Riding the Crest: Product Innovation and the Way Forward

Kotak India Conference | May 28, 2018 | Mumbai

Amitabh Chaudhry, MD & CEO, HDFC Life
Agenda

1. Growth opportunity in Life Insurance
2. Innovation in product design and product distribution
3. Product innovation at HDFC Life
India’s life insurance Industry saw rapid 25% CAGR in the first 10 years post liberalization of the sector in FY01

- From a monopolized market dominated by the state-owned Life Insurance Corporation of India (LIC), the industry achieved a balance in 2010 with private insurers forming 50% of the market
- Regulatory changes aimed at protecting policyholders’ interests led to a slowdown post FY10
- Private players, with recalibrated business models, have gained market share since FY15
India’s high protection gap presents a huge growth opportunity

- India has the highest protection gap in the region, as growth in savings and life insurance coverage has lagged behind economic and wage growth.
- Protection gap has increased over 4x in last 15 years with significantly low insurance penetration and density.

**Life insurance penetration (2016)**

<table>
<thead>
<tr>
<th>Country</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
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<tbody>
<tr>
<td>Taiwan</td>
<td>16.7%</td>
<td>16.2%</td>
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**Life insurance density US$ (2016)**

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<th>Country</th>
<th>FY08</th>
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<td>Hong Kong</td>
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| Density US$ (FY08-17)**

<table>
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<tr>
<th>Country</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
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<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
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<tbody>
<tr>
<td>India</td>
<td>4.0%</td>
<td>4.0%</td>
<td>4.6%</td>
<td>4.4%</td>
<td>3.4%</td>
<td>3.2%</td>
<td>3.1%</td>
<td>2.6%</td>
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| Protection gap (2014)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Protection gap</th>
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<tbody>
<tr>
<td>India</td>
<td>92.2%</td>
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<tr>
<td>China</td>
<td>88.3%</td>
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<tr>
<td>Thailand</td>
<td>78.4%</td>
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<tr>
<td>Indonesia</td>
<td>73.3%</td>
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<tr>
<td>Malaysia</td>
<td>72.5%</td>
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<tr>
<td>Hong Kong</td>
<td>70.2%</td>
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<td>Japan</td>
<td>56.3%</td>
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<td>Singapore</td>
<td>56.0%</td>
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<tr>
<td>Taiwan</td>
<td>16.4%</td>
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**Note:** Penetration as measured by premiums as % of GDP, Density defined as the ratio of premium underwritten in a given year to the total population.

Source: Swiss Re (Based on respective financial year of the countries), MOSPI
The last few years saw several changes to support the changing needs of the business.

**Product Regulations**
- Expense of Management
- ULIP & Non-Par Regulations

**Strong growth led by Banca**
- Higher branch penetration & activation
- Open architecture
- Increased financial inclusion & movement towards savings’ products

**Focus on margins**
- Protection focus
- Expense efficiency to improve margins

**Focus on quality of the book**
- Emergence of customer friendly products
- Increasing persistency trends

**Operational efficiencies**
- Regulatory interventions
- Increased investments in technology and reducing turnaround times

**Digital Sales**
- Growth of organic online platforms and entry of aggregators

**Listing & Governance**
- Initial Public Offerings
- Merger announcements
- Investor & analyst focus

**Demonetization**
- Private insurers piggybacked on banks’ growth post demonetization

**Emergence of start ups**
- FinTech companies – Alternate sources of customer data
- Entry into ecosystems
The changing landscape has opened a world of opportunities

Financialization
- Movement away from physical savings to financial savings as a % of household savings

Digitalization
- JAM Trinity – Universal presence of bank a/c; Aadhaar seeding for availing products & services; 1:1 mobile penetration

Networks / Ecosystems
- Evolution of payment systems, organic platforms and aggregators

Distribution in partnership
- Privileged relationships
- Co-dependent structures
- Placing customer journeys within customer journeys of partners
- Movement from push to nudge

Customer expectations
- Expectations being set by experiences outside of FS
- 360° customer view for omni-channel approach

Operations & Technology
- Re-imagined operations through social media, analytics and cloud
- Transition towards robotics, artificial intelligence and machine learning
Opportune time to seize the initiative

Stable and progressive regulatory environment
- Guidance related to management expenses, product structures, distributor commissions in place
- E-commerce and web aggregator regulations have set the stage for the next phase of growth

Insurers well-positioned to address white spaces
- Insurers have reached a size and scale that allows them to take the next leap
- Experience with multiple business cycles, listing has enabled insurers to recalibrate their business models

Cutting-edge technology at our disposal
- Cloud solutions, RPA allowing cost-efficient operating models
- Better customer and distributor engagement with analytics, big data and AI

Increasingly digital and more aware Indian consumer
- Consumers leaving digital footprints - 1.19 Bn + Aadhaar enrolments, 810 Bn annual page views, 350 Bn annual search queries
- Government initiatives like PMJJBY have raised awareness about insurance needs
In the past, regulatory guidance has shaped product design

### Key guidelines and impact

#### ULIP regulations (FY11)
- Increased lock-in period for ULIPs from 3 years to 5 years,
- Age based minimum mortality cover at ~ 10 times premium
- Caps on surrender charges
- Cap on reduction in yield basis policy term
- Pension to offer a minimum 4.5% p.a. guarantee

#### Guidelines on pension products (FY12)
- Scrapped the 4.5% guaranteed annual return clause on ULIP pension
- However, all pension products to have a guarantee of a non-zero rate of return
- Company that contracts the original deferred pension policy is required to provide the annuity product to the policyholder

#### Linked and Non-linked products regulations (FY14)
- Minimum death benefit specifications for single and regular premium products
- Minimum premium payment term of 5 years for non-single premium policies
- Cap on commission basis premium payment term

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- Drop in distributor commissions, product margins
- Improved value proposition for customers
- For the first three quarters of FY12, only LIC had a pension product
  - Dec 2011 saw more than 20 filings of linked pension products
- Higher mandatory insurance cover on each policy
  - Drop in distributor commissions across products
Need to adopt a nimble, three-pronged product strategy

1. Products that offer attractive customer value proposition

2. Innovative sales process for product distribution

3. Depth and breadth of distribution
Product innovation should meet the objectives of contemporary life insurance

<table>
<thead>
<tr>
<th>Critical objectives to be met</th>
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<tbody>
<tr>
<td><strong>1</strong> Improve customer value proposition</td>
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<tr>
<td><strong>2</strong> Protect policyholder interest</td>
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<tr>
<td><strong>3</strong> Increase life insurance penetration</td>
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<tr>
<td><strong>4</strong> Enhance customer satisfaction through product suitability</td>
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<tr>
<td><strong>5</strong> Competitive offerings compared with other assets</td>
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<tr>
<td><strong>6</strong> Nurture non-traditional channels of distribution</td>
</tr>
</tbody>
</table>
Product design reflects the urge to meet the objectives

**Improved customer value proposition**
- Low cost ULIPs with minimal charges
- Higher guarantees on non-participating products
- OTC – Pre-approved sum assured for instant issuance

**Cater to latent customer needs**
- Low-cost pure protection products
- Fixed benefit on occurrence of an event e.g. dengue, cancer, accidental death through products and riders

**Impetus to digital distribution**
- Exclusive products for web aggregators
- Lower premiums on digital sales

**Drive new partnerships**
- Insurance bundled with premium services in non-insurance sector
- Life cover based on mobile app activity
Product sales process is also being re-imagined

From the traditional distribution at present..

- Production
- Branch
- Partner touch point
- Direct
- Distribution
- Marketing
- Customer

..to being present where the customer is

Payment avenues
- Wallet
- UPI/BHIM

Digital channels
- Portal, mobile apps
- Social media

Ecosystem partners
- Aggregators
- E-Commerce

Data analytics
- Aadhaar
- CIBIL scores
Ecosystems and platforms will be relevant across the sales process

Note: Brands depicted are illustrative to explain the concept
Regulatory intervention can play a key role in driving product innovation (1/3)

1. **Outcome based regulations**
   - Move towards regime of output parameters based regulations
   - Potentially result in allowing insurers to adapt to the changing ecosystem and reduce cost

2. **Additional support to pension business**
   - Consistency with NPS on commutation and partial withdrawals
   - Expense regulations to be relaxed to encourage Pensions
   - Capital guarantee norms to be revised

3. **Investment norms for life insurance**
   - Create level playing field vs. banks & mutual funds
   - Relaxation of sector specific limits
   - Flexibility to use equity derivatives for hedging
   - Allow insurers to lend against their own insurance savings products over and above the surrender value
Regulatory intervention can play a key role in driving product innovation (2/3)

**Widen scope for insurers’ activities**
- Allow distribution of non-life & health products and various banking / mutual fund products
- Explore sale of non-financial products and services like banks, to generate fee income

**Level playing field for health business**
- Current norms severely restrict participation of life insurers in the health insurance space
- Allow wellness benefit for life products as well
- Parity on distributor payouts, risk assessment and tenor between SAHIs / GIs and LIs

**Product enablement**
- Reduction in ‘Go-to-market’ lead time
- Move towards ‘Use & File’ process for non-par and UL products
- Modular approach for product creation - “Menu” to choose from when creating a new product
Regulatory intervention can play a key role in driving product innovation (3/3)

Discontinuance benefits on traditional products

- Phased increase in surrender values being proposed
- Consistent with Sumit Bose Committee principles to split risk and investment premiums
- Keep status quo as increase in values can be counterproductive in persistency control

Enable reinsurance regulations to mitigate risks efficiently

- More flexibility in the reinsurance regulations
- Allow use of Fin Re techniques for insurers to meet capital related requirements

Increase persistency levels

- Cumulative limits for payment of incentives to the distributors
- Flexibility to choose calculation of commission as a factor of premia, fund, sum assured etc.
- Secondary market for life insurance
At HDFC Life, product innovation acts as a key differentiator.

1. **Low-cost protection**
   - **Credit Protect**: Protection against loan worries with minimum documentation

2. **Comprehensive health plans**
   - **Cardiac Care**: Protection against 18 cardiac diseases
   - **Cancer Care**: Lump sum benefit and waiver of premium

3. **Guaranteed pension**
   - **Pension Guaranteed Plan**: Guarantees on annuity deferred up to 10 years

4. **Partnership with non-life insurer**
   - **Click2Protect Health**: Life and indemnity-based health cover under a single plan

5. **Low-cost ULIPs**
   - **Click2Invest**: One of the first minimal charge structure ULIPs

6. **Product innovation @ HDFC Life**
Customer-centric products have helped us register strong premium growth and market positioning.

Consistent growth across premium categories¹

(Rs bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Premium</th>
<th>Single Premium</th>
<th>Renewal Premium</th>
<th>First Year Regular Premium</th>
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<tbody>
<tr>
<td>FY15</td>
<td>148.3</td>
<td>25.6</td>
<td>93.4</td>
<td>29.3</td>
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<tr>
<td>FY16</td>
<td>163.1</td>
<td>31.9</td>
<td>98.3</td>
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<td>FY17</td>
<td>194.5</td>
<td>49.6</td>
<td>108.2</td>
<td>36.6</td>
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<td>FY18</td>
<td>235.6</td>
<td>66.1</td>
<td>122.1</td>
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Total APE 29.3 33.0 36.6 47.4 47.4 51.7 55.3 60.7

Private market share / Ranking

<table>
<thead>
<tr>
<th>Category</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
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<tbody>
<tr>
<td>Individual WRP</td>
<td>14.8% / 3</td>
<td>14.7% / 3</td>
<td>12.7% / 3</td>
<td>13.3% / 3</td>
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<tr>
<td>Group premium</td>
<td>17.8% / 1</td>
<td>18.3% / 1</td>
<td>24.3% / 1</td>
<td>28.5% / 1</td>
</tr>
<tr>
<td>Total new business received premium</td>
<td>15.8% / 2</td>
<td>15.8% / 3</td>
<td>17.2% / 2</td>
<td>19.1% / 1</td>
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</tbody>
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Note:
1. Group premium numbers for FY17 have been re-classified, based on IRDA guidelines issued during the year.
We have identified high-growth avenues and are developing products for them (1/2)

## Health Insurance

<table>
<thead>
<tr>
<th>Opportunity</th>
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<tbody>
<tr>
<td>Health insurance offers a sizeable opportunity in the Indian market as penetration is low</td>
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<td>Size of Indian healthcare industry is estimated at Rs 4.8 trillion in FY 17</td>
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<table>
<thead>
<tr>
<th>Current product suite</th>
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<tr>
<td>A series of health products have been launched to cater to comprehensive health needs of customers such as:</td>
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<tr>
<td>Cardiac Care</td>
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<tr>
<td>Cancer Care</td>
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<tr>
<td>Click2Protect Health</td>
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<tr>
<td>Group Health</td>
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## Millennials

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<th>Opportunity</th>
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<tbody>
<tr>
<td>By 2030 around 60% of the population is expected to be between 20 and 64 years of age</td>
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<tr>
<td>India is currently one of the world’s youngest nations</td>
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<tr>
<td>Millennial base of customers is expected to increase which means more and more policies will be bought online</td>
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<table>
<thead>
<tr>
<th>Current product suite</th>
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<tr>
<td>Click2 series of products have been launched keeping in mind the growing demand to buy insurance online</td>
</tr>
</tbody>
</table>
We have identified high-growth avenues and are developing products for them (2/2)

**Retirement/Pension**

- Demand for retirement policies to rise with increasing life expectancy, declining birth-rates and proportion of India’s elderly population expected to increase by almost 50% by 2030

**Current product suite**

- Pension Guaranteed Plan launched in current year to address pension needs of growing elderly population.
- Offers attractive guarantee immediately, on annuity income that starts from a chosen retirement date in the future

**Protection**

- Overall retail credit by banks has grown from Rs.7,828 Bn in FY12 to Rs.16,242 Bn in FY17
- Emergence of nuclear families and increasing life expectancy to facilitate need for protection based products

**Current product suite**

- Variety of term products like the Click2Protect series, Group Term, Credit Protect
We are redefining the product sales process to complement smarter products

- Digital forms across different sales processes
- 360° customer view
- Recommendation engines to ensure product suitability
- Predictive modeling
- Lead management engines

- Integration with travel, ecommerce platforms
- Collaboration with UIDAI for ease of documentation
- Jointly developed customer propensity models

- Biometric verification
- Straight-through processing
- Automated underwriting
- Dedupe for reduced efforts across touch points
- Minimal friction in the buying process

Platforms for adjacencies

Create digitally enabled platforms that will help engage customers
Thank you