A young country, getting older...
Opportunity in the retirement space in India

Vibha Padalkar
MD & CEO, HDFC Life Insurance Company Ltd.
Most people have a “we’ll see when we get there” approach to retirement.
India, set to cash-in on the ‘demographic dividend’ in the coming decades, also has a rapidly increasing population aged over 60 years.

India’s median population to increase from ~28 yrs in 2020 to ~38 yrs by 2050.

By 2050, 1 in 7 people over the age of 60 will live in India, compared to 1 in 8 people in 2020; bringing the future market to 300 million people.

By 2050, share of the Indian sexagenarian population will grow by ~2x.

Improvements in life expectancy will lead to an average post retirement period of 20+ years.

Over 40% of elderly people (60+) are working to meet their retirement needs.

Source: Crisil, PFRDA, UN Population Estimates
Changes in our societal structures, low levels of retirement readiness are leading to a significant retirement savings gap

Slow growth in financial literacy rate

- 27% in 2019 vs. 20% in 2013

83% of unorganized workforce not under any formal pension scheme

52% of elderly population fully dependent on others

Traditional support structures of joint families have been consistently declining while the old age dependency ratio is on the rise

Decreasing average household size

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<tbody>
<tr>
<td></td>
<td>5.5</td>
<td>5.1</td>
<td>4.6</td>
<td>4.2</td>
<td>3.9</td>
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</table>

Old age dependency ratio per thousand

Source: Milliman Asia Retirement Report 2017; Survey by NSSO, Ministry of statistics and Programme implementation, Crisil PFRDA, Census of India, UN Population Estimates
India isn’t alone...the heat of the pension crisis can be felt worldwide and the gap continues to widen

“Private sector pensions also need to be simplified and made less complex. People need to be able to understand them and know their money is going to be properly looked after. As the state pension will only help people avoid poverty…”
- The Irish Times

Pensions time bomb waiting to go off unless we take action now
Predicted crisis relates to the sharp increase in elderly population over the coming years
Mon, Feb 15, 2021, 05:55 Updated: Mon, Feb 15, 2021, 06:51

‘Their house is on fire’: the pension crisis sweeping the world
Josephine Cumbo in London and Robin Wigglesworth in Oslo
NOVEMBER 17 2019

“The Mercer CFA Institute Pension Index ranked India’s pension system in the lower third of the systems reviewed in the report, underscoring the need for individuals to take more of a role in their own retirement planning.”
- Livemint

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However, compared to global benchmarks, India's pension market is woefully under-penetrated at 4.8% of the GDP.

The Indian pensions space continues to evolve, with the pace picking up in recent years.

Establishment of PFRDA

Shift from Defined Benefit to Defined Contribution
NPS (National Pension Scheme) introduced for Central Govt. employees

NPS expanded and extended to all Indian citizens

IRDAI mandates 4.5% guaranteed return to be offered by Life Insurers

IRDAI removes the 4.5% return guarantee, but capital protection guarantee remains

Positive reforms by IRDAI
- Up to 60% of pension corpus can be commuted (vs. 33% earlier)
- 50% pension corpus can be used to buy annuity from another provider
- Partial withdrawals on ULIP Pensions permitted

NPS reforms
- Withdrawal from NPS on retirement made tax-free
- GoI contribution increased to 14% of salary from 10%, for central govt. employees
The potential opportunity is estimated to be over INR 100 tn in AUM by 2030

**Estimated market opportunity (organized sector)**

- **Total Pension AUM (₹ trillion)**
  - 2020: 28 tn
  - 2030E: 118 tn

- **Source:** PFRDA, IRDAI, NPS Trust, EPFO, Ambit Capital

- **Unorganized sector accounts for ~80% of the working population, which increases the opportunity pie even further**

- **Growth in AUM to be aided by portability across pension classes**
  - **2020**
    - NPS: 15%
    - LI Pensions: 14%
    - EPS: 7%
    - EPF: 15%
  - **2030E**
    - NPS: 12%
    - LI Pensions: 15%
    - EPS: 5%
    - EPF: 15%

- **~6X AUM growth in NPS**

- **Mandatory schemes will play a key role in increasing coverage for both unorganized and organized sectors**

- **Govt. schemes like Atal Pension Yojana (APY) currently limited to banks have scope for further penetration through insurers**
But there are challenges...
There is significant lack of awareness among Indians regarding systematic retirement planning. While mindshare to invest towards retirement within financial savings is increasing, the culture of saving in physical assets continues. Approximately 21% of financial savings are now in pension funds. But ~65% of total savings are mostly in property and gold. "Shifting to an opt-out model for pension schemes like NPS and tax incentives for annuities will help in gaining mindshare."
India has significantly lower coverage under mandatory pension schemes compared to several developing nations.

<table>
<thead>
<tr>
<th>Country</th>
<th>Mandatory Pension Schemes Coverage (%)</th>
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<tbody>
<tr>
<td>India</td>
<td>6% by population (15-64), 9% Active Labour Force</td>
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<tr>
<td>Indonesia</td>
<td>13% by population (15-64), 18% Active Labour Force</td>
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<tr>
<td>Thailand</td>
<td>29% by population (15-64), 36% Active Labour Force</td>
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<tr>
<td>China</td>
<td>40% by population (15-64), 51% Active Labour Force</td>
</tr>
<tr>
<td>USA</td>
<td>71% by population (15-64), 92% Active Labour Force</td>
</tr>
<tr>
<td>UK</td>
<td>72% by population (15-64), 93% Active Labour Force</td>
</tr>
<tr>
<td>Japan</td>
<td>75% by population (15-64), 95% Active Labour Force</td>
</tr>
</tbody>
</table>

Source: OECD
How can we make India a Pensioned Society?
By addressing specific areas to boost pension coverage in India

1. **Awareness about Pension Investment**
   - Increase financial literacy
   - Encourage investment in pension schemes

2. **Products and Implementation**
   - Allow flexible payment and withdrawal options
   - Explore innovative annuity solutions
   - Widen the investment avenues for annuity
   - Process simplification from enrolment to exit

3. **Distribution**
   - Increase adoption of low cost NPS
   - Leverage distribution scale of Mutual Funds & Insurers

4. **Policy Reforms and Regulations**
   - Regulatory & tax consistency
   - Higher ‘Expenses of Management’ limits for Pension products for Life Insurers
We are putting our money where our mouth is...
(HDFC Life’s ecosystem)
Providing flexible retirement planning options to customers

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

- HDFC Life Sanchay Par Advantage
- HDFC Life Sanchay Plus
- Click2Retire Plan
- HDFC Life Click2 Wealth
- Pay off mortgage
- Medical care
- Medical care
- Medical care

First Job
Get married
Buy new car
Buy Home
Child’s education

Net Worth

Plan for retirement

Retired folks wanting to pursue interests

- HDFC Life Sanchay Plus
- HDFC Life Click2 Wealth
- HDFC Life Sanchay Par Advantage
- New Immediate Annuity Plan
- Pension Guaranteed Plan

Our approach was validated with a number of our propositions becoming the industry norm!
Working to build a pension distribution ecosystem that will help deepen coverage

Large distribution network that enables wider reach

- 116,115 - Number of Agents
- 250+ traditional partners
- 61.3 mn lives covered in FY20

HDFC Life–Pension distribution ecosystem

- Ranked #1 with AUM of Rs 139 bn amongst private owned Pension Fund Managers
- Registered strong AUM growth of 81% in 9M FY21

- Largest player in the private sector
- Servicing 100+ corporates and >26,000 lives covered

ASP (Annuity Service Provider)

PFM (Pension Fund Manager)

POP (Point of Presence)

- POP operations commenced in FY20
- Ranks #1 in corporate NPS business
Creating adjacencies like *Life99*, a one stop solution for all retirement needs across employee demographics, will enhance customer experience.

1. **Buy insurance and voluntary covers**
2. **View** employee benefits like EPF, SA, GTI etc.
3. **Measure** Health Score
4. **My retirial readiness score vs peers**
5. **Annuity options** for retirement
6. **Subscribe to NPS & save taxes**
7. **Tools like** tax & NPS calculator etc.
8. **Services like** advisory, tax services etc.
9. **Creating adjacencies like Life99**, a one stop solution for all retirement needs across employee demographics, will enhance customer experience.

Total Savings: ₹ 1,85,30,358

**One-view** of retirement corpus

Employee

Note: *Life99* is offered under HDFC Pension Management Company Ltd.
Innovating in long term savings and retirement space...

### Long Term Income Plans

<table>
<thead>
<tr>
<th>HDFC Life Sanchay Par Advantage</th>
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<tbody>
<tr>
<td>• Payout from 1st month</td>
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<tr>
<td>• Limited premium payment term</td>
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<tr>
<td>• Whole Life cover &amp; income</td>
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<tr>
<td>• Tax benefits</td>
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<tr>
<td>• Accrue bonuses</td>
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<table>
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<tr>
<th>HDFC Life Sanchay Plus</th>
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<tr>
<td>• Guaranteed benefits</td>
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<tr>
<td>• Tax benefits</td>
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<tr>
<td>• Life cover</td>
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<tr>
<td>• Legacy creation</td>
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### Annuity Plans

<table>
<thead>
<tr>
<th>HDFC Life Pension Guaranteed Plan</th>
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<tr>
<td>• Guaranteed income</td>
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<td>• Wide range of annuity options</td>
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<table>
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<th>HDFC Life New Immediate Annuity Plan</th>
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<tbody>
<tr>
<td>• Guaranteed income</td>
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<tr>
<td>• Wide range of annuity options</td>
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...driven by risk calibrated investment opportunities

01 Natural Hedges
- Protection and longevity businesses
- Unit linked and non par savings products

02 Product Design & mix monitoring
- Prudent assumptions and pricing approach
- > 95% ROP; deferment period <4 yrs
- Regular monitoring of interest rates/business mix

03 ALM Approach
- Target cash flow matching for non par savings plus group protection portfolio to manage non parallel shifts and convexity
- Immunise overall portfolio to manage parallel shifts in yield curve (duration matching)

04 Residual Strategy
- External hedging instruments such as FRAs, IRFs, Swaps amongst others
- Reinsurance
Our efforts are now bearing fruit!

HDFC Pension AUM has grown to Rs. 15,000 Cr. within 8 years of commencement of business.

In under 3 years, the number of Group clients for annuity has more than doubled to over 100 today!

Opportunity to grow the retiral corpus by 3x between FY20-25

1. Includes NPS, Annuity, Group Superannuation fund, and long term variants of Sanchay Plus and Sanchay Par Advantage

~60X growth in share of annuity in HDFC Life’s premium from 2010 to 2020
Some comic wisdom...

I saw an article that says most people don’t have any kind of retirement plan.

I plan to live an unhealthy lifestyle and pass away in my cubicle, preferably on a Monday.

That’s a terrible plan.

Better than average, according to you.
Thank You