Market opportunity and HDFC Life’s differentiated strategy

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The life insurance industry is on a growth trajectory with private players gaining market share

- India’s life insurance Industry saw rapid 25% CAGR in the first 10 years post liberalization of the sector in FY01
- 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

Source: IRDAI and Life Insurance Council
The last few years saw several changes to support the changing needs of the business.

<table>
<thead>
<tr>
<th>Product Regulations</th>
<th>Strong growth led by Banca</th>
<th>Focus on margins</th>
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</table>
| • Expense of Management  
  • ULIP & Non-Par Regulations | • Higher branch penetration & activation  
  • Open architecture  
  • Increased financial inclusion & movement towards savings’ products | • Protection focus  
  • Expense efficiency to improve margins |

<table>
<thead>
<tr>
<th>Focus on quality of the book</th>
<th>Operational efficiencies</th>
<th>Digital Sales</th>
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| • Emergence of customer friendly products  
  • Increasing persistency trends | • Regulatory interventions  
  • Increased investments in technology and reducing turnaround times | Growth of organic online platforms and entry of aggregators |

<table>
<thead>
<tr>
<th>Listing &amp; Governance</th>
<th>Demonetization</th>
<th>Emergence of start ups</th>
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| • Initial Public Offerings  
  • Merger announcements  
  • Investor & analyst focus | Private insurers piggybacked on banks’ growth post demonetization | FinTech companies – Alternate sources of customer data  
  Entry into ecosystems |
White spaces, however, continue to exist

Under-served customer segments
- Latent needs that are not served
- Customers beyond the ambit of traditional insurance

Unmet financial needs
- Lack of value proposition
- Non-focus areas for insurers

Sub-optimal operating model
- Limitations of current distribution
- Complex fulfilment processes
Opportunity to penetrate under-served customer segments

India has a **lower penetration** of life insurance (2.7% of GDP) representing a huge opportunity yet to be unlocked by the industry.

This compares poorly with other **Asian countries** (Thailand - 3.7%), South Korea (7.5%), Taiwan (16.7%).

**Growth in household savings** and increasing preference towards **financial savings** presents opportunity to **increase share of life insurance** within financial assets.

Rising **per capita income** will see higher share of “Affluent” and “Aspirers” by 2025.

This presents an opportunity to serve customer segments such as **micro-markets in Tier1/2 cities** and **rural markets** since only ~8 - 10% of rural households have some life insurance coverage.

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**India life insurance penetration (FY08-17)**

<table>
<thead>
<tr>
<th>Year</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
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</thead>
<tbody>
<tr>
<td>Life insurance penetration</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>
<td>2.7%</td>
<td>2.7%</td>
</tr>
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</table>

**Share of life insurance in household savings (FY13-17)**

<table>
<thead>
<tr>
<th>Year</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>11%</td>
<td>17%</td>
<td>12%</td>
<td>17%</td>
<td>24%</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Per capita income ($)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2016</th>
<th>2025E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strugglers (&lt;2300)</td>
<td>209</td>
<td>267</td>
<td>305</td>
</tr>
<tr>
<td>Next billion (2300 - 7700)</td>
<td>44%</td>
<td>31%</td>
<td>18%</td>
</tr>
<tr>
<td>Aspirers (7700 - 15400)</td>
<td>42%</td>
<td>45%</td>
<td>46%</td>
</tr>
<tr>
<td>Affluent (15400 - 30800)</td>
<td>8%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Elite (&gt;30800)</td>
<td>3%</td>
<td>2%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: IRDA annual report FY 16-17, IBEF
Huge gap in fulfillment of certain financial needs

Protection gap (2014)

- 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

India population (2025E)

- India will continue to be a young country, with 50% of the population below the age of 30, hence the need for long-term savings will continue to dominate
- This young demographic profile with dependents needs appropriate savings to take care of long term needs

Life expectancy at birth (# of years)

- Demand for retirement policies will rise with increasing life expectancy; proportion of India’s elderly population (> 65 yrs of age) will increase by ~50% to 120 Mn by 2030
- Emergence of nuclear families and limited social security instruments will facilitate need for pension based products

Source: Swiss Re (Based on respective financial year of the countries), MOSPI; United Nations World Populations Prospects Report (2015); U. S. Census Bureau, International data base
Sub-optimal operating models fail to leverage potential opportunities

Changing landscape presenting a world of opportunities

- In India’s internet economy, customer is truly digital
- Partners straddling 'High Touch' and 'High Tech' models
- Regulations leveling the playing field for disruptors
- Emergence of aggregation platforms for millennials
- Data and technology availability

Traditional operating models that need to evolve

- Excessive reliance on feet-on-street and branches
- Archaic distribution - low productivity & high attrition
- Life insurance remains a vertically integrated industry
- Complex and lengthy processes leading to high TATs
- Touch points give an inconsistent customer experience
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
At HDFC Life, we are driving multiple levers to address white spaces effectively

1. Product innovation
   Offer attractive value propositions to customers to cater to both innate and latent needs

2. Customer-centric distribution
   Redefine the sales process to reach a wider customer base and deliver a superior experience

3. Revitalization of the core
   Utilize cutting-edge technology to make data and processes more relevant for today
Product innovation is aimed at meeting the objectives of contemporary life insurance.

**Critical objectives to be met**

1. Improve customer value proposition
2. Protect policyholder interest
3. Increase life insurance penetration
4. Enhance customer satisfaction through product suitability
5. Competitive offerings compared with other assets
6. Nurture non-traditional channels of distribution
A differentiated product suite caters to innate and latent customer needs

1. **Product innovation @ HDFC Life**
   - Partnership with non-life insurer
   - Comprehensive health plans

2. **Low-cost protection**
   - Comprehensive health plans
   - Guaranteed pension

3. **Low-cost ULIPs**
   - Credit Protect: Protection against loan worries with minimum documentation
   - Cardiac Care: Protection against 18 cardiac diseases

4. **Pension Guaranteed Plan**
   - Cancer Care: Lump sum benefit and waiver of premium
   - Industry-leading protection product series - Click2Protect

5. **Loan protection**
   - Click2Invest: One of the first minimal charge structure ULIPs
   - Click2Protect Health: Life and indemnity-based health cover under a single plan

6. **Guaranteed pension**

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**Product innovation**

**Customer-centric dist**

**Revitalization of core**
Deeper integration with existing partners enables us to improve the customer experience

**Front End Sales Enablement**
- Lead management engines
- Well defined and documented sales management process

**Integrated Technology and Processes**
- Netbanking, 3 click buy, ATM, mobile applications
- Faster processing through STP, e-KYC integration
- Customized NB and renewal collection process

**Product Development**
- Joint product development
- Broad portfolio covering range of customer life-cycles, segments
- Owning unique customer segments

**Quality Management**
- Video enabled verification
- Suitability matrix
- Well defined and monitored SLAs
- Structured training programs
Our new partners will help us widen our customer base

**Small Finance banks & NBFCs**
- Nine out of ten small finance banks have life insurance tie-ups with HDFC Life
- With more than 2,600 branches, the small finance banks are well spread across the country with minimal geographical overlap and help us reach a supplementary customer base
- NBFC tie-ups (97 partners) help us cater to micro-markets in tier-1 and tier-2 cities

**Rural innovators**
- Comprise rural e-commerce companies, last mile connectors, affordable housing and education loan providers
- Get access to varied needs of new customer segments at critical junctures in their journeys – e.g. protection product to safeguard stability at home to avoid child drop outs
- Improve last-mile connectivity for better sales and service

**Payment apps**
- Combined reach of more than 90 million unique customers
- Key partners as digital payments are estimated to increase 5x in the next 5 years
- Allows us to reach customers in an active financial engagement
- Efforts in progress to utilize the payment journey for a frictionless insurance-buying experience

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# : Credit Suisse report on digital payments in India, 2018
The sales process is also being re-imagined

From the traditional value-chain distribution model at present..

<table>
<thead>
<tr>
<th>Production</th>
<th>Distribution</th>
<th>Marketing</th>
<th>Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branch</td>
<td>Partner touch point</td>
<td>Direct</td>
<td></td>
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..to a customer-centric one

Payment avenues
- Wallet
- UPI/BHIM

Digital channels
- Portal, mobile apps
- Social media

Ecosystem partners
- Aggregators
- E-Commerce

Data analytics
- Aadhaar
- CIBIL scores

Product innovation
Customer-centric dist
Revitalization of core
Networks will be relevant across the value chain

- Marketing and consumer insights
- Sales platform
- Physical access
- Customer data
- Payments
- Risks and claims management
- Servicing
- Product innovation
- Customer-centric distribution
- Revitalization of core

Note: Brands depicted are illustrative to explain the concept.
Powerful digital tools are simplifying customer service

Customer service is going digital

New My Account
- One stop self serve solution for information, transactions and requests

Email Bot – SPOK
- Automated & instantaneous responses

Insta-suite mobility apps
- On-the-go transactions and policy management

Twitter Bot - NEO
- On-the-go responses to simple queries

Effortless Payment options
- Payment apps
- Netbanking
- eSI and eNACH

Chat Bot - Elle
- 24*7 service
- Easy access to premium receipts/statements

99%+ claims settlement

14% reduction in customer complaints

44,000+ queries processed through mobile app

3 days average claim settlement TAT
Unified data and smarter processes to support the digital front end

- Better lead allocation for new business and renewals
- Analytics-powered decision making at critical stages – u/w, claims
- Customer 360 view – consistent omni-channel experience
- Cloud-based solutions for faster, secure data access
- Seamless integration through SDKs and APIs
- Leveraging robotics: 88 processes automated
- Collaboration with UIDAI for ease of documentation
- Artificial intelligence in critical processes in the value chain
In summary, HDFC Life’s differentiators to address industry-wide white spaces

**Unmet financial needs**

**Product innovation**
Offer attractive value propositions to customers to cater to both innate and latent needs

**Under-served customer segments**

**Customer-centric distribution**
Redefine the sales process to reach a wider customer base and deliver a superior experience

**Revitalization of the core**
Utilize cutting-edge technology to make data and processes more relevant for today

**Strong financial performance across business cycles: Consistent focus on profitable growth**

**Comprehensive risk management framework**

**Independent and experienced leadership team and reputed board**
Thank You