

HDFC STANDARD LIFE

Investor Presentation

July 2010

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Indian Life Insurance

“An Ongoing Growth Story”

01

An ongoing growth story

Liberalisation has greatly developed the market...

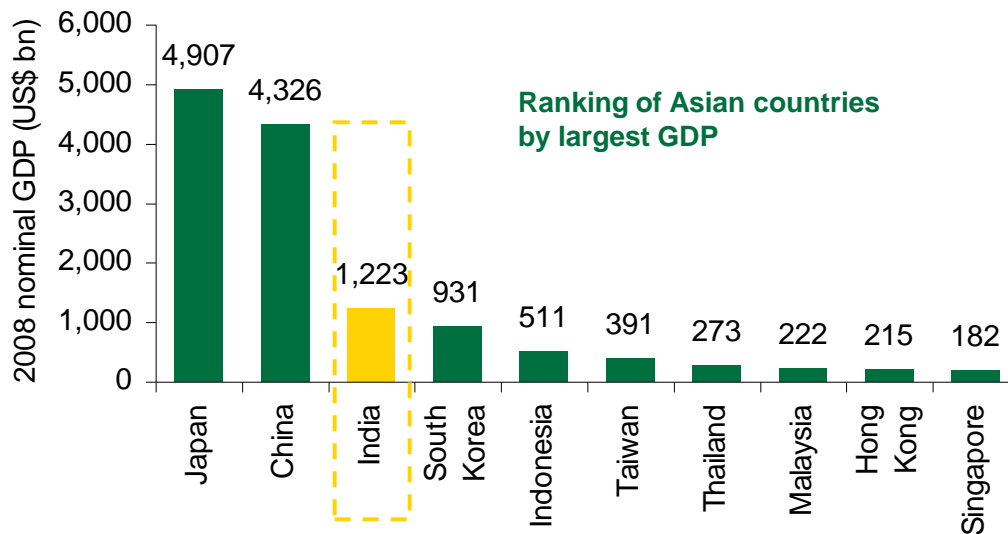
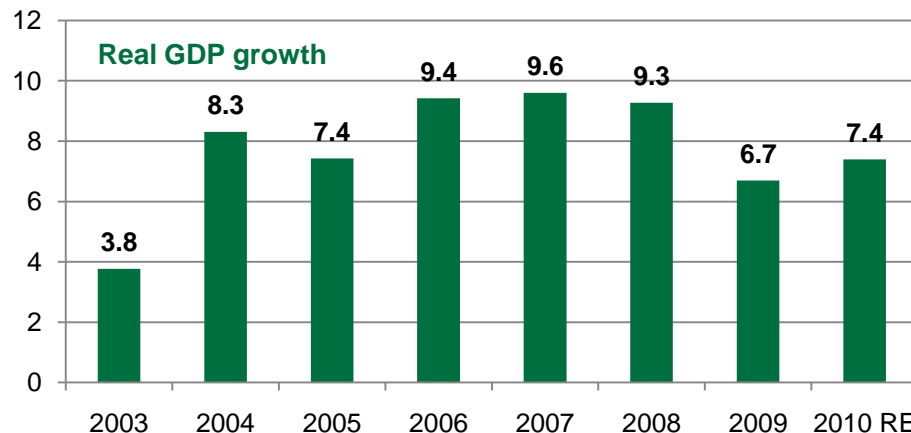
	Pre-liberalization 1999-2000		Post-liberalization 2009-10
Life insurance penetration (%)	1.77	➔	4.5
Life insurance density (Rs.)	342	➔	1,854
No. of players	1	➔	23
New business premium (Rs. Bn)	91.23	➔	1095
Average sum assured (Rs.)	57,000	➔	232,110
Average premium (Rs.)	4,200	➔	11,257 (LIC) 21,005 (Private)

Source: Swiss Re Sigma No. 3/2009, IRDA, Life Insurance Council

An ongoing growth story

...and the backdrop is good for further development

- India weathered the global financial crisis successfully
- Robust GDP growth: 8.5% 5-year CAGR (2003-2008)
- Increasing per capita income: 6.8% 5-year CAGR (2003-2008)
- Estimated GDP growth of 8-8.5% in 2010-11



An ongoing growth story

The demographic transition favours the industry...

India's population to increase from 1,029 mn to 1,400 mn¹ between 2001-26

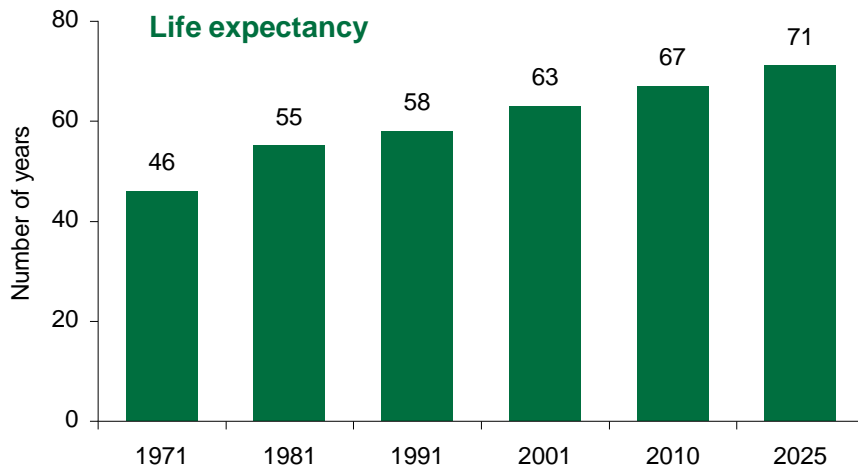
- The largest in the world

Demographic transition

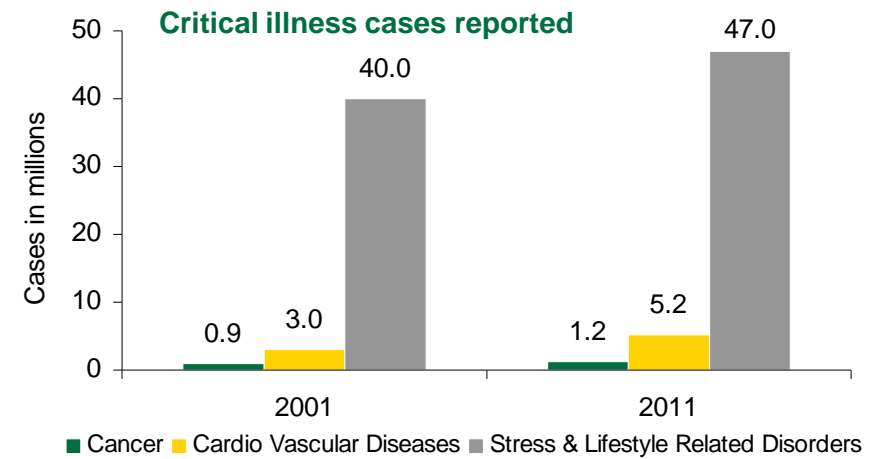
- Will raise the proportion of working-age people, producing wealth and increasing the market for insurance products
- With the fall in youth dependency ratio, gross domestic savings will rise
- In addition, the participation of women in the workforce is also likely to improve, creating further wealth
- Larger population with more adults is positive for savings, investment and overall GDP

Economic growth will push household incomes higher

...while life expectancy creates opportunities in pensions, and protection against lifestyle health disorders can also increase



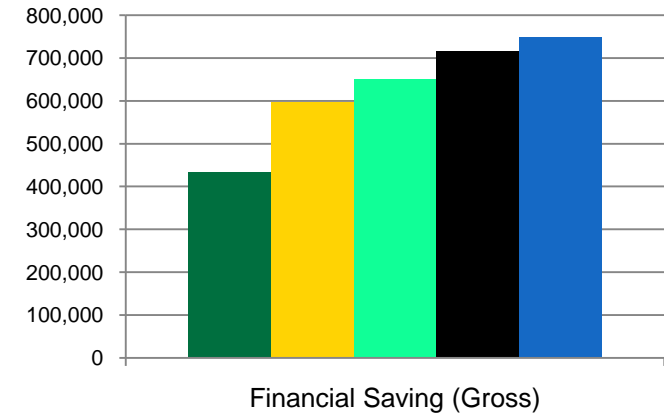
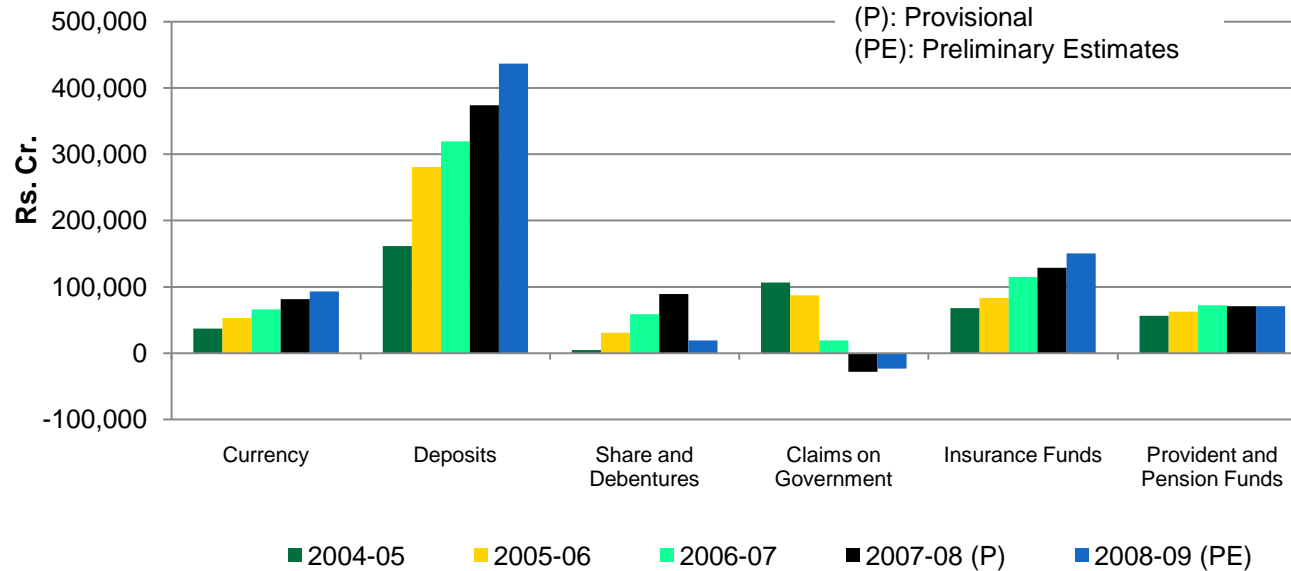
- Expectation of life at birth was 63 years in 2001; currently is over 66 years
- Strongly underlies the need for Pension Products



- Incidence of lifestyle related disorders is increasing
- Opportunity for Standalone Health Products

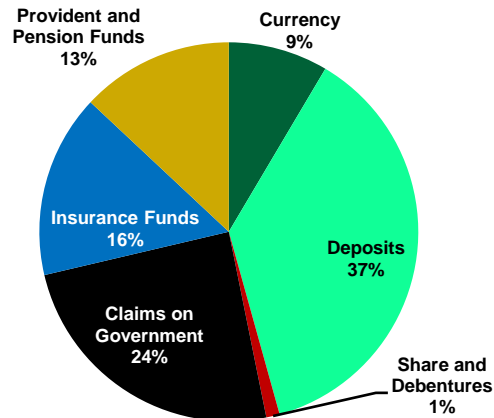
An ongoing growth story

Household financial savings have risen substantially...

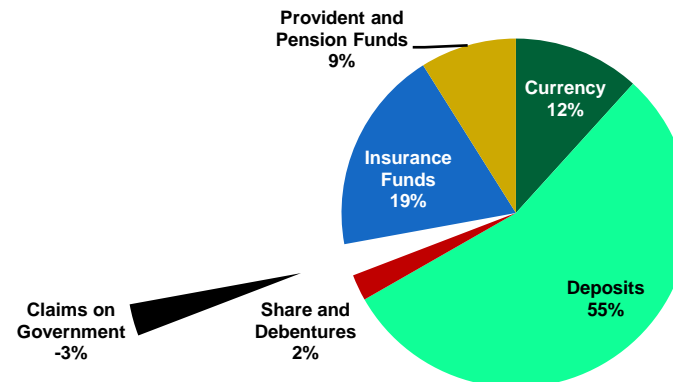


...but there is still scope for diversification into insurance

Financial savings (2004 – 2005)



Financial savings (2008 – 2009)



Source: RBI

An ongoing growth story

Overall, insurance is poised for continued growth...

Macro backdrop is positive

- More adults
- Higher income
- New product demand

Three avenues for near-term growth

- Addition of new customers
- Extension to new geographies
- Existing customers buy more

Addition of new customers through better penetration...

**Very low
insured
population**

- India constitutes 16% of world population but only 1.97% of the world life insurance market (2008)
- India's household savings rate at 34.6% in 2008
- Out of every 100 persons in India, only 3 are covered by insurance or pension
- Mere 20% of the insurable population (age group 20 to 60) covered by life insurance
- Potential to cover remaining 80% which is without life insurance protection or pension protection
- Huge potential to tap the rural populations
 - 0.25 agent / 1,000 pop* compared to 1 / 1000 pop in urban areas
 - Premium: 2% - 2.5% of GDP; Rs 60 per capita* compared to 5.9% - 6.3% of GDP; Rs 1,800 per capita for urban areas

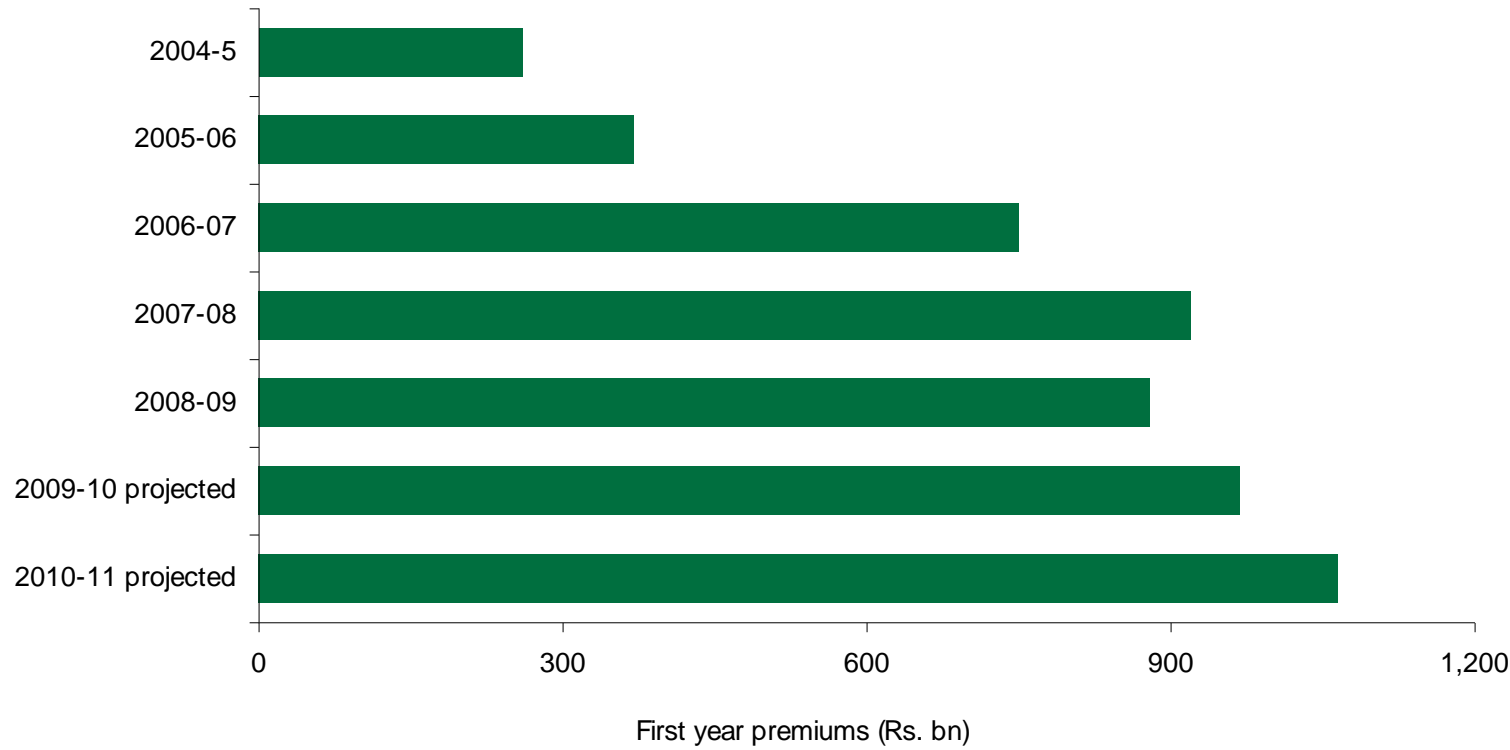
Source: IRDA, NCAER, CERG

* Data as of 2006

An ongoing growth story

Overall tremendous potential for growth, still untapped...

First year life premiums (Rs. bn)
 Projections at growth of 10%* (assuming GDP growth at 5% and GDS > 30%)



*Own estimates

An ongoing growth story

...and ongoing government support can be expected

- Insurance industry is the largest investor in the Indian equity market

Industry	Net Inflow (March 31, 2010) Rs. billion
Life insurance	611.25
Foreign institutional investors	215.68
Mutual fund	-105.12

- Life insurance industry also participates significantly in Government borrowings
- The Government recognises the key contribution of the insurance sector in supporting the nation's economic development

Indian Life Insurance

“Market Analysis”

02

New business

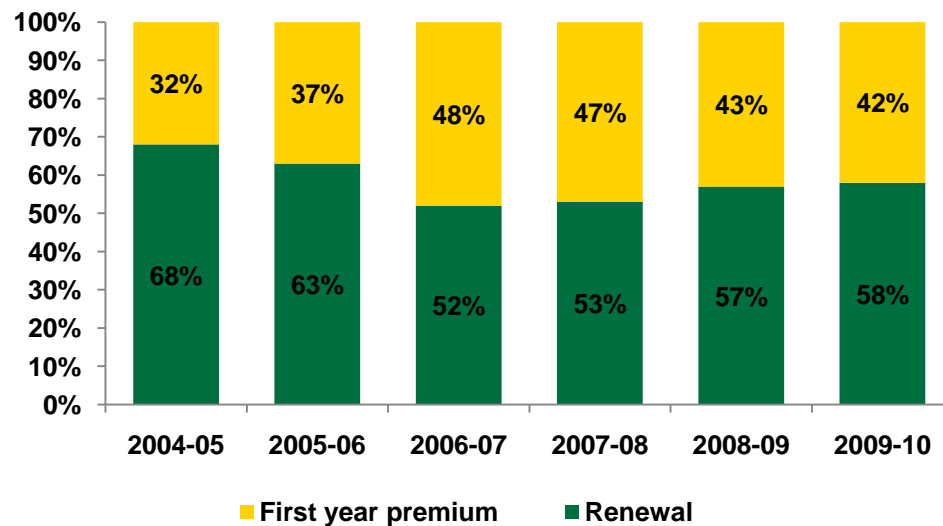
After less than a decade, the private sector has a significant share of the market for new business...

2009-10 market share by new business APE

...and sales have weathered the global financial crisis well



Rising industry renewal premiums indicate a maturing market and is supportive to profitability



Key changes – regulations

Recent regulatory changes will pose challenges...

FY 2009-10

- PFRDA launches pension solutions for unorganised sector
- Committee set up for review of multi-ties for banking companies
- Corporate governance framework in process
- Changes in investment and accounting regulations likely
- Disclosure framework launched
- Circular for cap on ULIP charges
- Swarup committee on agency commissions

...disclosure norms facilitate IPOs

- The IRDA has finalised guidelines for public disclosure effective from March 31, 2010
 - largely consistent with standards prescribed by IAIS (International Association of Insurance Supervisors)
 - Insurers to host on website disclosures of at least 5 years latest by April 15, 2010
- The disclosures proposed can be grouped into:
 - Financial information
 - Analytical ratios

FY 2010-11

- Significant regulatory changes with respect to unit linked products
 - Lock-in period of 5 years
 - No front ending of charges
 - Minimum premium paying term of 5 years
 - Increase in risk component
 - Minimum guaranteed return on pension products
 - Limit on surrender charges
- Exposure draft on persistency

Periodicity of reporting	Duration	Medium	Other conditions
1. Quarterly financial data	Within 45 days from the end of the period	Website	Explanation of (i) variation in surplus / deficit or net profit / net loss after tax is in excess of 10% or Rs.5 crs, whichever is higher; (ii) variation in exceptional or extraordinary items is in excess of 10% or Rs. 1 crore, whichever is higher
2. Half yearly financial data	2 months post quarter end	Website/Print	Limited review by auditors; Report placed before BoD or committee
3. Annual financial data	Within 6 months from the end of the period	Website/Print	

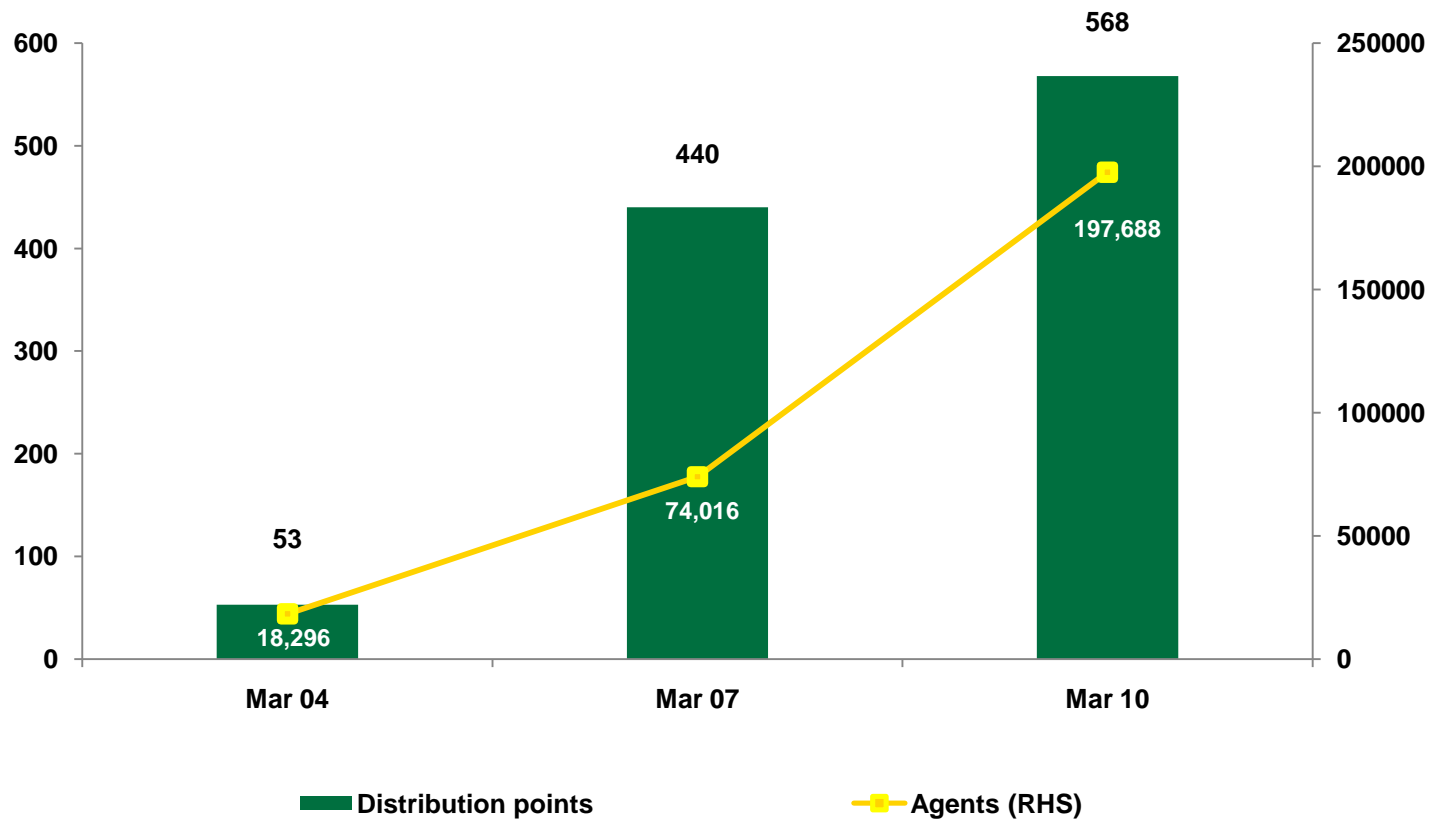
HDFC Standard Life

“Operations and Performance”

03

Operations and performance

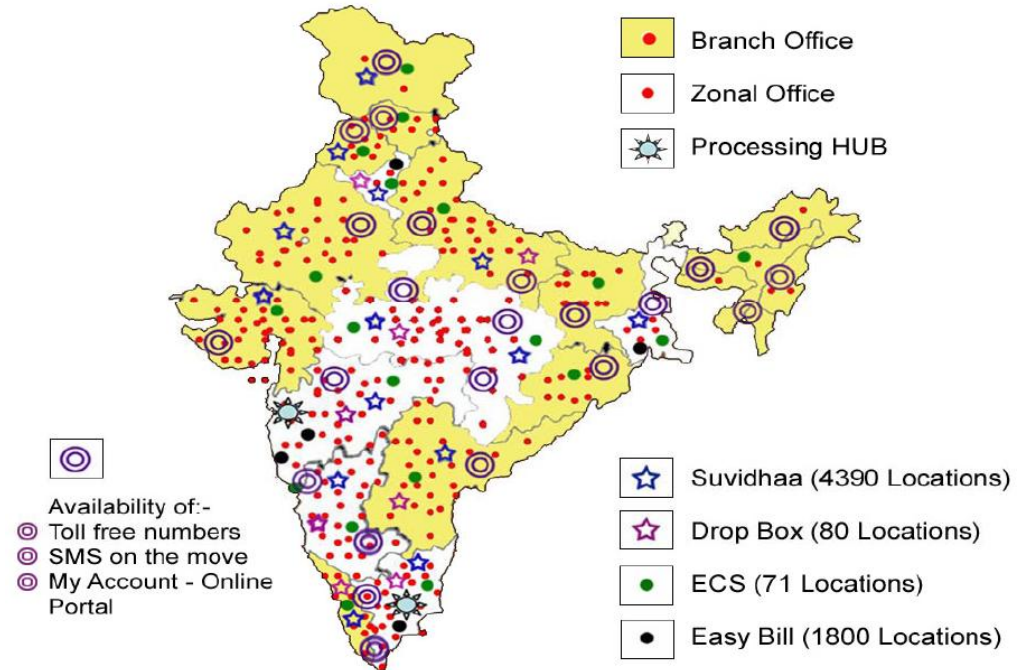
Growth through a comprehensive distribution network covering over 700 cities ...



Operations and performance


...supported by excellent customer service nationwide

- Extensive branch network – reach to customers
- Dedicated Email team for resolution of email requests/queries
- SMS Services for customers ‘On the Move’ through SMS key words
- Web based services enhanced for customers and channel partners
- Constant evaluation and capture of “Voice of Customer” through renowned research agencies for experience at various touch points
- Drishti – Our exclusive Customer Contact Center for customer queries

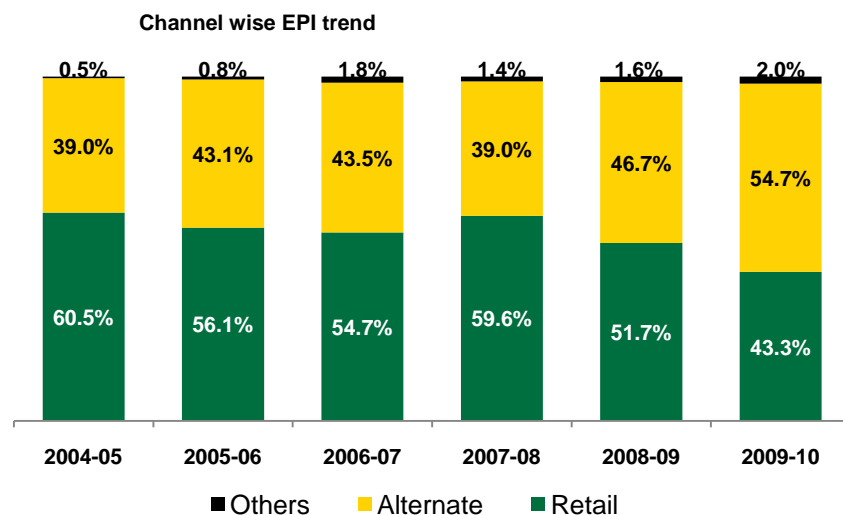


Operational Highlights

A comprehensive product portfolio to meet customer needs...

Young and single	Just married	Married with children	Nearing retirement
			
Savings <ul style="list-style-type: none"> — Endowment Assurance — Money Back — Simplilife Health <ul style="list-style-type: none"> — Surgicare, Critical care 	Savings <ul style="list-style-type: none"> — Joint life plans — Unit linked Endowment — Simplilife Protection <ul style="list-style-type: none"> — Term Assurance — Loan cover term 	Savings <ul style="list-style-type: none"> — Children's Plan — Unit linked Young Star Investments <ul style="list-style-type: none"> — Single premium whole life — Wealth Builder Pension	Investments <ul style="list-style-type: none"> — Single premium whole life — Wealth Builder Health <ul style="list-style-type: none"> — Surgicare, Critical care Pension

...a diversified mix of distribution channels...



Rs. Bn.

Channel	FY 05-06	FY 06-07	FY 07-08	FY 08-09	FY 09-10
1. Alternate	3.7	5.8	9.5	11.9	14.0
2. Retail	4.8	7.3	14.5	13.2	11.1
3. Others	0.1	0.2	0.3	0.4	0.5
Total	8.6	13.3	24.3	25.5	25.6

1. Alternate includes banks, brokers, other corporate agents and international business

2. Retail is the tied agency sales force

3. Others includes direct sales, telemarketing, online sales etc., rural bima bachat sales

Operations and performance

...supported by strong bancassurance relationships...



HOUSING DEVELOPMENT FINANCE
CORPORATION LTD.



Saraswat Bank

The Saraswat Co-operative Bank Ltd. (A Scheduled Bank)



Operations and performance

Operational efficiency drives productivity...

Automation & centralization

- Managed growth within a centralized virtual organization
- First life insurer with Automated Workflow Processes
- Digitized workflow eliminates inefficiencies of paper based systems
- Multiple processing hubs and data centres with 'failover' capability – more than Disaster Recovery
- Protecting Integrity of Policy Administration System through stringent Change Management Process and using Identity Management Solutions for error free access control

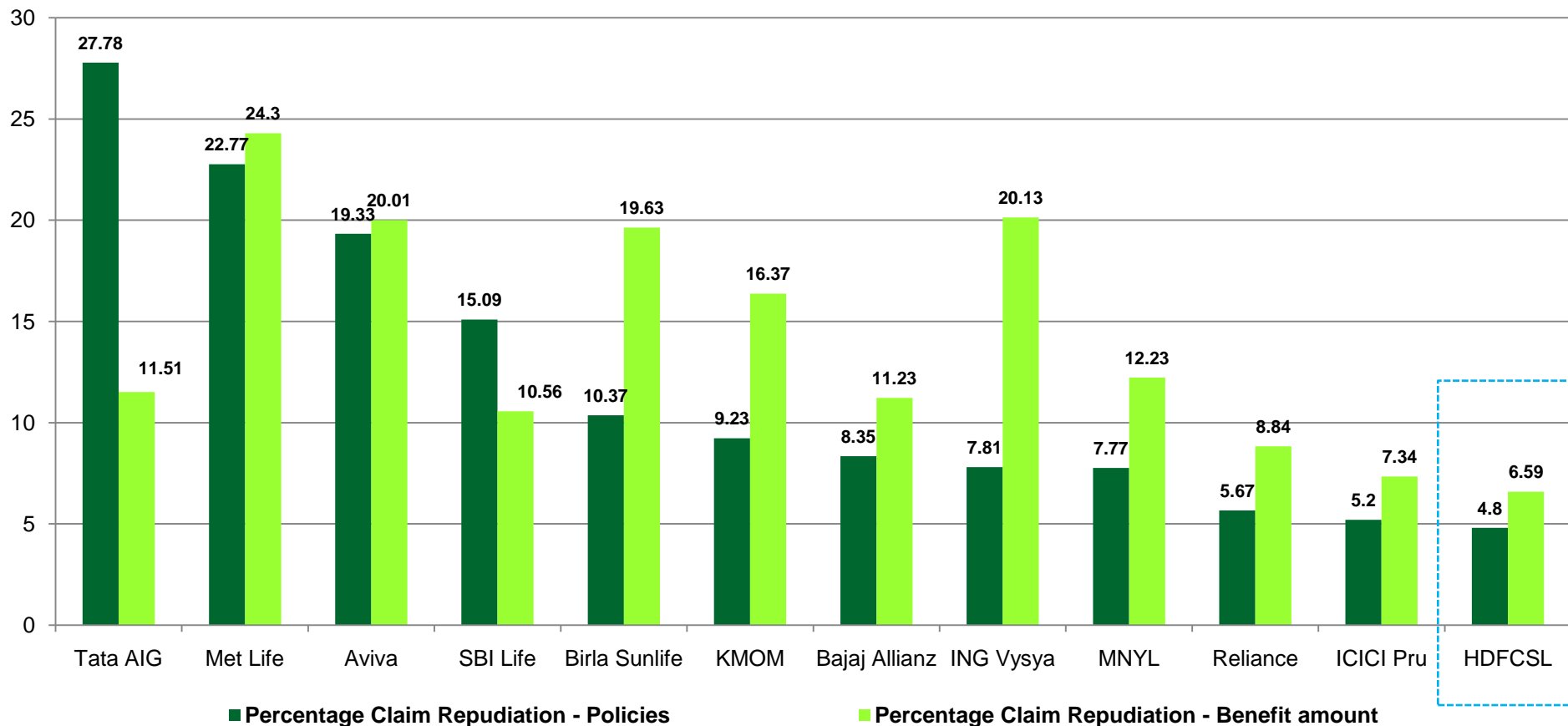
Spend management initiative

- Renegotiations of all major lease agreements related to office space to avail of better rates
- Active negotiation of all significant contracts with vendors and focus on bulk purchases to ensure better and cost-effective rates
- Savings of 20%-40% being realized across different commodities
 - Category Management (through Value Analysis / Value Engineering) to identify better / alternate ways of spend (including by modifying the specs)
 - Using best in class sourcing techniques (including reverse auctions) so as to source commodities at the most competitive rates
 - Realize savings by minimizing scope for non-compliant / wasteful spends by incorporating a workflow process. (e.g. Travel Management System)
 - Realize savings in terms of delivered costs, through CENVAT credit
 - Significant savings in terms of delivered costs through proper contracts. Over 110 contracts, in case of around 25 categories have been negotiated

Operations and performance

...and responsive customer service

Lowest Claims Repudiation Ratio - Individual Business FY2008-09



Source: IRDA Annual Report

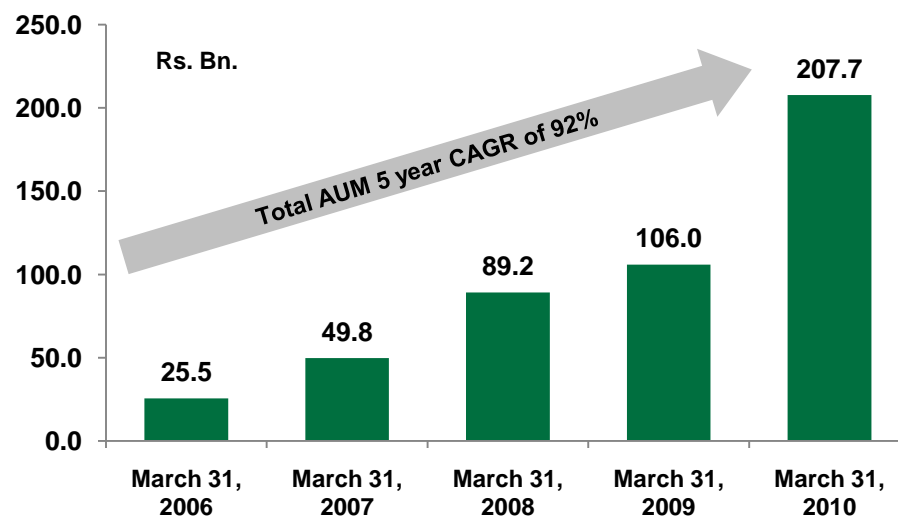
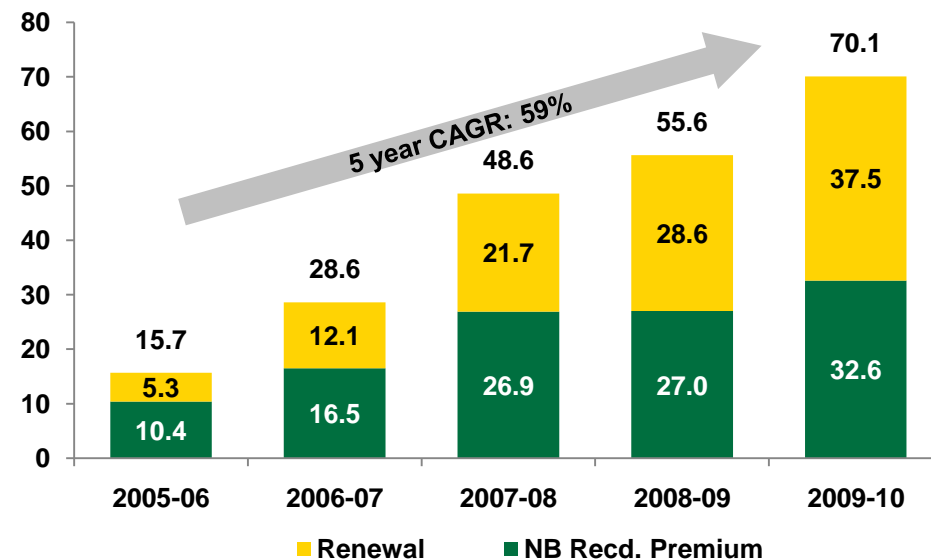
HDFC Standard Life

“Financial Highlights”

04

Financial highlights

Strong growth in total premiums and higher share of renewals...

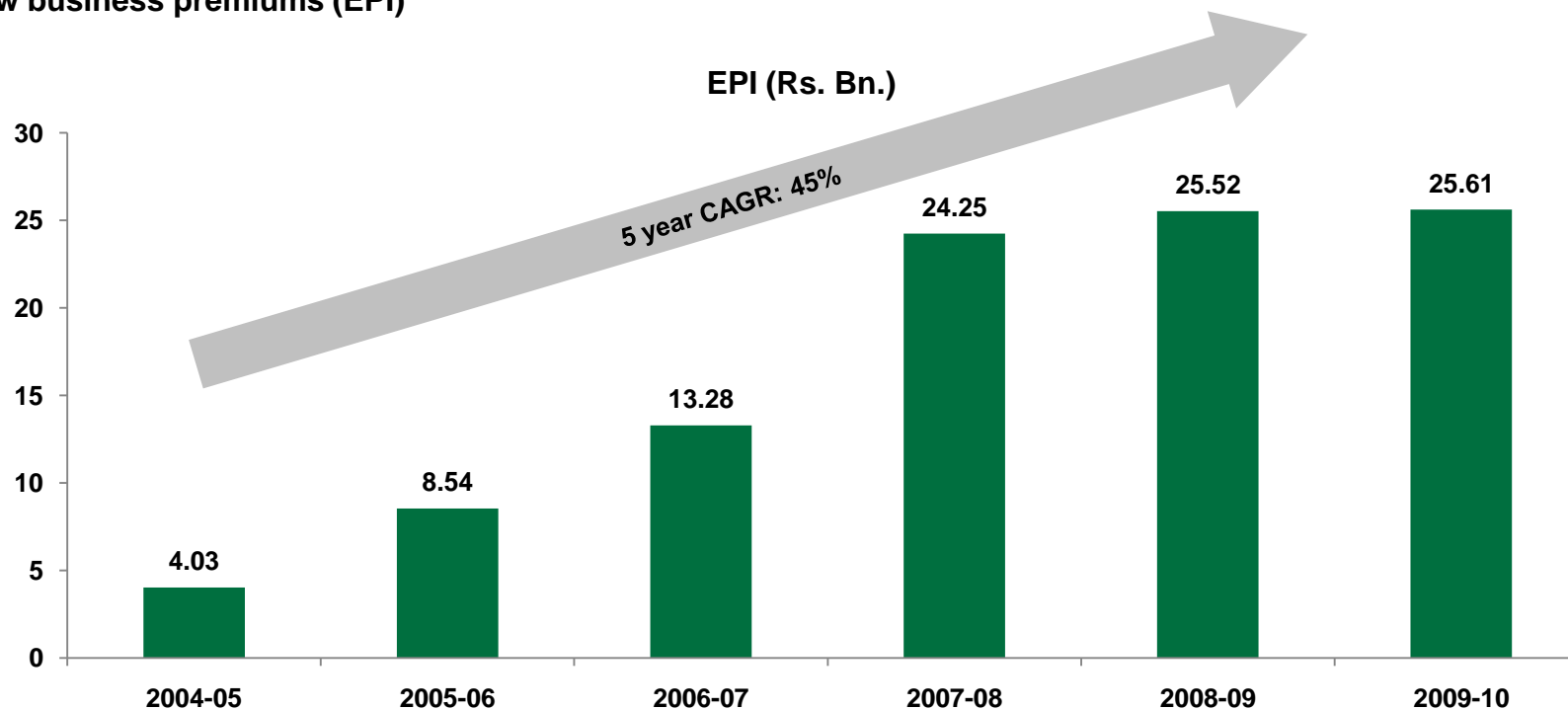


... assets under management as on March 31, 2010 have nearly doubled

Financial highlights

Premiums are growing and average case size is high

New business premiums (EPI)



Note: EPI is effective premium income which is summation of annualized regular premium and 10% of single premium

Financial highlights

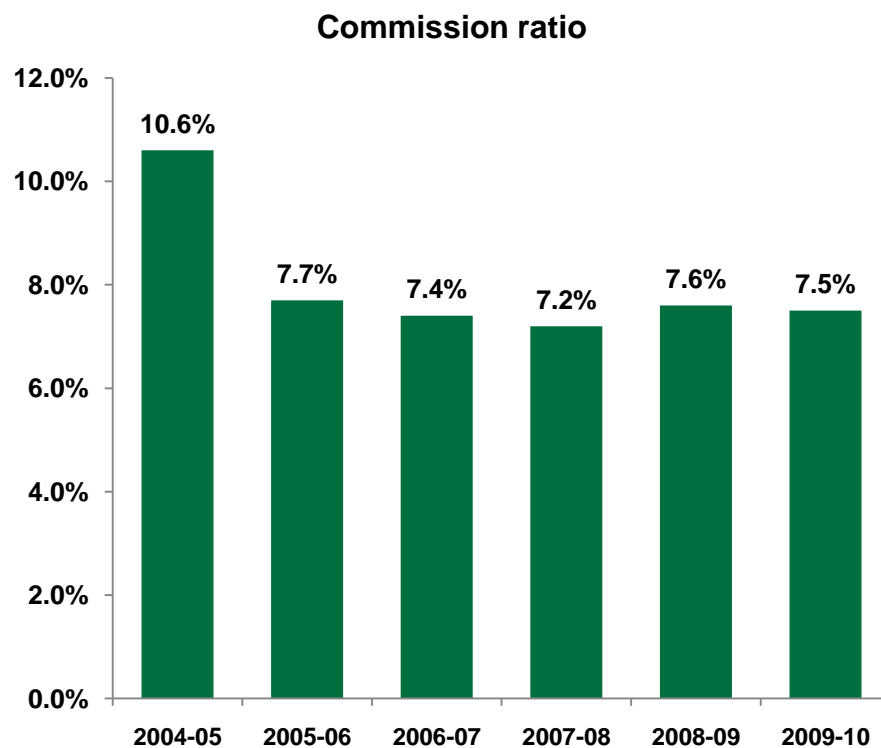
Renewal premiums exceed new business premiums for the first time

Rs. Cr.	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	CAGR
Regular Premium							
New	2984	2539	2280	1317	818	382	51%
Renewal	3748	2861	2173	1210	530	200	80%
Single	273	165	405	332	225	104	21%
Total Premium	7005	5565	4858	2859	1573	686	59%
EPI	2561	2552	2425	1328	854	403	45%

New business growth slowed down due to the global economic crisis..
.. but renewal premiums continued to show strong growth

Financial highlights

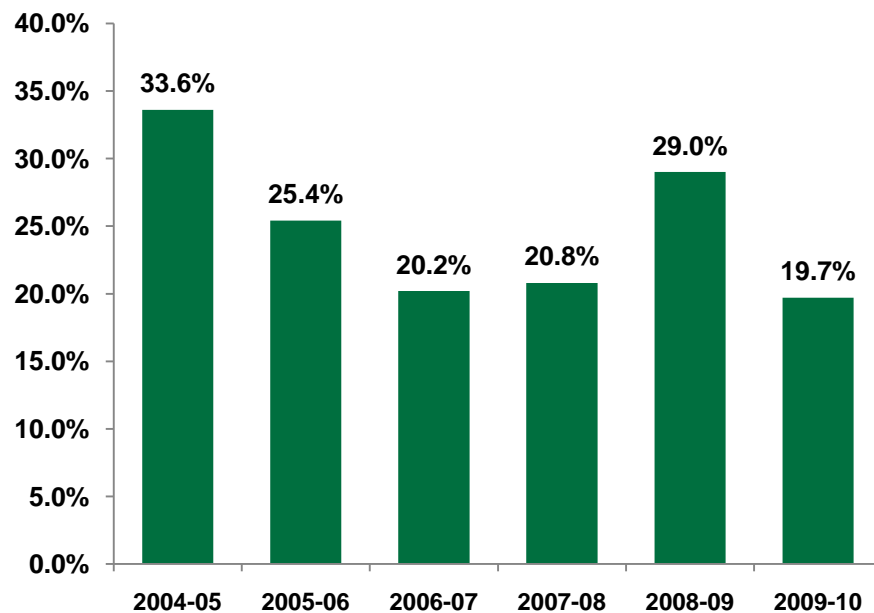
Commission rates have stabilised as a proportion of gross premiums



Financial highlights

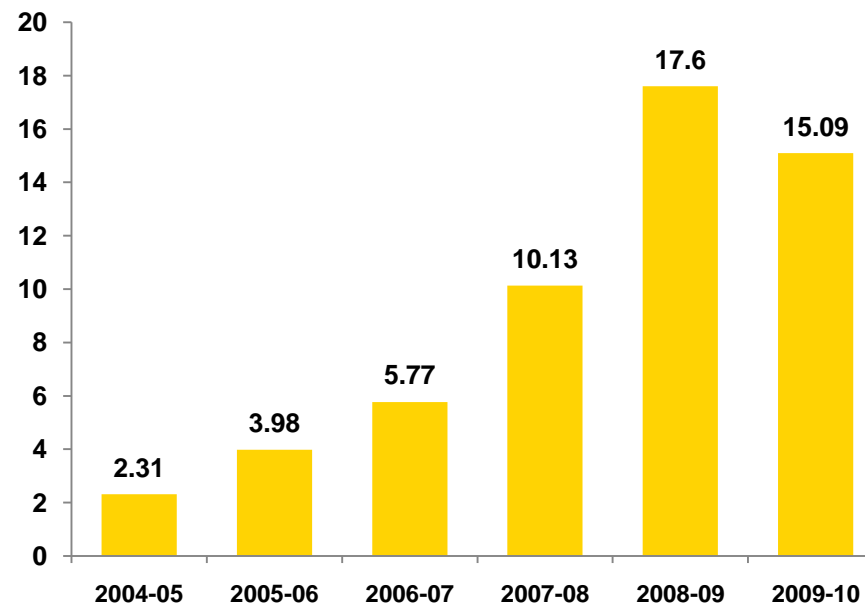
Rise in 08-09 expense ratio due to one-off investments in manpower expansion and bancassurance customer base, coupled with impact of lower persistency

Expense ratio



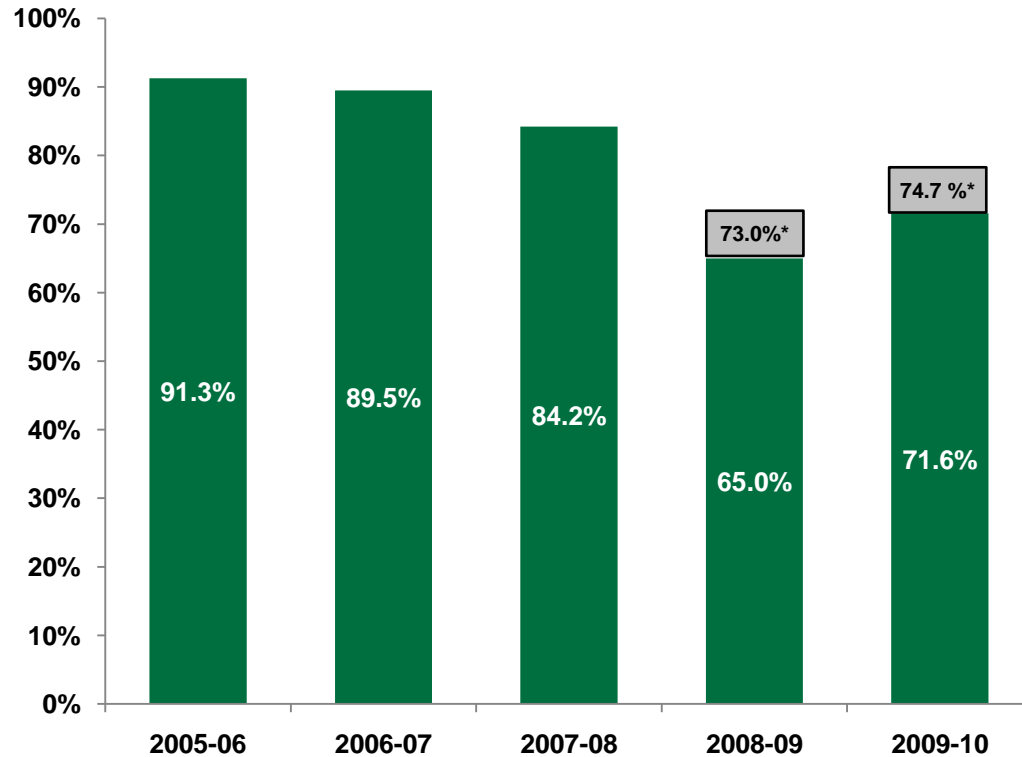
Rs Bn

Expenses



Financial highlights

... improved individual regular premium conservation ratio in 2009-10



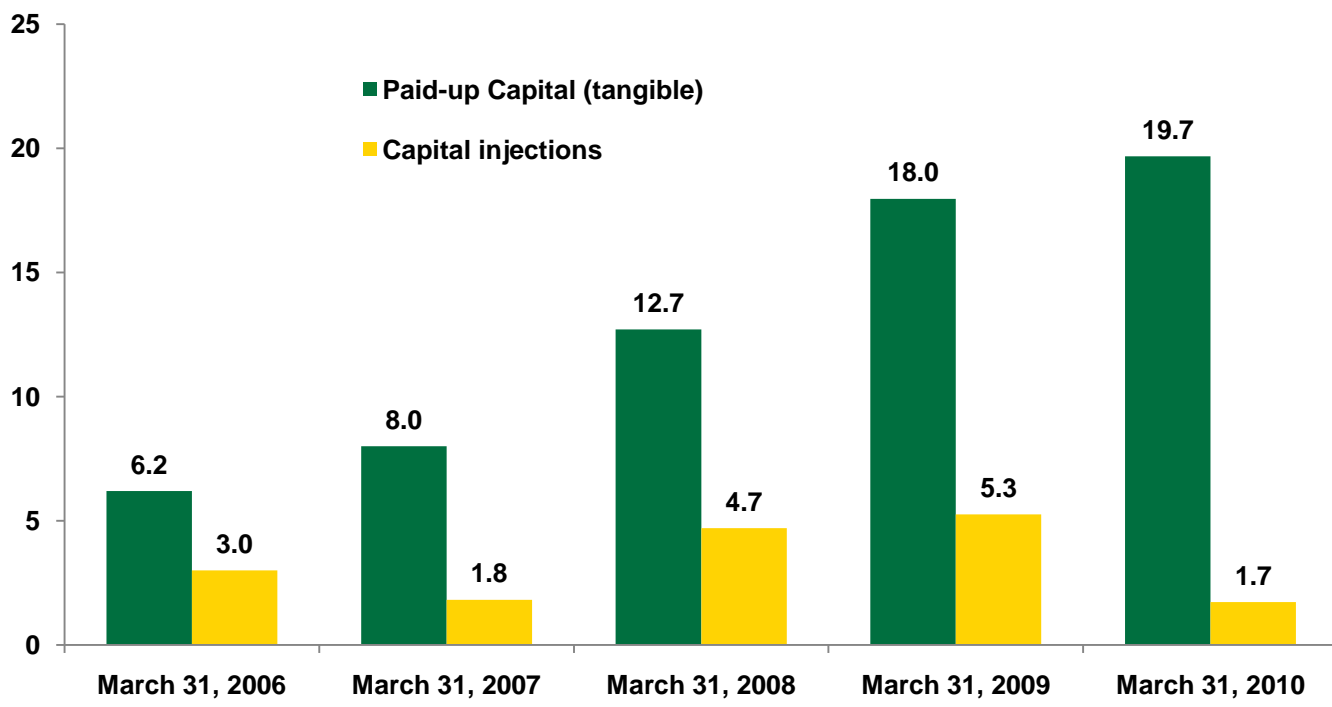
Impact of products with premium reduction option wore out in the latter half of 2009-10

While this was an industry wide phenomenon we withdrew the product earlier than others

* Excluding products with the premium reduction option

Financial highlights

Reduction in capital injections...



Awards and Accolades

05

Awards and accolades

“Product of the year 2010” award for HDFC Young Star Super

- Global consumer recognition standard that recognizes the best innovations in retail products
- A consumer verdict for best innovations
 - based on a survey of 30,000 Indian consumers by AC Nielsen
- Innovative product features appreciated by customers
 - triple insurance benefit,
 - bumper additions,
 - low premium allocation charges,
 - low fund management charges; and
 - low policy administration charges

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Awards and accolades

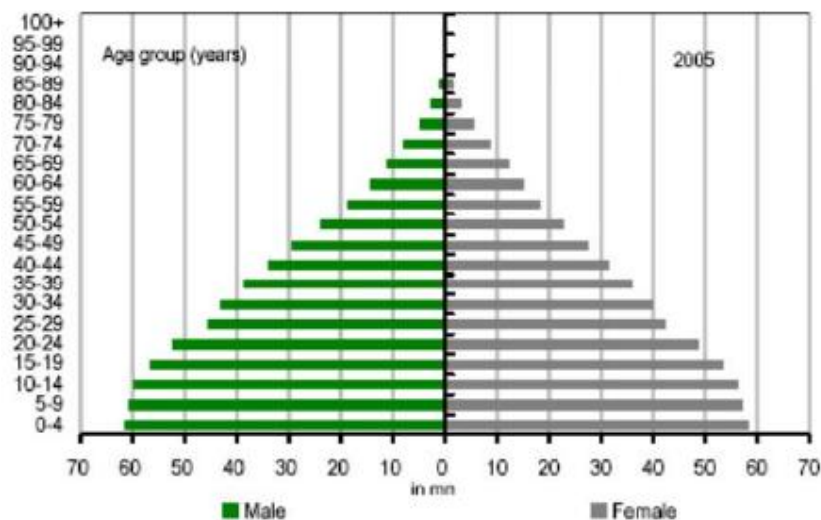
- CIO 100 – The Bold 100, 2008 for Mobile workforce Solution (Consultant Corner)
- CIO 100 – Special Award for IT Security, 2008
- CQUEST Best IT Implementation – Scale Of Deployment, 2008 for Workforce Mobility
- “Intelligent Enterprise” Award by the Express Computer Magazine – Part of the Indian Express Group, 2006
- HDFC Standard Life ranked 29th most trusted Indian Brands amongst the Top 50 Service Brands to a study conducted by the *Brand Equity – Economic Times*, 2008
- '4Ps Power Brand 2006', for being one of India's Top 25 'Most Innovative Companies' in an exclusive survey conducted by ICMR (Indian Council of Market Research) and 4Ps - Business and Marketing (a Business and Marketing magazine published by Planman Media 2008



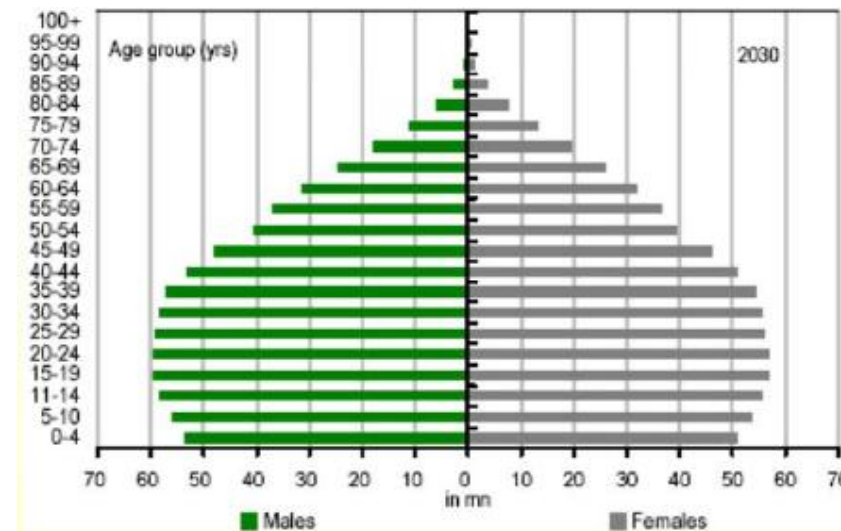
Appendix

Industry growth prospects

The youthful age pyramid – 2005



The expected transition - 2030



Source: UN Population Division

Household income

Household income	No. of Households in '000s		
	2005-06	2009-10	Growth
>Rs. 10 million	52	141	171%
Rs. 5-10 million	103	255	148%
Rs. 2-5 million	454	1,037	128%
Rs. 1-2 million	1,122	2,373	111%
Rs. 0.5-1 million	3,212	6,173	92%
Rs. 0.2-0.5 million	13,183	22,268	69%
< Rs. 0.2 million	185,525	189,698	2%



Significant impact on

- Household savings
- Financial savings

Source: NCAER – Market Information Survey of Households, August 2005

Statutory profit and loss account

Units: Rs '000s
FY ending 31 March

	2009-10	2008-09
Premium	70,051,044	55,646,937
Reinsurance ceded	(494,720)	(463,174)
Premium earned (net)	69,556,324	55,183,763
Income from investments	57,228,189	(17,231,361)
Other income	3,862,305	6,504,424
Total income	130,646,818	44,456,826
Commission expense	(5,254,973)	(4,248,904)
Operating expenses	(15,090,403)	(17,600,683)
Fringe benefit tax	-	(66,320)
Benefits paid (net)	(13,378,943)	(6,812,692)
Interim bonuses paid	(1,013)	(611)
Terminal bonuses paid	(2,725)	(4,194)
Change in valuation of liability against life policies in force	(95,009,353)	(14,057,024)
Surplus / (Deficit)	1,909,409	1,666,398
Appropriations		
Transfer to Shareholders' Account	472,930	794,984
Transfer to Other Reserves	-	-
Funds for future appropriation - Provision for lapsed policies	532,861	285,019
Balance being Funds for Future Appropriations	903,618	586,395
Total	1,909,409	1,666,398
Amounts transferred from the Policyholders Account	472,930	794,984
Income from investments	335,133	329,343
Other income	3,522	300
Total income	811,585	1,124,627
Expenses other than those related to insurance business	(3,981)	(5,307)
Contribution to the Policyholders Fund	(3,559,448)	(6,148,951)
Profit / (Loss) before tax	(2,751,844)	(5,029,631)
Provision for taxation	-	-
Profit / (Loss) after tax	(2,751,844)	(5,029,631)

Statutory balance sheet

Units: Rs '000s

FY ending 31 March	2009-10	2008-09
Sources of funds		
Shareholders' funds		
Share capital	19,680,000	17,958,180
Reserve and surplus	552,892	552,892
Credit/(Debit) fair value change account	184,435	(77,610)
Sub-total	20,417,327	18,433,462
Borrowings		
	-	-
Policyholders' funds:		
Credit/(Debit) fair value change account	205,087	(296,885)
Policy liabilities	37,666,908	29,092,419
Insurance reserves	-	-
Provision for linked liabilities	127,701,636	84,085,083
Add: Fair value change	27,516,164	(15,302,147)
Total provision for linked liabilities	155,217,800	68,782,936
Sub-total	193,089,795	97,578,470
Funds for future appropriations		
	1,490,013	586,395
Funds for future appropriations - provision for lapsed policies	1,064,831	531,970
Surplus allocated to shareholders		-
Total	216,061,966	117,130,297

	2009-10	2008-09
Application of funds		
Investments		
Shareholders'	6,304,757	4,291,597
Policyholders'	43,415,382	30,152,727
Assets held to cover linked liabilities	155,217,800	68,782,936
Loans	40,366	30,248
Fixed assets	1,143,777	1,451,346
Current assets		
Cash and bank balances	2,826,362	4,108,660
Advances and other assets	4,917,758	5,428,699
Sub-total	7,744,120	9,537,359
Current liabilities		
	12,281,585	8,820,225
Provisions	187,617	208,813
Sub-total	12,469,202	9,029,038
Net current assets	(4,725,082)	508,321
Debit balance in profit and loss account		
	14,664,966	11,913,122
Total	216,061,966	117,130,297