

HDFC Life Insurance

Investor presentation – 9M FY18



A

Performance Snapshot

Additional Business Information

India Life Insurance

Company overview

Overview as on Dec 31, 2017

- One of the most profitable life insurers in India based on new business margins¹
- Consistently ranked amongst top 3 private life insurers in India in terms of market share
- Solvency ratio of 191%
- Paid dividend (incl. DDT) of Rs 3.3 bn during the year
- Product portfolio of 33 individual and 11 group products, along with 8 optional riders (launched 2 new products during the last quarter)
- Subsidiaries:
 - HDFC Pension Management Company Limited saw strong growth in AUM at Rs 20.3 bn as on Dec 31, 2017. Continue to dominate in the private sector with over 1,400 corporate tie-ups
 - HDFC International Life and Re Company Ltd commenced reinsurance operations in Jan 2016, collecting gross revenue of USD 1.1 mn during nine months ended December 31, 2017

Operations Snapshot (9M FY18)

Premium

Total premium: Rs 146.1 bn
 Premium less benefit payouts²: Rs 59.1 bn
 Individual APE: Rs 30.8 bn

Ranking³

Individual new business premium: 3
 Group business premium: 1

EV⁴ & VNB⁴

EV: Rs 144.7 bn
 VNB: 7.8 bn
 NB Margin (Post Overrun): 22.2%

Profitability & efficiency

Annualised operating return on EV⁵: 20.4%
 Annualised RoE: 24.9%
 Opex ratio⁶: 14.2%

Balance sheet

AUM: Rs 1,044.3 bn (57% Debt: 43% Equity)
 Net worth⁷: Rs 43.6 bn

Persistency

Persistency⁸ (13th month): 86%
 Persistency⁸ (61st month): 53%
 Conservation ratio (Indl): 85%

Product mix⁹

Unit Linked: 59%
 Non-linked (Participating): 27%
 Non-linked (Non Participating): 13%



11,200+
Partner
Branches



16,934
Employees



139
Bancassurance
partners



21
Non-traditional
distribution partners



71,430
Individual
agents



414
Offices¹⁰

¹ Based on latest available disclosures for H1 FY18; ² Gross of reinsurance for both individual and group business; ³ 9M FY18 ranking amongst private players; ⁴ EV: Embedded value, VNB: Value of New business; ⁵ Operating return on EV - EVOP (Embedded value operating profit)/Opening EV; ⁶ Operating expenses (incl. shareholders' expenses) divided by Total premium; ⁷ Net worth comprises of Share capital (including share application money received, but pending allotment), Share premium and Accumulated profits/(losses); ⁸ Calculated as per IRDAI circular (based on original premium). Group business, where persistency is measurable, has been included in the calculations; ⁹ Based on Individual APE excluding service tax; ¹⁰ Including corporate office in Mumbai and 2 hub operations
 3 PS: The numbers throughout the presentation are based on standalone financial results of the Company

Reimagining insurance: Leading the way as a digital insurance company

Branding and marketing

- Significant investments to maintain strong position in digital marketing
- Promotion of ULIPs through anti-bullying campaign

Product innovation

- Online product range: Click2Series
 - Click 2 Protect 3D Plus
 - Click 2 Invest
 - Click 2 Retire
- Health Products
 - Cancer Care
 - Click 2 Protect Health
 - Group Health Shield
 - Cardiac care

Business operations

- Straight Through Processing
- Instantaneous policy issuance for new digital partners
- Enterprise grade products for all critical IT systems
- Automation of customer servicing via email and twitter through bots

Sales and distribution

- Online sales capabilities via website, web aggregators and digital partners
- 'Plug and Play' on-boarding process
- Sales transformation via mobility platform; almost real time customer on-boarding with reducing branch dependency



~6.7 mn
Facebook
fans¹

~86,000
LinkedIn
followers¹

~0.4 mn
Twitter
followers¹

300,000+
mobile app
downloads¹

← Ranked 1st in Life insurance →

Note:

1. All figures as at Dec 31, 2017

Diversified distribution platform driving growth across cycles

Bancassurance and non traditional ecosystem partners

- 139 bancassurance partners (14 partners added in Q3 FY18)
- Top 15 bancassurance partners have over 11,200 branches
- 21 partners across non traditional ecosystem partners (7 partners added in Q3 FY18)

Individual agents

- 71,430 individual agents
- 7.5% of the all private agents in the Indian life insurance industry

Direct sales

- 1,200+ frontline sales staff across direct sales channels, including group sales and online and digital sub-channels and web aggregators

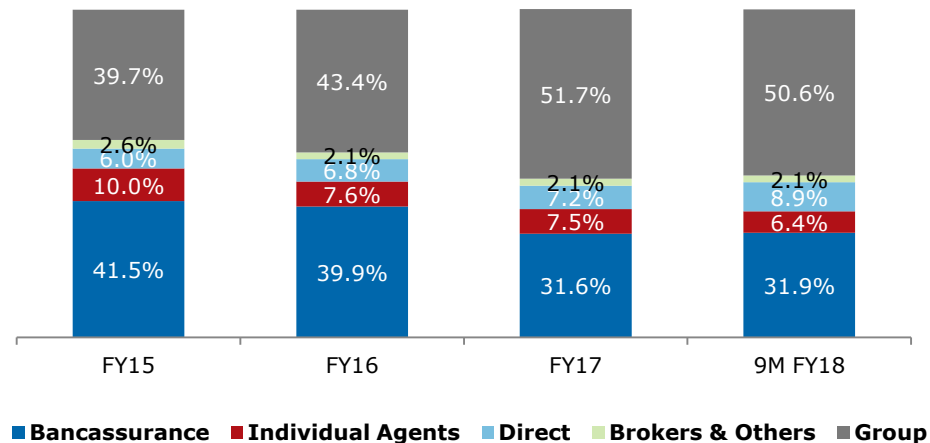
Broker and other tie-ups

- Over 45 tie-ups including 21 significant insurance brokers and over 29 insurance marketing firms

Select bancassurance partners



Stable distribution mix (based on total new business premium)¹



Note: All figures as at Dec 31, 2017

Continued innovation across products and distribution

Cardiac care product

New

- Launched unique health product in Q3 FY18, providing for Cardiac treatment covering multiple incidences of same illness. It also offers the option of income benefit on occurrence of a major Cardiac illness.

Group Health product

New

- Niche offering to leverage our distribution partnerships and offer health opportunities for the customers

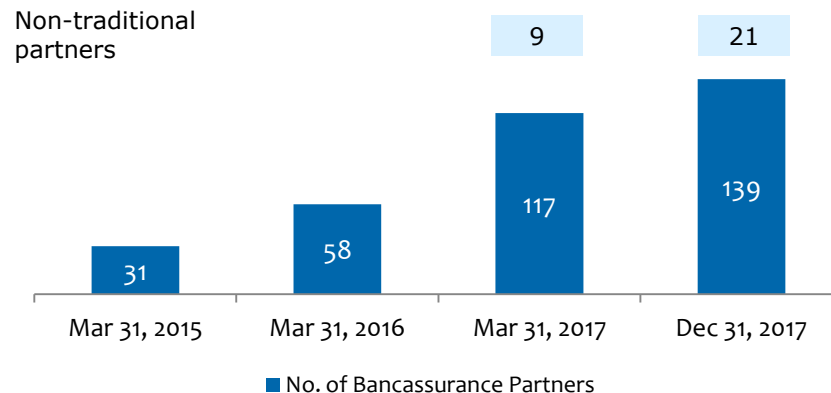
Cancer care product

- Cancer Care provides financial protection in the event of early and major stages of cancer launched in FY2016

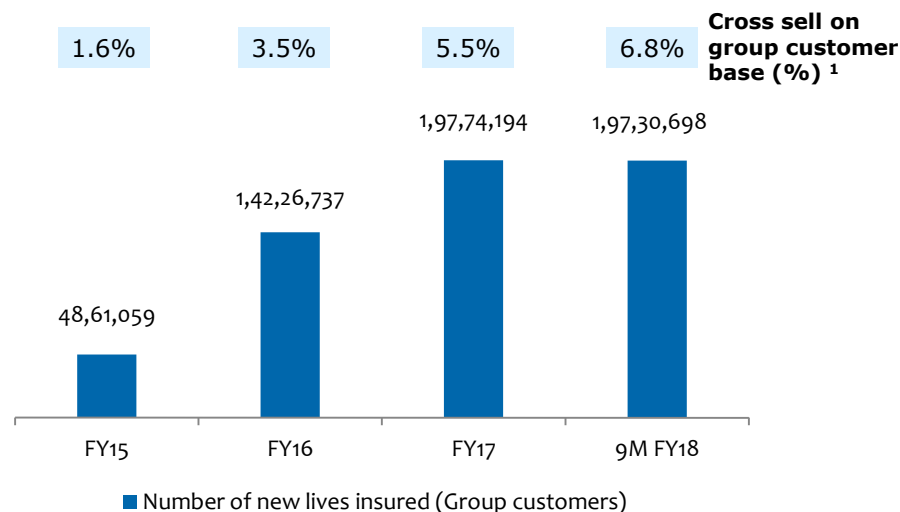
Joint product partnership with Apollo Munich

- Click2Protect Health product launched in August 2017 in partnership with Apollo Munich

Fast growing bancassurance partnerships



Large group customer base providing unique opportunity to cross-sell



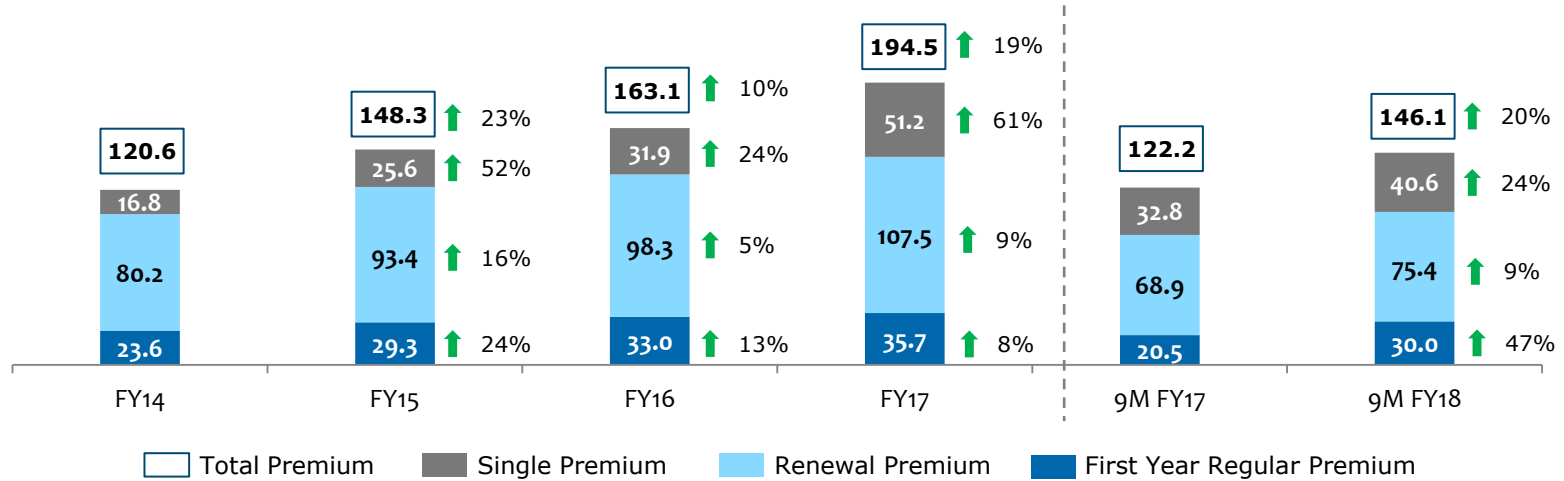
Note:

1. Calculated as Number of policies from existing group customers / Total number of individual new business policies

Strong premium growth and market positioning

Consistent growth across premium categories despite volatile operating environment

(Rs bn)



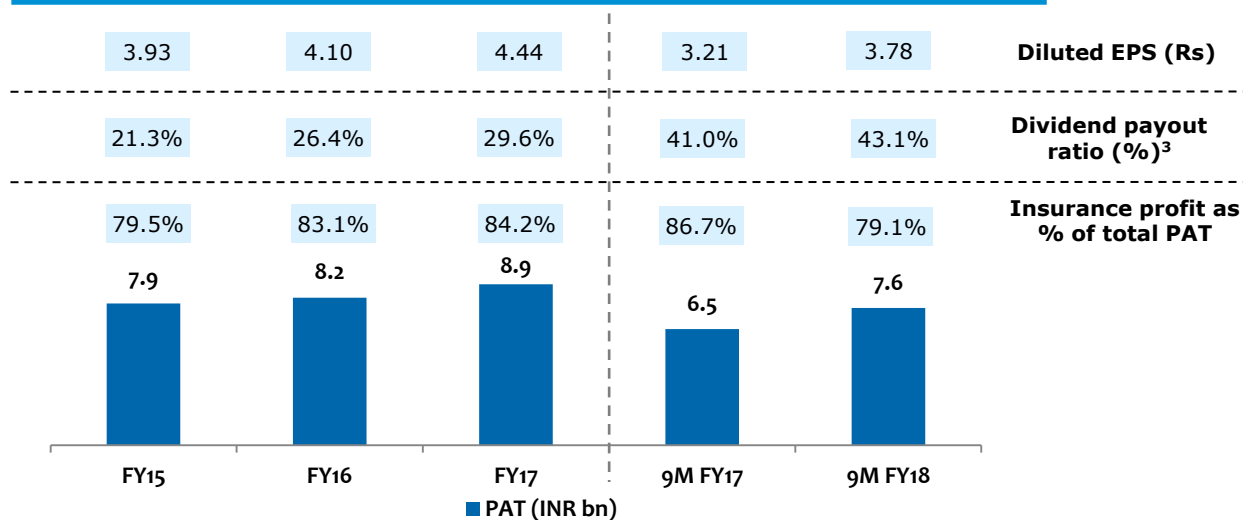
Private Market share / Ranking

	FY15	FY16	FY17	9M FY17	9M FY18
Individual WRP	14.8% / 3	14.7% / 3	12.7% / 3	11.6% / 3	12.8% / 3
Group premium	17.8% / 1	18.3% / 1	24.3% / 1	22.8% / 1	28.6% / 1
Total new business received premium	15.8% / 2	15.8% / 3	17.2% / 2	16.4% / 2	18.4% / 2

Robust profitability and asset size

	FY15	FY16	FY17	9M FY17	9M FY18
VNB (Rs bn)	5.9	7.4	9.2	5.3	7.8
VNB margin	18.5%	19.9%	22.0%	22.0%	22.2%
Operating return on embedded value ¹	22.9%	20.7%	21.7%	18.4%	20.4%
Return on Equity ¹	35.1%	28.7%	25.7%	25.7%	24.9%
Dividends (Rs bn) ²	1.7	2.2	2.6	2.6	3.3
EV (Rs bn)	88.9	102.3	124.7	114.6	144.7
AUM (Rs bn)	670.5	742.5	917.4	825.4	1,044.3
New business sum assured (Rs bn)	1,815.8	2,714.9	3,887.6	2,503.4	3,196.8

Robust profitability profile and consistent shareholder returns

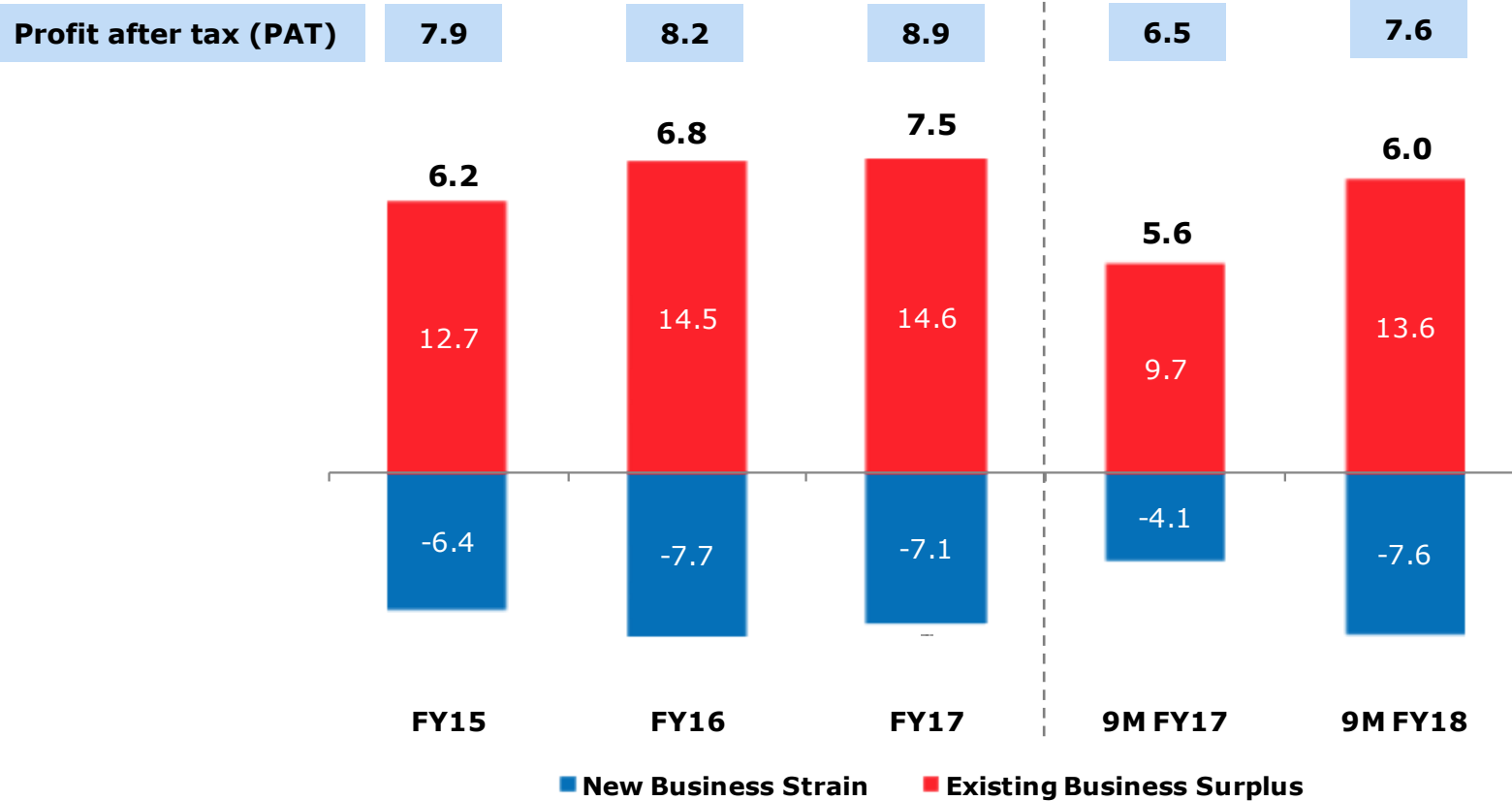


Notes:

1. Annualised for 9M FY17 and 9M FY18
2. Including dividend distribution tax (DDT)
3. Calculated as Dividend paid (incl. DDT) / Profit after tax

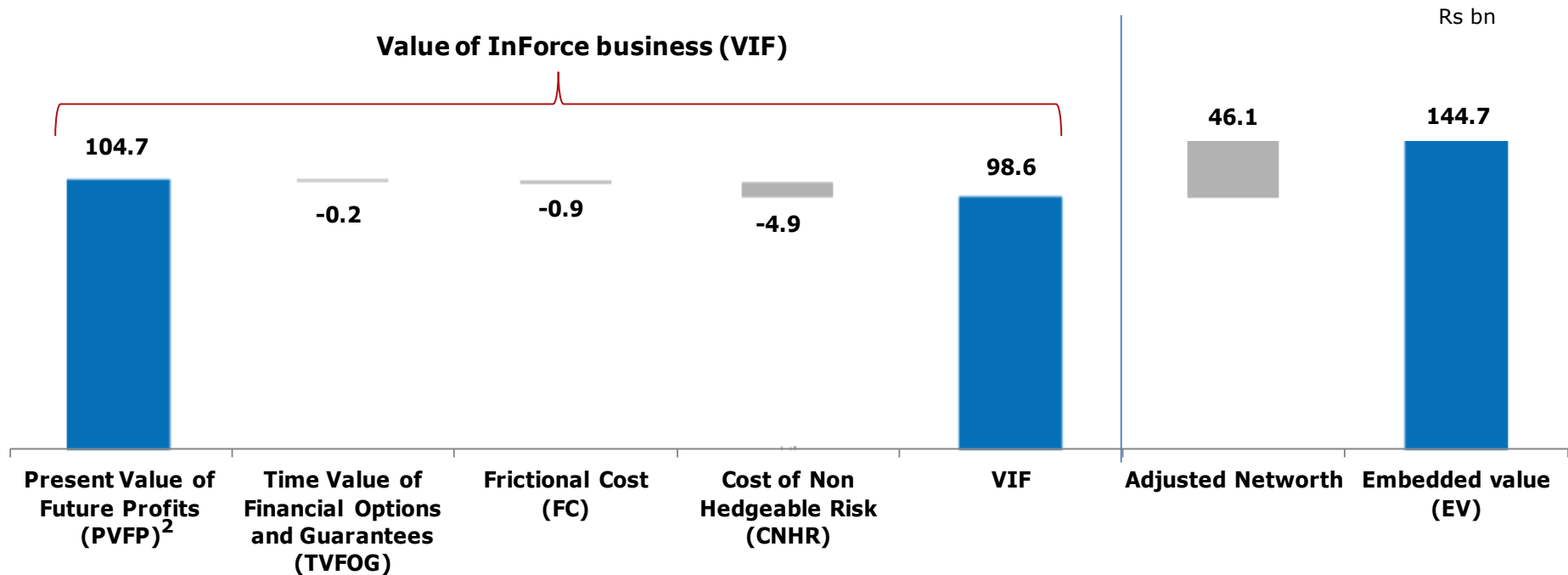
Underwriting profits breakup¹

Rs bn



- Steady increase in underwriting profits backed by healthy existing business surplus, neutralising impact of new business strain caused by growth in new business

Market Consistent Embedded Value (MCEV)¹



- TVFOG includes cost of guarantees for conventional participating products

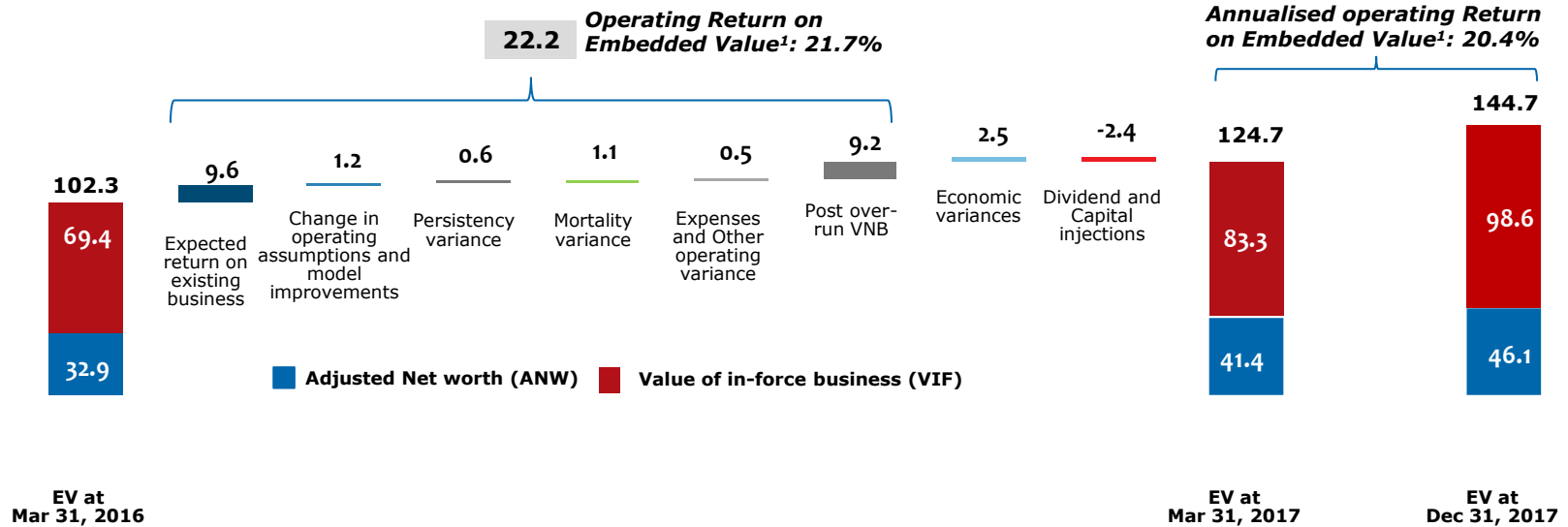
Notes:

1. Based on internal Company analysis, detailed explanation of components provided in the Appendix to the presentation
2. PVFP pertains to Overall (Individual + Group) business

Analysis of change in EV

Analysis of change in EV – FY17

(Rs bn)



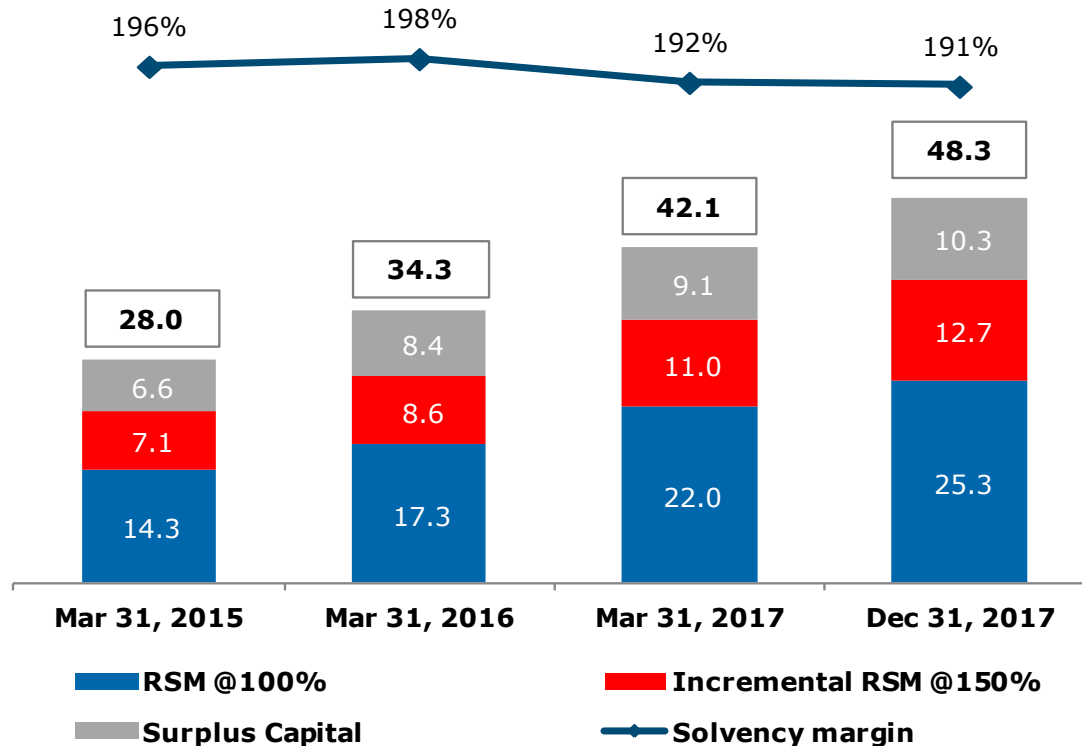
- Healthy Operating return on EV delivered over a period of time
- Positive persistency, mortality and operating variance reflecting favourable experience compared to actuarial assumptions
- Low sensitivity of NBM and EV, across key parameters

Note:

11 1. Calculated as EVOP (Embedded Value Operating Profit) to Opening EV

Capital position

Rs bn



- Stable solvency ratio, despite consistent growth in underlying business – RSM¹ increased @ CAGR of 24% between FY15-17

Update on key focus areas

Improving efficiency

- **Employee productivity**² increased by 28% to Rs 1.8 mn
- **Average ticket size**² per policy has increased by 10% to Rs 43,554
- Leveraging **usage of mobility tools** for productivity improvement

Long term orientation

- Total number of **bancassurance relationships** increased to 139
- **Retail customer base** increased to 5.5 mn
- **Average new business policy term (Individual)** of 14 years

Rising protection

- **Share of protection** based on new business received premium (Indl + Group) has increased to 27.3% of the total new business
- **Total new business sum assured**³ has increased by 28% to Rs 3.2 trillion

Enhancing use of technology

- 99%+ **policy applications submitted** via digital medium
- **~74% of Renewal payment** through online modes
- Leveraging **automation and robotics**: 50+ internal processes automated
- **~96% of front line sales force active on digital platforms**
- 63% of post sales verification calls completed through **InstaVerify** (video based authentication mobile app)
- Use of technologically advanced and mobile friendly **corporate website**

Customer satisfaction

- 97%+ **Claims settlement ratio (Indl+Group)**
- **Average customer complaints** (per '000 policies sold) reduced by 22%
- **New business policy issuance TATs**⁴ reduced to 4 days

Notes:

1. All growth numbers are with respect to 9M FY18 over 9M FY17
2. Basis Individual APE excluding rural policies
3. Comprises individual and group business
4. Median Turn Around Time

Key differentiators of HDFC Life

- 1 High GDP growth, favourable demographics and underpenetrated life insurance sector: significant opportunity for growth**
- 2 Balanced business mix with a focus on customer centricity enabling growth across business cycles**
- 3 Reimagining Life Insurance: innovation and digital enablement in distribution, product design and customer service**
- 4 Strong financial performance across business cycles: Consistent focus on profitable growth**
- 5 Independent and experienced leadership team and reputed board**

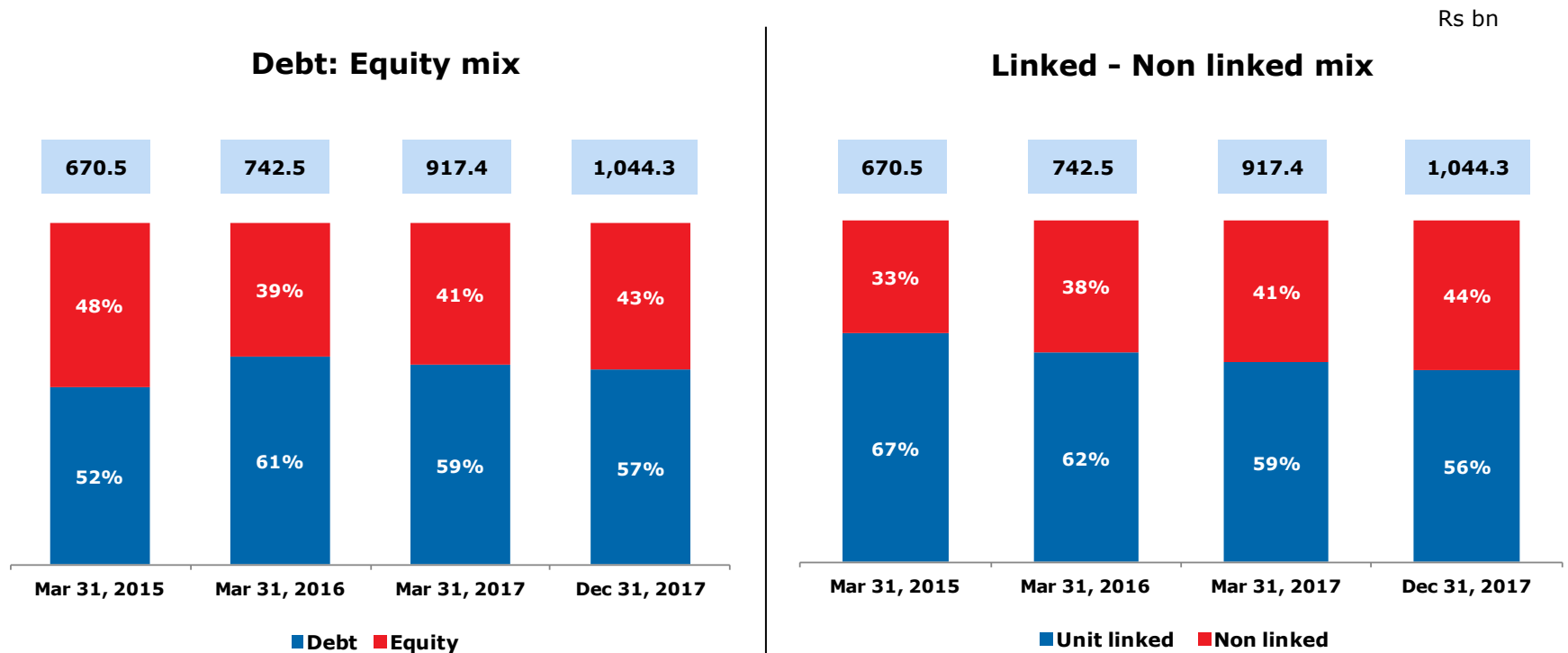
Performance Snapshot

B

Additional Business Information

India Life Insurance

Assets under management



- AUM has grown at a 2 year of CAGR of 17% from FY15-17
- Continued to rank¹ amongst top 3 private players, in terms of assets under management

Channel wise product mix

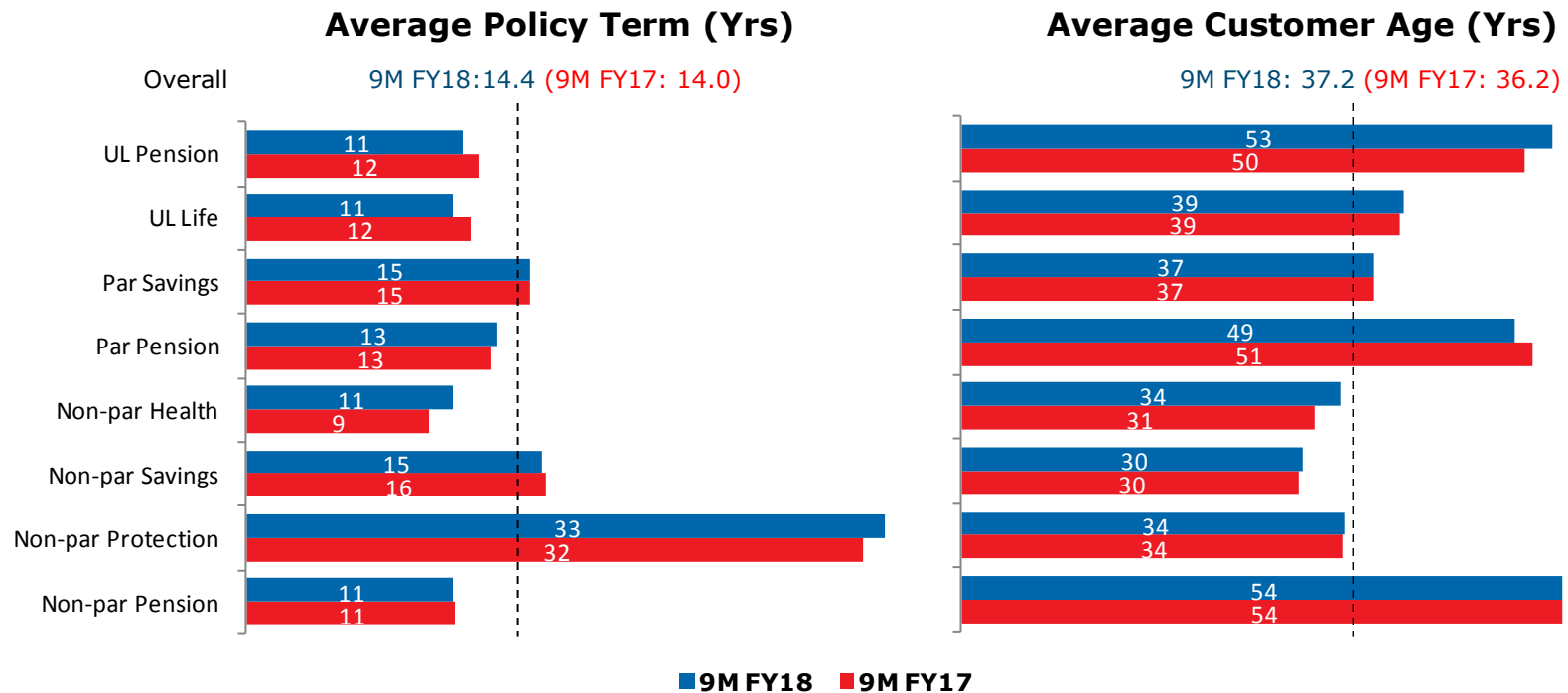
Channel summary ¹	Segment	FY15	FY16	FY17	9M FY18
Banca²	Par	10%	24%	30%	24%
	Non par protection	2%	2%	1%	1%
	Non par others	12%	9%	8%	8%
	UL	75%	66%	61%	67%
Agency	Par	55%	56%	57%	47%
	Non par protection	12%	13%	11%	11%
	Non par others	9%	6%	7%	7%
	UL	24%	25%	26%	35%
Direct and Broker	Par	50%	42%	41%	29%
	Non par protection	13%	17%	12%	16%
	Non par others	10%	9%	11%	8%
	UL	27%	32%	36%	47%
Total	Par	22%	30%	35%	28%
	Non par protection	5%	5%	4%	5%
	Non par others	11%	9%	9%	8%
	UL	62%	56%	52%	59%
Protection mix (Basis Indl + Group NBP)		12%	17%	22%	27%

- During 9M FY18, share of protection based on received premium (Indl + Group) was 27.3% (9M FY17: 24.2%) of the total new business

Notes:

1. Basis Individual APE excluding service tax
2. Includes banks and other corporate agents

Segment wise average term and age¹



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

Financial and operational snapshot (1/2)

	FY15	FY16	FY17	CAGR	9M FY17	9M FY18	Growth
Key Metrics (Rs bn)							
<i>New Business Premium (Indl+Grp)</i>	54.9	64.9	87.0	26%	53.3	70.7	33%
<i>Renewal Premium</i>	93.4	98.3	107.5	7%	68.9	75.4	9%
Total Premium	148.3	163.1	194.5	15%	122.2	146.1	20%
Individual WRP	29.7	33.3	36.4	11%	20.4	29.8	46%
Group Premium (NB)	21.8	28.3	45.0	44%	29.3	35.8	22%
Premium Less Benefit Payouts ⁽¹⁾	65.8	80.6	94.8	20%	50.8	59.1	16%
IGAAP Profit after Tax	7.9	8.2	8.9	7%	6.5	7.6	18%
- <i>Policyholder Surplus</i>	6.3	6.8	7.5	9%	5.6	6.0	8%
- <i>Shareholder Surplus</i>	1.6	1.4	1.4	-6%	0.9	1.6	86%
Dividend paid ⁽²⁾	1.7	2.2	2.6	25%	2.6	3.3	24%
Assets Under Management	670.5	742.5	917.4	17%	825.4	1,044.3	27%
Embedded Value ⁽³⁾	88.9	102.3	124.7	18%	114.6	144.7	26%
Net Worth ⁽⁴⁾	25.4	31.5	38.1	22%	35.5	43.6	23%
New Business Sum Assured ⁽⁵⁾	1,815.8	2,714.9	3,887.6	46%	2,503.4	3,196.8	28%
No. of Individual Policies (NB) sold (In 000s)	876.1	1,150.3	1,082.3	11%	512.2	684.6	34%

Notes:

1. Gross of reinsurance for both individual and group business
2. Including dividend distribution tax (DDT)
3. Based on MCEV / IEV methodology
4. Comprises Share capital, share premium and accumulated profits/(losses)
5. Comprises individual and group business

Financial and operational snapshot (2/2)

	FY15	FY16	FY17	9M FY17	9M FY18
Key Ratios					
Overall New Business Margins (post overrun)	18.5%	19.9%	22.0%	22.0%	22.2%
Operating Return on EV ⁽⁶⁾	22.9%	20.7%	21.7%	18.4%	20.4%
Operating Expenses / Total Premium	10.2%	11.6%	12.6%	13.3%	14.2%
Total Commissions / Total Premium	4.2%	4.3%	4.1%	3.7%	4.6%
Return on Invested Capital ⁽⁷⁾	36.4%	37.9%	41.0%	39.6%	45.1%
Return on Equity ⁽⁸⁾	35.1%	28.7%	25.7%	25.7%	24.9%
Solvency Ratio	196%	198%	192%	195%	191%
Persistency (13M / 61M) ⁽⁹⁾	75%/40%	81%/50%	84%/57%	83%/60%	86%/53%
Conservation Ratio (Indl) ⁽¹⁰⁾	90%	80%	82%	82%	85%
Business Mix (%)					
- Product (UL/Non par savings/Non par protection/Par) ⁽¹¹⁾	63/11/5/21	56/9/5/30	52/9/4/35	50/8/5/37	59/8/5/28
- Indl Distribution (CA/Agency/Broker/Direct) ⁽¹¹⁾	73/13/5/9	75/12/4/9	72/12/5/11	69/13/6/12	70/11/5/14
- Total Distribution (CA/Agency/Broker/Direct/Group) ⁽¹²⁾	41/10/3/6/40	40/8/2/7/43	32/7/2/7/52	28/8/2/7/55	32/6/2/9/51
- Share of protection business (Basis APE)	6.3%	7.3%	7.8%	9.1%	11.6%
- Share of protection business (Basis NBP)	12.0%	17.2%	21.8%	24.2%	27.3%

Notes:

6. EVOP (Embedded value operating profit)/Opening EV
7. Calculated using net profit and average share capital including share premium
8. Calculated using net profit and average net worth for the period (Net worth comprises of Share capital, Share premium and Accumulated profits/(losses))
9. Persistency ratios (based on original premium) as per methodology specified in IRDAI circular. Group business, where persistency is measurable, has been included in the calculations.
10. Conservation ratio for individual business
11. Based on individual APE excluding service tax. UL: Unit Linked, Trad: Traditional, Par: Participating & CA: Corporate Agents. Percentages are rounded off
12. Based on total new business premium including group. Percentages are rounded off

Awards and accolades – 9M FY18 (1/2)



IndIAA Awards 2017 for best campaign in the Insurance category



DMAsia ECHO Awards



Asia - Pacific Customer Engagement award



BFSI IT Leadership Awards



Mega Corporate Film Festival and Awards 2017



2017 Working Mother & AVTAR 100 Best Company for Women in India



Data Center Summit



Viewers' Choice award for Click 2 Insure at the Advys'17



The Economic Times' Great Place to Work



Drivers of Digital Award 2017

Awards and accolades – 9M FY18 (2/2)



Celent 2017 award



Technology Initiative of the Year



Quality Circle Competition - Indian Society for Quality (ISQ)



Digital Crest Award 2017



Infosec Maestros award for Excellence in Cyber Security



Insights Awards

IDC Insights Award



CISO 100 awards



Confederation of Indian Industry

BPM Asia Star Championship 2017



RED HAT Innovation Award



Frost & Sullivan - Project Evaluation and Recognition Program

Performance Snapshot

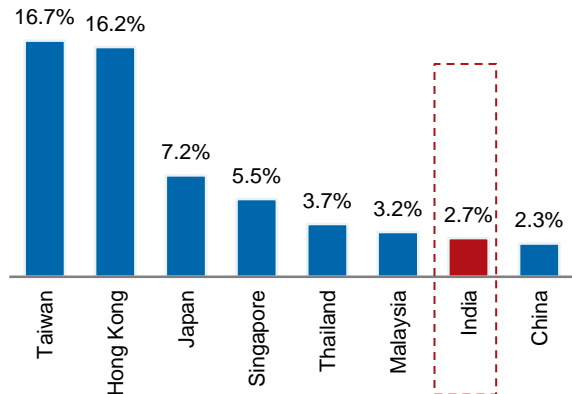
Additional Business Information

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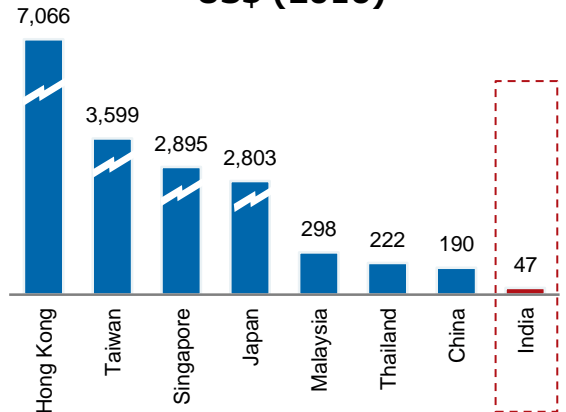
India Life Insurance

Growth opportunity – Under-penetration vs global benchmarks

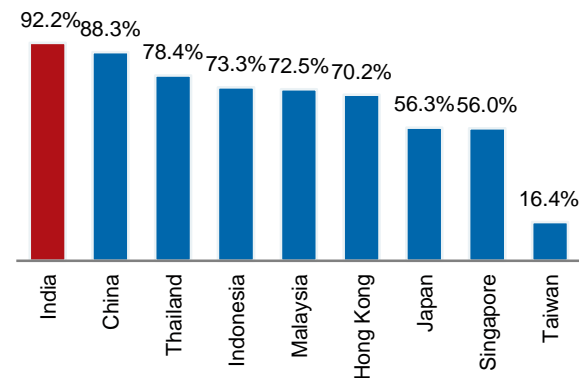
Life insurance penetration (2016)



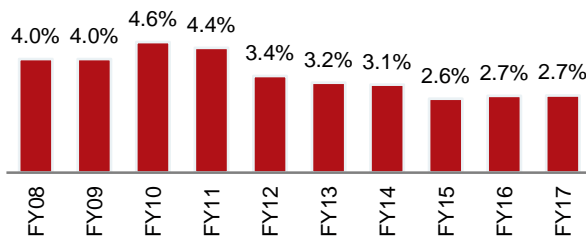
Life insurance density US\$ (2016)



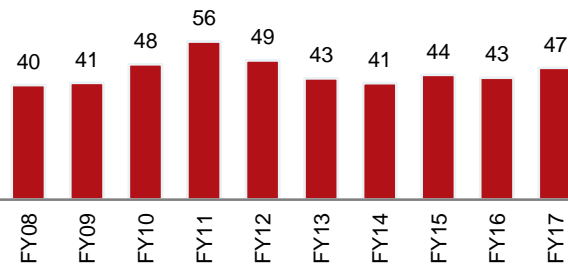
Protection gap (2014)



India life insurance penetration (FY08-17)



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



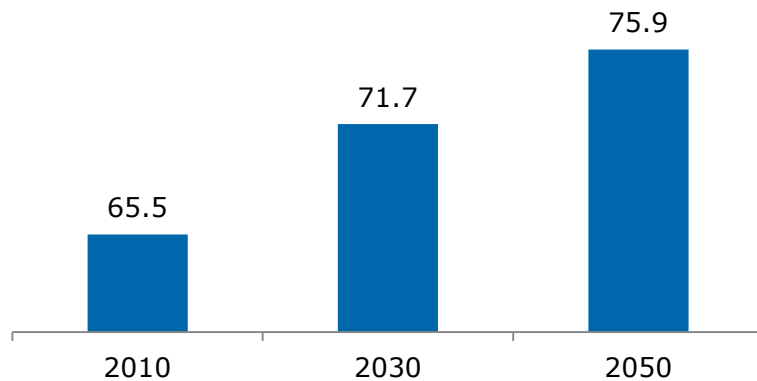
- India has the highest protection gap in the region, as growth in savings and life insurance coverage has lagged behind economic and wage growth
- Protection gap has increased over 4x in last 15 years with significantly low insurance penetration and density

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

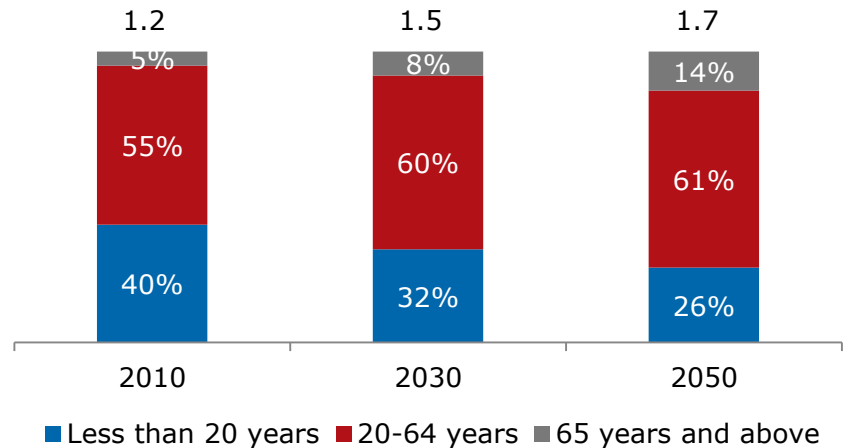
Source: Swiss Re (Based on respective financial year of the countries), MOSPI

Growth opportunity – Favourable demographics

Life expectancy (Years)¹



Population composition (bn)²



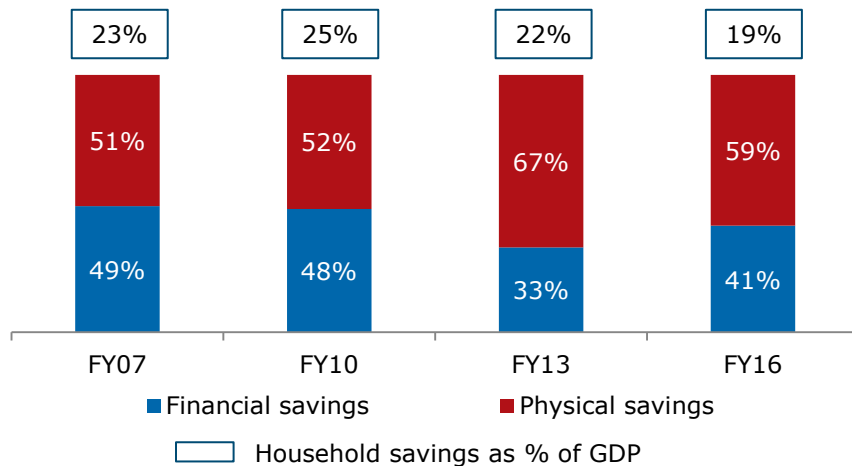
- India's insurable population is anticipated to touch 750 million in 2020
- India is currently one of the world's youngest nation, offering great opportunity for long term savings and investment plans
- Demand for retirement policies to rise with increasing life expectancy, declining birth-rates and proportion of India's elderly population expected to increase by almost 50% by 2030
- Emergence of nuclear families and increasing life expectancy to facilitate need for pension and protection based products

Source:

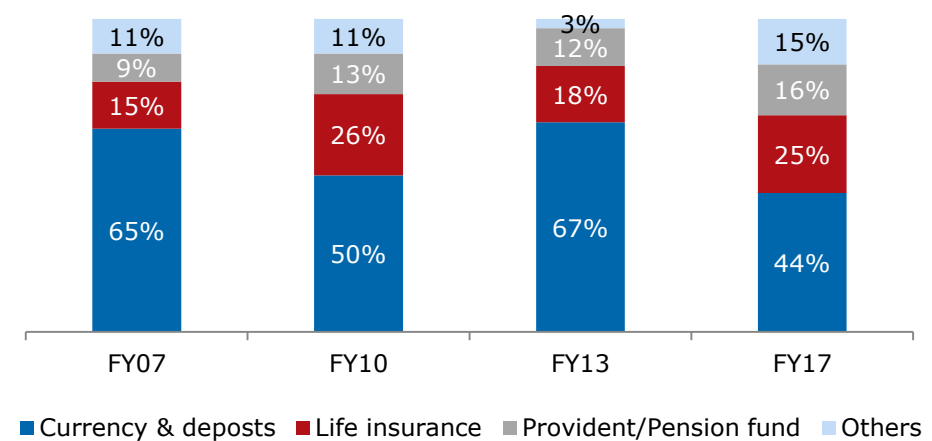
1. United Nations World Populations Prospects Report (2015)
2. World bank report on Global Saving in 2030

Life insurance – A preferred savings instrument

Household savings composition

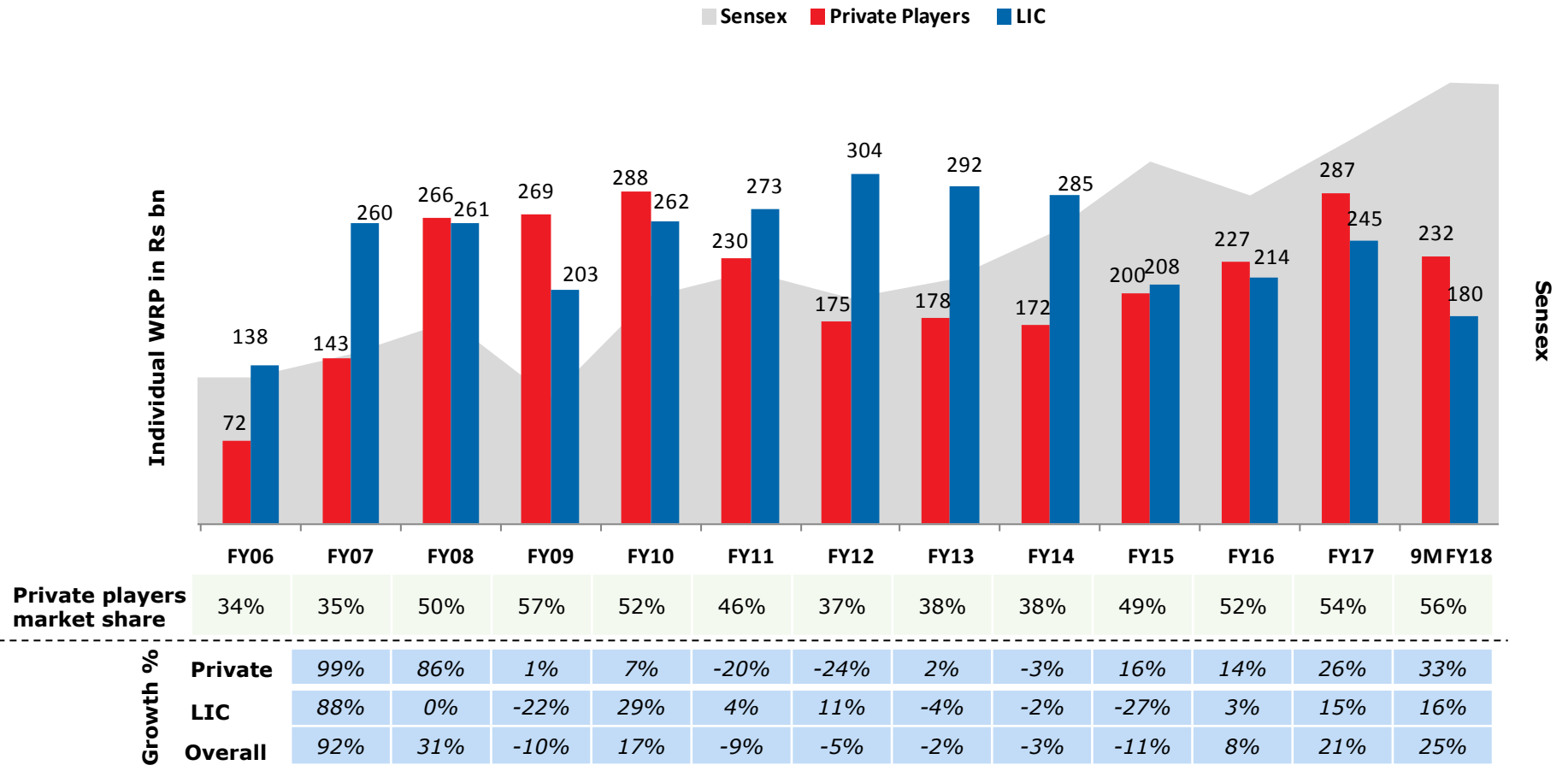


Financial savings mix



- Increasing preference towards financial savings with buoyant equity market returns, along with impact of demonitisation 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 310 mn new savings bank accounts opened in around last 3 years
 - 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

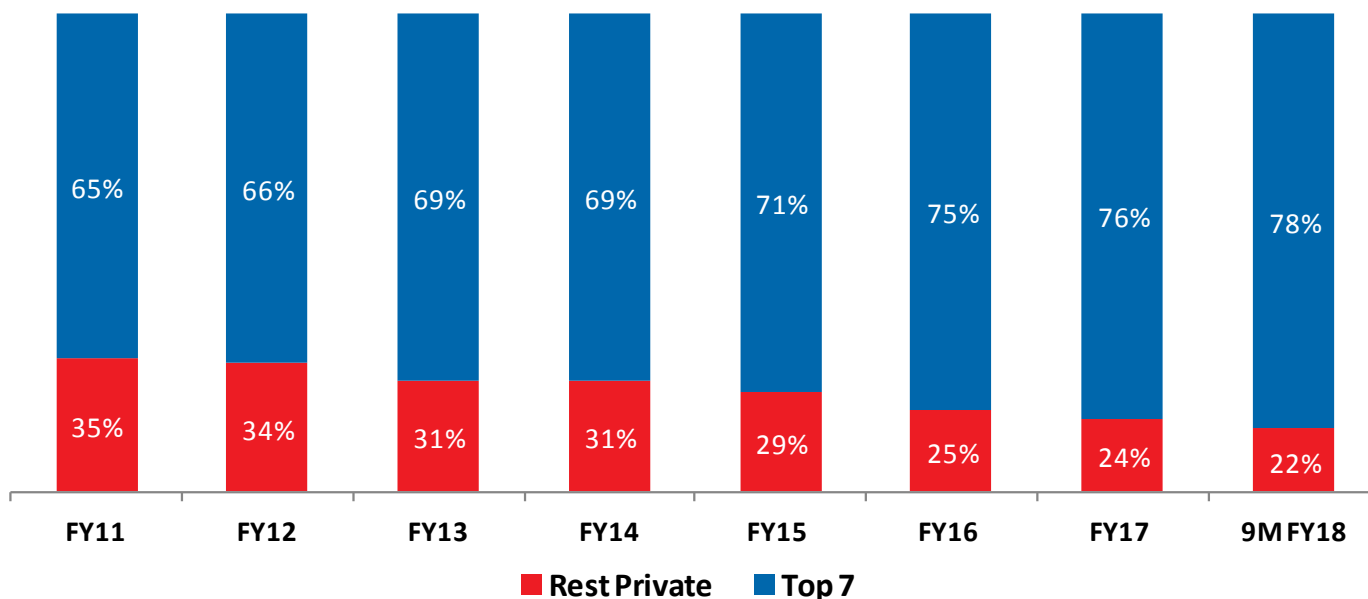
Industry new business¹ trends



- 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 in last 3 years

Private industry – Market share trends

Top 7 private players vs other players



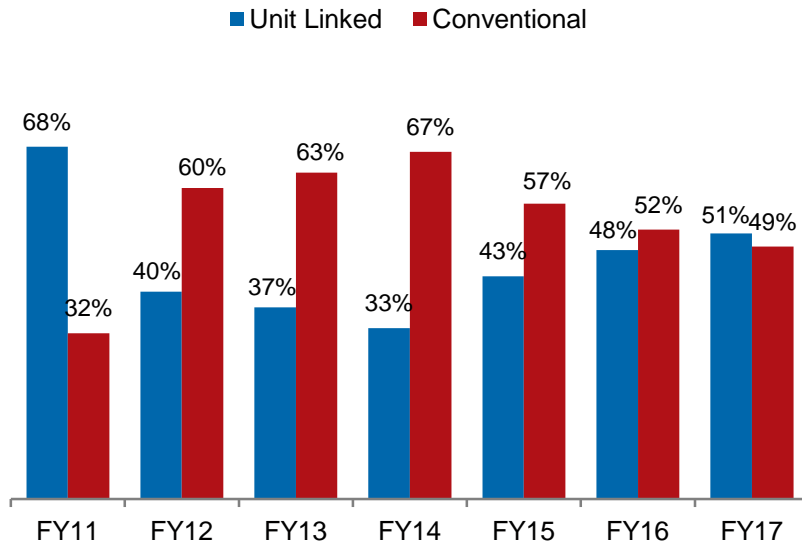
- Amongst private insurers, insurers with a strong bancassurance platform continue to dominate with increasing market share of the total private individual new business

Notes:

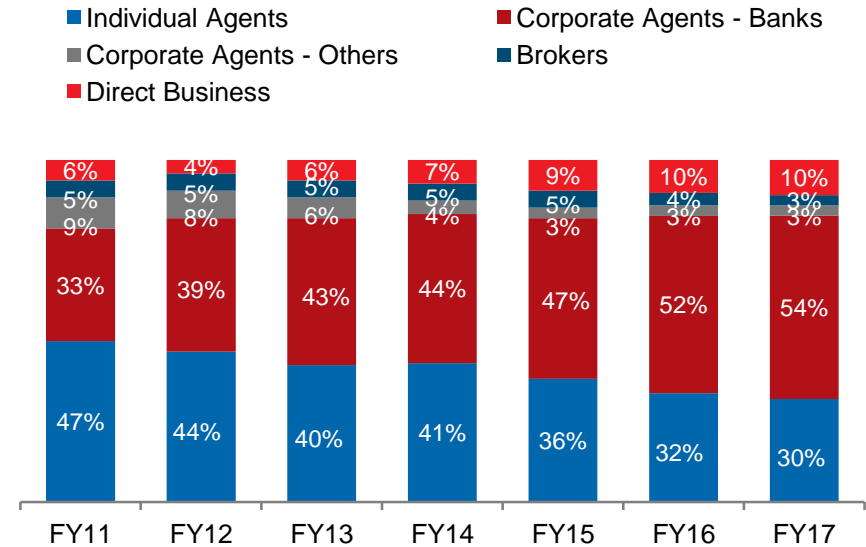
- Basis Individual Weighted Received Premium (WRP) as disclosed by IRDAI, Life Insurance Council
- Top 7 players based on FY17 business numbers, comprising of ICICI Pru, SBI Life, HDFC Life, Max Life, Kotak Life, Bajaj Allianz and Tata AIA

Private industry – Product and distribution mix

Product mix¹



Distribution mix²



- 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
- Direct channel share has also doubled as compared to FY11 while Broker share has been similar

Notes:

1. Basis Overall WRP (Individual and Group);

2. Basis Individual New business premia

Source: IRDAI and Life Insurance Council

Annexures



Revenue and Profit & Loss A/c

Rs bn

Particulars	FY15	FY16	FY17	9M FY17	9M FY18
Gross Premium Income	148.3	163.1	194.4	122.2	146.1
Reinsurance (net)	(0.7)	(1.3)	(1.7)	(1.2)	(1.4)
Net Premium Income (A)	147.6	161.8	192.7	121.0	144.7
Income from Investments					
Policyholders	122.5	17.9	111.4	62.8	95.3
Shareholders	2.0	1.7	2.3	1.4	1.8
Total Income from Investments (B)	124.5	19.6	113.7	64.2	97.1
Other Income (C)	0.3	0.7	1.0	0.8	1.1
Total Income (D=A+B+C)	272.4	182.1	307.4	186.0	242.9
Expenses and Outflow					
Commission	6.2	7.0	7.9	4.5	6.7
Operating expenses	15.1	18.8	24.4	16.3	20.7
GST / Service tax on UL charges	1.5	2.0	2.3	1.6	2.1
Benefits Paid ¹	82.3	82.4	100.0	71.4	87.0
Provision for diminution in value of investments	(0.0)	0.1	0.0	(0.1)	(0.2)
Change in Valuation Reserves (net)	156.5	59.3	160.6	84.4	117.5
Change in funds for future appropriations	1.5	2.4	1.6	0.9	0.9
Provision for tax	1.4	1.9	1.7	0.5	0.6
Total Expenses and Outflow (E)	264.5	173.9	298.5	179.5	235.3
Profit after tax (D-E)	7.9	8.2	8.9	6.5	7.6

Balance Sheet

Rs bn

Particulars	31st Mar 2015	31st Mar 2016	31st Mar 2017	31st Dec 2016	31st Dec 2017
SOURCES OF FUNDS					
Capital invested (Share capital + Premium)	21.6	21.6	21.9	21.8	23.1
Reserves and Surplus	4.3	10.4	16.2	13.7	20.5
Credit / (Debit) Fair Value Change Account	(0.0)	(0.4)	0.3	(0.0)	1.1
Sub-Total	25.9	31.6	38.4	35.5	44.7
Policy Liabilities	192.8	244.0	323.8	298.2	389.8
Provision for Linked Liabilities	421.4	427.6	508.1	456.3	558.5
Funds for discontinued policies	27.8	29.7	29.9	31.3	31.0
Funds for Future Appropriations	4.6	7.1	8.7	7.9	9.6
Change in fair value account	0.6	0.5	4.0	(1.0)	8.4
Current Liabilities & Provisions	20.7	25.5	38.2	27.1	35.2
Total Liabilities	693.8	766.0	951.1	855.3	1,077.2
APPLICATION OF FUNDS					
Investments					
Shareholders	22.0	26.4	32.5	28.7	36.3
Policyholders' assets	199.1	258.6	346.9	309.0	418.5
Assets held to cover linked liabilities	449.2	457.3	538.0	487.6	589.5
Loans	1.2	0.9	0.5	0.5	0.2
Fixed Assets	4.0	4.0	3.5	3.4	3.4
Cash & Bank Balances	5.7	6.5	8.0	2.3	5.2
Advances & Other Assets	12.6	12.3	21.7	23.8	24.1
Debit Balance in Profit and Loss Account	-	-	-	-	-
Total Assets	693.8	766.0	951.1	855.3	1,077.2

Sensitivity analysis¹ – FY17

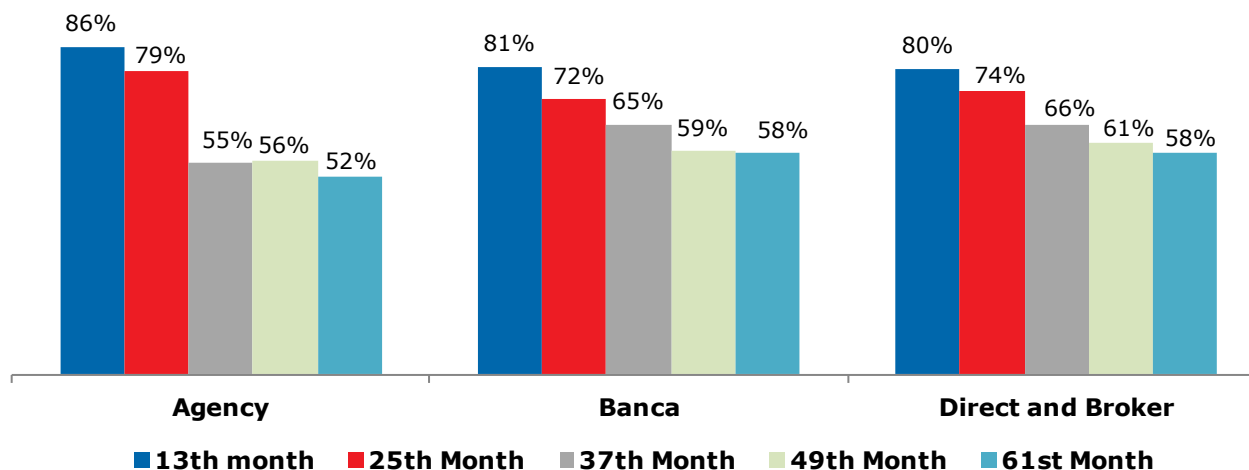
	Scenario	% Change in VNB	Change in VNB Margin	% Change in EV
Change in				
Reference rate	Increase by 1%	0.4% ³	0.1%	-1.9%
	Decrease by 1%	-1.4% ³	-0.3%	1.9%
	Increase by 2%	0.0% ³	0.0%	-3.8%
	Decrease by 2%	-4.1% ³	-0.9%	3.7%
Equity market movement²	Decrease by 10%	-1.4%	-0.3%	-2.0%
	Decrease by 20%	-2.6%	-0.6%	-4.1%
Discontinuance and partial withdrawal rates	Increase by 10%	-5.8%	-1.3%	-1.8%
	Decrease by 10%	6.2%	1.4%	1.9%
Maintenance expenses	Increase by 10%	-2.2%	-0.5%	-0.8%
	Decrease by 10%	2.2%	0.5%	0.8%
Acquisition expenses	Increase by 10%	-15.1%	-3.3%	NA
	Decrease by 10%	15.1%	3.3%	NA
Mortality / Morbidity	Increase by 5%	-4.3%	-0.9%	-0.7%
	Decrease by 5%	4.3%	0.9%	0.7%
Tax rate	Increased to 25%	-13.0%	-2.9%	-6.9%

Notes:

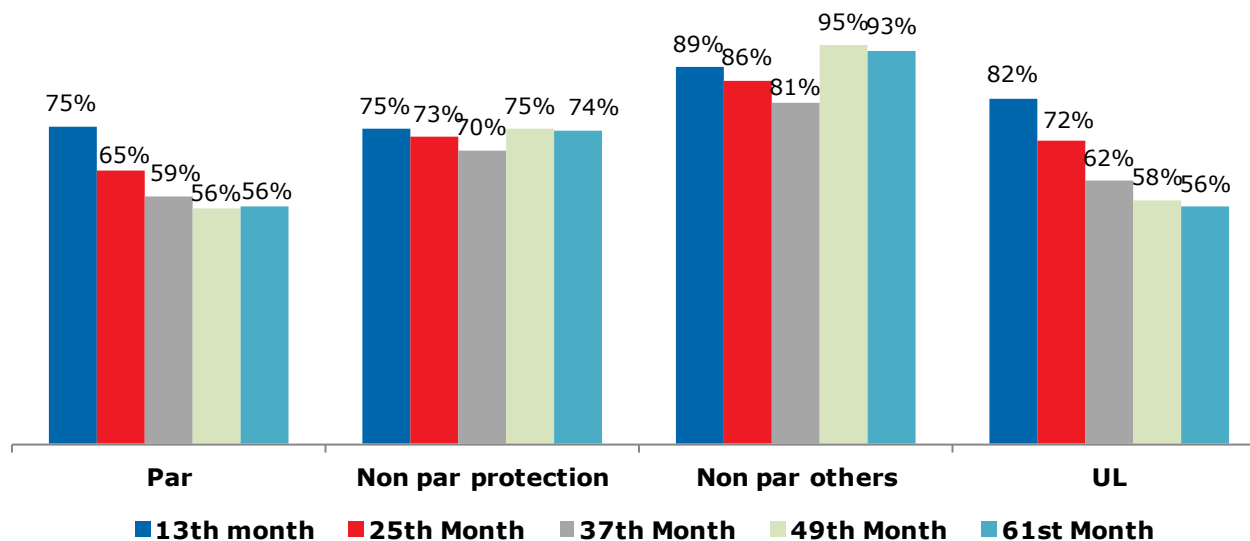
1. Based on internal Company analysis
2. Post overrun total VNB for Individual and Group business

Persistency¹ at channel and segment level – FY17

Persistency across channels



Persistency across segments



Embedded Value: Methodology and Approach (1/2)

Overview

Embedded Value (EV) 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 covered business, the distribution of which to the shareholders is restricted. The RC is set equal to the higher of 'Minimum Regulatory Capital' (MRC) and 'Internal Capital', less FFA in the participating fund.

Embedded Value: Methodology and Approach (2/2)

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 assumptions¹

Years	Forward rates %		Spot rates %	
	As at Dec 31, 2016	As at Dec 31, 2017	As at Dec 31, 2016	As at Dec 31, 2017
1	6.36	6.55	6.16	6.34
2	6.60	7.12	6.28	6.61
3	6.91	7.55	6.41	6.83
4	7.16	7.85	6.54	7.01
5	7.32	8.07	6.64	7.16
10	7.52	8.42	6.93	7.59
15	7.53	8.38	7.04	7.75
20	7.53	8.32	7.10	7.82
25	7.53	8.30	7.13	7.85
30+	7.53	8.29	7.15	7.87

- **APE (Annualized Premium Equivalent)** - The sum of annualized first year regular premiums and 10% weighted single premiums and single premium top-ups
- **Conservation ratio** - Ratio of current year renewal premiums to previous year's renewal premium and first year premium
- **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 2017, the first instalment would fall into first year premiums for 2016-17 and the remaining 11 instalments in the first year would be first year premiums in 2017-18
- **New business received premium** - The sum of first year premium and single premium.
- **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
- **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
- **13th month persistency** - Percentage of contracts measured by premium, still in force, 13 months after they have been issued, based on reducing balance approach

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