

Life Insurance: A Business of Risk Management

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What do life insurers do for customers?

Competition reduces as we approach the core

 Banks (>2100)  AMCs (>45)  Life Insurers (24)  Goldand many more!

 Health / General Insurers (34)  Life Insurers (24)

 Life Insurers (24)

Not savings for goals;
Wealth erosion - inflation, market volatility



Falling ill



Outliving one's savings

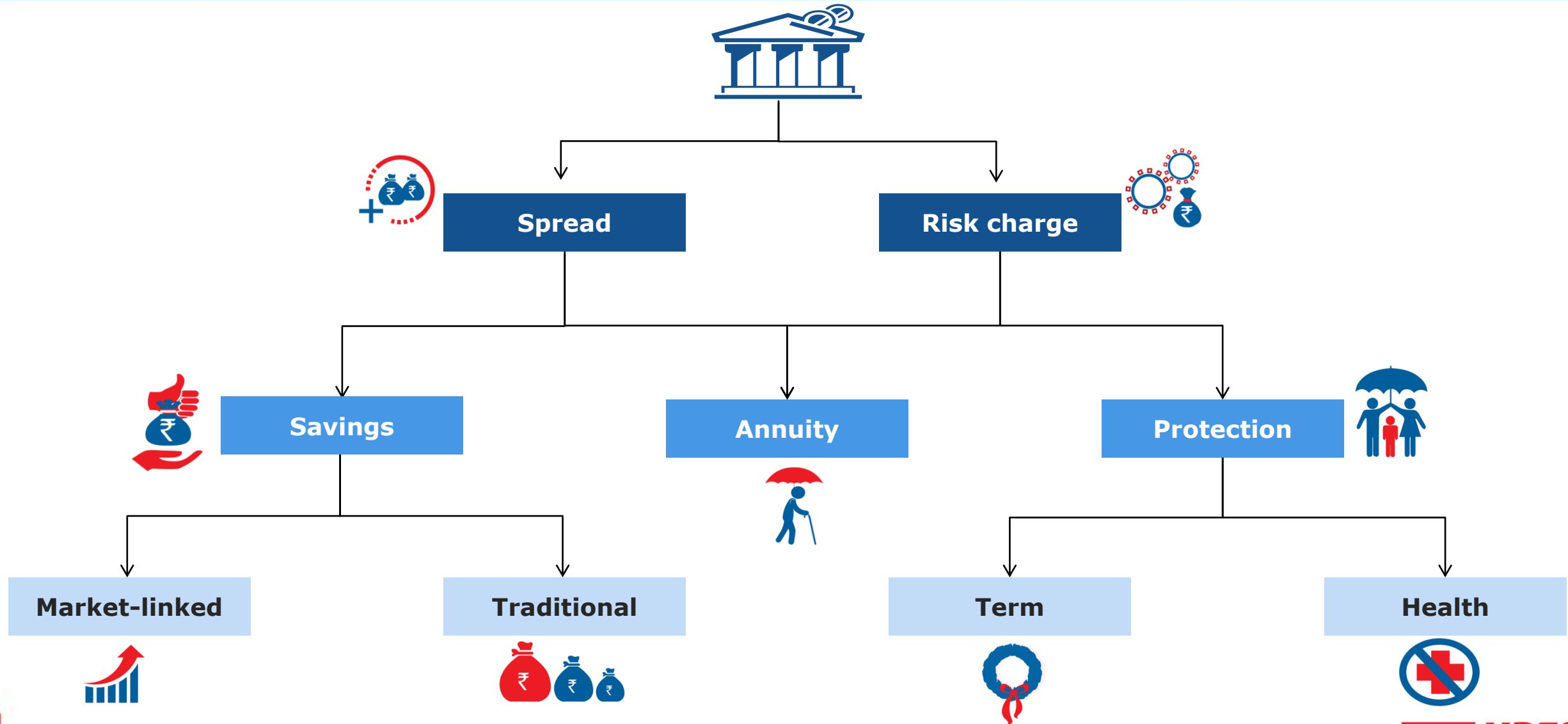


Dying early

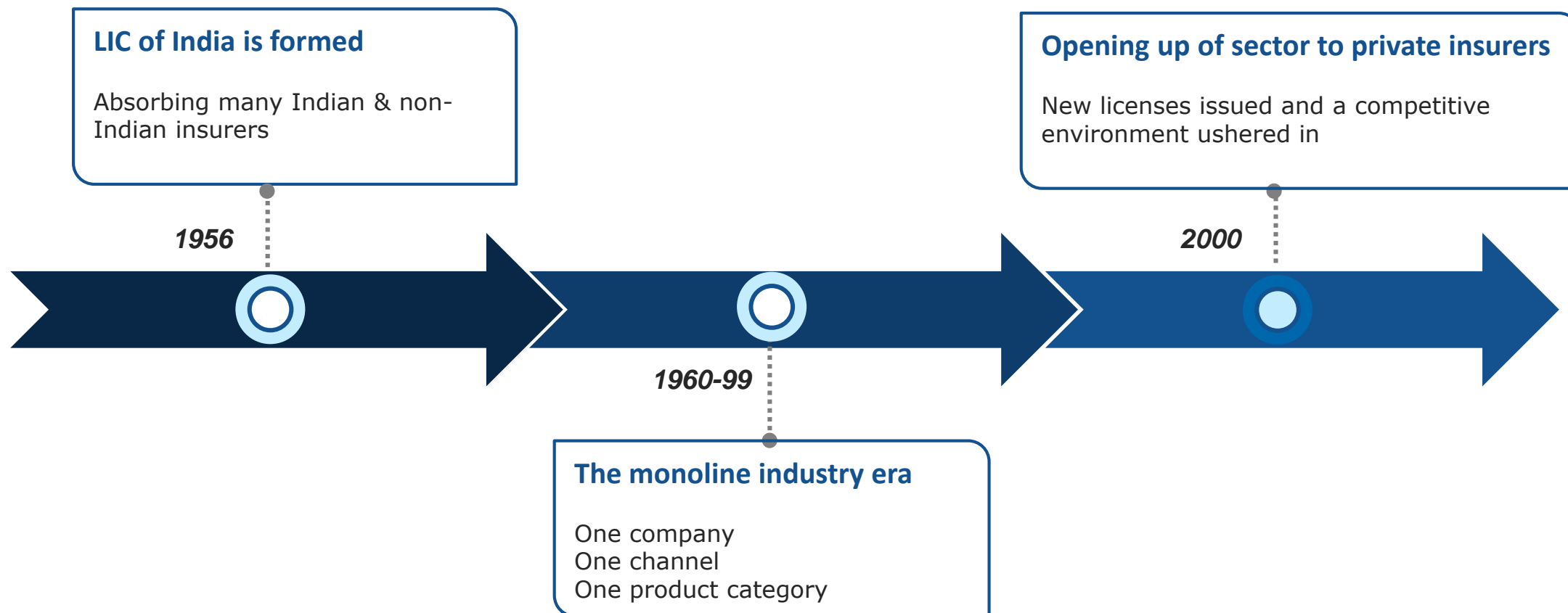


Risks that customers transfer to life insurers

And how do life insurers generate value?

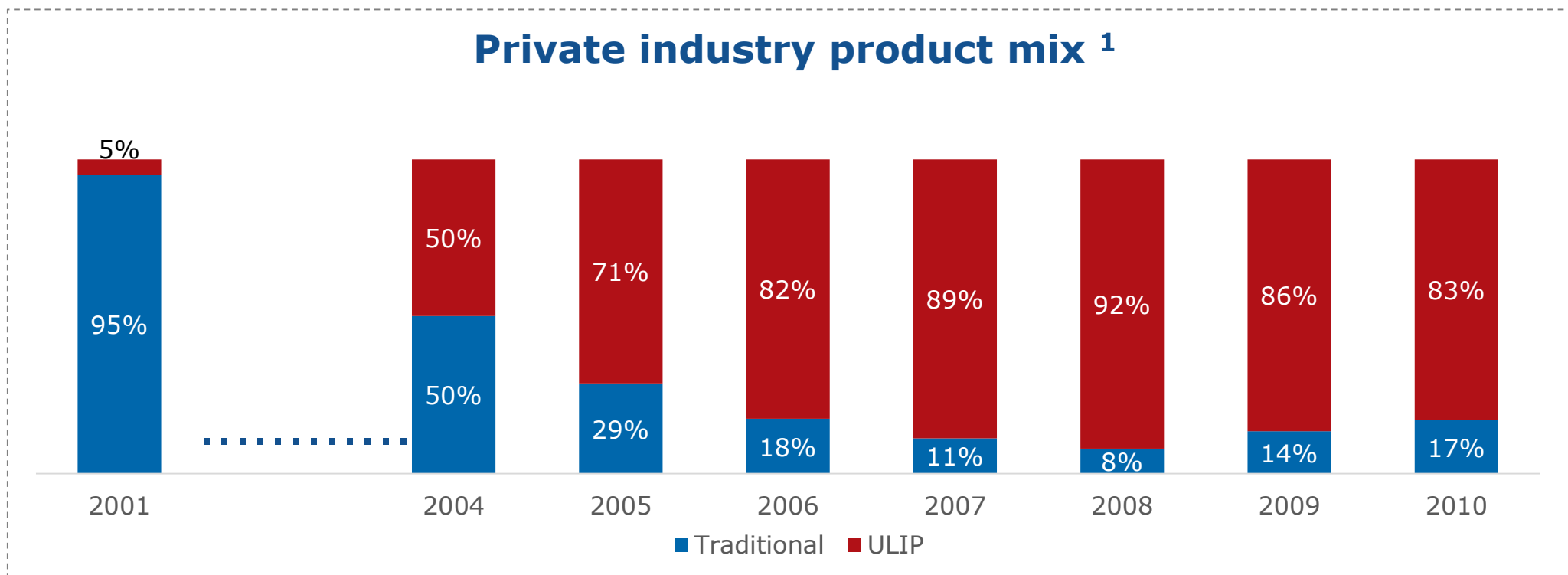


Till recently, the focus was on savings in line with cultural and socio-economic factors



End result - lot of savings were mobilised, but **inadequate risk transfer**

After emulating LIC for a while, private insurers expanded the market with product innovation in savings (ULIPs)



ULIPs mobilised more savings, while competing with other financial/ non-financial products... **but no material risk transfer yet!**

(While total premiums grew at a CAGR of ~26%, sum assured grew slower by ~21% between FY06 and FY10)

HDFC Life crafted propositions across life stages for diverse risk appetites

Customer objective

< 30 years

Save small

30 – 45 years

Borrow

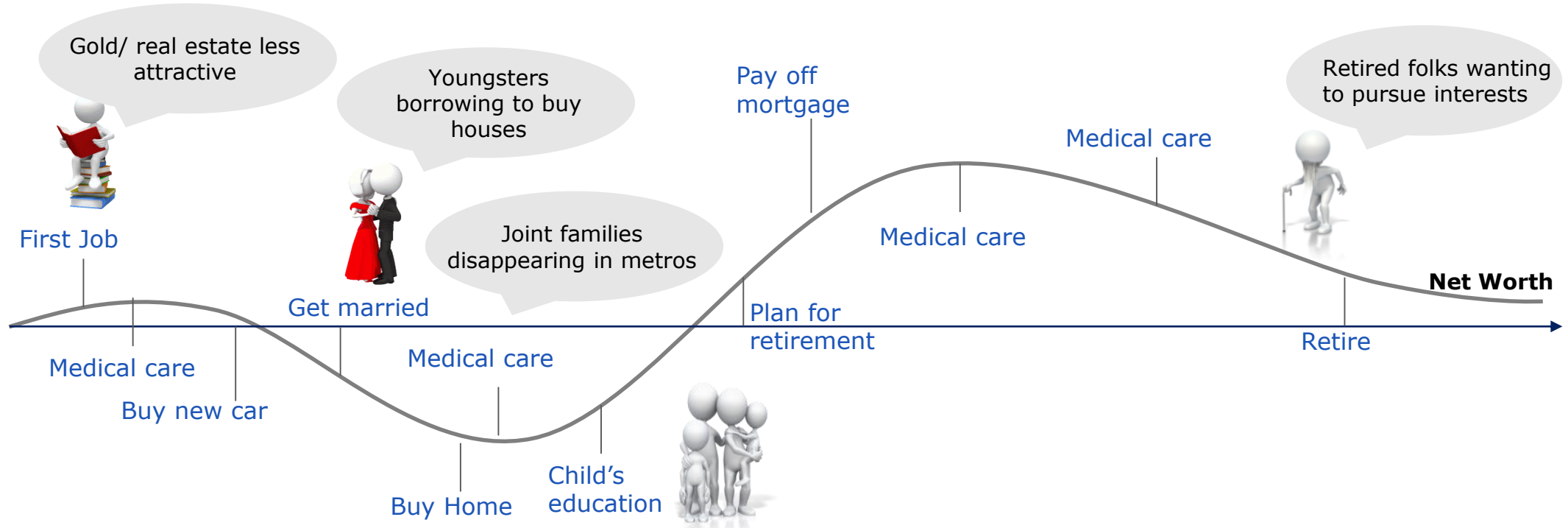
40 – 55 years

Invest

> 55 years

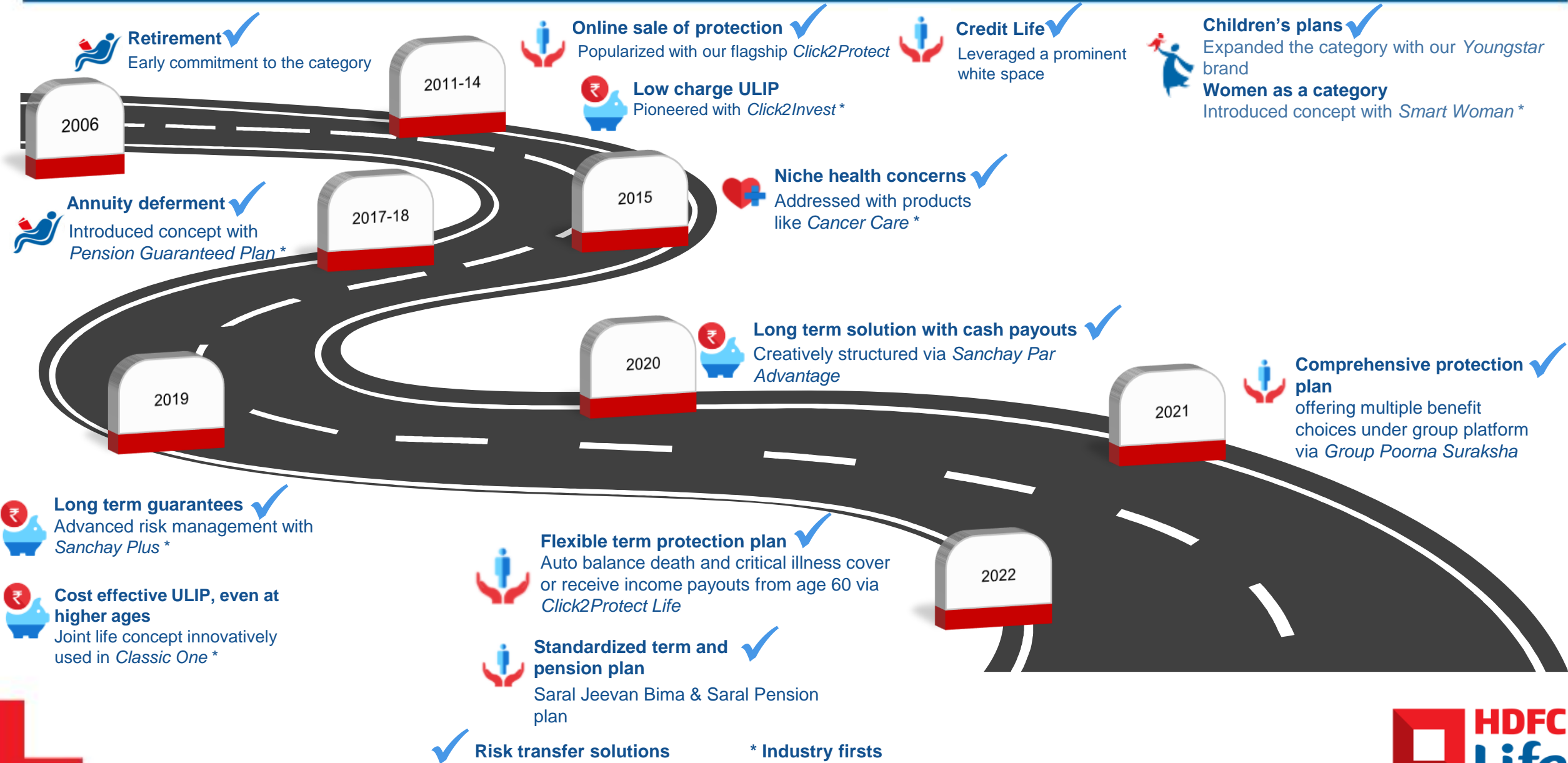
Asset drawdown

Our approach:
Understand and respond to evolving customer needs, socio-economic changes

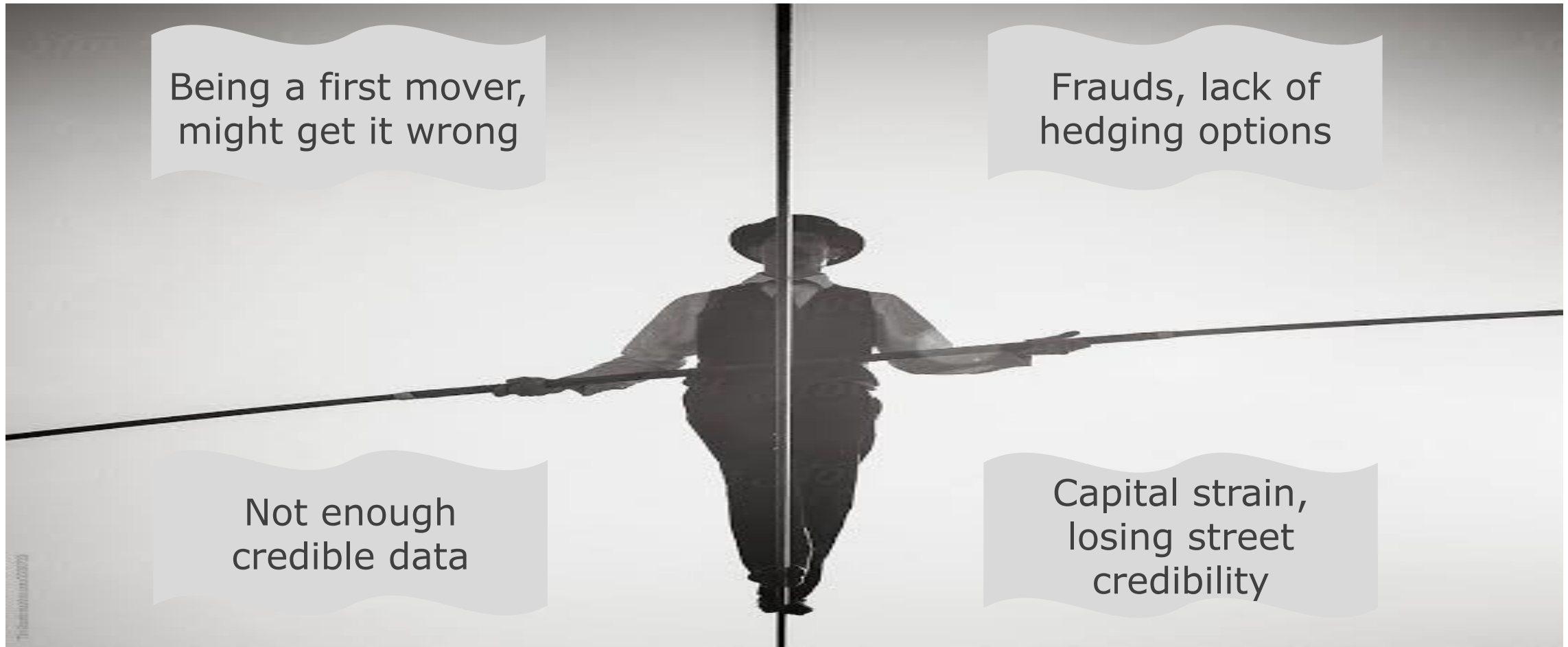


Our approach was validated with a **number of our propositions becoming the industry norm!**

Expanding market through consistent product innovation



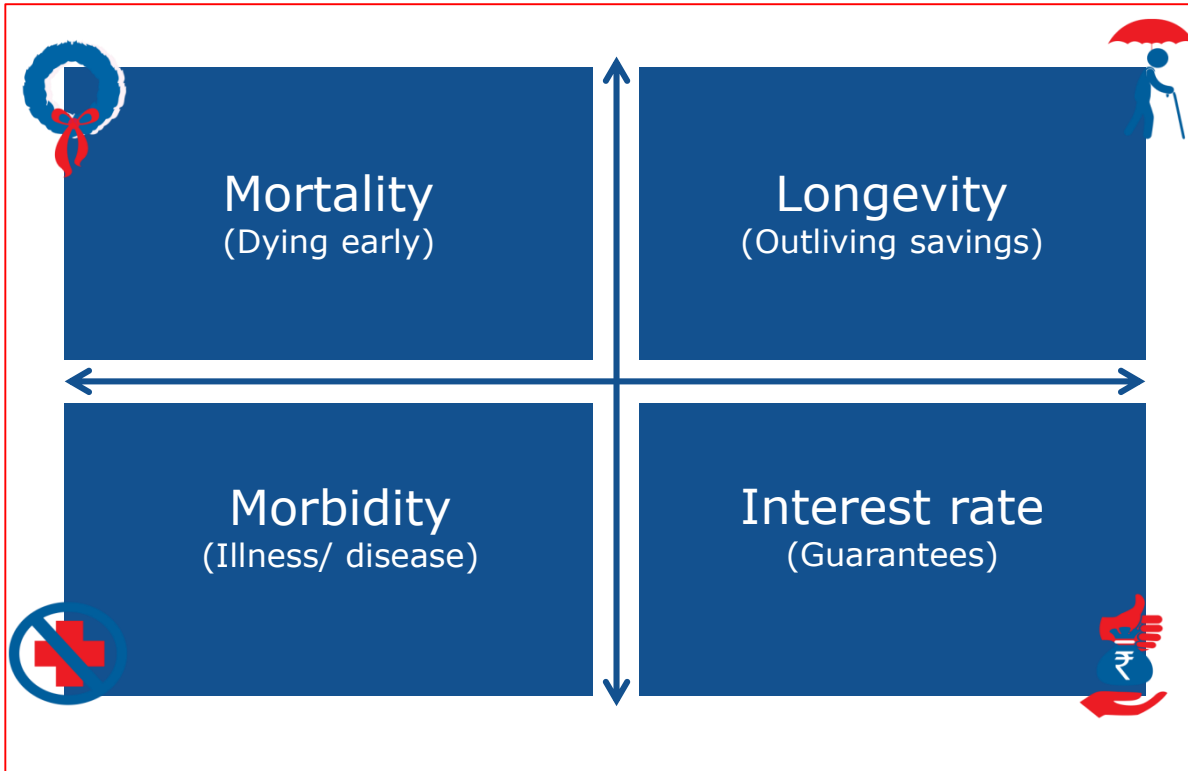
But, risk management can be tricky...



First step is to understand the risks

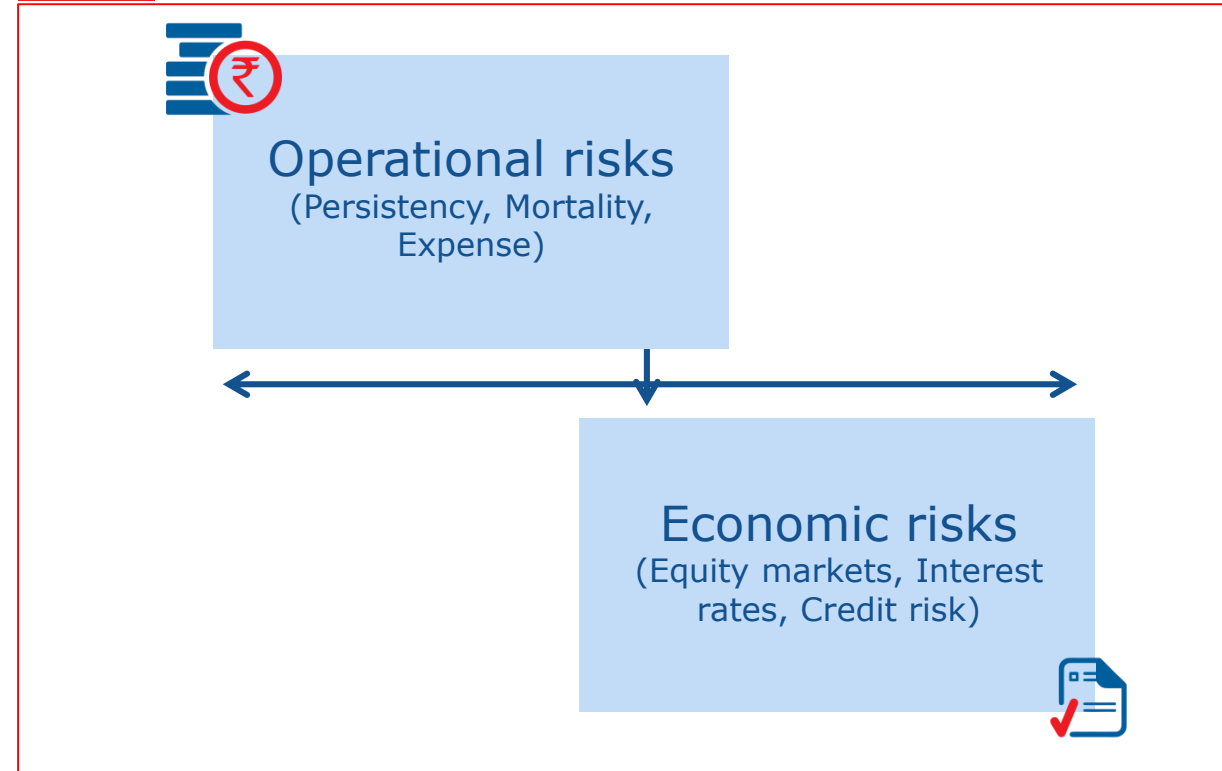
1

Risks we cover for customers



2

Risks intrinsic to our business



Risk management measures - Mortality & Morbidity

1

Reducing incidence of fraud & early claims

Analytics and Data Enrichment

Risk+

AI-ML based risk models, rule engines, credit bureaus etc.

No 'one size fits all' underwriting



Dynamic classification depending on profile, detailed medical & financial underwriting

Regular portfolio review



To identify emerging trends, outliers and take corrective actions

2

Limiting impact on profitability & solvency

Reinsurance



Optimized reinsurance strategies for risk transfer

Catastrophe agreement



To protect excess loss

Proactive reserving



Well provisioned to prevent sudden shocks from current pandemic

3

Balancing pricing & underwriting

Active re-pricing



Ongoing wherever required (mostly applies for Group schemes)

Product boundary conditions



Gate criteria depending upon customer profile and sourcing channel

4

Strong governance & audits @Partners

TPAs & medical centers



Ensure process & quality adherence

Distribution partners



Adherence to best practices and continuous monitoring of risk

Risk management measures - Interest rate & Longevity

1

Product design & mix monitoring

Prudent pricing assumptions



Interest rate, risk margins

High Annuity ROPP business



Return of premium annuity products (>95% of annuity)

Regular monitoring & repricing



Monitoring of interest rates and business mix; repricing to align benefits with prevailing rates

2

Prudent ALM approach

Cash flow matching



For Non-par savings + Group protection portfolio to manage non-parallel shifts & convexity

Duration matching



Immunise overall portfolio to manage parallel shifts in yield curve

Enabled by a deep and liquid long sovereign bond market



3

Natural hedges & residual strategy

Naturally hedged product lines



Protection and longevity
Unit linked and Non-par savings

External hedging



Instruments such as FRAs, IRFs, Swaps, amongst others

4

Validation

Stress test scenarios



Low Interest rates, high persistency

External validation (Milliman)



ALM strategy appropriate to meet policyholder liabilities & positive net asset-liability position under extreme stresses

Risk management measures - Operational and Economic

1 Operational risks: Diversified, balanced, future ready

Addressing key opportunities



Savings, Retirals, Protection

Balanced product mix



To manage risk of changing customer preferences

Diversified distribution



Scale benefits with operating leverage

Future-proof operating model



Significant Tech investments to stay ahead of the curve

Regular experience analysis



Regular, granular review of experience vs assumptions, with corrective actions

2 Economic risks: Conservative, calibrated

Conservative investment strategy



Focus on delivering risk adjusted returns over the long term

Sovereign/ AAA rated ~97%;
< AA assets 0.3% of AUM

Regular monitoring

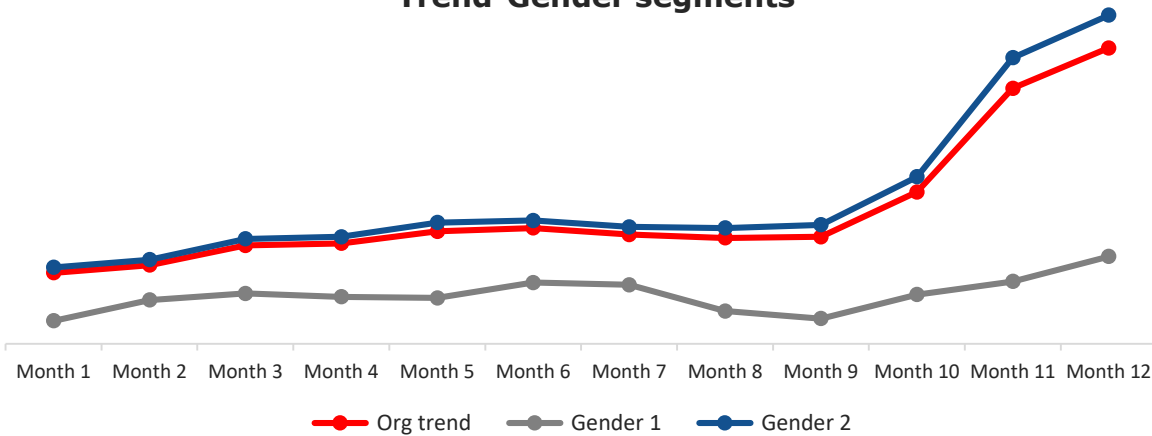


Portfolio review, ALM, Credit risk

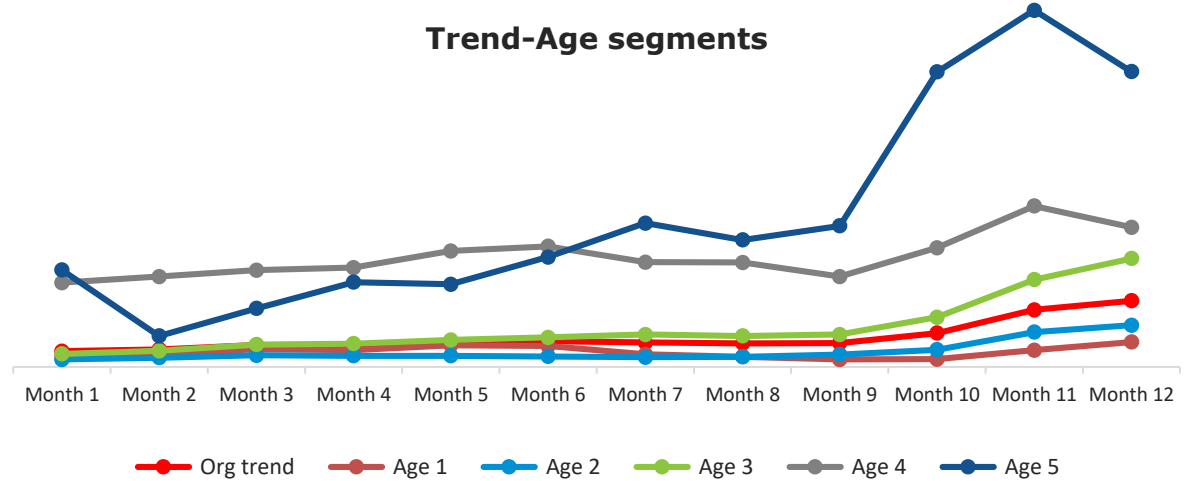
Illustrative example: Automated dashboards of lead indicators help us flag problem areas well in advance

Lead indicators help identify segments that are more vs. less elastic in terms of mortality rate

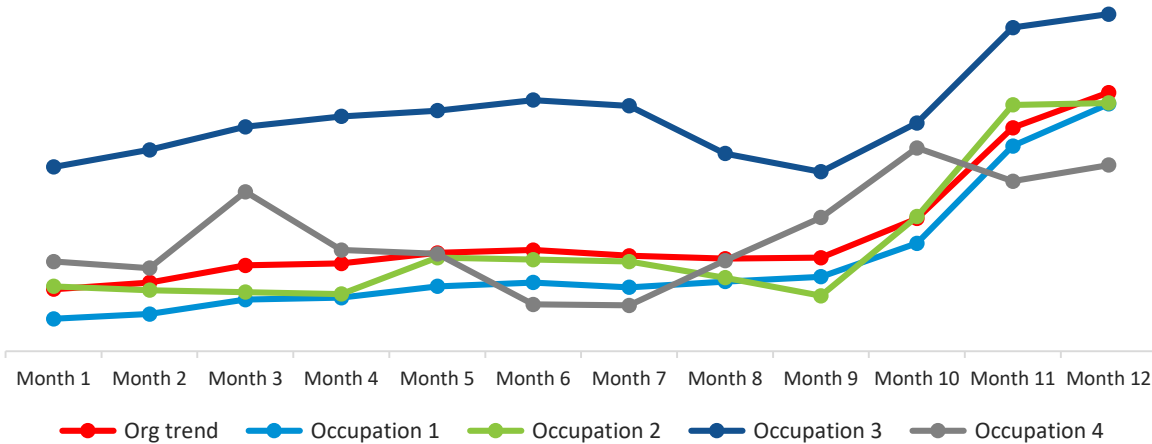
Trend-Gender segments



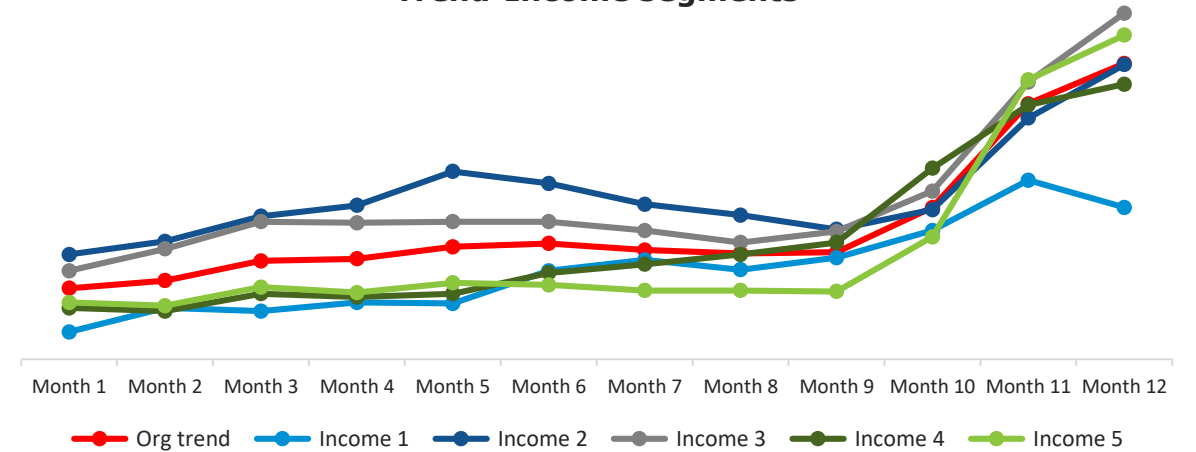
Trend-Age segments



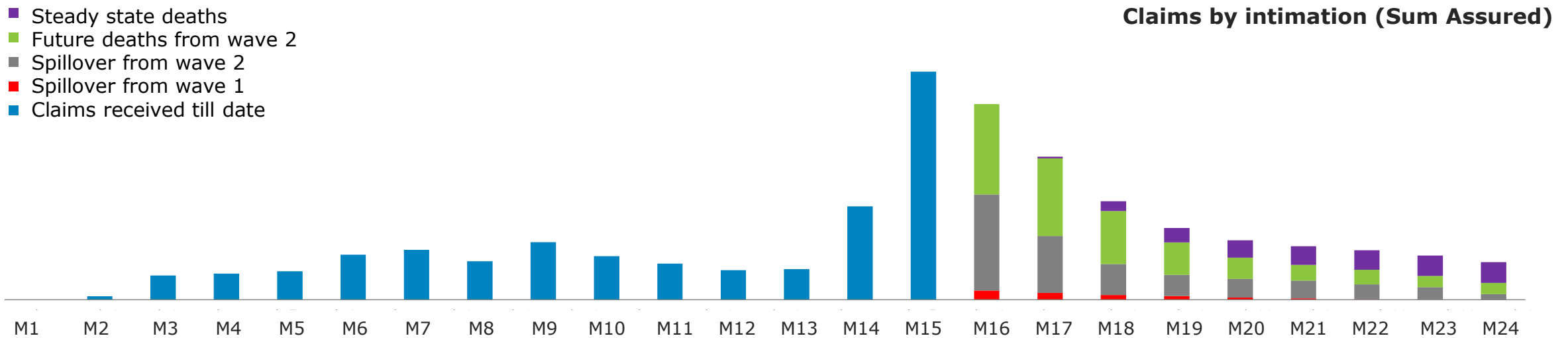
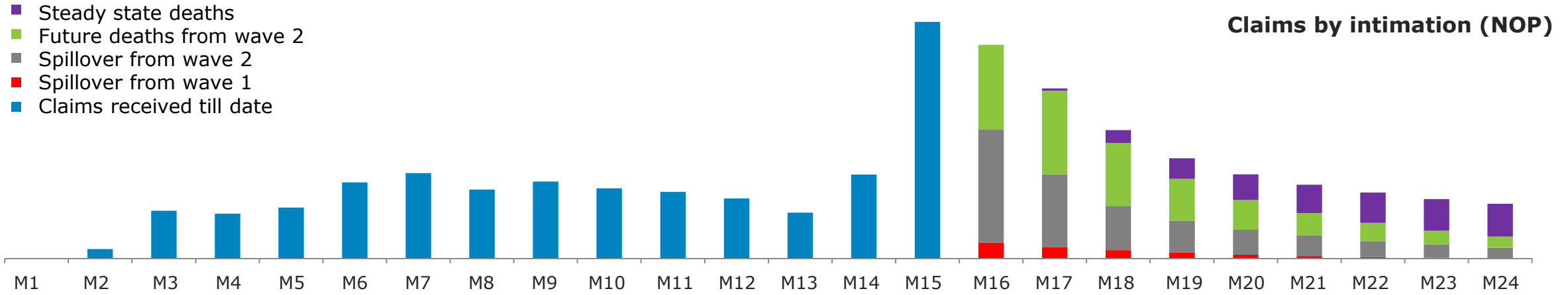
Trend-Occupation segments



Trend-Income segments



Illustrative example: Robust data architecture and analytical talent combine to provide a granular, accurate projection of claims in uncertain environments



Identification of emerging risks is key

Economic

- Lower “forever” interest rates
- Stress on jobs
- Credit defaults

Technology

- Disruption from outside the industry
- Cyber terrorism

Societal / Health

- Change in attitudes towards family life and wealth creation
- Lifestyle, mental illness (e.g. obesity, depression)
- More pandemic outbreaks

Regulatory

- Change in tax laws
- Change in data protection laws

Geopolitical

- Protectionist policies and trade wars
- Tension with neighbouring countries
- Social unrest

Environmental

- Climate change
- Fresh water crisis
- Loss of bio-diversity

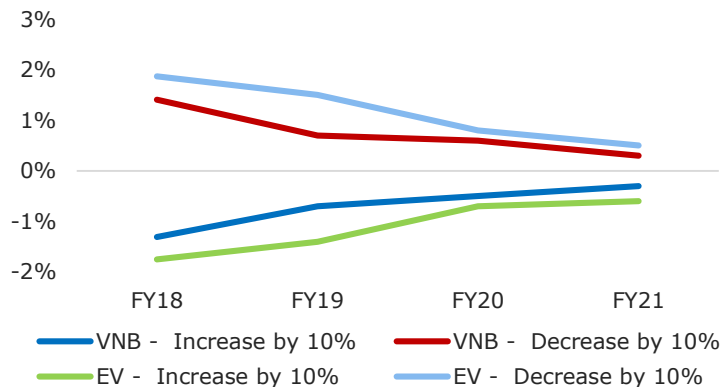


In conclusion: Building a sustainable and differentiated business through risk management

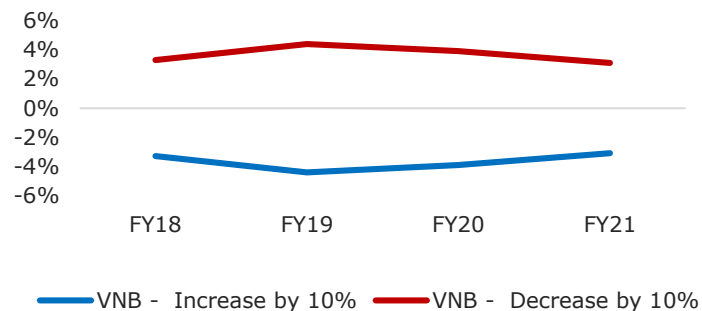
Stable/ declining trend of sensitivity to key risk factors

Operational risks

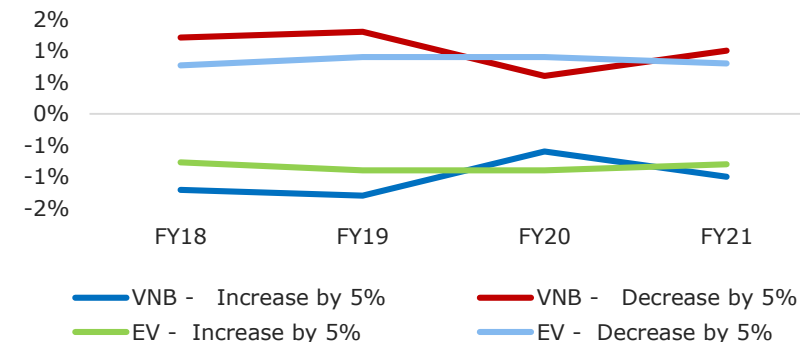
Persistency



Expenses

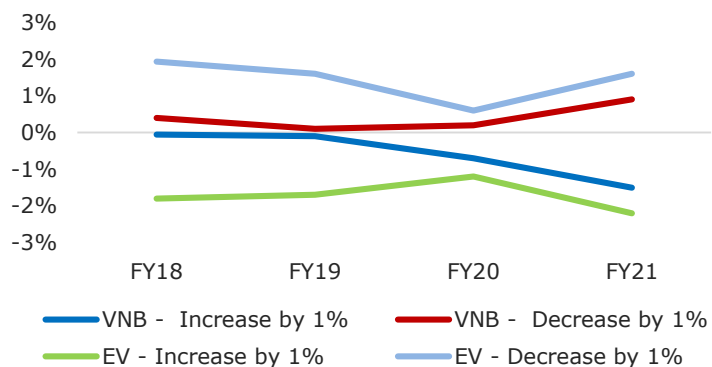


Mortality / Morbidity

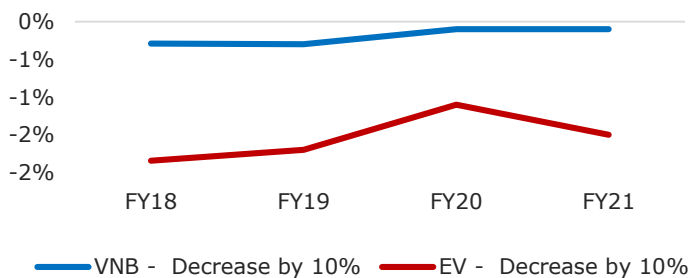


Economic risks

Reference rate



Equity markets



Business of risk transfer

Diversification, balance, innovation

Disclosures to aid monitoring

- Economic value translating into cash
- Actual experience vs assumptions
- Sensitivity/ volatility

Thank You

