

# 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)**    **Gold**   **.....and 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**

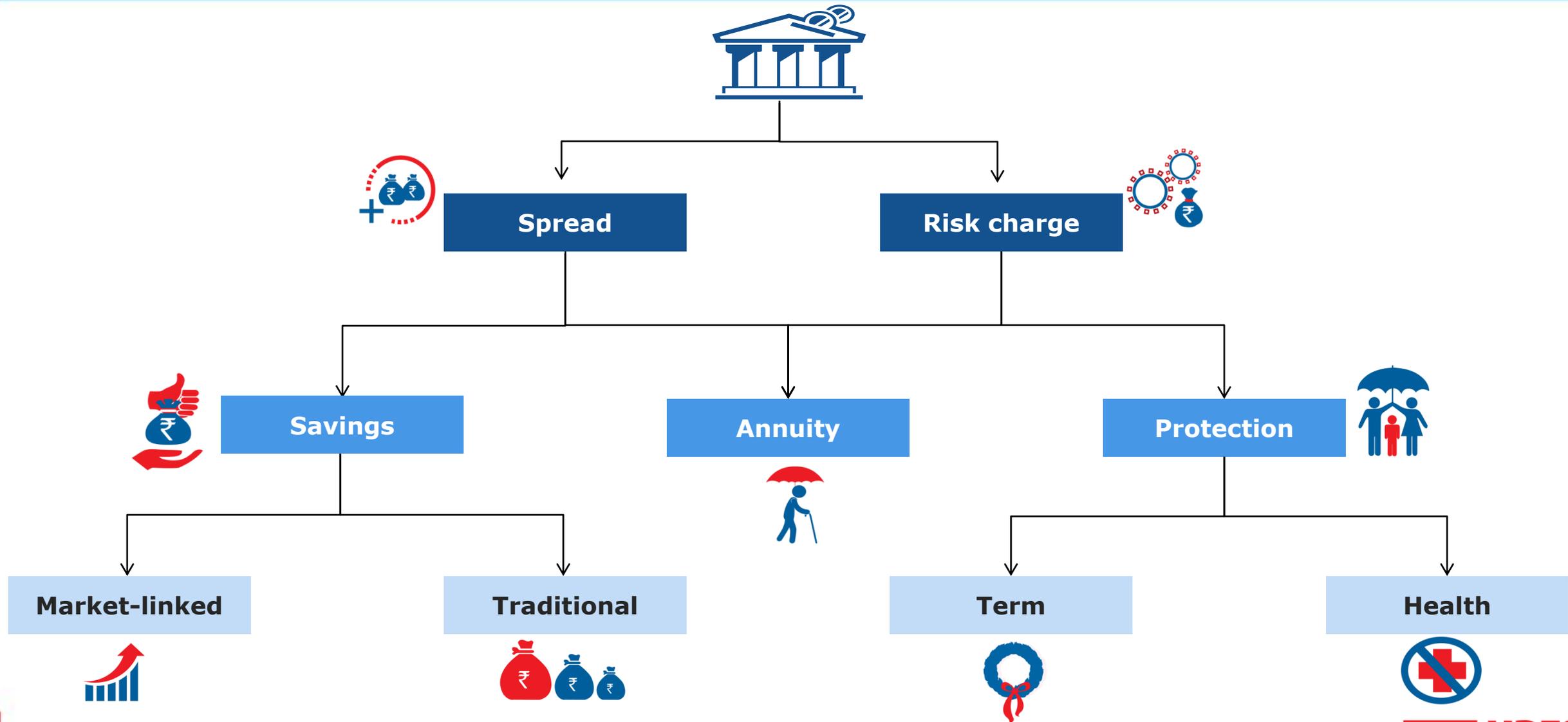


**Dying early**

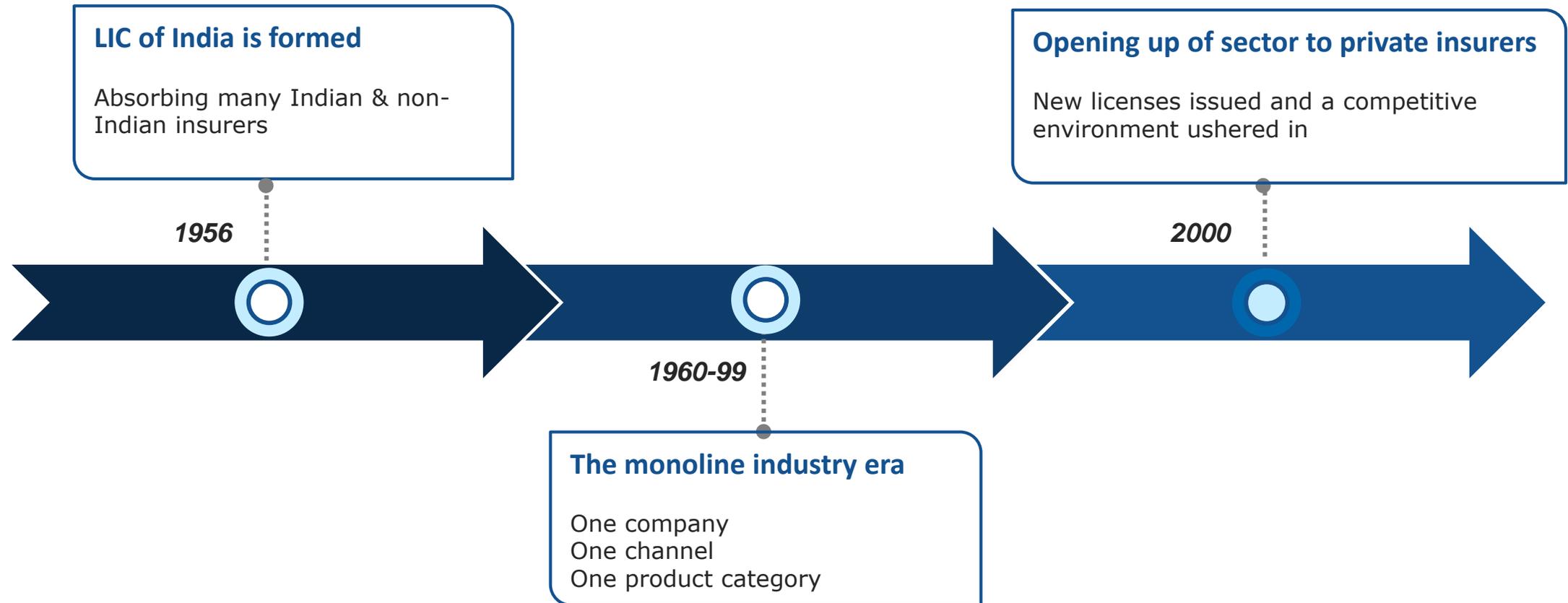


**Risks that customers  
transfer to life insurers**

# And how do life insurers generate value?

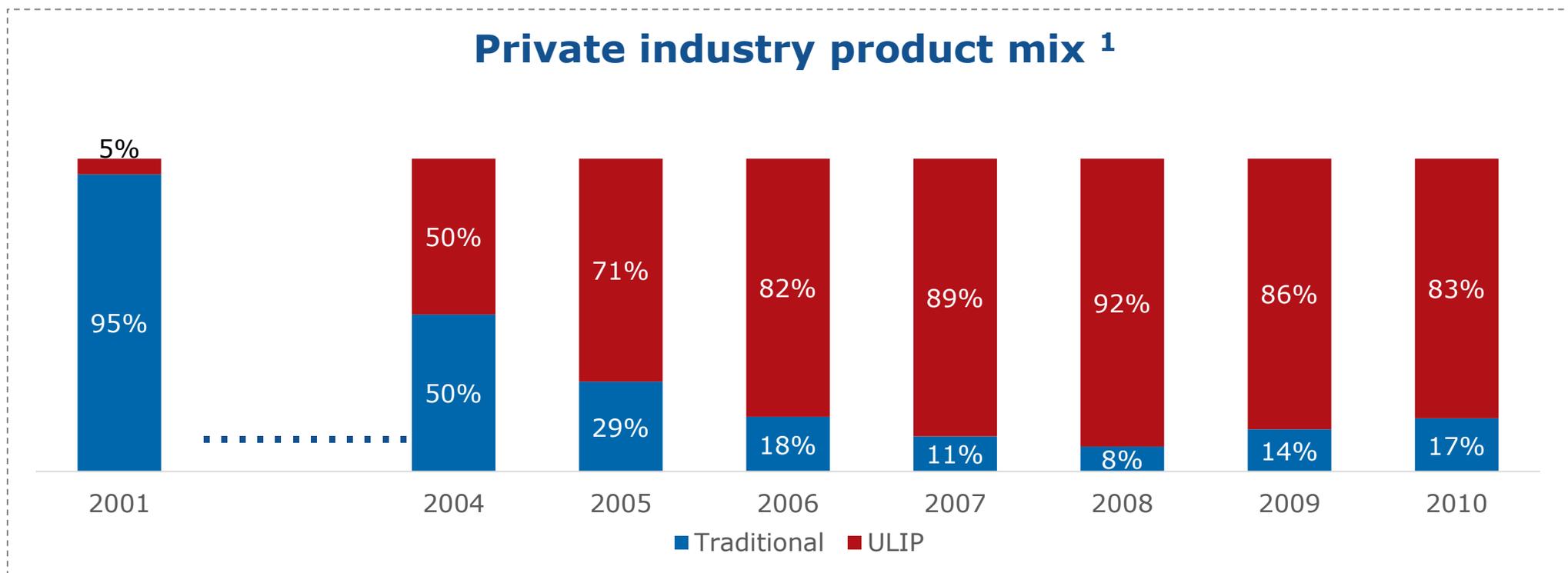


# Till recently, the focus was on savings in line with cultural and socio-economic factors



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

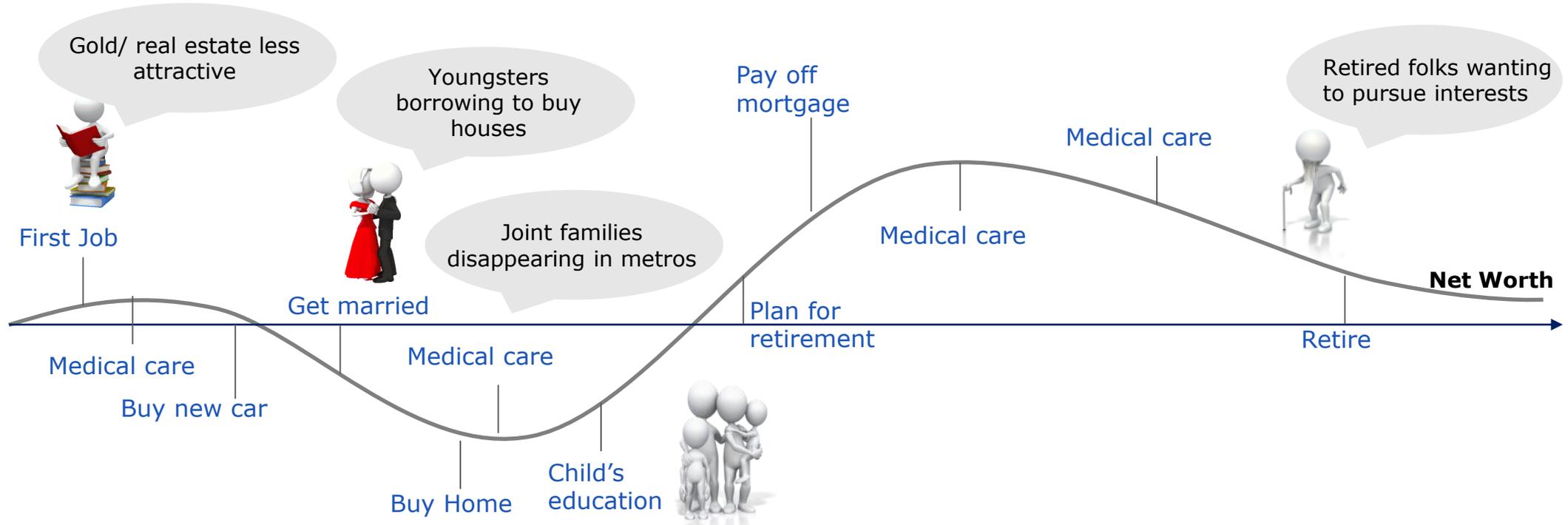
40 – 55 years

Invest

> 55 years

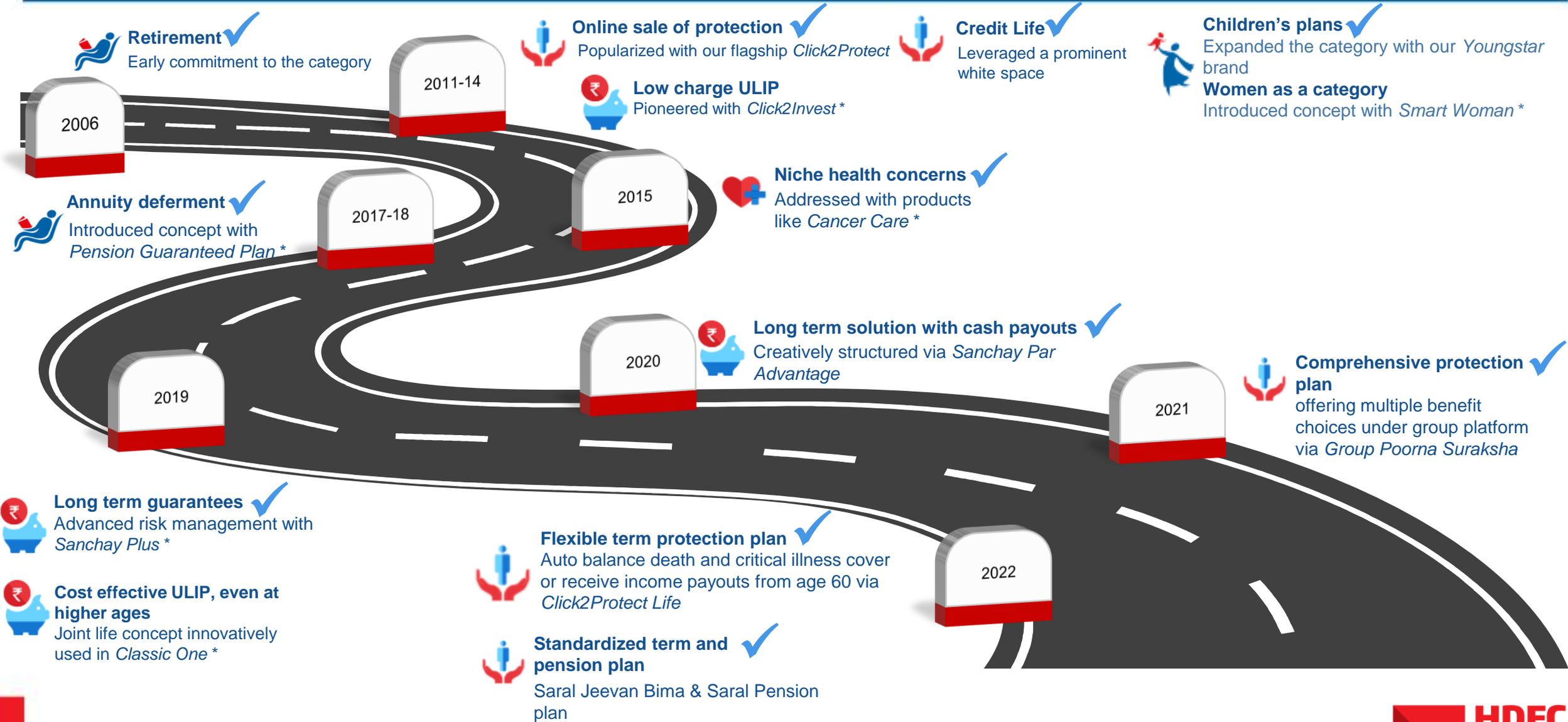
Asset drawdown

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



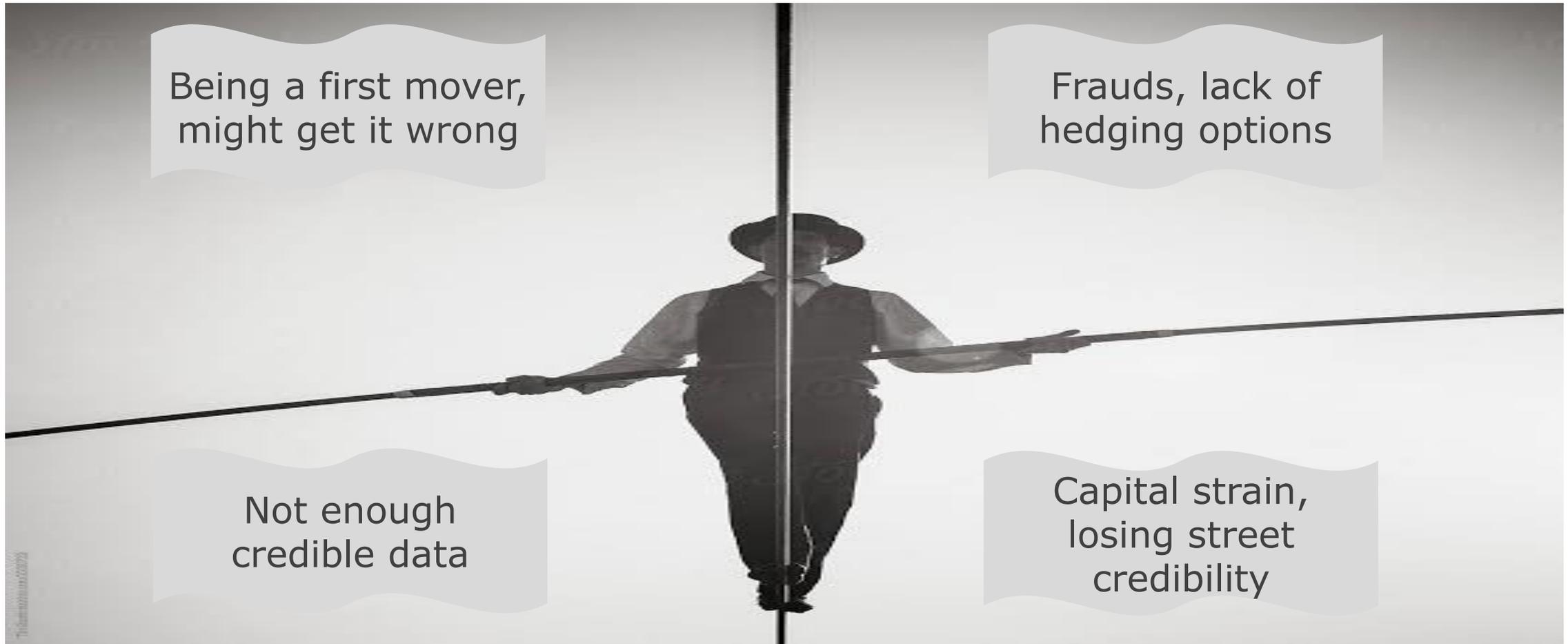
Our approach was validated with a **number of our propositions becoming the industry norm!**

# Expanding market through consistent product innovation



✓ Risk transfer solutions      \* Industry firsts

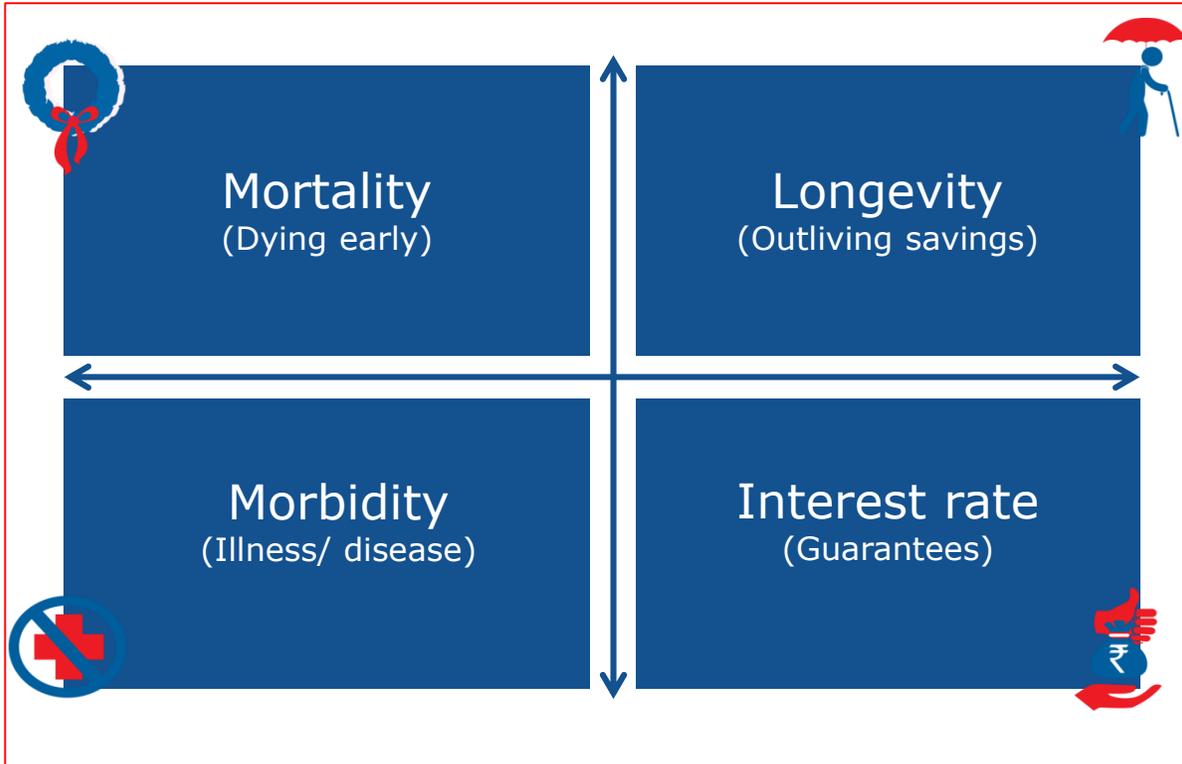
# But, risk management can be tricky...



# First step is to understand the risks

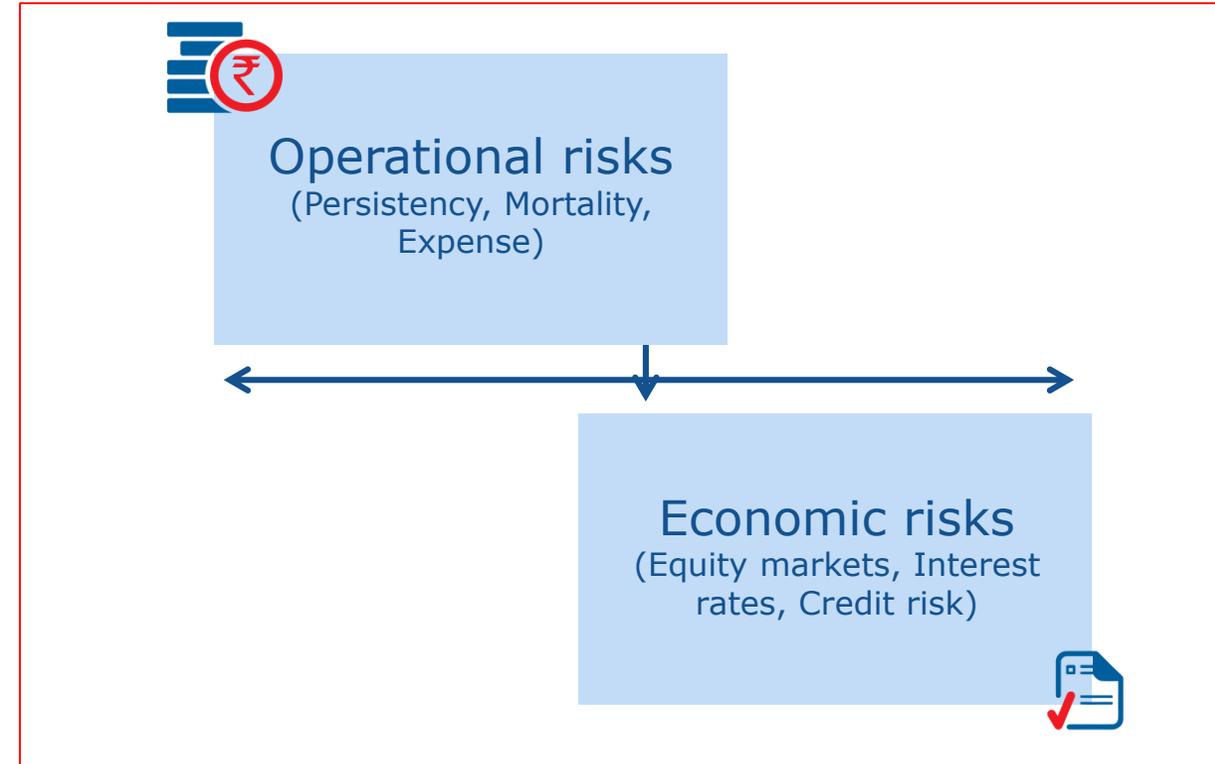
1

## 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

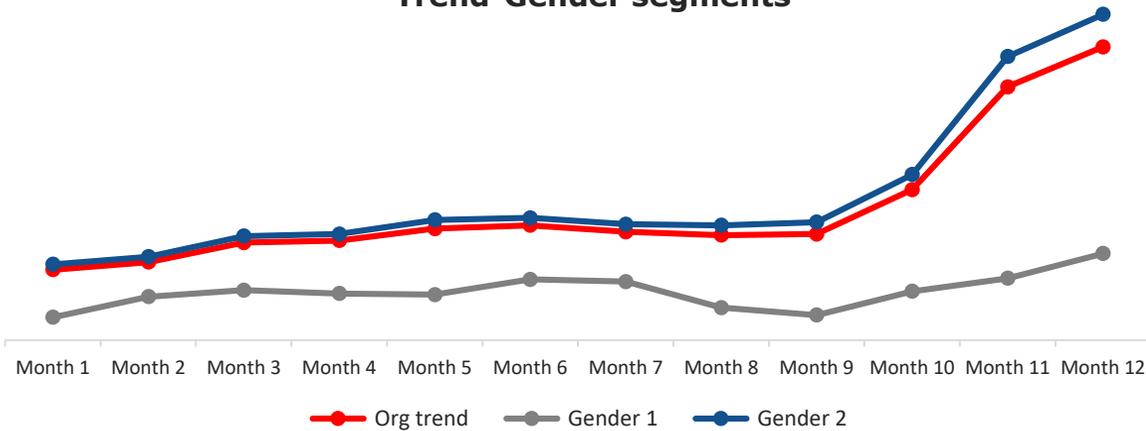


Portfolio review, ALM, Credit risk

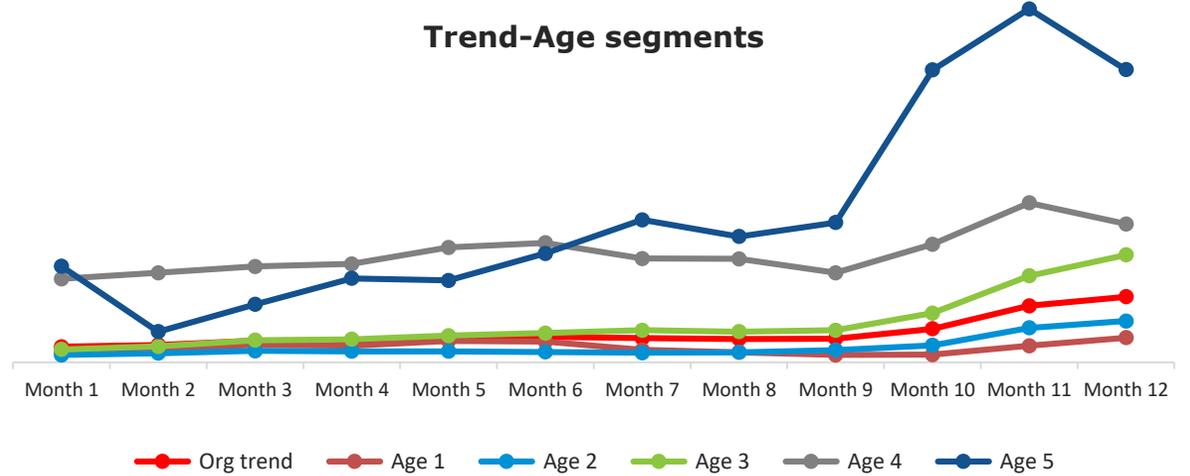
# Illustrative example: Automated dashboards of lead indicators help us flag problem areas well in advance

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

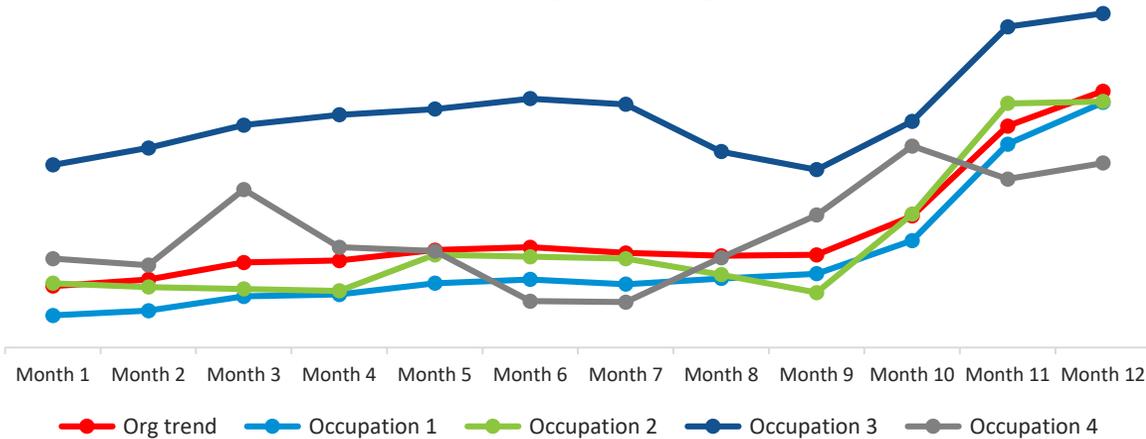
### Trend-Gender segments



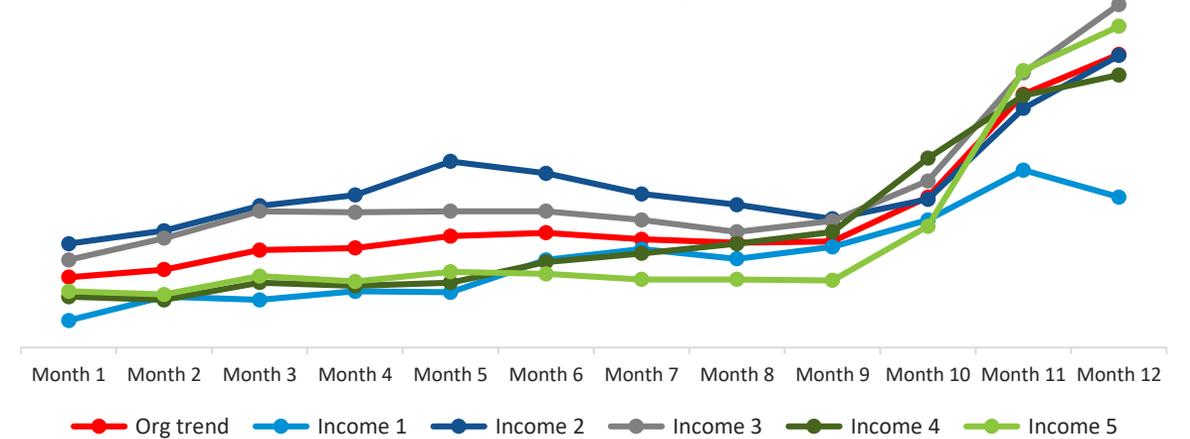
### Trend-Age segments



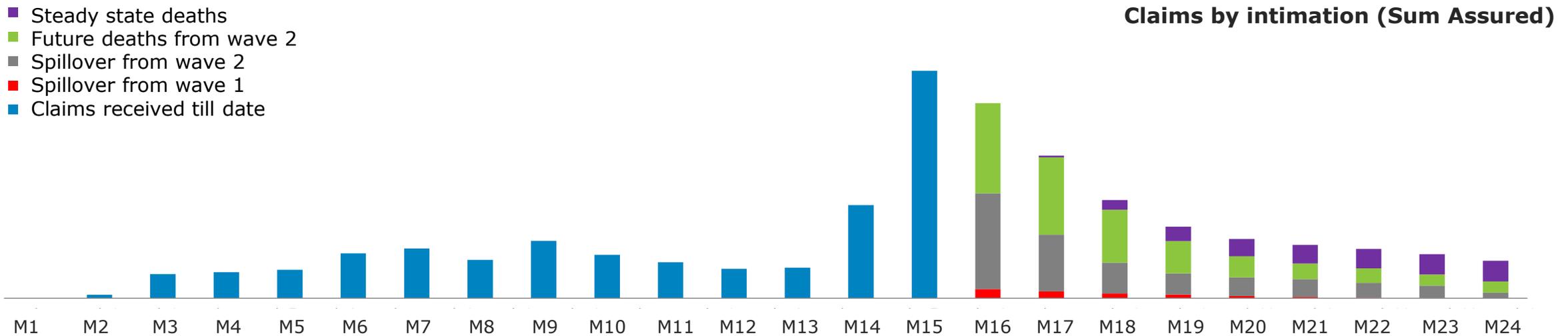
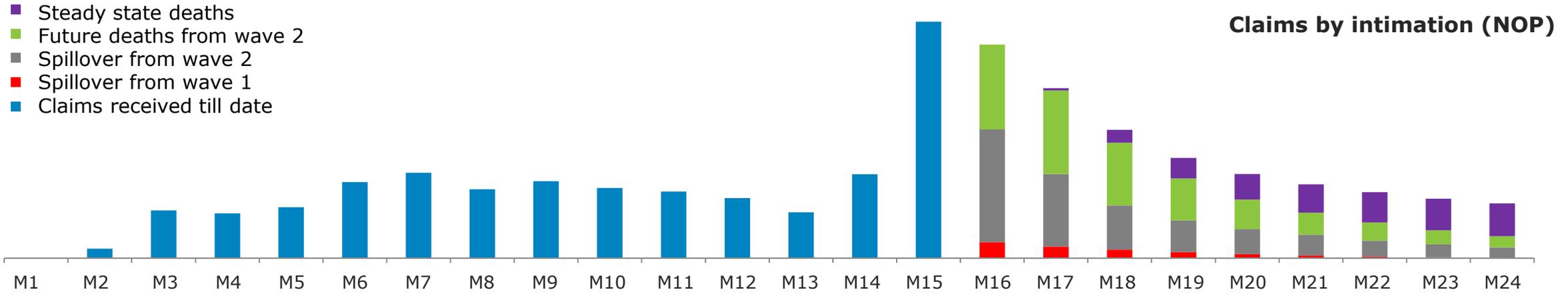
### Trend-Occupation segments



### 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

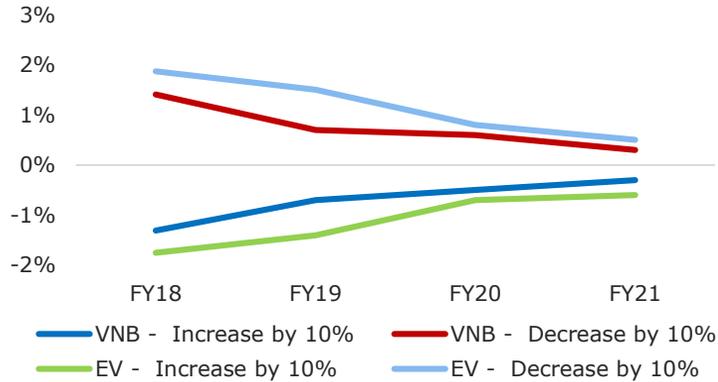


# In conclusion: Building a sustainable and differentiated business through risk management

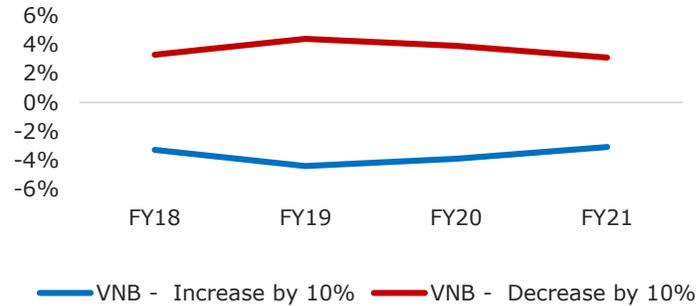
## Stable/ declining trend of sensitivity to key risk factors

Operational risks

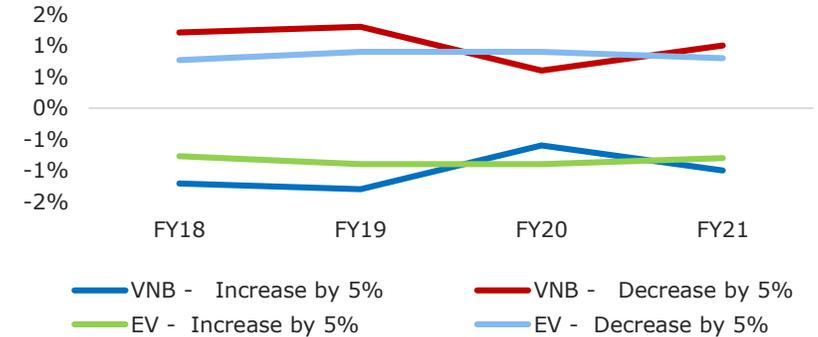
### Persistency



### Expenses

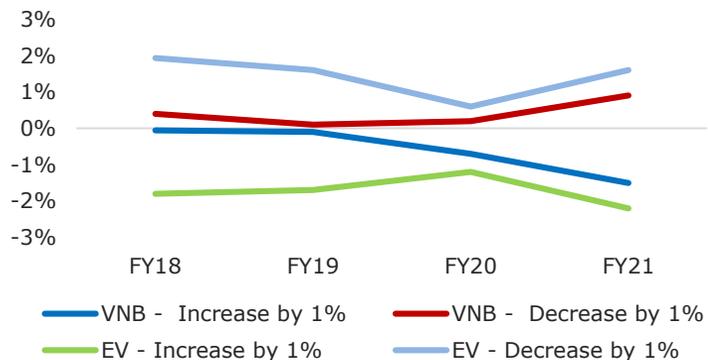


### Mortality / Morbidity

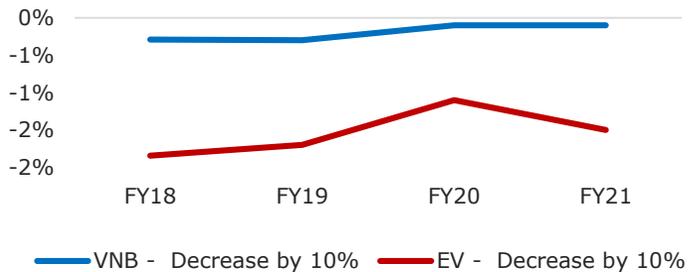


Economic risks

### 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**

