

# HDFC Standard Life Insurance Company Limited

Twelve months ended March 2011  
**2010-11**



**'India's Most Trusted  
Private Life Insurance Brand'**

as per the 'Most Trusted Brand' Survey 2010,  
conducted by Economic Times - Brand Equity.

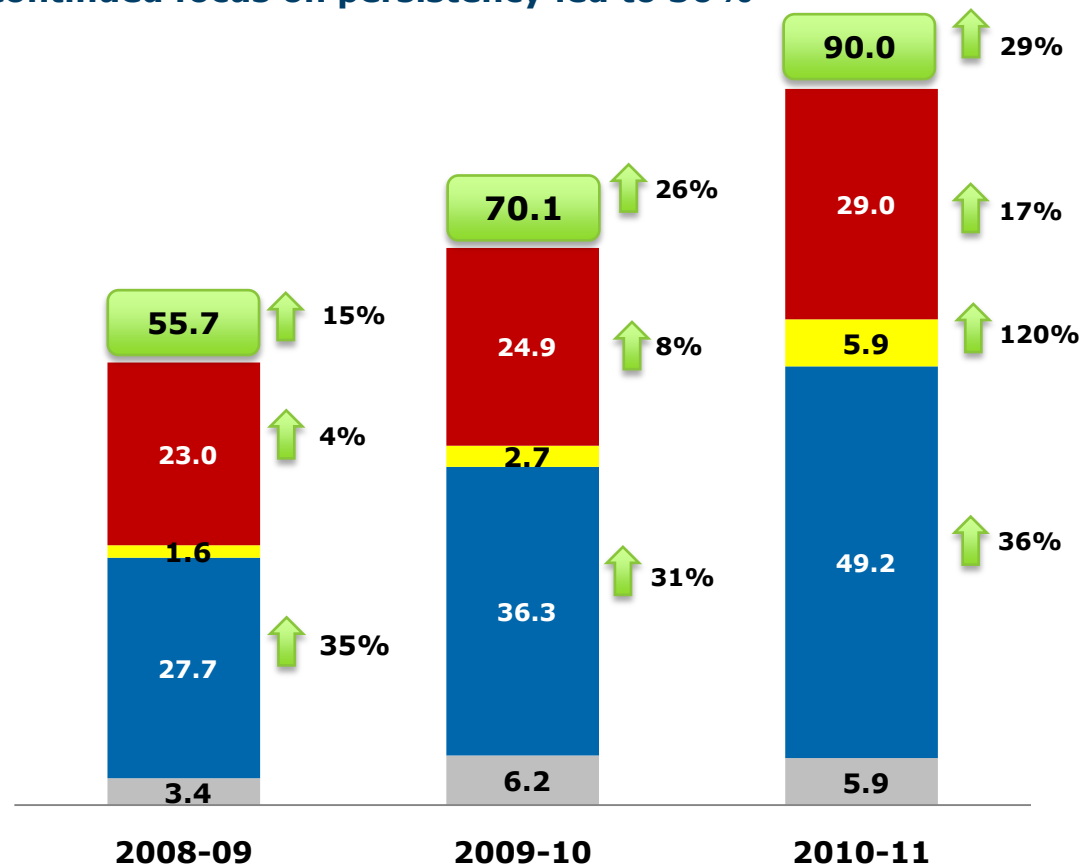


# Premium Income

- A robust 17% growth in individual new business (regular premium)
- Focus on single premium policies in H2 results in growth of 120%
- High quality of existing business & continued focus on persistency led to 36% increase in renewal premium
- A growth of 29% in total premium

₹ Bn

- Total Premium
- First Year Regular Premium (Individual)
- Single Premium (Individual)
- Renewal Premium (Individual)
- Group Premium

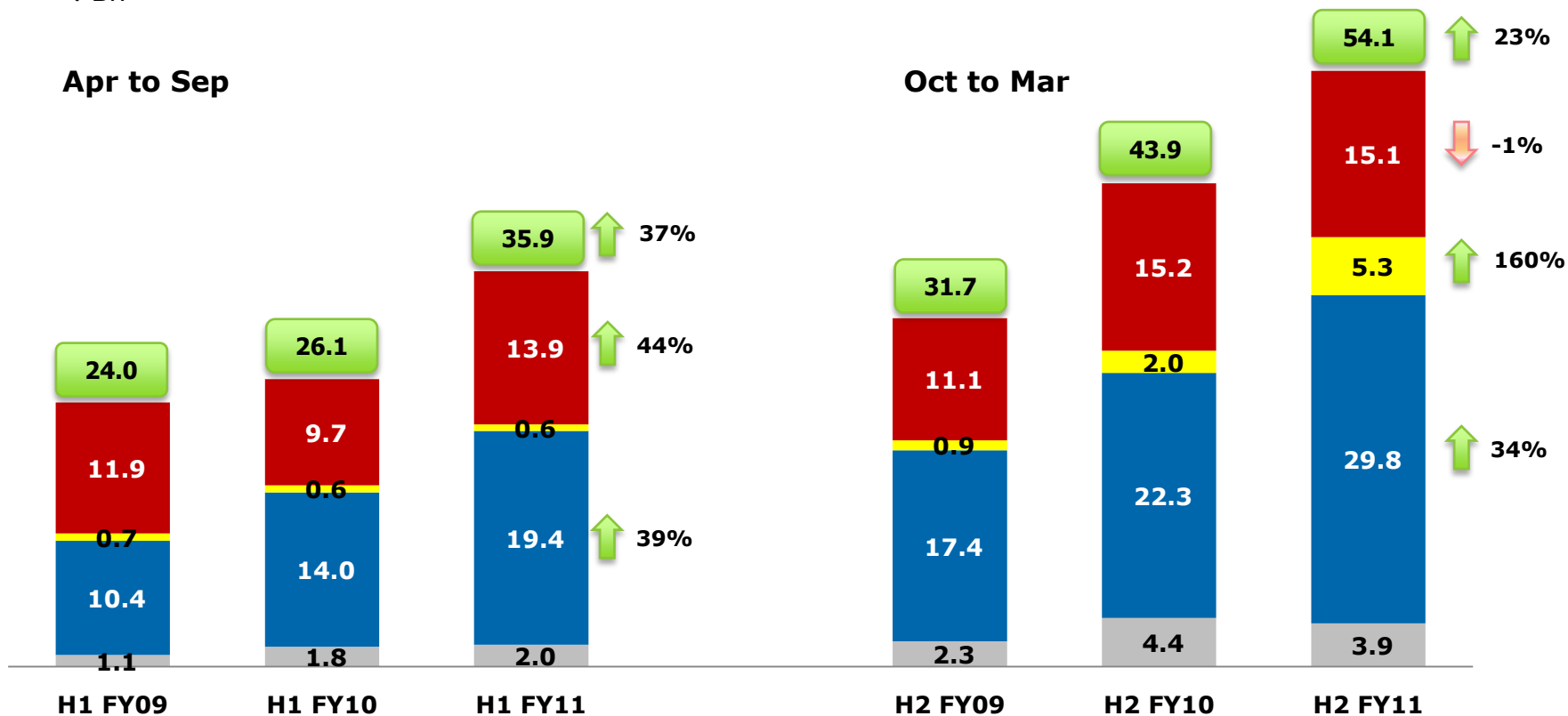


# Premium Income H1 & H2

₹ Bn

Apr to Sep

Oct to Mar



■ Total Premium

■ First Year Regular Premium (Individual)

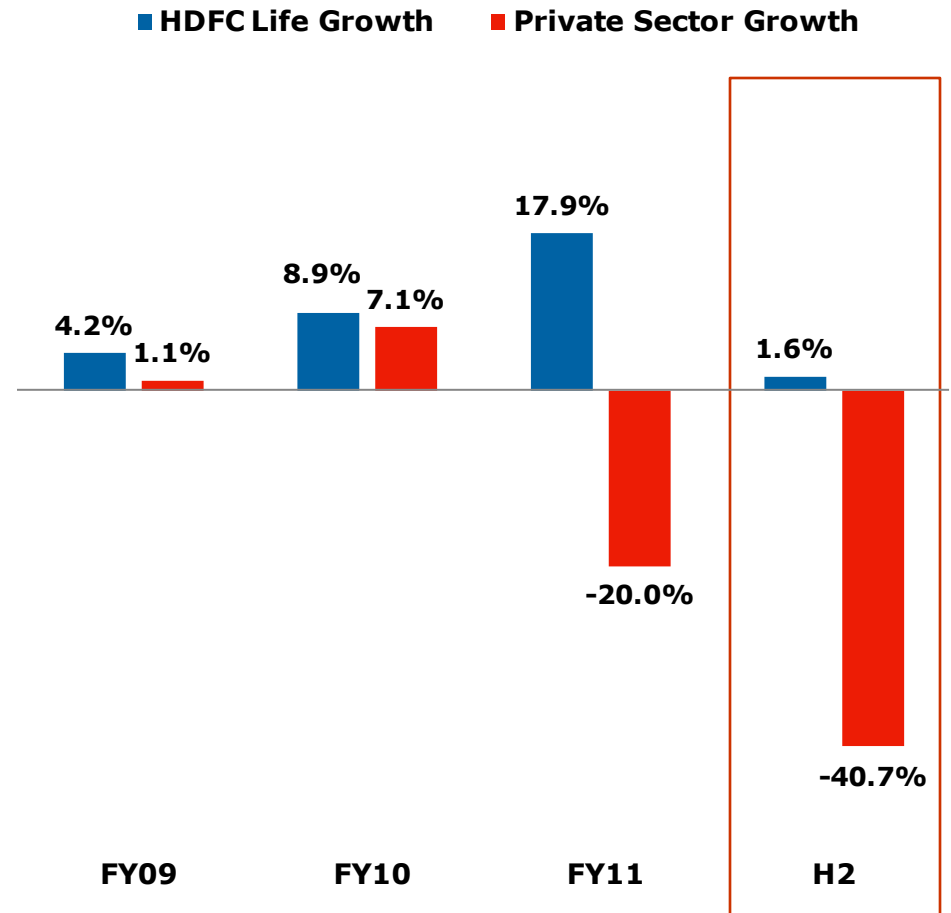
■ Single Premium (Individual)

■ Renewal Premium (Individual)

■ Group Premium

# Growth

- New ULIP regulations have impacted growth in H2 FY11
- In H2 we have grown 1.6%, while private industry de-grew by 40.7%
- One of the very few private insurers to achieve positive growth in FY11
- We are fastest growing amongst the top 15 private players
- Since last 3 years grown faster than private industry

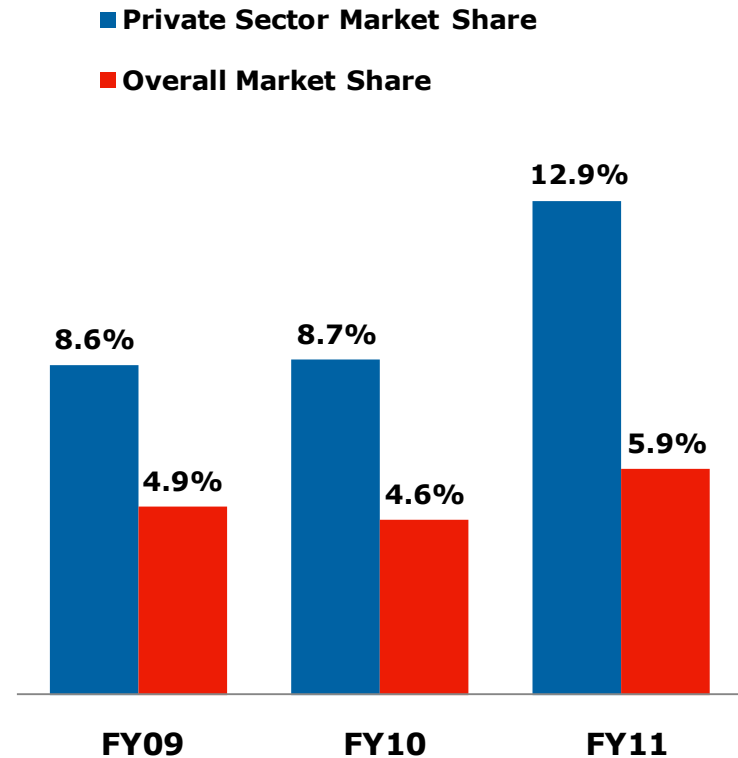


All references of growth are in terms of Weighted Received Premia (WRP) of Individual Business

Source :IRDA

# Market Share

- **Have adapted well to post September 1, 2010 regime. Ranked # 1 in H2 FY 11 amongst private insurance companies**
- **Ranked # 3 in private sector for the full year; # 5 during same period last year**
- **Highest market share gain of 4.2% in private space in FY11 over same period last year**

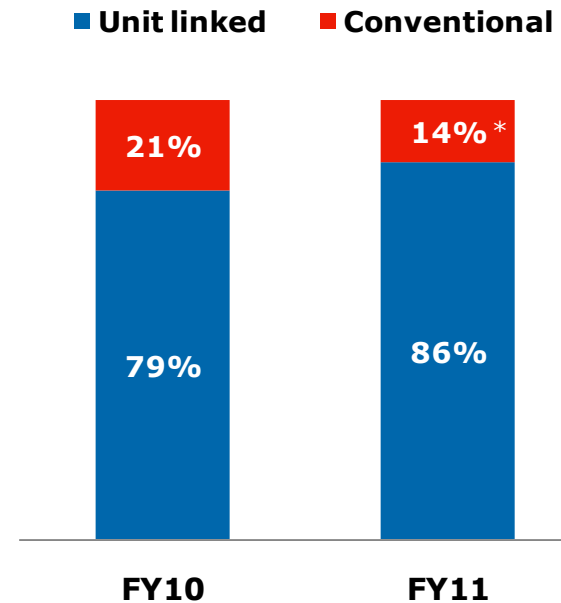
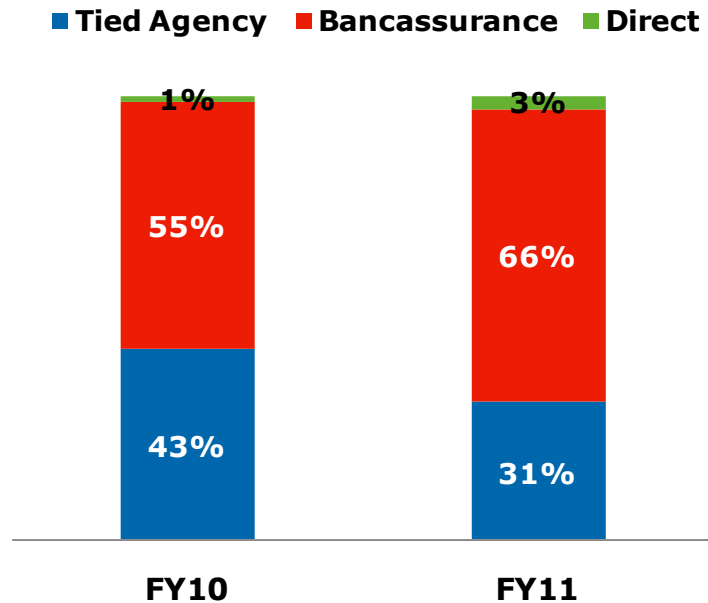


*All references of market share, ranking and growth are in terms of Weighted Received Premia (WRP) of Individual Business*

Source :IRDA

# Distribution & Product Mix

- Bancassurance mix has improved in FY11
- We have initiated tied agency transformation program, which focuses on unique agent value proposition
- Renewed focus on Direct distribution has led to growth of 111%.



\* Contribution of conventional product was at 20% in March 2011

# Commission Ratio

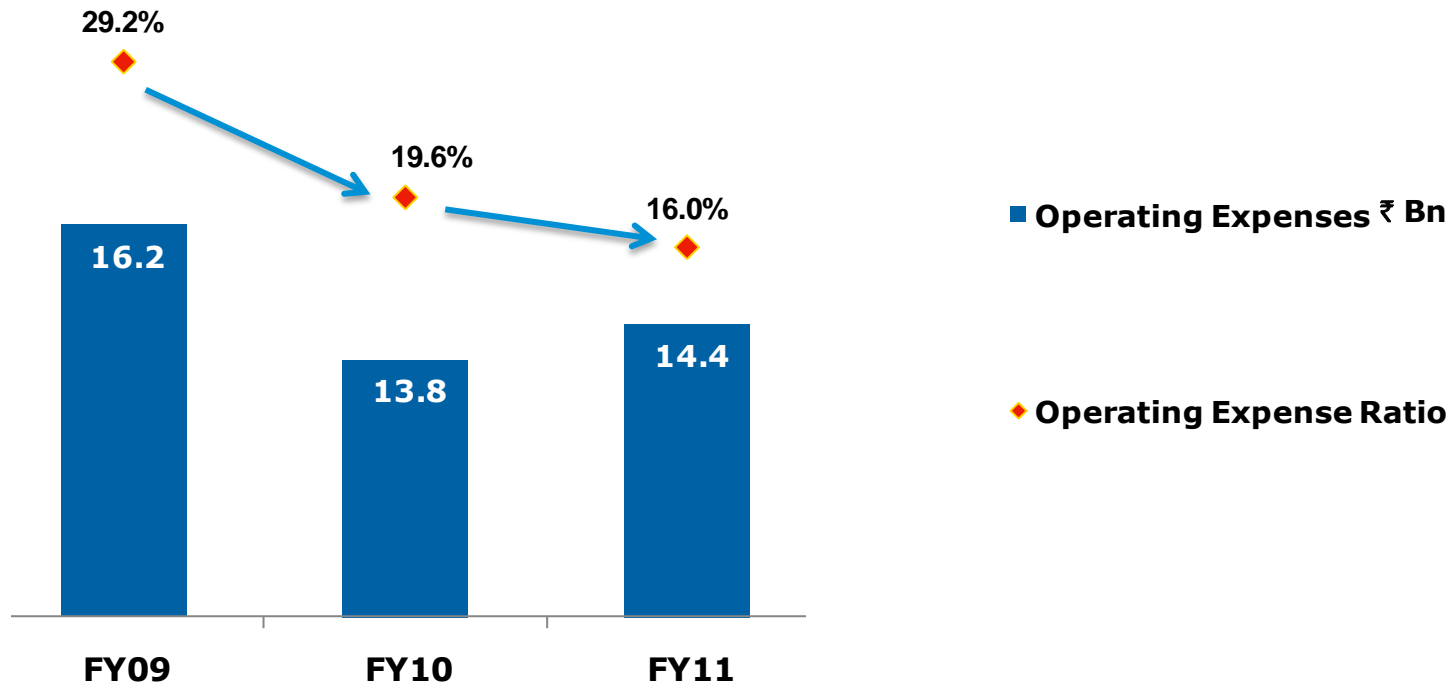
<b>Commission % on</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>
- First year premiums	14.1%	14.5%	11.0%
- Renewal premiums	2.3%	2.1%	2.0%
- Single premiums	0.7%	1.0%	1.6%
<b>Total premiums</b>	<b>7.6%</b>	<b>7.5%</b>	<b>5.3%</b>

- **Total commission rates (new business plus renewal) are also reducing as a proportion of total premium**
- **Post September 1, 2010, first year commissions have reduced**

*Commission % is equal to respective commission over respective premium*

# Operating Expenses

- Management action on cost containment and productivity enhancement programmes has seen operating expense ratio reduce over the last 3 years
- Operating expenses have increased marginally by 4% against individual new business growth of 27%

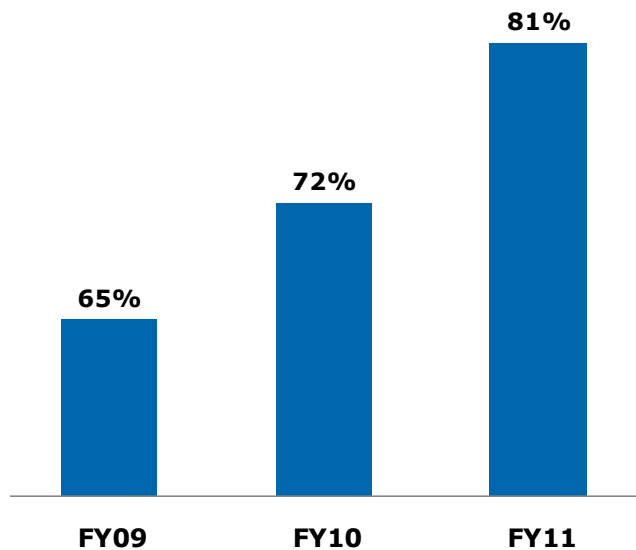


Operating expenses exclude service tax

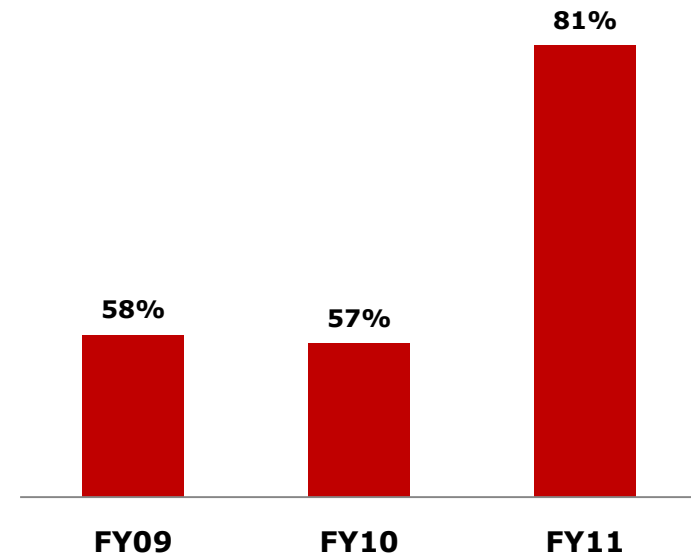


# Conservation Ratio & Persistency

■ Conservation Ratio (Individual Business)



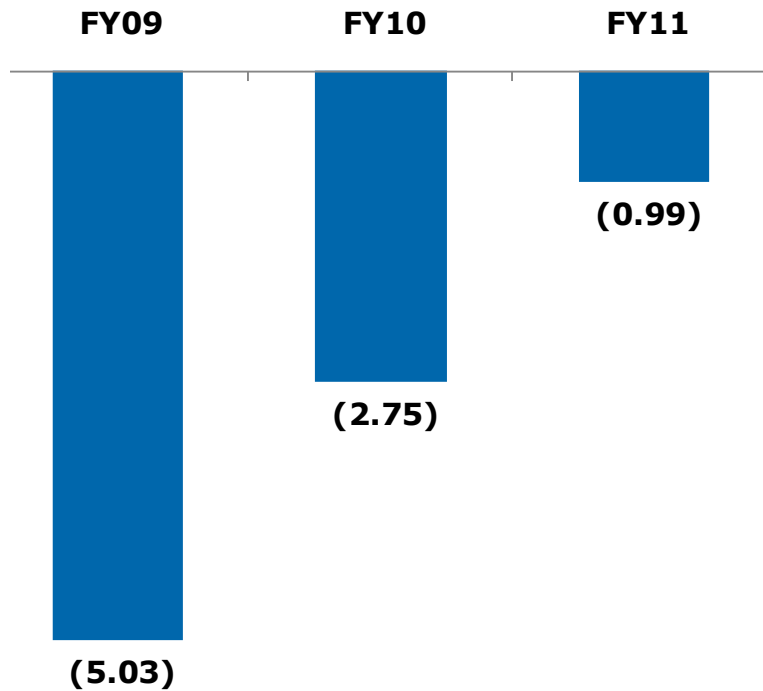
■ 13th Month Persistency



**Significant improvement in both conservation ratio & persistency through a dedicated 'vertical' on renewal collections**

# Indian GAAP Results

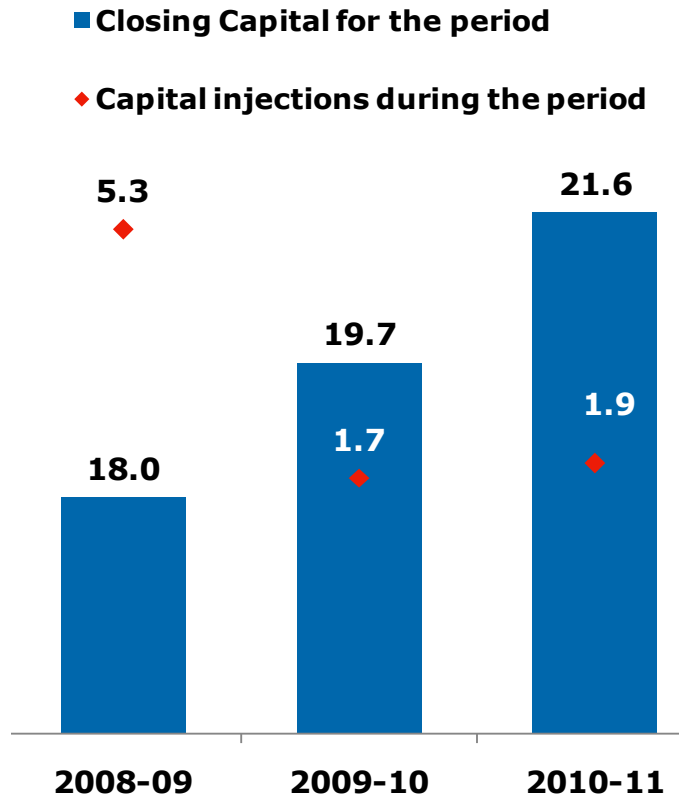
₹ Bn



- **New business leads to capital strain since insurance contracts are designed with largely back-ended charges**

# Total Capital

₹ Bn

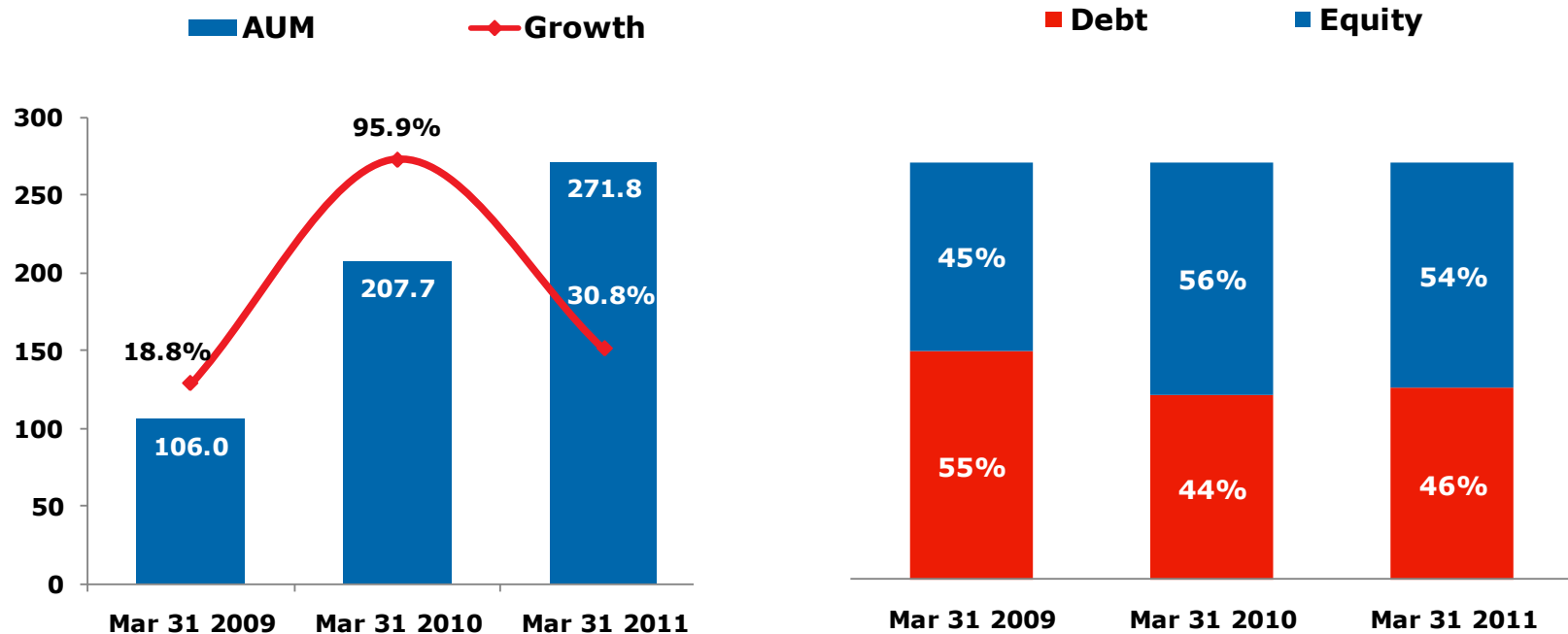


- Capital infusion by promoters has scaled down over the last 3 financial years
- Generation of surplus on existing policies has reduced the need for capital draw-down
- Out of the capital infusion of ₹1.9 bn promoters brought in ₹1.7 bn
- Solvency Ratio as at 31st Mar 2011 was 172% as against regulatory requirement of 150%

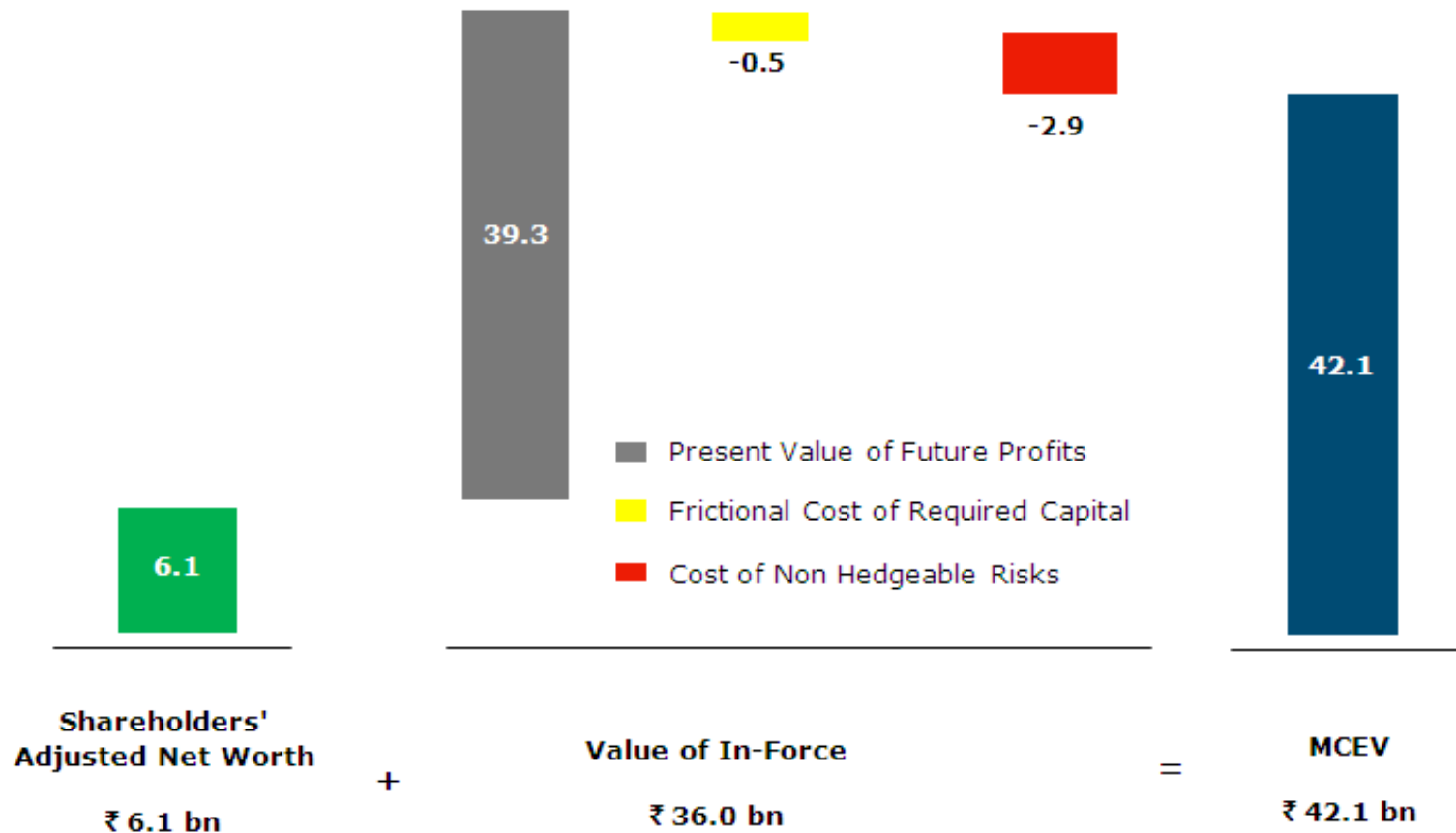
Shareholding Pattern as at 31<sup>st</sup> Mar 2011 : HDFC 72.4%; Standard Life 26.0%; Individuals / ESOP Trust 1.6%

# Assets Under Management

- **31% growth in assets under management over March 31, 2010**
- **Strong inflows due to robust persistency has led to increase in AUM**



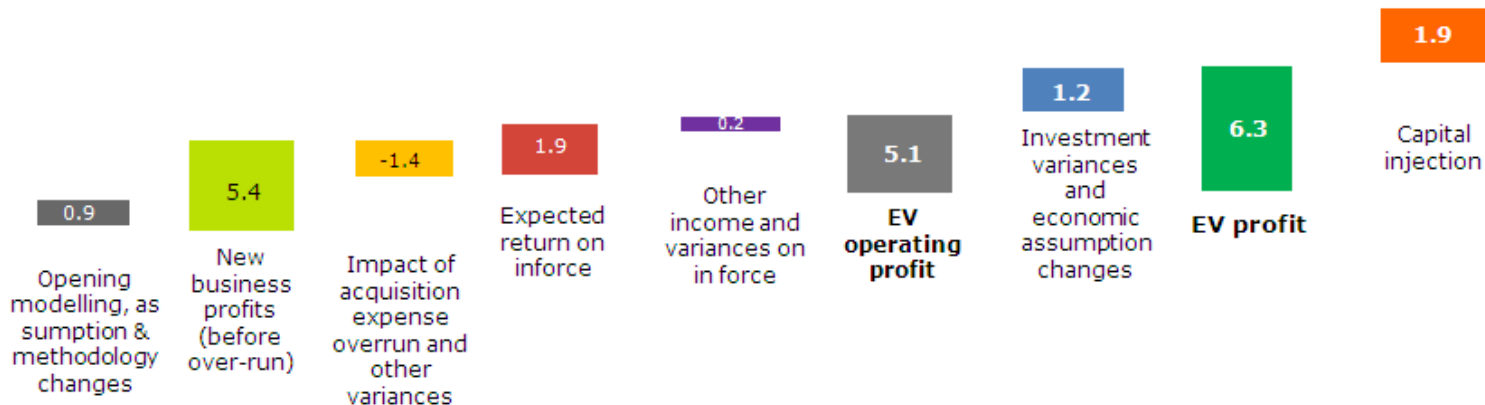
# MCEV as at 31<sup>st</sup> March 2011



Market Consistent Embedded Value (MCEV) results are unaudited

# Analysis of change in MCEV

₹ Bn



## Notes to analysis of change:

**Opening modeling, assumptions and methodology changes:** The models, assumptions and methodology are continuously refined and improved and the impact of these refinements is reflected in the opening changes. The opening changes are primarily driven by a strengthening of the persistency assumptions offset by updates to the allowance for non hedgeable risk.

**Expected return on in force:** This item reflects expected investment income on shareholder assets during the period, and reflects that future shareholder profits are now 1 year closer than at the start of the period. This positive item will occur in each MCEV period.

**Other Income and variances on in force:** Other Income includes un-modeled income like service tax recoveries and various ad-hoc charges collected. Variances on in force reflects the fact that claims, persistency and maintenance expense experience during the period may not match that assumed in the opening MCEV calculation (updated for assumption changes). The variances on in force captures the impact of these deviations .

**Investment variances and economic assumption changes:** This reflects the impact due to the actual investment return being different from the expected returns and the impact from the change in the yield curve at the end of the period compared to the yield curve at the start of the period.

Opening  
MCEV at  
1st Apr 10

Closing  
MCEV at  
31st Mar 11

# New Business Profits

	₹ Bn
New business profits for FY11 <sup>1</sup>	5.4
New business EPI for FY11 <sup>2</sup>	28.6

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New business margin for FY11 <sup>1,2,3</sup>	18.8%
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<sup>1</sup> Based on loaded acquisition expenses

<sup>2</sup> Margins and EPI are shown for individual business only

<sup>3</sup> New business margin after impact of acquisition expenses overrun 14.2%

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The new business profit margins for the year have been significantly and negatively impacted by the regulatory changes to charges on unit-linked products sold post 1<sup>st</sup> September 2010.

Given the substantial recent changes in regulations the Company has reviewed its cost structure as a result of which the long-term acquisition expense levels are to be calibrated at a lower level. These new long-term acquisition expense levels have not been incorporated into the pre-overrun margins disclosed above, but will be used for subsequent new business profitability reporting from FY2011-12.

# Management Outlook

- The new regulatory regime (post Sep 1, 2010) has played out as was predicted by us
  - There's been an average decline in WRP by almost 20% in the industry between Oct '10 – Mar '11. This trend is likely to continue till Sep '11. HDFC Life has bucked this trend so far and is strongly positioned to continue doing so
  - Acquisition costs across the industry have been rationalized by ~20%. Most players will realize rationalising costs beyond a threshold will jeopardize growth. Select investments in growth channels will commence
- Bancassurance channel will increase its contribution to the new business written.
  - We expect a lot of competitive action to gain Bank distribution through offering equity stake or strategic tie-ups
  - HDFC Life is also preparing for the likely multi-tie scenario through a 3 pronged approach of fortifying existing relationships, diversifying distribution mix and being a partner of choice. A cross-functional programme is underway to address these
- HDFC Life is implementing a transformation programme within its tied-agency channel
- Persistency and Customer Service have become more critical to profitability than before. HDFC Life continues to invest in and introduce pioneering initiatives in these areas



# Strategy & Way forward

**We continue to build on the strong foundations of our business as we work on five strategic themes**

Position as a leader in providing long term life insurance solutions



Need Based Selling, Innovation, Delivering on Brand Promise and Technology Integration

Diversify distribution channel mix in New Business



Tied Agency Transformation. Fortifying Existing Relationships, 10% EPI from New Distribution Channels

Own identified customer segments / product categories



Customer Lifecycle Segmentation – Products, Distribution Channels; 3 segments identified to be worked on

Deliver a unique customer experience



Unified Customer-led view, Financial Planning Tool, Pioneering Service Initiatives, End-to-End TATs

Aim for cost leadership through the entire delivery chain



Persistency, Branch Profitability. Low Cost Delivery Models

# Awards and Accolades

## Great Place to Work

Selected as one of India's Top 50 'Best Companies to Work For'. We were honoured as No. 1 in the Insurance industry space. This award speaks of trust, pride, openness and enjoyment which every employee has in working with our company .



## India's Most Trusted Private Life Insurance Brand

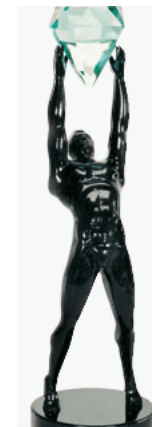
Ranked India's Most Trusted Private Life Insurance Brand in 2010 in a survey conducted by Economic Times-Brand Equity and the Nielsen Company. Apart from trust & popularity, this award also signifies that consumers believe we provide high quality of service, are unique in our offering and worth the price we command.



**'India's Most Trusted Private Life Insurance Brand'**  
as per the 'Most Trusted Brand' Survey 2010, conducted by Economic Times - Brand Equity.

## IMC RBNQA - Performance Excellence Trophy 2010

Bagged the Indian Merchants' Chamber Ramkrishna Bajaj National Quality Award (IMC RBNQA) 2010. We won the Performance Excellence Trophy 2010 in the service category. IMC RBNQA is one of India's most prestigious Quality Awards. This award is a strong testimony to our commitment to quality and performance excellence in the organization.



# Awards and Accolades

## Product of the Year 2010 - YoungStar Super

Our children's plan YoungStar Super was voted 'in the 'Insurance' category. 'Product of the Year' is an internationally recognized standard that celebrates and rewards the best innovations in consumer products and services.



## CIO 100 2010: The Agile 100 and InformationWeek EDGE 2010

We have won CIO Agile 100 award and InformationWeek EDGE 2010 awards for our workflow management software 'Pinnacle,' which provides on-demand, easy-to-manage workflows for the new business process with a flexibility of changing the process to align to dynamic business conditions. These awards demonstrate the best use of technology to solve business problems, improve business competitiveness, and deliver quantifiable ROI to stakeholders.



## Celent Model Insurer Award

We have won Celent Model Insurer Award 2011 for WONDERS – our Workflow on Demand and Enterprise Retrieval System. WONDERS is an enterprise wide workflow system integrated with a Document Imaging System, which forms the backbone for our process automations. This international recognition is a strong testimony of our focus on technology and processes.



# Appendix 1 : Components of value of in force ("VIF")

## 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.

## Time Value of Financial Options and Guarantees ("TVFOG")

During FY2010-11, the company carried out an extensive analysis of the profile of guarantees in its Par funds to identify the level of guaranteed benefits occurring at future time periods. The investment strategy of the Par funds was re-set to enable, where possible, hedging of these guaranteed benefits through cashflow matching of the guarantees with fixed interest assets. As a result, the company is of the view that there is no residual TVFOG associated with the Par funds.

During FY2010-11, the company launched a number of unit-linked funds incorporating various forms of investment guarantees. The cost associated with these investment guarantees has been allowed for in the MCEV calculations by modelling a cost equal to the additional guarantee charge levied on these funds. This allowance has been factored into the PVFP.

## Frictional Costs of Required Capital ("FCRC")

The VIF allows for a deduction in respect of 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.

## Cost of non-hedgeable risk ("CNHR")

The VIF incorporates an explicit deduction to allow for non hedgeable and non economic risks. The CNHR has been derived using a cost of capital approach and is calculated as the discounted value of an annual charge applied to projected risk bearing capital.

- The initial risk bearing capital has been calculated based on 99.5<sup>th</sup> percentile stress events for non economic assumptions over a 1-year time horizon. This initial risk bearing capital has been updated to be based on the portfolio of business as at 31<sup>st</sup> March 2011.
- Projected risk bearing capital has been determined by running-off the initial risk bearing capital in line with the expected movement in the regulatory solvency margin requirement.
- 99.5<sup>th</sup> Percentile stress events have been taken from the EU Solvency II, QIS 5 framework (previously QIS 4 framework). In order to allow for the greater risks associated with emerging markets, the risk bearing capital has been uplifted by 50%.
- The annual charge applied to the projected risk bearing capital is 4% p.a.

The stress events, uplifts to NHR, run-off pattern for projected risk bearing capital and annual charge, are reviewed and modified if necessary on an annual basis.

# Appendix 2 : Key assumptions underlying MCEV

## Expenses

- Maintenance expenses have been based on expense levels incurred during FY 2009-10, inflated at 7.5%. These assumptions incorporate no allowance for future productivity improvements.
- Loaded acquisition expenses, for the purposes of new business profitability reporting, have been based on levels the company expects to achieve by FY 2012-13 based on its April 2010 business plan.
- Actual acquisition expenses are currently higher than these assumptions. 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.
- Given the substantial recent changes to regulations the Company has reviewed its cost structure as a result of which the long-term acquisition expense levels are to be calibrated at a lower level. These new long-term acquisition expense levels have not been incorporated into the pre-overrun margins disclosed for FY 2010-11, but will be used for subsequent new business profitability reporting (before the impact of acquisition expense overruns) from FY 2011-12.

## Economic assumptions

- The closing MCEV is calculated assuming projected earned and risk discount rates are both set equal to the risk free (government bond) yield curve at the closing balance sheet date.
- The new business profitability is calculated with similar assumptions, except that the yield curve at the opening balance sheet date is used.
- No allowance for any illiquidity premia is made within the earned rates, except for group credit spread products.

## Mortality and morbidity

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

## 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, paid-ups and partial withdrawals.
- 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.
- The results presented incorporate a strengthening of persistency assumptions and explicit modelling of partial withdrawals.

## Tax assumptions

- Tax assumptions are based on interpretation of existing tax legislation, where appropriate supported by legal opinion.
- Profits attributable to shareholders are assumed to be taxed at 14.1625% for Life business and 0% for Pensions business.
- Allowance is made within the tax computation for dividend offsets permitted under Section 2A of the Income Tax Act and for losses incurred within the Shareholder Fund.
- No allowance is made for future changes to taxation such as the Direct Tax Code. These changes will be incorporated only once materially enacted. It is expected that implementation of DTC in its current form will result in a material negative impact to the MCEV and new business profitability.

# Appendix 3: 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.

## 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 are made at the end of period and incorporated as a closing adjustment.

## 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.

## Value of new business

- New business profits are calculated as at the end of period, using the opening (i.e. 31<sup>st</sup> March 2010) yield curve and incorporate allowance for variations on non economic assumptions during the period.

- The new business profits are calculated before and after the impact of acquisition expense overruns and other in-period variances on the new business.
- As noted in the previous slide, the company intends to revise downwards its loaded acquisition expense assumptions when reporting new business profits for the FY 2011-12, based on revised estimates of long-term achievable expense levels.

## EV profits

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

## 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

# Glossary

**Commission ratio** – Ratio of total commissions paid out on first year, single and renewal premiums to total premiums.

**Conservation ratio** – Ratio of current year renewal premiums to previous year's renewal premium and first year premium.

**EPI (Effective Premium Income)** – 10% weight-age for single premiums and annualized for regular premiums (monthly installment premium x 12, quarterly installment x 4, half-yearly installment x 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 2010, the first installment would fall into first year premiums for 2009-10 and the remaining 11 installments in the first year would be first year premiums in 2010-11.

**New business received premium** – The sum of first year premium and single premium.

**Operating expense** – All expenses of management excluding service tax. It does not include commission.

**Operating expense ratio** – Ratio of operating expenses (excluding service tax) to total premiums.

**Renewal premiums** – Regular recurring premiums received after the first year.

**Solvency ratio** – Ratio of available solvency margin to required solvency margins.

**Total premiums** – Total received premiums during the year including first year, single and renewal premiums for individual and group business.

**Weighted received premium (WRP)** – The sum of first year premium and 10% weighted single premiums and single premium top-ups.

# 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 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. This release is a *privilege copy* intended for reference of selected group

These disclosures are subject to the prevailing regulatory and policy framework as on March 31, 2011 and do not reflect any subsequent changes





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