Protection landscape in India- Past, Present & Future

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Vibha Padalkar, MD & CEO, HDFC Life
Protection – what it means for customers and insurers

From a customer’s perspective

- Financial security for family
- Supplementary Income - Accidental Disability or Illness
- See off Loans & Liabilities
- Lumpsum amount - death from unexpected illness
- Lumpsum amount - Accidental death
- Lumpsum amount - Disability or Critical Illness

From the insurer’s perspective

- Dying early
  - Life Insurers (24)
- Outliving one’s savings
  - Life Insurers (24)
- Falling ill
  - Life Insurers (24)
  - Health/General Insurers (34)
- Long Term savings for goals; Wealth erosion - inflation, market volatility
  - Banks (>2100)
  - AMCs (>45)
  - Life Insurers (24)
  - Gold
  - …..and many more!

Around 40 Mn lives\(^1\) secured in FY21, with a sum assured\(^1\) of Rs. 5 Tn

1. Comprising both retail and group protection
The protection gap in India offers a large opportunity to insurers, who are well suited to address this specific need.

Urban Working Population

Addressable Market (excl blue collared)

172 mn 68 mn

1.7 mn

Protection gap (%) - South Asia

- India has the highest protection gap in the region, as growth in savings and life insurance coverage has lagged behind economic and wage growth.

Retail protection gap (2020) - India (Rs. Tn.)

- As of FY20, only ~18% of the eligible population subscribed to pure retail Term offerings.
- Current protection penetration (basis sum assured) is at ~12%.
- Protection gap is estimated to grow at 4% per annum.

- Only 1 out of 40 people (2.5%) who can afford it, is buying a policy every year.
- Even within those who buy, the outstanding sum assured as a multiple of the income pool is c.1x (vs. typical coverage of 5-10x).

1. Goldman Sachs Report, March 2019
2. Swiss Re (Based on respective financial year of the countries)
3. Ambit Capital Research (2020)
Despite strong growth, we have barely scratched the surface — both in terms of geographic spread and scale.

- Total market size for Term is ~150 Bn
- 78% of total protection business in India consists of Group business (dominated by Credit Life)

- Retail protection sum assured likely to grow 8x by FY 30\(^2\)

\[\begin{align*}
\text{FY 20E} & : 39 \\
\text{FY30E} & : 314 \\
\end{align*}\]

- ~45% of retail protection business (basis APE) is contributed by top 10 cities
- ~40% of retail protection NOPs (number of policies) are contributed by top 10 cities

1. New business premium - Based on external disclosures and internal estimates
2. Ambit Capital Research (2020)
3. Basis HDFC Life estimates
Why Indians were slow to buy pure protection

1. Culturally *averse to discussing death* & illness
2. Preferred physical assets—gold/property
3. Used to *savings-led insurance* given the long association with LIC
4. Saw it as an ‘expense’ if they didn’t claim!
5. Joint family was a *proxy* for insurance
While the growth story is intact, some pricing headwinds being felt

- Private insurers start selling Term, albeit on a small scale
- Scale up of Credit Life- Increased protection coverage via group platform
- Introduction of fixed benefit Health plans
- Reinsurer conservatism
- Industry working towards calibrated growth

**2009-2021 Timeline**

- **2009**: Initial Term price
- **2011**: Sale of online Term plan introduced- Dramatic reduction in prices
- **2013**: Entry of Web Aggregators - Increased awareness of protection
- **2014**: Widening customer base (with a more even split between tier 1 vs tiers 2&3, digital vs other channels, salaried vs self employed); Stabilization of Term prices
- **2015**: COVID - Temporary increase in customer demand; reinsurer tightening
- **2017**: 5-10% drop
- **2019**: 15-25% hike
- **2021**: Despite recent increase in pricing, Term rates remain ~60% lower than 12 years ago!

Retail protection had a CAGR of 32% over 2019-21

1. Indicative movement of Term premium rates for Male, 35 year old, Non Tobacco user for Term 30, exclusive of tax; basis pricing of some key players
2. Based on external disclosures and internal estimates
While COVID has resulted in industry-wide conservatism, it has also provided an impetus to the demand for protection

_Pandemic^1^ - a push to harness the huge protection opportunity_

**Pull effect**

The pandemic has forced customers to re-look at their low insurance coverage and start demanding risk-based products like pure protection, critical illness etc.

**Income effect**

A sense of job insecurity (loss of income) has led to growing demand for limited pay, return of premium products.

**Co-morbidities**

They have increased the sense of vulnerability among customers.

**Digital effect**

Higher degree of digital adoption in the sales process as customers now prefer a virtual format for both purchase as well as claim / maturity settlement.

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1. Ambit Capital Research(2020)
How do we see this going forward?

1. **Ongoing revision in Term rates**
   - Driven by mortality experience of insurers, which in turn are driven by-
     - **Widening** Customer base
     - **Deepening** geographical coverage
   - Driven by reinsurer experience & guidance

2. **Underwriting guidelines getting stricter**
   - Non-medical journeys shifting to tele-medicals
   - Stress on conversion TAT (turnaround time) and customer buying experience

3. **Increasing reinsurer market concentration**
   - Reinsurers reassessing rules of engagement with respect to pricing, underwriting

4. **Increasing demand for standard protection products**
   - Heightened awareness of pure risk covers
   - Demand for easy to understand, no-frills proposition
HDFC Life’s journey in the protection space

Protection
Early commitment to the category with HDFC Protection Series

Online sale of protection
Popularized with our flagship Click2Protect

Credit Life
Leveraged a prominent white space

Launch of Group Poorna Raksha
Option to continue the policy post employee exit

Launch of Click 2 Protect
Life
Allows customer to switch from Regular Pay to Limited Pay in between policy Term *

Niche health concerns
Addressed with products like Cancer Care *

Launch of Click 2 Protect 3D Plus
Waiver of premium on detection of Critical Illness *

Launch of Click 2 Protect Health combi
Term and health offered through single product *

Risk transfer solutions

* Industry firsts
Our experience during this journey has given us multiple insights across mortality trends, fraud trends, segmental risk, amongst others.

We follow a calibrated underwriting and pricing approach based on actual experience across different customer cohorts.

Protection growth trajectory of HDFC Life

- FY21 saw no disbursement of loans in the initial part of the year, and consequently no bundled insurance cover.

We follow a calibrated underwriting and pricing approach based on actual experience across different customer cohorts.
Journey Simplification – Short journeys for specific requirements

1. LifeEasy: Online customer intimation portal for Life claims
2. Policy issuance TAT calculation starts post submission of all required documents
3. WISE: Video sales platform
4. PASA: Pre-Approved Sum Assured
5. Online includes business sourced through own website, online business sourced through banks / corporate agents and web aggregators

>99% policy issuance journeys fulfilled digitally  
<4 hrs. overall policy issuance TAT²  
Faster medical and policy issuance via WISE³  
~7 mn offers rolled out through PASA⁴  
51% Online business 5-year CAGR³  
~99% claims settled in a day

3-click claim process
- Analytics driven investigation
- Mobility enabled intimation

1. LifeEasy: Online customer intimation portal for Life claims
2. Policy issuance TAT calculation starts post submission of all required documents
3. WISE: Video sales platform
4. PASA: Pre-Approved Sum Assured
5. Online includes business sourced through own website, online business sourced through banks / corporate agents and web aggregators
We follow a multi-pronged risk management approach for the protection space

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
   - **Reinsurance**
     - Optimized reinsurance strategies for risk transfer
   - **Catastrophe agreement**
     - To protect excess loss
   - **Proactive reserving**
     - Well provisioned to prevent sudden shocks from current pandemic
   - **TPAs & medical centers**
     - Ensure process & quality adherence
   - **Distribution partners**
     - Adherence to best practices and continuous monitoring of risk
And we complement our risk management with appropriate growth levers

**Evolved Direct channel**
HDFC Life has one of the most evolved Direct channels (~33% contribution to new business in FY21).

**Customer & Distributor friendly variants**
Limited pay and return-of-premium variants better suited for some segments, while their higher ticket sizes also better incentivise distributors.

**Deep learning**
Use of deep learning underwriting models & leveraging industry platforms for faster turnaround while maintaining precision.

**Advertising and publicity**
Focus on increasing awareness. Promotions is one of the top triggers of life insurance purchase in India.

**Product innovation**
Flexible pay structures coupled with add-on riders like critical illness- leading to better product propositions while also improving margins.

**Trust in the brand**
Life insurance is a long-term contract invoked in the purchaser’s absence- actions that build trust in the brand help cement the choice in the minds of prospective customers.

These levers are further aided by rise in loan disbursals, wider distribution and favorable demographics.

1. Ambit Capital Research(2020)
In summary: Our protection philosophy

Protection is a multi-decade opportunity that we plan to address prudently with continued innovation

Demand side considerations

- Huge protection gap and under-penetration
- Customers valuing brand, on boarding experience and track record apart from the price

Supply side considerations

- Insurers moving beyond top 10 cities and salaried segment
- Continue to be calibrated in underwriting new business; robust claim settlement ratio
- Adverse mortality experience (risk of worsening due to ongoing pandemic)

Our Focus Areas

- Strengthening underwriting practices and use of deep learning underwriting models
- Growth in Credit Protect on the back of rise in loan disbursals and wider distribution
- Product innovation catering to varying customer needs
- Leveraging available market & industry platforms e.g., central medical repository for faster turnaround and greater underwriting precision
Fortune favours the brave…and the assiduous!
Thank You