Future of Life Insurance in India

Vibha Padalkar
MD & CEO, HDFC Life
Today we would discuss...

1. Reflections on the broader environment

2. Life insurance opportunity in India

3. Life insurer of the future
Reflections on the broader environment
We operate in an extremely dynamic and evolving environment...

**Changing customer profiles and preferences**
New segments (younger millennials, Gen-Z), demand for **personalization and convenience**

**Inflection in consumer digital ecosystems**
Emergence of digital consumer ecosystems, exponential growth in **online transactions, digital payments**

**Evolution of India stack**
Unique **digital infrastructure** to solve India’s problems towards **presence-less and paperless service delivery**

**InsurTech coming of age**
InsurTech funding nearly doubled in the last two years; **disruption round the corner**

**Emerging opportunities in retirement, term products**
India’s changing demographics and vastly under-insured population present **macro opportunities for protection**

**Paradigm shift in regulatory landscape**
New regulatory regime open to more flexibility for insurers; **dawn of new reforms**

Notes:
1. BCG InsurTech Report 2022
...against this backdrop it becomes imperative for life insurers to protect their core whilst proactively reimagining insurance to ‘scale’ up business

**Protect the Core**

1. **Diversify revenue sources** to *reduce dependence* on a particular line of business

2. **Lower long-term unit costs** enabling businesses to *improve their price competitiveness*

3. **Set up moats to help reduce vulnerability to external threats; keep competition at bay**

**Reimagine Insurance**

1. **Strong profits** enable growth through *increased technology investments and strategic initiatives*

2. **Enter into** diverse *distribution partnerships*, including new ecosystems

3. **Increase** in ability to *incubate ideas and innovate* on products, evolving customers needs and preferences
Bancassurance and product innovation have helped top private life insurers wrest share from LIC...

### Individual WRP market share: LIC vs. Private Players

<table>
<thead>
<tr>
<th></th>
<th>FY07</th>
<th>FY12</th>
<th>FY17</th>
<th>FY22</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>64%</td>
<td>63%</td>
<td>46%</td>
<td>37%</td>
</tr>
<tr>
<td>Private</td>
<td>10%</td>
<td>15%</td>
<td>17%</td>
<td>20%</td>
</tr>
<tr>
<td>Other Private</td>
<td>26%</td>
<td>22%</td>
<td>37%</td>
<td>43%</td>
</tr>
</tbody>
</table>

#### 10-Year CAGR<sup>1</sup>

- **LIC:** ▲ 1%
- **Private:** ▲ 14%
- **Other Private:** ▲ 10%

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**Notes:**
1. CAGR of Individual WRP
Life insurance opportunity in India
India remains vastly under-insured, both in terms of penetration and density…

<table>
<thead>
<tr>
<th>Life insurance penetration¹</th>
<th>Life insurance density (US$)²</th>
<th>Protection gap³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>19.2%</td>
<td>India</td>
</tr>
<tr>
<td>Taiwan</td>
<td>14.0%</td>
<td>83%</td>
</tr>
<tr>
<td>Singapore</td>
<td>7.6%</td>
<td>76%</td>
</tr>
<tr>
<td>Japan</td>
<td>5.8%</td>
<td>74%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.0%</td>
<td>71%</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.4%</td>
<td>70%</td>
</tr>
<tr>
<td>India</td>
<td>3.2%</td>
<td>61%</td>
</tr>
<tr>
<td>China</td>
<td>2.4%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Notes:
1. Penetration in FY21 as measured by premiums as % of GDP
2. Density defined as the ratio of premium underwritten in a given year to the total population
3. Protection gap defined as the difference between the amount of insurance that is economically beneficial and the amount of coverage actually purchased

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

Growth in savings and life insurance coverage has lagged behind economic and wage growth in India.
...presenting macro opportunities in the Protection space...

Large untapped addressable market...

Only 1 out of 40 people (2.5%) who can afford is buying a policy every year; sum assured as a multiple of income <1x

Urban Working Population: 172 mn
Addressable Market (excl. blue collared): 68 mn
Annual Policy Sales: 1.7 mn

Spur in retail loans (Rs. Tn)

Increasing retail indebtedness to spur need for credit life products; enhancement in insurance attachment with retail credit products

CAGR: 16%

FY12: 12
FY14: 17
FY16: 24
FY18: 34
FY20: 44
FY22: 53

Source: Goldman Sachs, Kotak Securities, Milliman Asia Reports
...Savings space, as household savings get financialized...

Financialization of household savings

<table>
<thead>
<tr>
<th></th>
<th>FY13</th>
<th>FY16</th>
<th>FY19</th>
<th>FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial savings</td>
<td>22%</td>
<td>18%</td>
<td>20%</td>
<td>22%</td>
</tr>
<tr>
<td>Physical savings</td>
<td>68%</td>
<td>65%</td>
<td>60%</td>
<td>47%</td>
</tr>
<tr>
<td>Household savings as % GDP</td>
<td>32%</td>
<td>35%</td>
<td>40%</td>
<td>53%</td>
</tr>
</tbody>
</table>

Financial savings mix

<table>
<thead>
<tr>
<th></th>
<th>FY13</th>
<th>FY16</th>
<th>FY19</th>
<th>FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency &amp; deposits</td>
<td>3%</td>
<td>12%</td>
<td>18%</td>
<td>67%</td>
</tr>
<tr>
<td>Life insurance</td>
<td>18%</td>
<td>17%</td>
<td>19%</td>
<td>56%</td>
</tr>
<tr>
<td>Provident/Pension fund</td>
<td>15%</td>
<td>17%</td>
<td>19%</td>
<td>50%</td>
</tr>
<tr>
<td>Others</td>
<td>14%</td>
<td>16%</td>
<td>17%</td>
<td>17%</td>
</tr>
</tbody>
</table>

...and Retirement space, as India’s demographics change from ‘young’ to ‘aging’...

Life expectancy at age 60 years

- Improvements in life expectancy will lead to an average post-retirement period of ~20 years

<table>
<thead>
<tr>
<th>Year</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-10</td>
<td>76</td>
<td>78</td>
</tr>
<tr>
<td>2015-20</td>
<td>77</td>
<td>79</td>
</tr>
<tr>
<td>2030-35E</td>
<td>78</td>
<td>80</td>
</tr>
</tbody>
</table>

Population composition (billion)

- Elderly population is expected to almost triple by 2060

<table>
<thead>
<tr>
<th>Year</th>
<th>&lt;20 years</th>
<th>20-64 years</th>
<th>65+ years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>35%</td>
<td>61%</td>
<td>23%</td>
</tr>
<tr>
<td>2040</td>
<td>58%</td>
<td>60%</td>
<td>17%</td>
</tr>
<tr>
<td>2060</td>
<td>7%</td>
<td>11%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Underpenetrated pension market

- India’s pension market is under-penetrated at 9.3% of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Pension Market (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>9.3</td>
</tr>
<tr>
<td>Japan</td>
<td>21.2</td>
</tr>
<tr>
<td>South Africa</td>
<td>50.6</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>54.3</td>
</tr>
<tr>
<td>USA</td>
<td>96.8</td>
</tr>
<tr>
<td>Australia</td>
<td>131.7</td>
</tr>
</tbody>
</table>

Source: MOSPI, United Nations World Populations Prospects Report
Life insurance as a preferred ‘savings’ instrument will make it relatively easier to tap into the macro opportunities…

Life insurance ranks amongst top 3 financial instruments and the importance of life insurance as an instrument largely remains same across age groups and gender

Across age-groups, savings for key milestones in life like child’s education, marriage, remains the top reason to buy life insurance

Source: Life Insurance Council IAC Study by Hansa Research, February 2022
Life insurer of the future
Life insurer of the future...

Customer experience expectations

Product innovation

Digital distribution and operations

Data-led ecosystems

Prudent risk management
Changing customer experience expectations…

Perceptions that need to be worked upon:

1. Term premium is a ‘cost’
2. Unbundling is better
3. 5 year horizon than long term horizon
4. Annuity is taxed – don’t buy
5. Savings products – still need significant human intervention to sell
Broad-based product innovation driven by changing customer needs, preferences and easing regulations…

<table>
<thead>
<tr>
<th>Combo products</th>
<th>Savings products</th>
<th>Embedded / co-created products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Two Savings plans</strong> with distributed cashflow plans over the policy term / lifetime</td>
<td><strong>4. Equity oriented savings plans</strong> with lower cost structure, flexible investment terms and more fund options</td>
<td><strong>6. Protection plans embedded with healthcare products / service</strong> (e.g., Term plans with wellness ecosystem membership)</td>
</tr>
<tr>
<td><strong>2. Term and Savings</strong> to manage risks and address evolving needs across various life stages</td>
<td><strong>5. Par pension plans</strong> allowing more flexible income streams during retirement</td>
<td><strong>7. Pay-as-you-live plans</strong> to cover risk of aging / older population segment</td>
</tr>
<tr>
<td><strong>3. Life and health plans</strong> to cover risk and address health care costs</td>
<td></td>
<td><strong>8. Co-created products</strong> with related services (e.g., healthcare)</td>
</tr>
</tbody>
</table>
‘Phygital’ distribution and ‘digital’ operations…

**‘Phygital’ Distribution**

- **‘Bionic’ agents and brokers** powered by digital tools
- Digitally enabled **Point of Sale Products (POSP)** distribution
- **Insurance marketplace** developed and managed by the regulator

**‘Digital’ Operations**

- **Digital experience & convenience** for customers increasingly using digital channels in daily life
- **AI-powered 24X7 operations** to serve customers, redefining the process and operations for ‘remote first’
- **Digital and data interventions** for medicals, underwriting and claim decisions
Data-led ecosystems powering new business, servicing and risk management

New business
✓ Customer data management and sharing frameworks including AA¹, IIB², EPFO³, Traces etc.

Servicing
✓ Build customer profiles / views, 360° view, offers, targeted upsell etc.

Risk management
✓ Early warning indicators to reduce frauds, persistency issues, mis-sale etc.

¹ AA: Account Aggregator; ² IIB: Insurance Information Bureau; ³ EPFO: Employees' Provident Fund Organization
On the bedrock of prudent, time-tested risk management practices...

<table>
<thead>
<tr>
<th>Mortality &amp; morbidity risks</th>
<th>Interest rate risks</th>
<th>Operational risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance pricing &amp; U/W to limit impact on profitability and solvency</td>
<td>Prudent asset liability management and natural hedges</td>
<td>Balanced, conservative and calibrated approach</td>
</tr>
</tbody>
</table>

### Mortality & morbidity risks
- **Active review & re-pricing**
  - Identify outliers and take corrective actions
- **Proactive reserving**
  - Well provisioned to prevent sudden shocks (e.g., Covid)
- **Product boundary conditions**
  - Conditions based on customer profile & distribution channels

### Interest rate risks
- **Cashflow & duration matching**
  - Immunize portfolio to manage parallel shifts in yield curve
- **Dynamic hedging**
  - Natural hedges and external hedging instruments
- **Stress test scenarios**
  - Low sensitivity to economic market movements

### Operational risks
- **Diversify distribution & products**
  - Tap into new distribution partners and balanced product mix
- **Regular experience analysis**
  - Review of experience vs assumptions; corrective actions
- **Conservative investments**
  - Focus on delivering risk adjusted returns over the long term
Many moving parts in the medium term

- Composite licence?
- Health indemnity?
- Access to national health data?
- Risk-based capital?
- Relaxed sand box?
- Expanded open architecture?
- Fintech subsidiary?
- Invest abroad?
- Life council-led aggregator model?
This is just the beginning of a large opportunity...

Regional players 10-30 X larger in terms of EV and market cap; huge runway for Indian life insurers
Thank You