Protection landscape in India- Past, Present & Future

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Protection – what it means for customers and insurers

From a customer's perspective

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

From the insurer's perspective

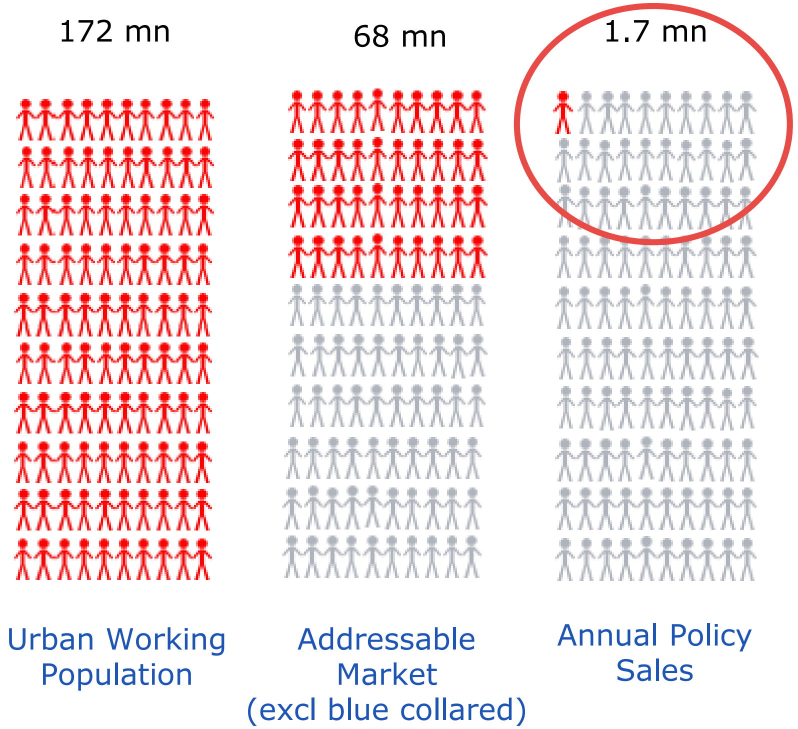
Risks that customers transfer to life insurers

- Dying early — Life Insurers (24)
- Outliving one's savings — Life Insurers (24)
- Falling ill — Health/General Insurers (34); Life Insurers (24)
- 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

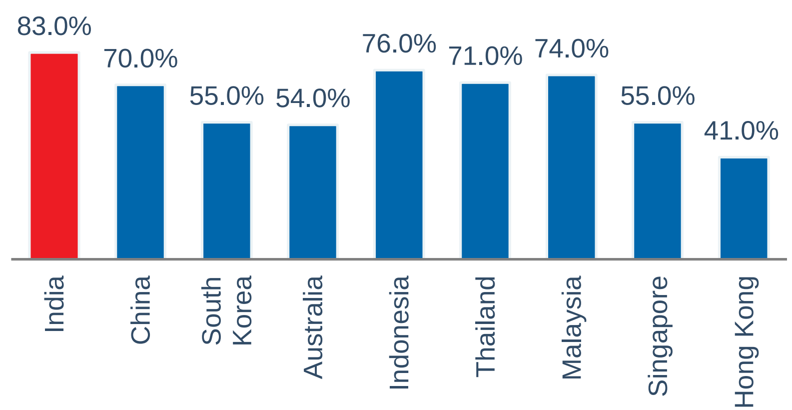
1. Comprising both retail and group protection

The protection gap in India offers a large opportunity to insurers, who are well suited to address this specific need



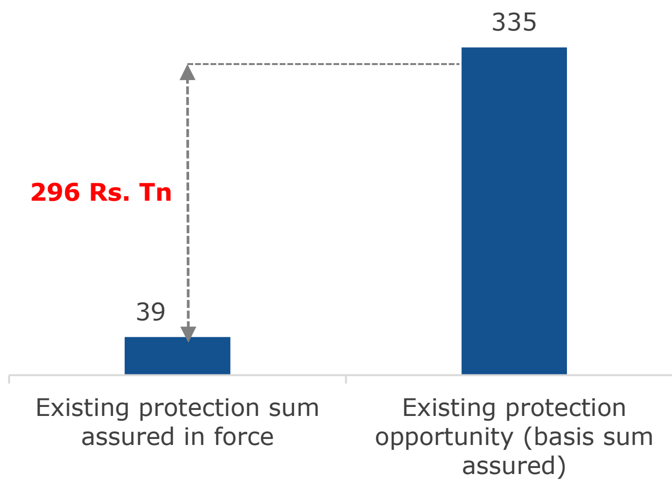
- Only 1 out of 40 people (2.5%) who can afford it, is buying a policy every year [1]
- Even within those who buy, the outstanding sum assured as a multiple of the income pool is c.1x (vs. typical coverage of 5-10x)

Protection gap [2] (2019)- 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 [3] (2020)- India(Rs. Tn.)



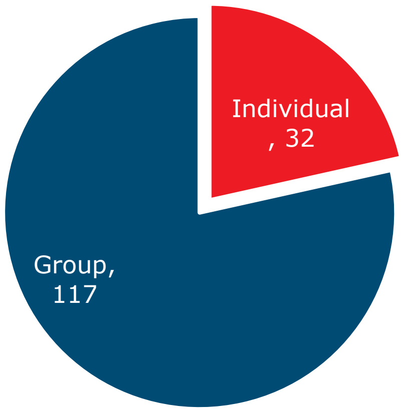
- As of FY20, only **~18%** of the **eligible population** subscribed to pure retail Term offerings
- Current protection penetration (basis sum assured) is at **~12%**
- **Protection gap** is estimated to **grow at 4%** per annum

1. Goldman Sachs Report, March 2019
2. Swiss Re (Based on respective financial year of the countries)
3. Ambit Capital Research (2020)

HDFC Life

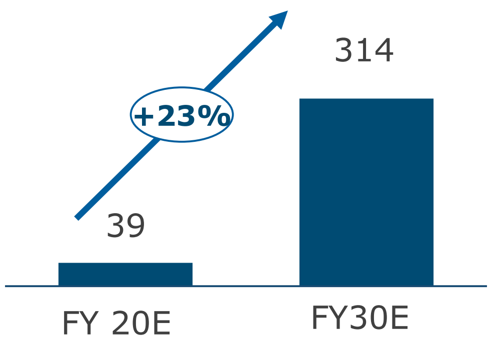
Despite strong growth, we have barely scratched the surface – both in terms of geographic spread and scale

Market Size[1] (Rs. Bn.)- FY20



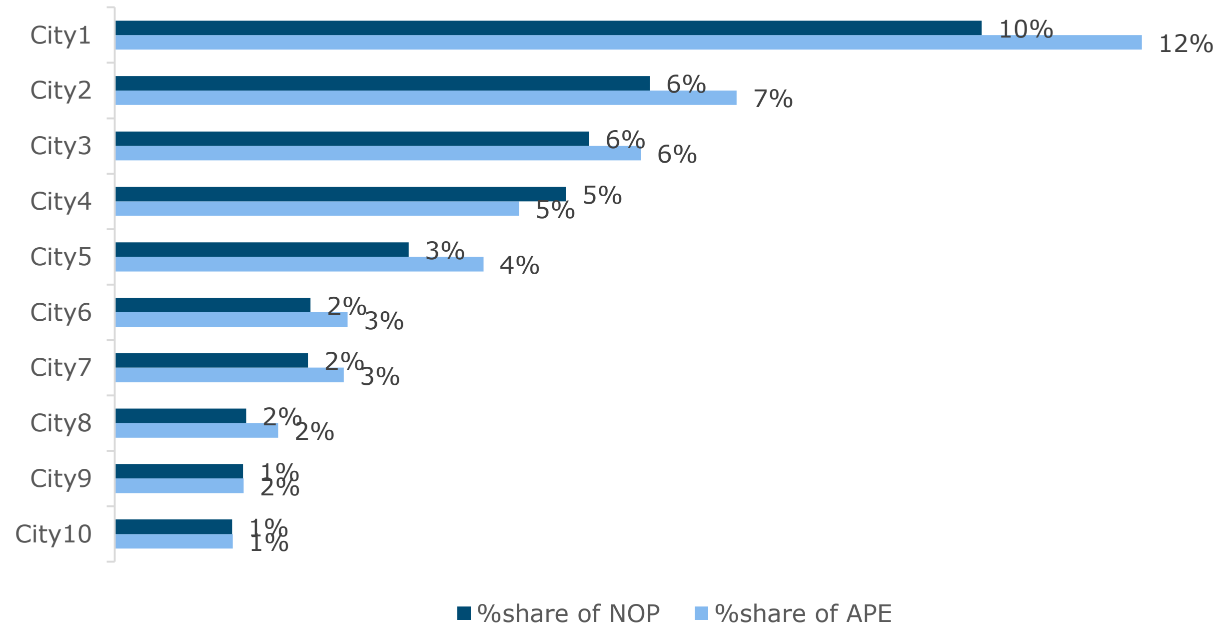
- **Total market size for Term is ~150 Bn**
- **78%** of total protection business in India consists of **Group business** (dominated by Credit Life)

Retail protection sum assured[2](Rs. Tn)



- Retail protection sum assured likely to grow **8x by FY 30[2]**

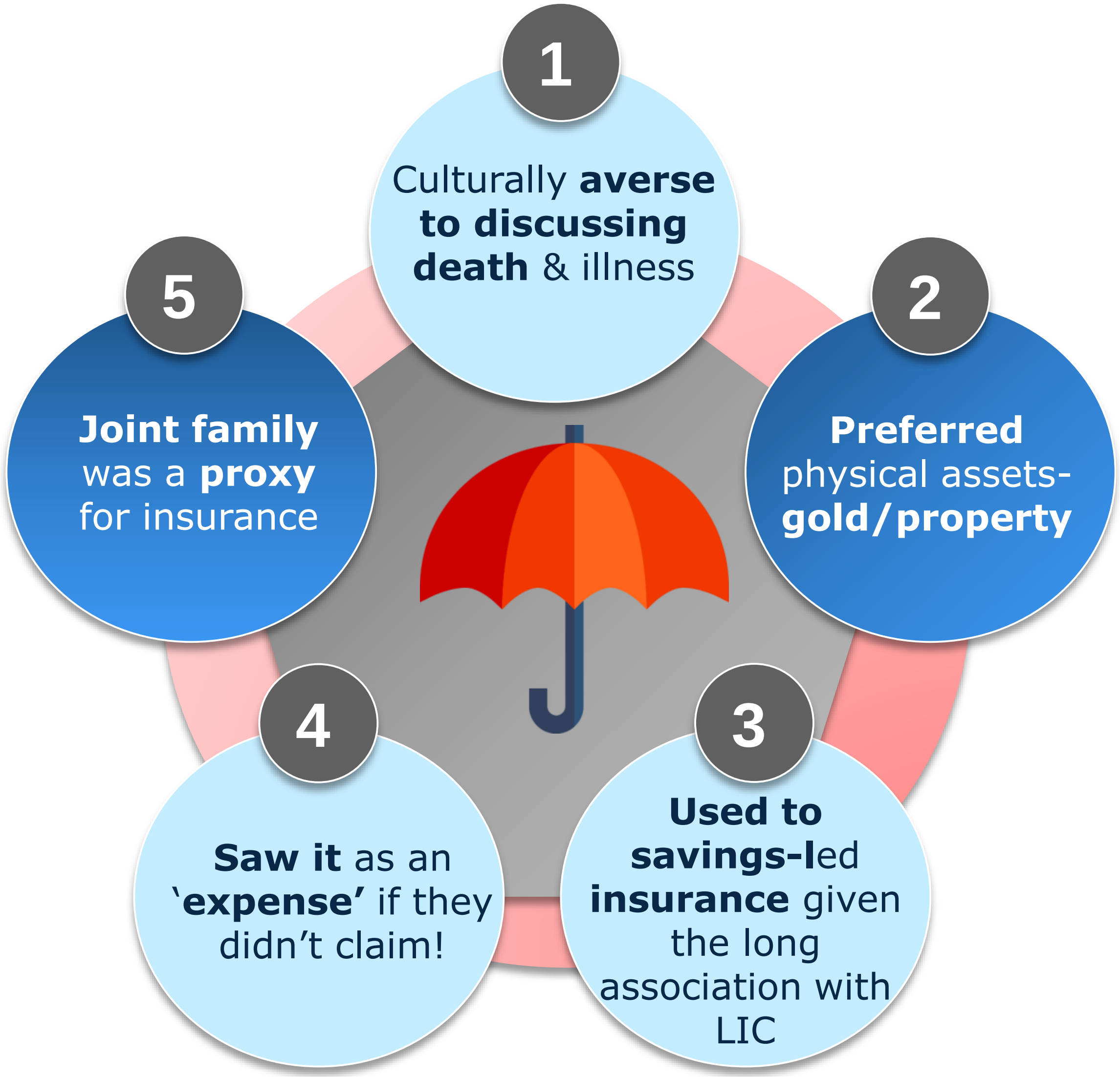
Share of retail protection by geography[3](%)- FY21



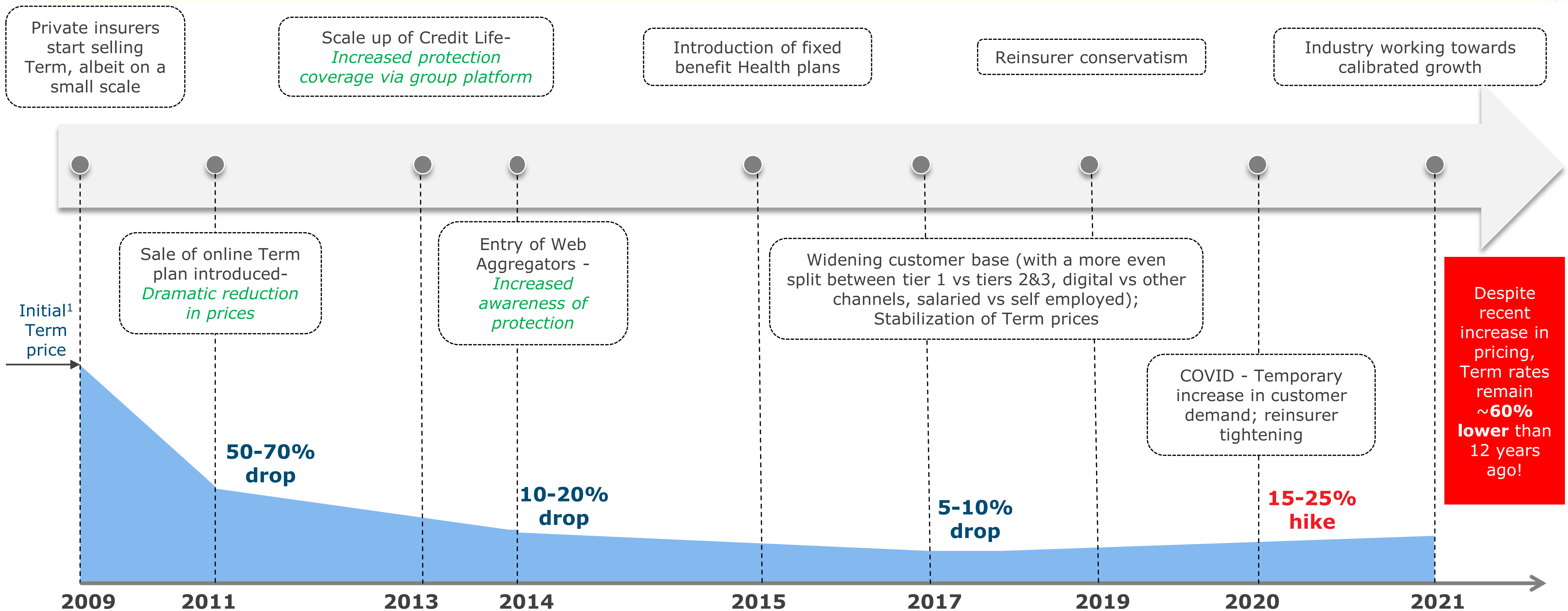
- **~45%** of retail protection business (basis APE) is contributed by top **10 cities**
- **~40%** of retail protection NOPs (number of policies) are contributed by top **10 cities**

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



While the growth story is intact, some pricing headwinds being felt



Retail protection had a **CAGR[2]** 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

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

2009

Protection
Early commitment to the category with *HDFC Protection Series*

2011-13

Online sale of protection
Popularized with our flagship *Click2Protect*

Credit Life
Leveraged a prominent white space

2014

Launch of Click 2 Protect Plus

2015

Niche health concerns
Addressed with products like *Cancer Care* *

2017

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 *

2020

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

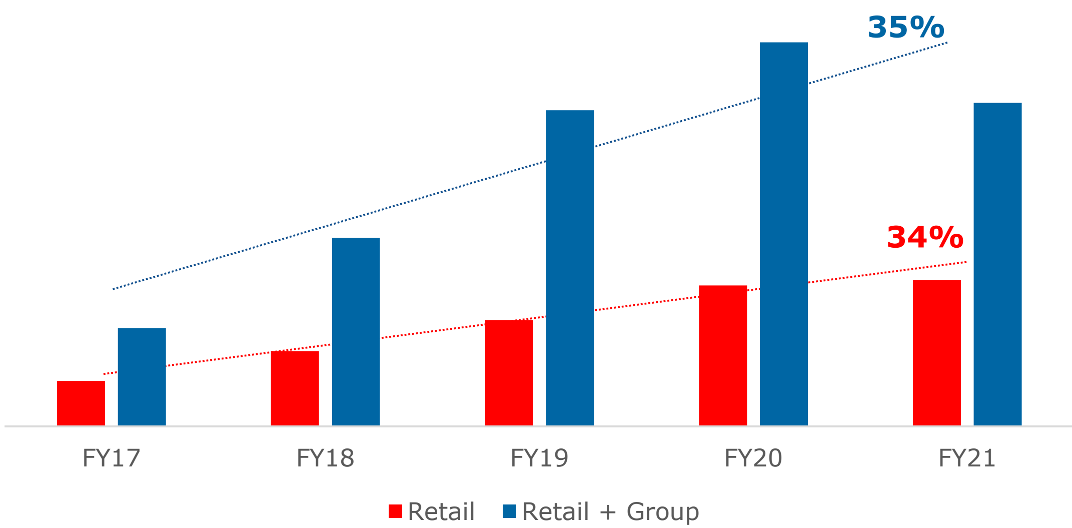
2021

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

✓ **Risk transfer solutions**　　*** Industry firsts**

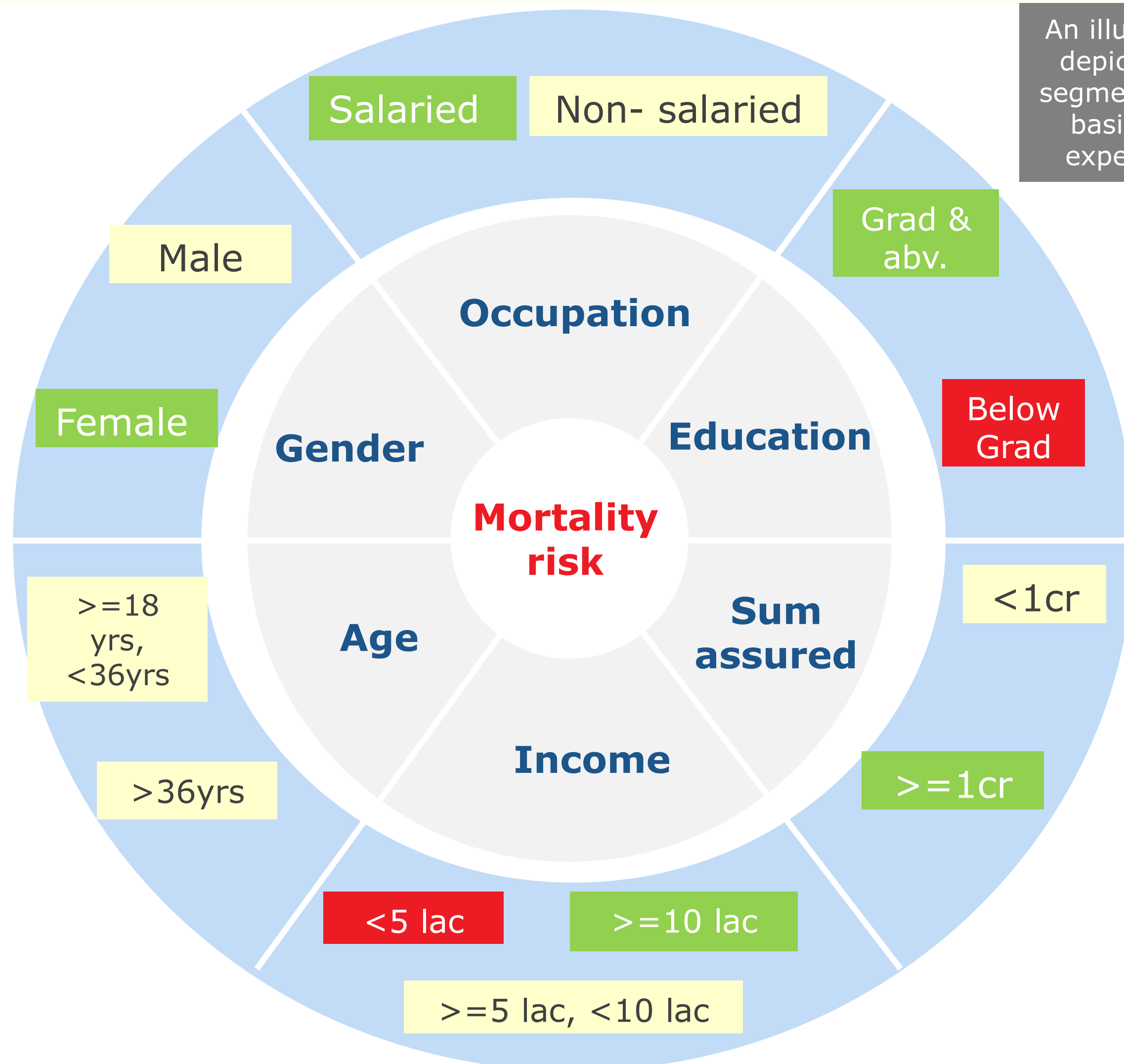
Our experience during this journey has given us multiple insights across mortality trends, fraud trends, segmental risk, amongst others

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

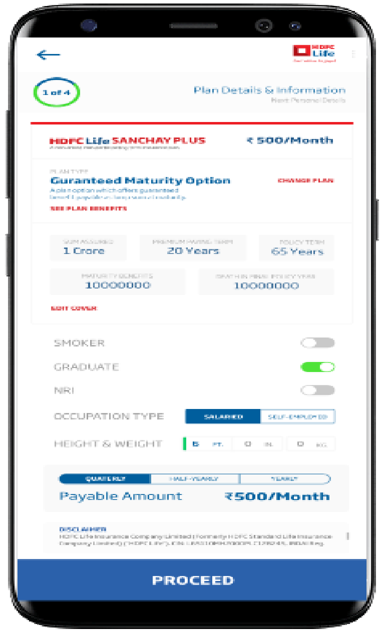
An illustrative depiction of segmental risk basis past experience



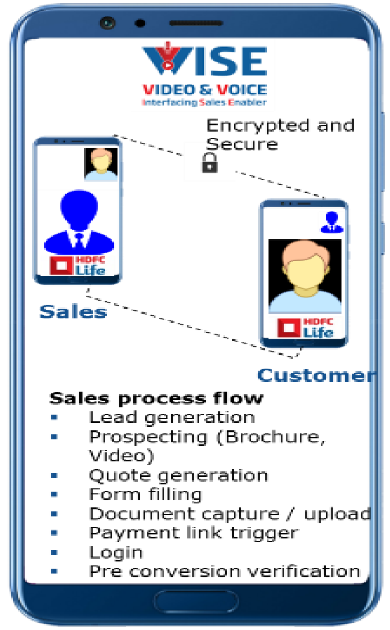
We follow a **calibrated underwriting and pricing approach** based on actual experience across different customer cohorts

Journey Simplification– Short journeys for specific requirements

LifeEasy[1] Protection Journey

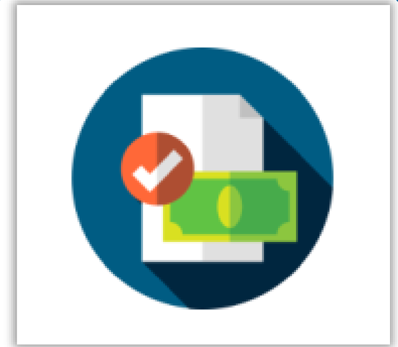


PASA



WISE

Voice Journey WIP



3-click claim process

- **Analytics driven** investigation
- **Mobility enabled** intimation

EasyClaim

>99% policy issuance journeys fulfilled digitally	**<4 hrs. overall policy issuance TAT[2]**	**Faster medical and policy issuance via *WISE*[3]**	**~7 mn offers rolled out through *PASA*[4]**	**51% Online business 5-year CAGR[5]**	**~99% claims settled in a day**

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

TPAs & medical centers

Ensure process & quality adherence

Distribution partners

Adherence to best practices and continuous monitoring of risk

HDFC Life

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

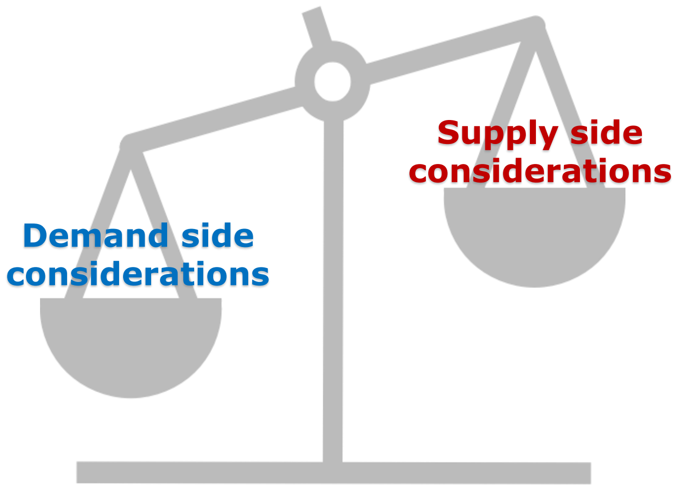
Life insurance is a long-term contract invoked in the purchaser's absence- actions that build trust in the brand help cement the choice in the minds of prospective customers

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



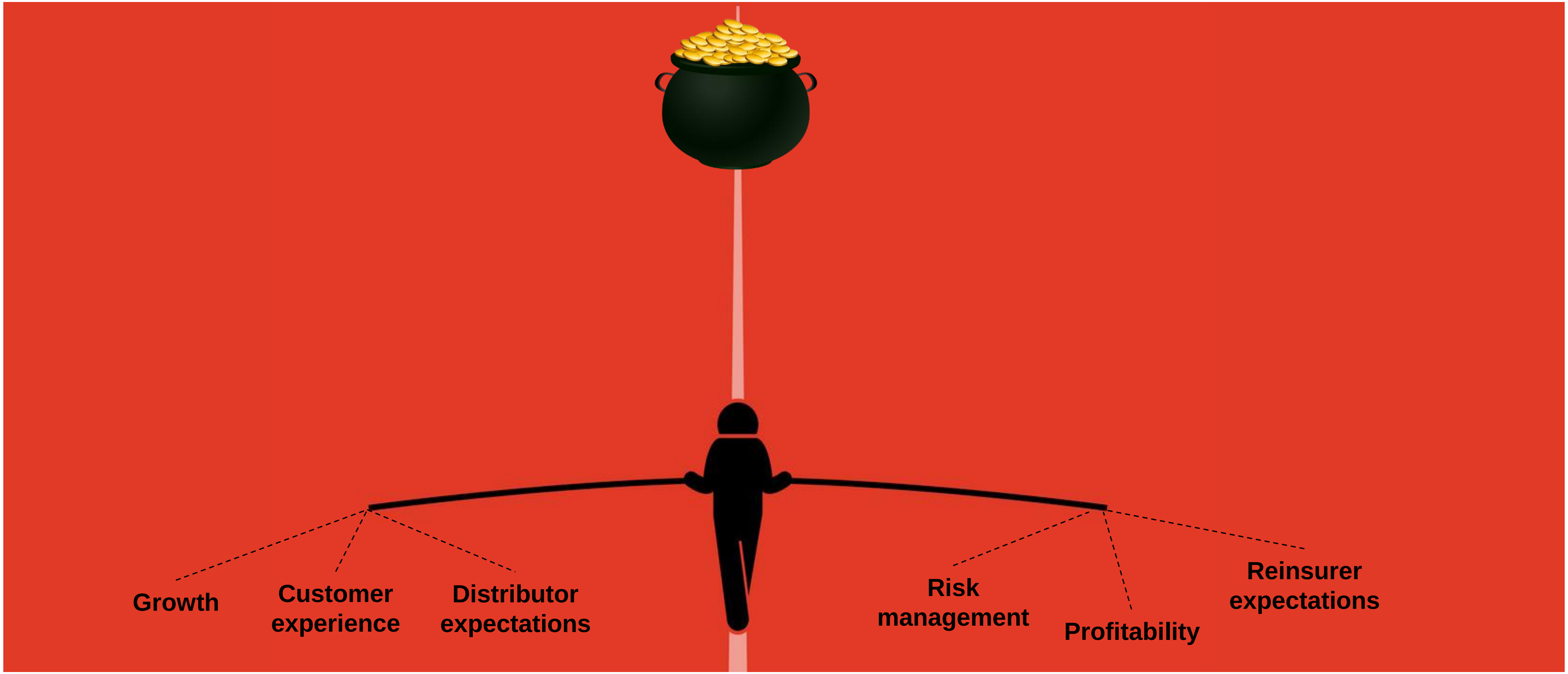
- ✓ Huge protection gap and under-penetration
- ✓ Customers valuing brand, on boarding experience and track record apart from the price

- ✓ 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