2%	29.8%
Operating Return on EV <sup>(1)</sup>	21.7%	21.5%	20.1%	18.4%	19.9%
Operating Expenses / Total Premium	12.6%	13.5%	13.2%	14.4%	13.5%
Total Expenses (OpEx + Commission) / Total Premium	16.7%	18.0%	17.0%	18.2%	18.4%
Return on Equity <sup>(2)</sup>	25.7%	26.0%	24.6%	31.0%	28.9%
Solvency Ratio	192%	192%	188%	197%	193%
Persistency (13M / 61M) <sup>(3)</sup>	84%/59%	87%/51%	87%/52%	87%/50%	88%/54%
Market Share (%)					
- Individual WRP	12.7%	13.3%	12.5%	13.3%	17.5%
- Group New Business	24.3%	28.5%	28.4%	30.1%	30.0%
- Total New Business	17.2%	19.1%	20.7%	22.3%	25.1%
Business Mix (%)					
- Product (UL/Non par savings/Non par protection/Par) <sup>(4)</sup>	52/9/4/35	57/9/5/28	55/20/7/18	54/11/8/28	26/63/5/6
- Indl Distribution (CA/Agency/Broker/Direct) <sup>(4)</sup>	72/12/5/11	71/11/5/14	64/13/4/19	65/11/5/19	56/15/9/20
- Total Distribution (CA/Agency/Broker/Direct/Group) <sup>(5)</sup>	32/7/2/7/52	33/7/2/10/48	26/7/2/16/49	24/7/2/14/54	24/7/3/17/50
- Share of protection business (Basis Indl APE)	4.0%	5.1%	6.7%	7.8%	5.5%
- Share of protection business (Basis Overall APE)	7.8%	11.3%	16.7%	18.2%	17.8%
- Share of protection business (Basis NBP)	21.8%	25.9%	27.0%	31.6%	25.8%

1. During FY18, there was a one time positive operating assumption change off Rs 1.4 bn based on review by an external actuary as part of the IPO process. Excluding this one time adjustment, Operating return on EV would have been 20.4% for FY18

2. Calculated using net profit and average net worth for the period (Net worth comprises of Share capital, Share premium and Accumulated profits)

3. Persistency ratios (based on original premium). Group business, where persistency is measurable, has been included in the calculations.

4. Based on individual APE. UL: Unit Linked, Trad: Traditional, Par: Participating & CA: Corporate Agents. Percentages are rounded off

5. Based on total new business premium including group. Percentages are rounded off

# Revenue and Profit & Loss A/c

## Revenue A/c

	Q1 FY20	Q1 FY19
Premium earned	65.4	50.6
Reinsurance ceded	(0.8)	(0.6)
Income from Investments	20.5	18.0
Other Income	0.2	0.4
Transfer from Shareholders' Account	0.0	0.1
<b>Total Income</b>	<b>85.3</b>	<b>68.5</b>
Commissions	3.2	2.0
Expenses	8.8	7.2
GST on UL charges	0.8	0.8
Provision for taxation	0.0	0.2
Provision for diminution in value of investments	0.8	0.1
Benefits paid	35.1	28.8
Change in valuation reserve	31.2	25.4
Bonuses Paid	1.5	0.6
<b>Total Outgoings</b>	<b>81.5</b>	<b>65.1</b>
<b>Surplus</b>	<b>3.8</b>	<b>3.4</b>
Transfer to Shareholders' Account	3.5	3.2
Funds for future appropriation - Par	0.3	0.2
<b>Total Appropriations</b>	<b>3.8</b>	<b>3.4</b>

## Profit and Loss A/c

Rs Bn.

	Q1 FY20	Q1 FY19
<b>Income</b>		
- Interest and dividend income	0.8	0.6
- Net profit/(loss) on sale	0.2	0.1
Transfer from Policyholders' Account	3.5	3.2
Other Income	0.0	0.1
<b>Total</b>	<b>4.5</b>	<b>4.1</b>
<b>Outgoings</b>		
Transfer to Policyholders' Account	0.0	0.1
Expenses	0.0	0.0
Provision for diminution in value of investments	0.1	0.0
Provision for Taxation	0.1	0.1
<b>Total</b>	<b>0.2</b>	<b>0.3</b>
<b>Profit for the year as per P&amp;L Statement</b>	<b>4.2</b>	<b>3.8</b>
Interim Dividend paid (including tax)	0.0	0.0
<b>Profit carried forward to Balance Sheet</b>	<b>60.8</b>	<b>51.1</b>

# Balance Sheet

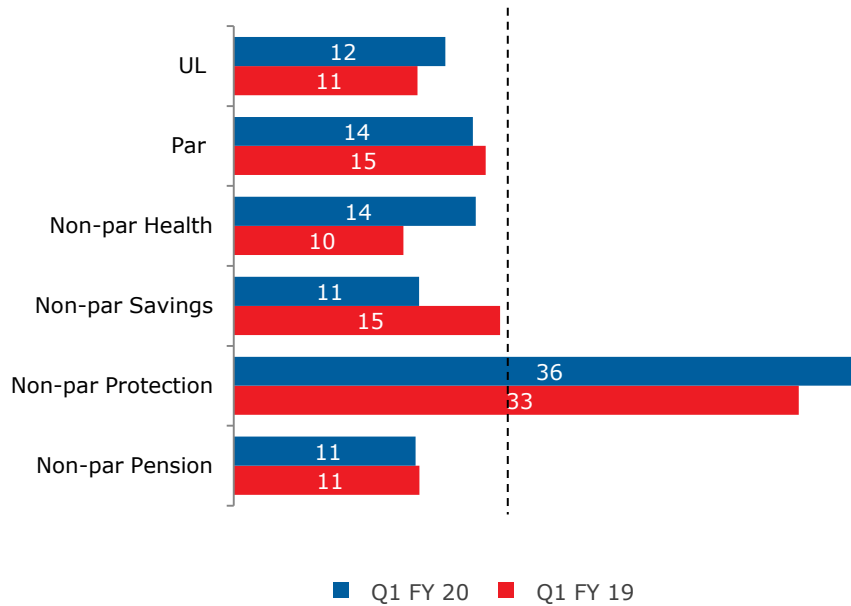
Rs Bn.

	Jun 30, 2019	Jun 30, 2018
<b>Shareholders' funds</b>		
Share capital (including Sh premium)	23.9	23.3
Accumulated profits	37.0	27.7
Fair value change	(0.0)	0.1
<b>Sub total</b>	<b>60.8</b>	<b>51.2</b>
<b>Policyholders' funds</b>		
Fair value change	10.3	8.3
Policy Liabilities	568.0	445.0
Provision for Linked Liabilities	600.4	546.8
Funds for discontinued policies	33.0	28.7
<b>Sub total</b>	<b>1,211.6</b>	<b>1,028.8</b>
Funds for future appropriation (Par)	11.3	9.8
<b>Total Source of funds</b>	<b>1,283.7</b>	<b>1,089.8</b>
	-	-
Shareholders' investment	51.8	41.3
Policyholders' investments: Non-linked	610.7	479.6
Policyholders' investments: Linked	633.3	575.5
Loans	1.2	0.2
Fixed assets	3.4	3.3
Net current assets	(16.7)	(10.1)
<b>Total Application of funds</b>	<b>1,283.7</b>	<b>1,089.8</b>

# Segment wise average term and age<sup>1</sup>

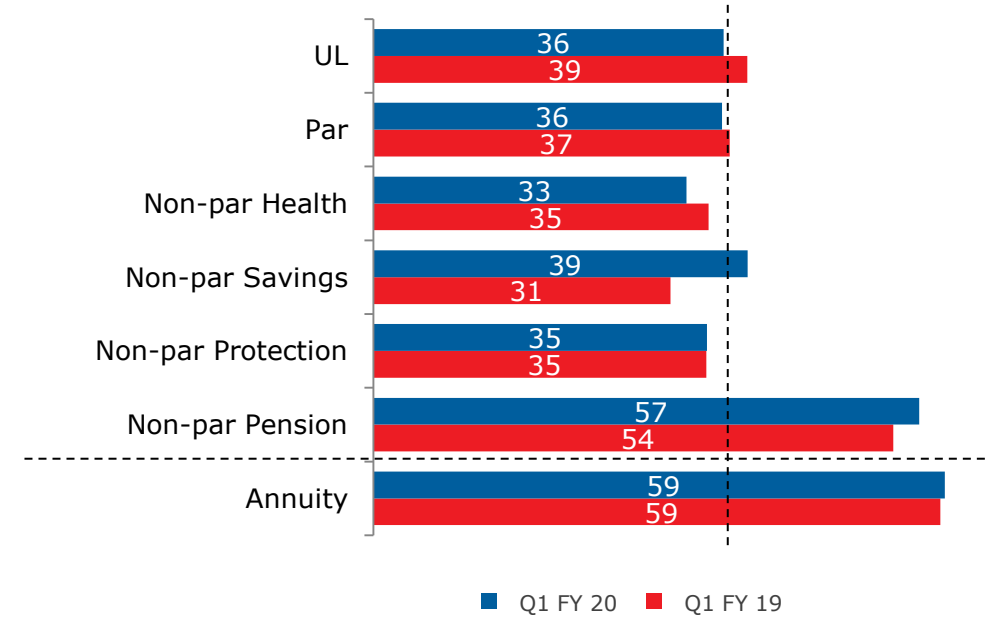
## Average Policy Term excluding annuity (Yrs)

Q1 FY20: 14.8 (Q1 FY19 : 14.2)



## Average Customer Age excluding annuity (Yrs)

Q1 FY20: 37.9 (Q1 FY19: 37.7)



- Focus on long term insurance solutions, reflected in longer policy tenure
- Extensive product solutions catering customer needs across life cycles from young age to relatively older population

# Indian Embedded value: Methodology and Approach (1/2)

## Overview

**Indian Embedded Value (IEV)** consists of:

- **Adjusted Net Worth (ANW)**, consisting of:
  - Free surplus (FS);
  - Required capital (RC); and
- **Value of in-force covered business (VIF)**: Present value of the shareholders' interest in the earnings distributable from assets allocated to the covered business, after making sufficient allowance for the aggregate risks in the covered business.

## Components of Adjusted Net Worth (ANW)

- **Free surplus (FS)**: FS is the Market value of any assets allocated to, but not required to support, the in-force covered business as at the valuation date. The FS has been determined as the adjusted net worth of the Company (being the net shareholders' funds adjusted to revalue assets to Market value), less the RC as defined below.
- **Required capital (RC)**: RC is the amount of assets attributed to the covered business over and above that required to back liabilities for the covered business. The distribution of this to shareholders is restricted. RC is set equal to the internal target level of capital equal to 170% of the factor-based regulatory solvency requirements, less the funds for future appropriations ("FFA") in the participating funds.

## Components of Value in-force covered business (VIF)

- **Present value of future profits (PVFP):** PVFP is the present value of projected distributable profits to shareholders arising from the in-force covered business determined by projecting the shareholder cash flows from the in-force covered business and the assets backing the associated liabilities.
- **Time Value of Financial Options and Guarantees (TVFOG):** TVFOG reflects the value of the additional cost to shareholders that may arise from the embedded financial options and guarantees attaching to the covered business in the event of future adverse Market movements. The intrinsic value of such options and guarantees is reflected in the PVFP.
- **Frictional costs of required capital (FC):** FC represents the investment management expenses and taxation costs associated with holding the RC. VIF includes an allowance for FC of holding RC for the covered business. VIF also includes an allowance for FC in respect of the encumbered capital in the Company's holdings in its subsidiaries.
- **Cost of residual non-hedgeable risks (CRNHR):** CRNHR is an allowance for risks to shareholder value to the extent that these are not already allowed for in the TVFOG or the PVFP. In particular, the CRNHR makes allowance for:
  - asymmetries in the impact of the risks on shareholder value; and
  - risks that are not allowed for in the TVFOG or the PVFP.

CRNHR has been determined using a cost of capital approach. CRNHR is the present value of the cost of capital charge levied on the projected capital in respect of the material risks identified.

# Embedded Value: Economic assumptions<sup>1</sup>

Years	Forward rates %		Spot rates %	
	As at Jun 30, 2019	As at Jun 30, 2018	As at Jun 30, 2019	As at Jun 30, 2018
<b>1</b>	6.31	7.22	6.12	6.98
<b>2</b>	6.70	8.14	6.30	7.40
<b>3</b>	6.98	8.56	6.45	7.67
<b>4</b>	7.19	8.73	6.58	7.85
<b>5</b>	7.35	8.78	6.68	7.96
<b>10</b>	7.64	8.55	6.99	8.13
<b>15</b>	7.67	8.40	7.12	8.12
<b>20</b>	7.65	8.36	7.18	8.10
<b>25</b>	7.64	8.35	7.22	8.09
<b>30+</b>	7.63	8.35	7.24	8.07

# Glossary (Part 1)

- **APE (Annualized Premium Equivalent)** - The sum of annualized first year regular premiums and 10% weighted single premiums and single premium top-ups
- **Backbook surplus** – Surplus accumulated from historical business written
- **Conservation ratio** - Ratio of current year renewal premiums to previous year's renewal premium and first year premium
- **Embedded Value Operating Profit (“EVOP”)** – Measure of the increase in the EV during any given period, excluding the impact on EV due to external factors like changes in economic variables and shareholder-related actions like capital injection or dividend pay-outs.
- **First year premiums** - Regular premiums received during the year for all modes of payments chosen by the customer which are still in the first year. For example, for a monthly mode policy sold in March 2019, the first instalment would fall into first year premiums for 2018-19 and the remaining 11 instalments in the first year would be first year premiums in 2019-20
- **New business received premium** - The sum of first year premium and single premium.
- **New business strain** – Strain on the business created due to revenues received in the first policy year not being able to cover for expenses incurred



## Glossary (Part 2)

- **Operating expense** - It includes all expenses that are incurred for the purposes of sourcing new business and expenses incurred for policy servicing (which are known as maintenance costs) including shareholders' expenses. It does not include commission.
- **Operating expense ratio** - Ratio of operating expense (including shareholders' expenses) to total premium
- **Proprietary channels** – Proprietary channels include agency and direct
- **Protection Share** - Share of protection includes annuity and health
- **Persistency** – The proportion of business retained from the business underwritten. The ratio is measured in terms of number of policies and premiums underwritten.
- **Renewal premiums** - Regular recurring premiums received after the first year
- **Solvency ratio** - Ratio of available solvency Margin to required solvency Margins
- **Total premiums** - Total received premiums during the year including first year, single and renewal premiums for individual and group business
- **Weighted received premium (WRP)** - The sum of first year premium and 10% weighted single premiums and single premium top-ups

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