Protecting our golden years...
Opportunity in the retirement space in India

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MD & CEO, HDFC Life Insurance Company Ltd.
Most people bank on a default retirement plan - serendipity
India, perceived as a “young country”, now has a rapidly increasing ageing population

Proportion of the elderly is expected to double to ~17% as of 2050

By 2050, 1 in 6 people over the age of 60 will live in India, bringing the future market to 200 million people

41.5% of elderly male (65+) are working to meet their retirement needs

By 2050, every sixth Indian will be a sexagenarian compared with every eleventh now

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

Source: Crisil PFRDA, UN Population Estimates
Changes in our societal structures and lack of mindfulness about retirement savings have led to a ticking time bomb-ish situation

Financial literacy as % of population is **18%** as compared to global average of **33%**

Unorganized workforce not under any formal pension scheme is **82.7%**

**52%** of elderly population in both urban and rural areas are fully dependent on others

Traditional support structures of joint families have been consistently declining thereby driving up the old age dependency ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Household Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>5.5</td>
</tr>
<tr>
<td>1991</td>
<td>5.1</td>
</tr>
<tr>
<td>2001</td>
<td>4.6</td>
</tr>
<tr>
<td>2011</td>
<td>4.2</td>
</tr>
<tr>
<td>2018E</td>
<td>3.9</td>
</tr>
</tbody>
</table>

**Old age dependency ratio per thousand**

Sources: Milliman Asia Retirement Report 2017; Survey by NSSO, Ministry of statistics and Programme implementation; Crisil PFRDA, Census of India, UN Population Estimates
Compared to global benchmarks, India's pension market is woefully under-penetrated at 4.8% of the GDP

So, what is the opportunity size?

Estimated market opportunity (organized sector)*

Unorganized sector accounts for 82% of the working population, which immensely increases the opportunity pie

- 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 has scope for further penetration through insurers

*PFRDA, IRDAI, HDFC Life Market Intelligence
But there are challenges...
But there are challenges...

- Inability to anticipate future financial needs
- Deposits are popular choice with retirees
There is a significant lack of awareness among Indians regarding systematic retirement planning.

With a culture of saving in physical assets...

- Household savings composition

<table>
<thead>
<tr>
<th>FY07</th>
<th>FY10</th>
<th>FY13</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial savings</td>
<td>Physical savings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>49%</td>
<td>51%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>48%</td>
<td>52%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>33%</td>
<td>67%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>42%</td>
<td>58%</td>
<td></td>
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</tr>
</tbody>
</table>

..there a low mindshare to invest in pension savings for retirement

- Financial savings mix

<table>
<thead>
<tr>
<th>FY07</th>
<th>FY10</th>
<th>FY13</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency &amp; deposits</td>
<td>Life insurance</td>
<td>Provident/Pension fund</td>
<td>Others</td>
</tr>
<tr>
<td>65%</td>
<td>26%</td>
<td>67%</td>
<td>25%</td>
</tr>
<tr>
<td>50%</td>
<td>26%</td>
<td>67%</td>
<td>25%</td>
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<td>67%</td>
<td>25%</td>
</tr>
</tbody>
</table>

58% savings are mostly in property and gold

Only 16% of financial savings are in pension funds

"Shifting to an opt-out model for pension schemes like NPS and tax incentives for annuities will help in gaining mindshare"
But there are challenges...

Social security is low in India

Mandatory pension schemes do not cover the large population
Indians covered under formal social security is lower than the average of the region.

Significant scope for improvement within Asia Pacific and India in particular.

<table>
<thead>
<tr>
<th>Region</th>
<th>% of population receiving at least one social security benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU and Central Asia</td>
<td>84%</td>
</tr>
<tr>
<td>Americas</td>
<td>68%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>39%</td>
</tr>
<tr>
<td>Africa</td>
<td>18%</td>
</tr>
</tbody>
</table>

In India, only approx. 19% of population covered under formal social security.

India’s coverage of mandatory pension schemes is lowest amongst Asian counterparts

- Percentage indicates how effectively existing pension schemes are utilized
- India has less than 6% covered by a pension scheme, as opposed to countries such as USA, UK, and Japan (above 90%)

Source: OECD.
But there are challenges...

- Low financial literacy
- Low mindshare to invest in Pension
Significant % of India’s population is unaware of financial investment opportunities leading to low pension contribution

Awareness of financial investment opportunities is least in India as compared to global counterparts

Low pension contribution amounts, owing to low disposable income & awareness across India, do not provide sufficient cover for retirement

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**Financial literacy among population (%)**

- India: 18%
- Brazil: 30%
- China: 20%
- Russia: 33%
- South Africa: 38%
- World: 33%

**Pension contributions as a % of GDP**

- Australia: 8.4%
- Canada: 3.5%
- Chile: 4%
- Iceland: 10.7%
- Germany: 0.3%
- Italy: 0.6%
- Korea: 3.2%
- Netherlands: 3.9%
- Switzerland: 8.2%
- Finland: 1.1%
- Mexico: 1%
- India: 0.01%
- China: 1.6%

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Sources: "Micro-pensions in India: Critical Issues, Challenges, and Strategies For The Future; Arunachalam et al.; World Bank; Maps of India; OECD"
But there are challenges...

Fragmented and disjointed pension system leaving customers confused

Varied products with different tax treatment
We also have a fragmented and disjointed pension system

<table>
<thead>
<tr>
<th>4 Regulators</th>
<th>EPFO</th>
<th>PFRDA</th>
<th>IRDAI</th>
<th>SEBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 Different Products</td>
<td>EPF</td>
<td>PPF</td>
<td>NPS</td>
<td>SAF</td>
</tr>
<tr>
<td>Differences in Payout at Exit</td>
<td>Employer Contri tax-free (12%) Employee Contri within 80C (12%)</td>
<td>Lump sum</td>
<td>Lump sum + Pension</td>
<td>Lump sum + Pension</td>
</tr>
<tr>
<td>Differing Tax Treatment</td>
<td>Employer Contri tax-free (12%) Employee Contri within 80C (12%)</td>
<td>Lump sum</td>
<td>Lump sum + Pension</td>
<td>Lump sum + Pension</td>
</tr>
<tr>
<td>Tax Benefits at contribution stage</td>
<td>Employer Contri tax-free (12%) Employee Contri within 80C (12%)</td>
<td>Lump sum</td>
<td>Lump sum + Pension</td>
<td>Lump sum + Pension</td>
</tr>
<tr>
<td>Varied period of Vesting</td>
<td>Post Retirement</td>
<td>15 years</td>
<td>Post Retirement</td>
<td>Post Retirement</td>
</tr>
</tbody>
</table>

- **Multiple regulators, seven different products, different tax benefits and treatment are leaving customers confused**

- Products that insurers / subsidiaries are allowed to sell
Can we make India a Pensioned Society?
By addressing specific areas we do see an opportunity to boost pension coverage in India

1. **Distribution**
   - Increase adoption of NPS (tap increasing workforce)
   - Leverage distribution scale of MFs & LIs

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

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

4. **Policy reforms & regulations**
   - Regulatory & tax consistency
   - Low expenses for Pension – EOM for LI
   - Requirement of non-zero returns in LI pension plans
   - Low FMC(0.01%) for NPS
We are putting our money where our mouth is...
(HDFC Life’s ecosystem)
HDFC Life identified the retirement opportunity early and has been a key contributor to uplift this category.

Retirement was a focus even in the initial years – Pension contributed to average ~30% share in the portfolio

HDFC Life portfolio break-up (APE) – FY06 to FY10

<table>
<thead>
<tr>
<th></th>
<th>FY10</th>
<th>FY09</th>
<th>FY08</th>
<th>FY07</th>
<th>FY06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>77%</td>
<td>65%</td>
<td>71%</td>
<td>69%</td>
<td>68%</td>
</tr>
<tr>
<td>Protection</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension</td>
<td>22%</td>
<td>34%</td>
<td>28%</td>
<td>31%</td>
<td>30%</td>
</tr>
</tbody>
</table>

HDFC Life’s core brand thought “Sar Utha Ke Jiyo” was inspired by essence of retirement savings - most of us do not want ourselves or our families to ever depend on somebody else.
HDFC Life is working to build a pension distribution ecosystem that will help deepen coverage.

**Large distribution network that enables wider reach**

- 412 Life offices (plus bank branches)
- 91,172 number of agents
- 51.4 mn lives covered in FY19

**HDFC Life – Pension distribution ecosystem**

- YoY growth of 102% in AUM to Rs 51.7 bn
- Ranks #1 in corporate subscribers base
- 2600+ crs annuity business in FY19 – still potential for growth
- Portfolio share increased from 6% in FY15 to 17% in FY 19*

*as % of overall NBP
Creating adjacencies like Life99 platform, a one stop solution for all retirement needs across employee demographics, will enhance customer experience.

1. Get one-view of retirement corpus and plan for retirement
2. NPS subscription option to save taxes and annuity options for retirement income
3. Buy voluntary covers – NPS, Annuity
4. Avail services on the go (including value added services)
We have also been innovating in the annuity space...

**Breakthrough with innovative “HDFC Life Pension Guaranteed Plan”**

- Deferred annuity product – max 10 years
- Attractive rates
- 2600+ crs annuity business in FY19
- Copied by the market
- Well received by the customers

- Participating annuity
- Helps to give potential higher returns (part guaranteed)

**Immense scope for product innovation**

- Gap in the Indian market
- Provides for long term care (income) on CI, disability

- Equity and index linked annuities
- Better risk management for insurers

- Flexible annuity options to increase guarantee after the purchase of contract
..driven by risk calibrated investment opportunities

1. Natural hedges
   - Protection and longevity businesses
   - Unit linked and non par savings products
   - Quantum of retail guaranteed products <8% of AUM

2. Product design & mix monitoring
   - Prudent assumptions and pricing approach
   - Return of premium annuity products (>90% of annuity); Average age at entry ~59 years
   - Limited deferment period in deferred annuity (<5 yrs)
   - Regular monitoring of interest rates and business mix

3. ALM approach
   - Long term government securities and partly paid bonds issued by top tier corporates
   - Utilise excess asset duration from short duration liability products to support long duration liabilities

4. Residual strategy
   - External hedging instruments such as FRAs, IRFs, STRIPs amongst others
Life insurers, with their vast reach and expertise can play a pivotal role in increasing pension coverage across the country.
Thank You