

# **HDFC STANDARD LIFE INSURANCE**

---

**Financial Highlights**

---

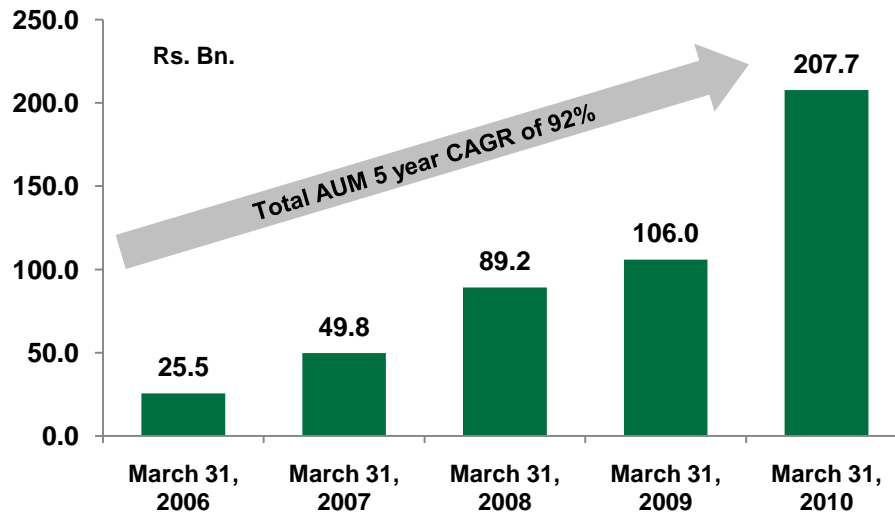
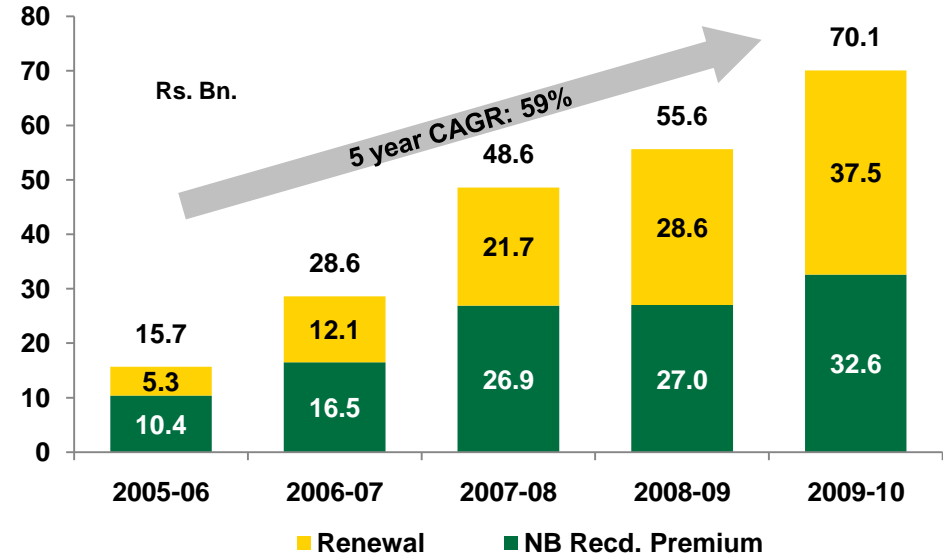
**Operational Highlights**

---

**July 2010**

# Financial Highlights

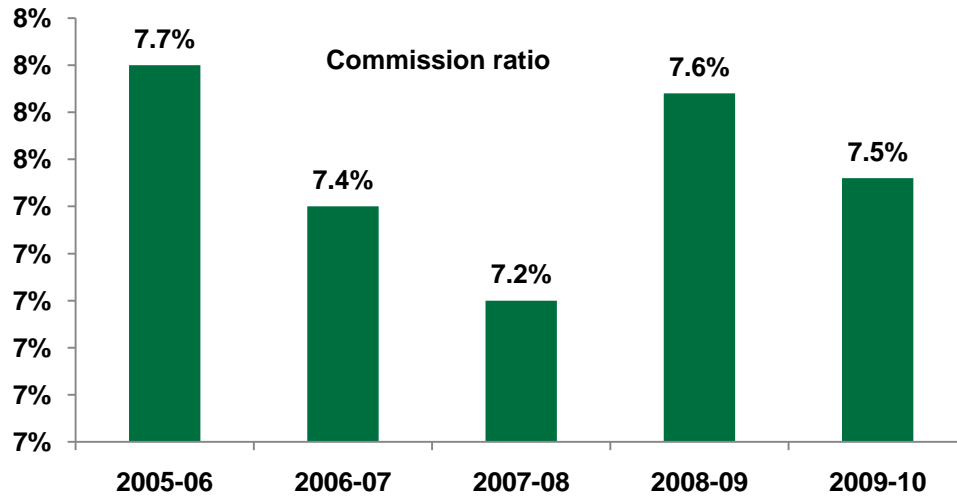
Strong growth in total premiums and higher share of renewals...



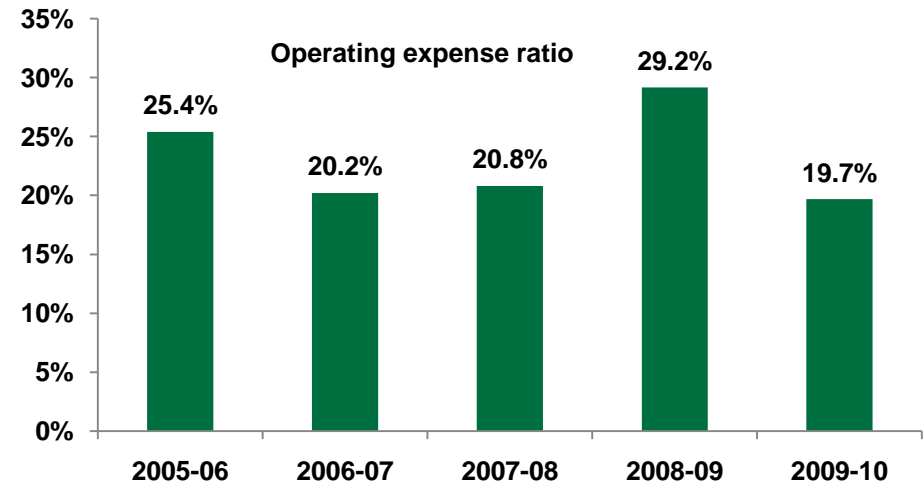
... assets under management as on March 31, 2010 have nearly doubled

# Financial Highlights

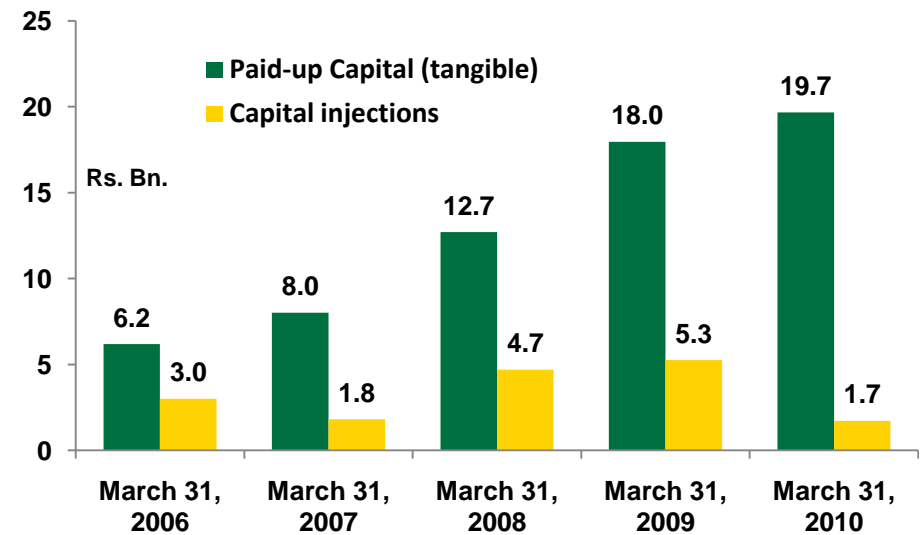
Commission rates have stabilised as a proportion of premiums



Operating expense ratio is back on track

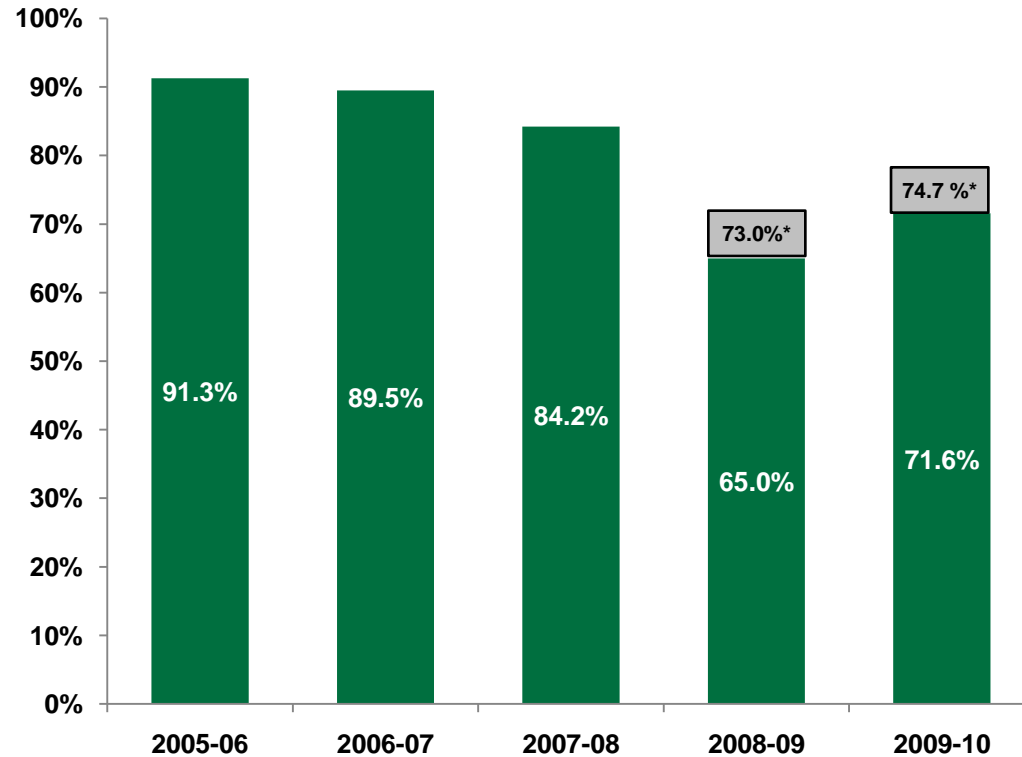


Reduction in capital injections...



# Financial Highlights

... improved individual regular premium conservation ratio in 2009-10



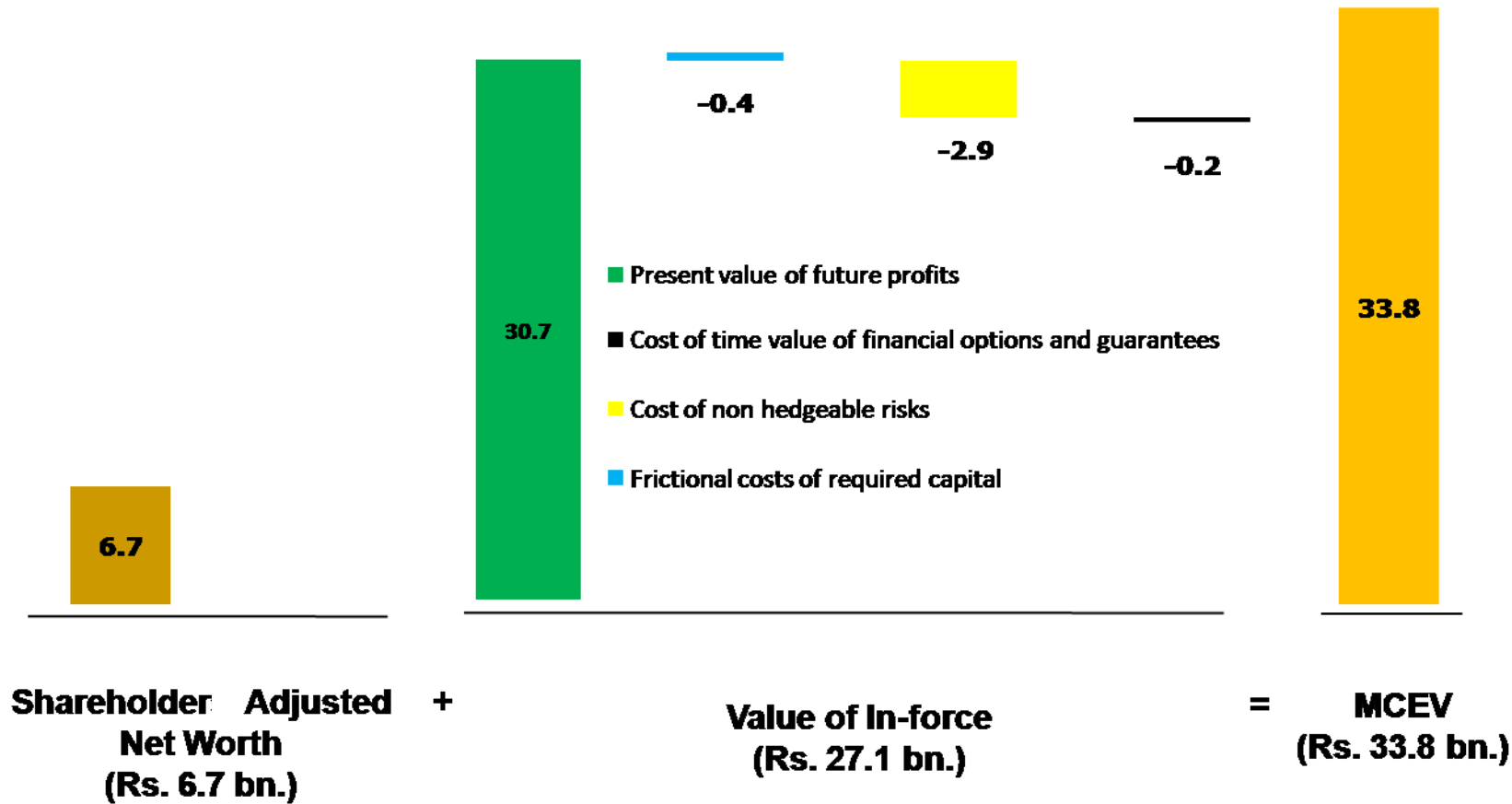
Impact of products with premium reduction option wore out in the latter half of 2009-10

While this was an industry wide phenomenon we withdrew the product earlier than others

\* Excluding products with the premium reduction option

# Financial Highlights

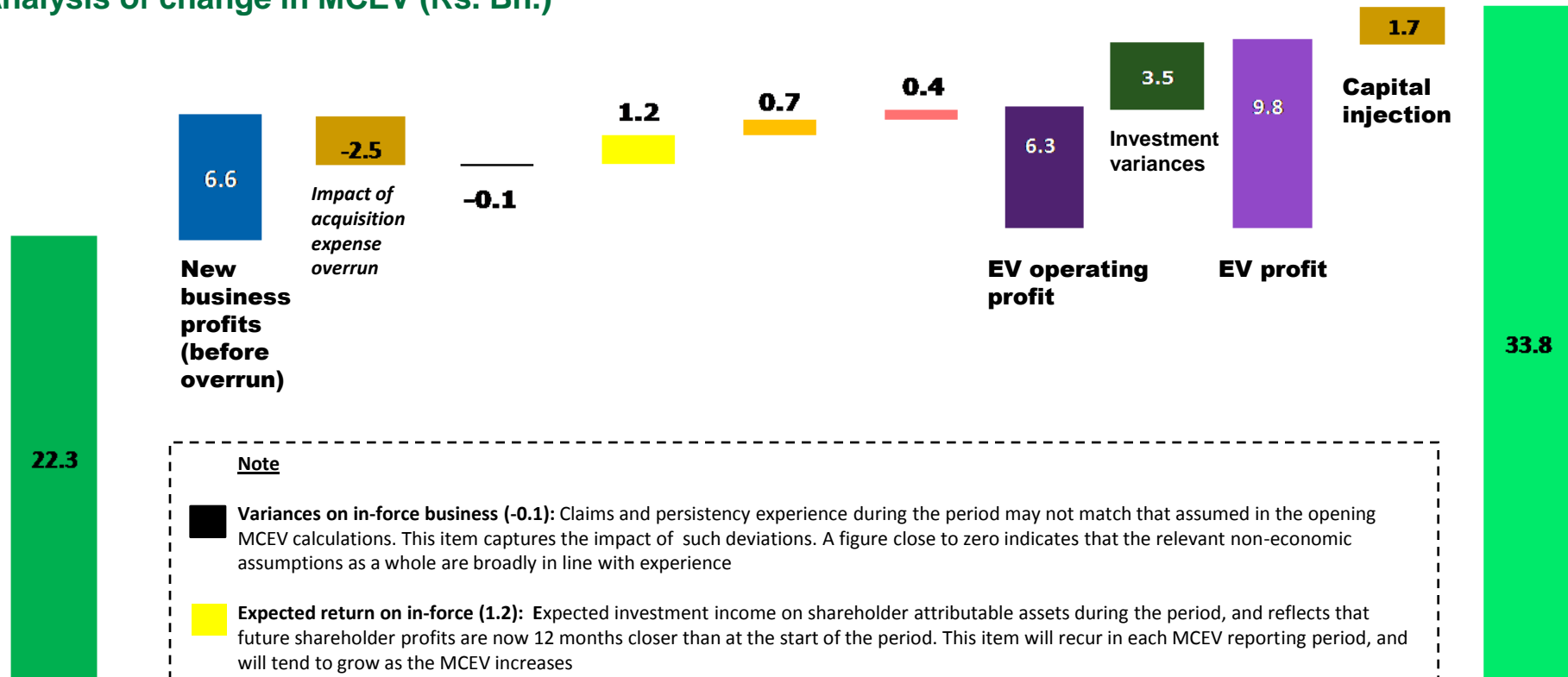
## Market Consistent Embedded Value (MCEV)\* as at March 31, 2010



\*MCEV results are unaudited

# Financial Highlights

## Analysis of change in MCEV (Rs. Bn.)\*



### Note

- Variances on in-force business (-0.1):** Claims and persistency experience during the period may not match that assumed in the opening MCEV calculations. This item captures the impact of such deviations. A figure close to zero indicates that the relevant non-economic assumptions as a whole are broadly in line with experience
- Expected return on in-force (1.2):** Expected investment income on shareholder attributable assets during the period, and reflects that future shareholder profits are now 12 months closer than at the start of the period. This item will recur in each MCEV reporting period, and will tend to grow as the MCEV increases
- Other one time adjustments (0.7):** Impact of one-off management actions taken during the period. This item is non-recurring.
- Other unmodeled income (0.4):** e.g. Service tax recoveries and commission claw-back from agents. These will recur in each MCEV reporting period
- Investment variances (3.5):** This item reflects the positive impact on the MCEV resulting from the fact that actual investment return during the period was significantly higher than the 1 year risk free rate, resulting in higher expected levels of future charges on the business and better than expected investment income. This item also incorporates the annual update to the risk free yield curve. This item is outside management control and could be positive or negative in future time periods

Opening  
MCEV –  
Mar'09

Closing  
MCEV –  
Mar'10

\*MCEV results are unaudited

# Financial Highlights

## Post tax new business profits for the FY ending Mar 31, 2010

	Rs. Bn.
<b>New business profits (based on loaded acquisition expenses)</b>	<b>6.6</b>
<b>New business EPI for the FY*</b>	<b>25.6</b>
<b>New business margin (based on loaded acquisition expenses)*</b>	<b>25.8%</b>

Note: New business profits are shown post tax

*\*Margins and EPI are shown for individual business only*

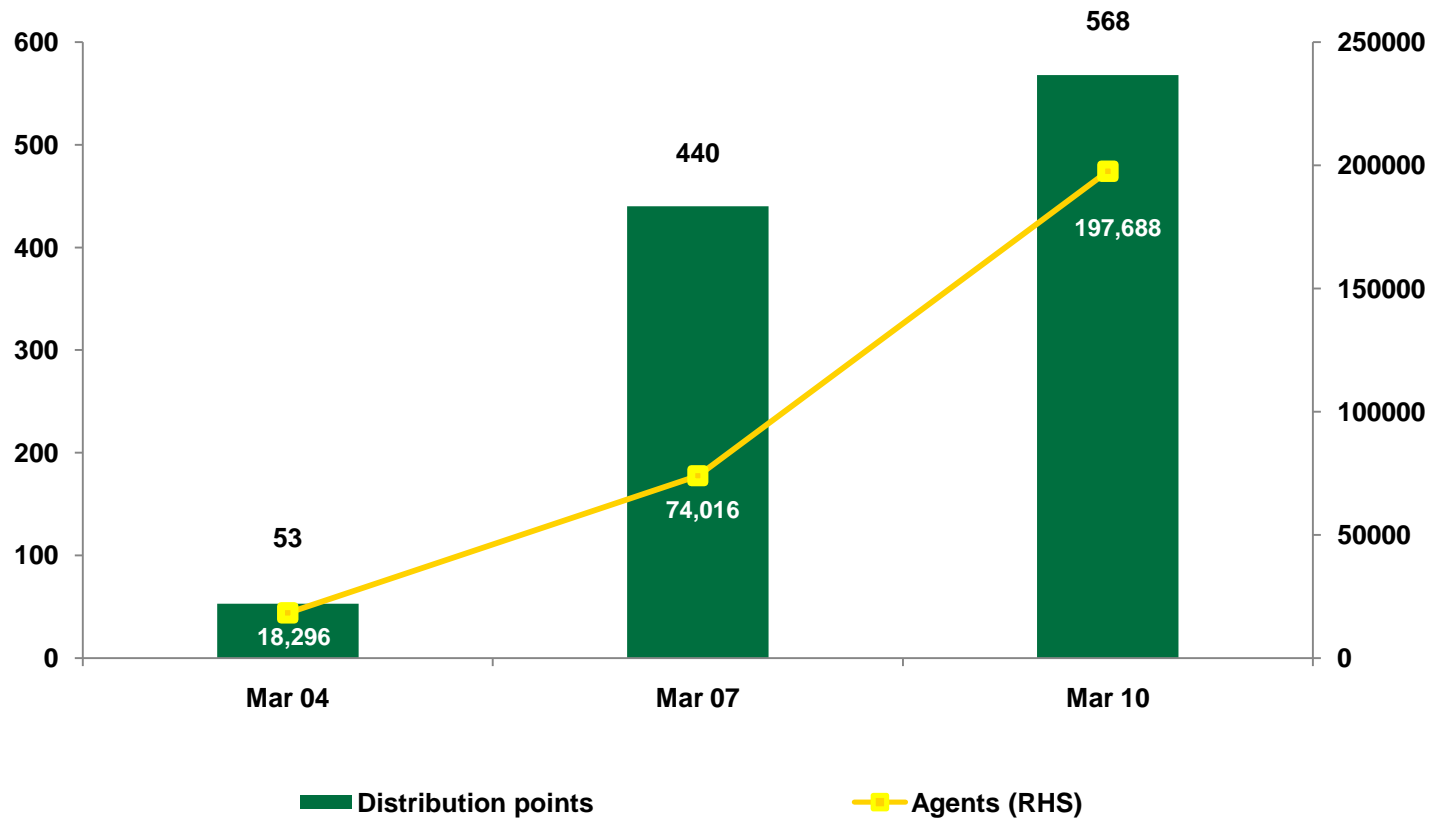
The new business margin after expense overruns was 16.2 percent. This included the impact of acquisition expense overrun of Rs. 2.5 bn. incurred during FY ending Mar 31, 2010.

The acquisition expense overrun is expected to reduce significantly in the current financial year and be eliminated by 2012-13.

The reduction will be driven through cost containment and continued focus on sales efficiency and growth.

# Operational Highlights

Growth through a comprehensive distribution network covering over 700 cities ...






# Operational Highlights

## A comprehensive product portfolio to meet customer needs...

**Young and single**




**Savings**

- Endowment Assurance
- Money Back
- Simplilife

**Health**

- Surgicare, Critical care

**Just married**



**Savings**

- Joint life plans
- Unit linked Endowment
- Simplilife

**Protection**

- Term Assurance
- Loan cover term

**Married with children**



**Savings**

- Children's Plan
- Unit linked Young Star

**Investments**

- Single premium whole life
- Wealth Builder

**Pension**

**Nearing retirement**



**Investments**

- Single premium whole life
- Wealth Builder

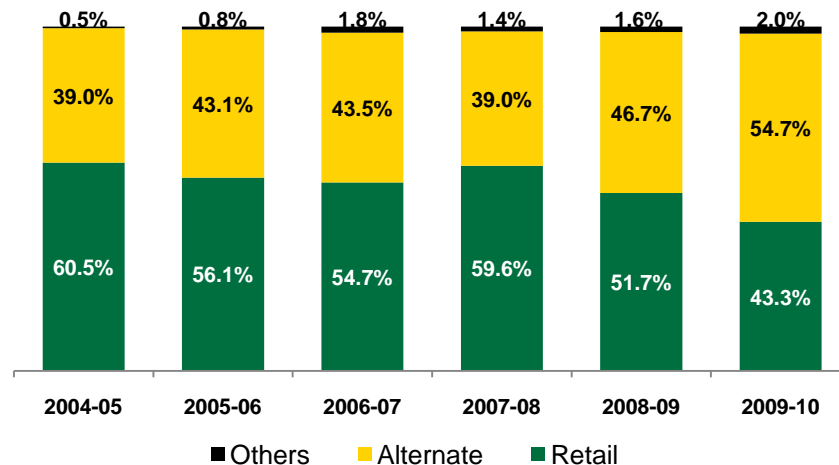
**Health**

- Surgicare, Critical care

**Pension**

## ...a diversified mix of distribution channels...

Channel wise EPI trend



Rs. Bn.

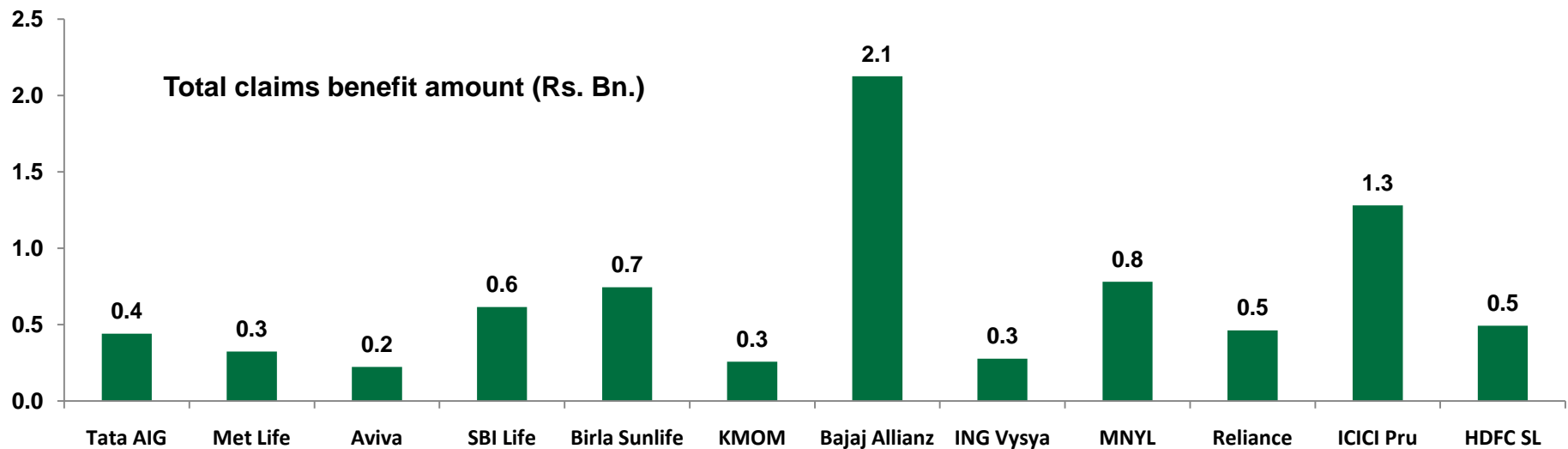
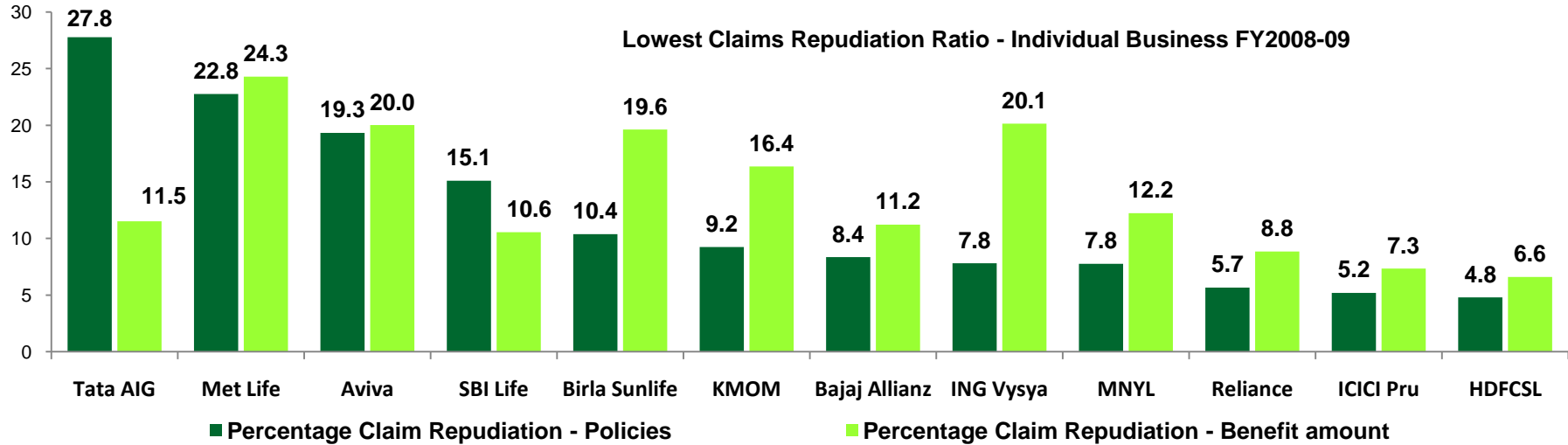
Channel	FY 05-06	FY 06-07	FY 07-08	FY 08-09	FY 09-10
1. Alternate	3.7	5.8	9.5	11.9	14.0
2. Retail	4.8	7.3	14.5	13.2	11.1
3. Others	0.1	0.2	0.3	0.4	0.5
<b>Total</b>	<b>8.6</b>	<b>13.3</b>	<b>24.3</b>	<b>25.5</b>	<b>25.6</b>

1. Alternate includes banks, brokers, other corporate agents and international business

2. Retail is the tied agency sales force  
3. Others includes direct sales, telemarketing, online sales etc., rural bima bachat sales

# Operational Highlights

...and the best underwriting standards in the industry



Source: IRDA Annual Report

The calculations of embedded value and new business profits have been done using a market consistent embedded value (“MCEV”) approach. This approach differs from a traditional EV approach primarily in respect of the way in which allowance for risk is made

Within the traditional EV approach allowance is made for risk through an increase in the risk discount rate used to value future shareholder cash flows, whilst within the MCEV calculation explicit separate allowances are made for risk

**There are two components to the MCEV:**

- 1. Shareholder adjusted net worth** – this component represents the market value of assets attributable to shareholders. This amount is derived from the Indian GAAP balance sheet adjusted to allow for assets on a market value basis, elimination of intangible assets and to allow for shareholder attributable assets residing within the unit-linked and non par policyholder funds
- 2. Value of in-force** – this component represents the discounted value of after tax shareholder attributable cashflows expected on the business as at the valuation date. No allowance is made for future new business. This amount has been adjusted to deduct allowances for non hedgeable risk, frictional costs of required capital and the time value associated with financial options and guarantees

## Components of value of in force (“VIF”)

### 1. Present value of future profits (“PVFP”):

This component has been calculated by discounting the projected future after tax shareholder attributable cashflows expected to arise on in-force business at the valuation date.

The cashflows have been projected on a deterministic basis using the company’s best estimate view of future persistency, mortality and expenses. Future investment returns and the risk discount rate have been set equal to the returns from the risk free yield curve at the closing balance sheet date.

## 2. Cost of non-hedgeable risk (“CNHR”):

A deduction from the PVFP is required in order to make appropriate allowance for non hedgeable and non economic risks. Within a traditional EV calculation this would be allowed for by an increase to the risk discount rate, but within MCEV an explicit separate deduction is made.

The CNHR has been derived using a cost of capital approach whereby an annual charge is applied to projected risk bearing capital associated with 99.5<sup>th</sup> percentile stress events for non economic assumptions over a 1 year time horizon.

99.5<sup>th</sup> percentile stress events have been taken from the EU Solvency II, QIS 4 framework. In order to allow for the greater risks associated with emerging markets, the risk bearing capital has been uplifted by 50 percent.

The CNHR has been calculated as the discounted value of a 4%p.a. charge applied to the projected risk bearing capital.

The stress events, uplifts to NHR and annual charge, are reviewed and modified if necessary on an annual basis.

## 3. Time Value of Financial Options and Guarantees (“TVFOG”):

The MCEV incorporates an allowance for risks associated with asymmetric shareholder returns associated with the Participating (“Par”) Funds by deducting a cost for the TVFOG. This asymmetry primarily arises due to the fact that if in deficit the Par Funds have to be funded 100% by the Shareholder Fund whereas if the funds have surpluses only 10% of these are attributable to the Shareholder Fund.

The PVFP is calculated using a deterministic basis and therefore does not capture the risk that in certain possible circumstances the Par Funds may have deficits.

The TVFOG has been calculated by assessment of the shareholder attributable cash flows (both transfers out of the funds and injections into the funds) on a large number of stochastic simulations derived on a risk neutral basis.

In each simulation the value of the shareholder attributable cash flows have been discounted back to the balance sheet date with the TVFOG then being set equal to the difference between the average of the discounted value of these cash flows and the equivalent figure calculated on a deterministic basis.

The calculation of the TVFOG incorporates a number of approximations and is being progressively developed and refined. The key areas of approximation include the selection of implied equity and swaption volatilities, the treatment of future management actions and the apportionment of TVFOG associated with new as opposed to in-force business.

## 4. Frictional Costs of Required Capital (“FCRC”):

An allowance has been made within the MCEV for the frictional costs of holding required capital (“FCRC”). Required capital has been set equal to the amount of shareholder attributable assets required to back local regulatory solvency requirements. The FCRC has been calculated as the discounted value of investment costs and taxes on shareholder attributable assets backing the required capital over the lifetime of the in-force business.

# Appendix 3

## Key assumptions underlying MCEV

### 1. Expenses

Maintenance expenses have been based on actual expense levels currently being incurred and make no allowance for future productivity improvements.

Acquisition expenses, for the purposes of new business profitability reporting have been based on levels the company expects to achieve by FY2012-2013 based on its business plan.

Actual acquisition expenses are currently higher than these assumptions and therefore any excess acquisition expense over the assumption is recognised in the period and the shareholder attributable component, net of tax, deducted from the value of new business for that period.

### 2. Economic assumptions

An MCEV approach is used with projected earned and risk discount rates both being set equal to the risk free (government bond) yield curve at the relevant balance sheet date.

No allowance for any illiquidity premia is made within the earned rates.

### 3. Mortality and morbidity

Mortality and morbidity assumptions are set by product line and are based on past experience.

### 4. Persistency

Persistency assumptions are set by product line, payment mode and duration in-force, based on past experience and expectations of future experience. Separate decrements are modeled for lapses, surrenders and paid-ups.

Due to the age of the industry, minimal experience exists on long-term persistency assumptions and therefore these assumptions are reviewed on an active basis and updated when experience suggests a significant difference from the assumptions used.

### 5. Tax assumptions

Tax assumptions are based on interpretation of existing tax legislation, where appropriate supported by legal opinion.

No allowance is made for future changes to taxation such as the Direct Tax Code. These changes will be incorporated only once materially enacted.

# Appendix 4

## New business profits and analysis of change in MCEV

The analysis of change in MCEV identifies the main drivers that have caused the MCEV to move over the financial year.

The value of new business written in the year is normally the most significant driver for increases in value shown in the analysis of change.

In presenting the analysis of change, the following approach has been adopted:

### A. Impact of changes in assumptions and methodology

The impacts from updates to assumptions and methodology are allowed for as follows:

- Updates to non economic assumptions and methodology are made at the start of the period, and the subsequent analysis of change calculated using these revisions
- Updates to economic assumptions including revisions to the economic scenarios used for the TVFOG calculation are made at the end of period and incorporated as a closing adjustment.

### B. Experience variances

The impact on the MCEV from variations between the assumptions and actual experience are determined and recognised in the period for non economic assumptions and at the end of the period for economic assumptions.

The impact on the variations for non economic assumptions are separately attributed to new and in-force business.

### C. Value of new business

New business profits are calculated as at end of period, using the opening (i.e. 31st March 2009) yield curve and incorporate allowance for variations on non economic assumptions during the period.

The TVFOG associated with new business written during the year has been approximated by apportioning the overall closing TVFOG (before changes to the end period economic assumptions) on the basis of guaranteed benefits associated with the new and inforce business. This TVFOG is incorporated as a deduction from the new business profits.

The new business profits are calculated before and after acquisition expense overruns.

### D. EV profits

EV profits are calculated as the movement in EV during the period less capital injections.

### E. EV Operating profit (“EVOP”)

EV operating profit (“EVOP”) is calculated as the movement in EV during the period less capital injections and the impact of economic variances and economic assumption changes.

The EVOP represents the impact on the MCEV from performance that is considered within management control.

# Appendix 5

## Statutory profit and loss account

Units: Rs '000s

FY ending 31 March

	2009-10	2008-09
Premium	70,051,044	55,646,937
Reinsurance ceded	(494,720)	(463,174)
Premium earned (net)	69,556,324	55,183,763
Income from investments	57,228,189	(17,231,361)
Other income	3,862,305	6,504,424
<b>Total income</b>	<b>130,646,818</b>	<b>44,456,826</b>
Commission expense	(5,254,973)	(4,248,904)
Operating expenses	(15,090,403)	(17,600,683)
Fringe benefit tax	-	(66,320)
Benefits paid (net)	(13,378,943)	(6,812,692)
Interim bonuses paid	(1,013)	(611)
Terminal bonuses paid	(2,725)	(4,194)
Change in valuation of liability against life policies in force	(95,009,353)	(14,057,024)
<b>Surplus / (Deficit)</b>	<b>1,909,409</b>	<b>1,666,398</b>
Appropriations		
<b>Transfer to Shareholders' Account</b>	<b>472,930</b>	<b>794,984</b>
Transfer to Other Reserves	-	-
Funds for future appropriation - Provision for lapsed policies	532,861	285,019
Balance being Funds for Future Appropriations	903,618	586,395
Total	1,909,409	1,666,398
Amounts transferred from the Policyholders Account	472,930	794,984
Income from investments	335,133	329,343
Other income	3,522	300
Total income	811,585	1,124,627
Expenses other than those related to insurance business	(3,981)	(5,307)
Contribution to the Policyholders Fund	(3,559,448)	(6,148,951)
Profit / (Loss) before tax	(2,751,844)	(5,029,631)
Provision for taxation	-	-
<b>Profit / (Loss) after tax</b>	<b>(2,751,844)</b>	<b>(5,029,631)</b>

# Appendix 6

## Statutory balance sheet

**Units: Rs '000s**

<b>FY ending 31 March</b>	<b>2009-10</b>	<b>2008-09</b>
<b>Sources of funds</b>		
Shareholders' funds		
Share capital	19,680,000	17,958,180
Reserve and surplus	552,892	552,892
Credit/(Debit) fair value change account	184,435	(77,610)
Sub-total	20,417,327	18,433,462
Borrowings		
	-	-
Policyholders' funds:		
Credit/(Debit) fair value change account	205,087	(296,885)
Policy liabilities	37,666,908	29,092,419
Insurance reserves	-	-
Provision for linked liabilities	127,701,636	84,085,083
Add: Fair value change	27,516,164	(15,302,147)
Total provision for linked liabilities	155,217,800	68,782,936
Sub-total	193,089,795	97,578,470
Funds for future appropriations		
	1,490,013	586,395
Funds for future appropriations - provision for lapsed policies	1,064,831	531,970
Surplus allocated to shareholders		-
<b>Total</b>	<b>216,061,966</b>	<b>117,130,297</b>

	<b>2009-10</b>	<b>2008-09</b>
<b>Application of funds</b>		
Investments		
Shareholders'	6,304,757	4,291,597
Policyholders'	43,415,382	30,152,727
Assets held to cover linked liabilities	155,217,800	68,782,936
Loans	40,366	30,248
Fixed assets	1,143,777	1,451,346
Current assets		
Cash and bank balances	2,826,362	4,108,660
Advances and other assets	4,917,758	5,428,699
Sub-total	7,744,120	9,537,359
Current liabilities		
	12,281,585	8,820,225
Provisions	187,617	208,813
Sub-total	12,469,202	9,029,038
Net current assets	(4,725,082)	508,321
Debit balance in profit and loss account		
	14,664,966	11,913,122
<b>Total</b>	<b>216,061,966</b>	<b>117,130,297</b>



1. **Total premiums – Total received premiums during the year including first year, single and renewal premiums for individual and group business**
2. **First year premiums – Regular premiums received during the year for all modes of payments chosen by the customer which are still in the first year. For e.g. for a monthly mode policy sold in March 2009 the first installment would fall into first year premiums for 2008-09 and the remaining 11 installments in the first year would be first year premiums in 2009-10**
3. **New business received premium – The sum of first year premium and single premium**
4. **Weighted received premium – The sum of first year premium and 10 percent weighted single premiums and single premium top-ups**
5. **Renewal premiums – Regular recurring premiums received after the first year**
6. **Effective premium income (EPI) - 10 percent weight-age for single premiums and annualized for regular premiums – e.g. monthly installment premium x 12**
7. **Commission ratio – Ratio of total commissions paid out on first year, single and renewal premiums to total premiums**
8. **Operating expense ratio – Ratio of operating expenses excluding service tax to total premiums**
9. **Conservation ratio – Ratio of current year renewal premiums to previous year's renewal premium and first year premium**
10. **Solvency ratio – Ratio of required solvency margin to available solvency margin**
11. **Claims repudiation ratio – Ratio of claims repudiated to total claims received during the period**

# Disclaimer

**This release is a compilation of unaudited financial and other information and is not a statutory release. This may also contain statements that are forward looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from our expectations and assumptions. We do not undertake any responsibility to update any forward looking statements nor should this be constituted as a guidance of future performance.**

**These disclosures are subject to the prevailing regulatory and policy framework as on March 31, 2010 and do not reflect any subsequent changes.**