

HDFC Life Insurance

Investor Presentation – H1 FY20





Agenda

1 Performance Snapshot

2 Our Strategy

3 Annexures

4 India Life Insurance

**Performance
Snapshot**

Our Strategy

Annexures

**India Life
Insurance**

1

Performance Snapshot



Executive summary: H1 FY20

Scale



Company APE	Rs (Bn.)	34.7
	Growth	38%



Mkt. Share

Overall	CY (%)	22.4
	PY (%)	21.2
Individual	CY (%)	15.2
	PY (%)	13.0



AUM	Rs (Tn.)	1.3
	Growth	16%



NB Sum Assured	Rs (Tn.)	4.4
	Growth	68%

Profitability



New Business Margin	CY	27.5%
	PY	24.3%



IEV	Rs (Bn.)	201.2
EVOP	Growth	19.6%



Profit After Tax	Rs (Bn.)	7.3
	Growth	10%



Operating Exp. Ratio	CY	14.1%
	PY	14.1%

Customer centricity



13th month persistency	CY	89%
	PY	87%



Protection

NBP	Rs (Bn.)	22.2
	Growth	23%
APE	Rs (Bn.)	5.8
	Growth	43%



Claim settlement ratio ¹	FY19	99.0%
	FY18	97.8%



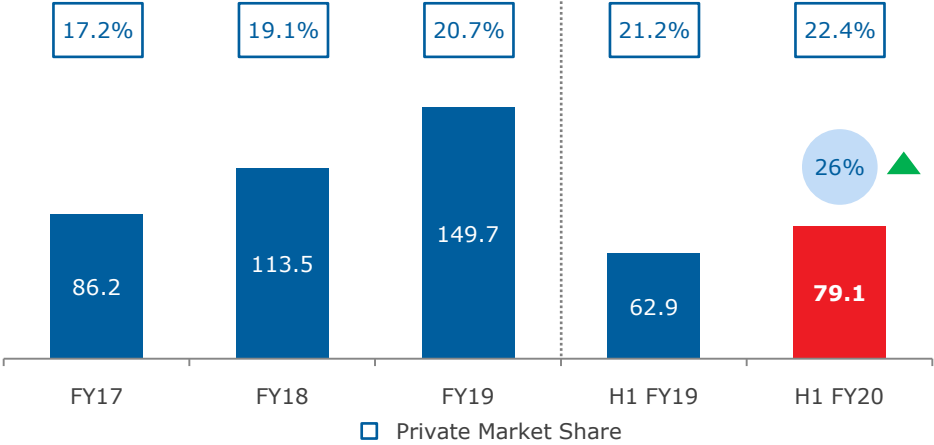
Complaints per 10k policies	FY19	61
	FY18	70

1. Computed basis NOPs for Individual Business

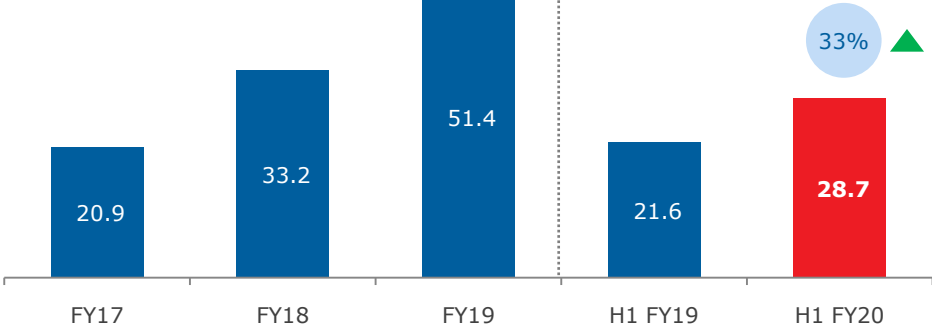
The numbers throughout the presentation are based on standalone financial results of the Company

Consistent performance across key metrics (1/2)

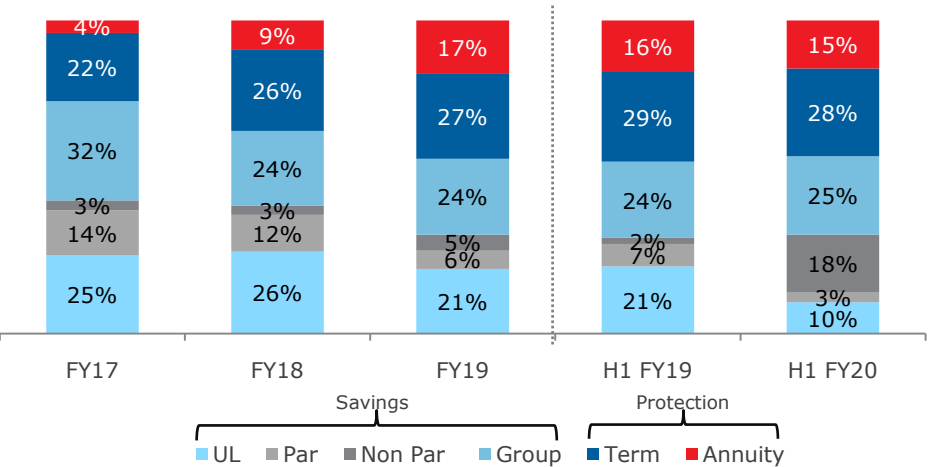
Leadership in new business premium (Rs Bn.)



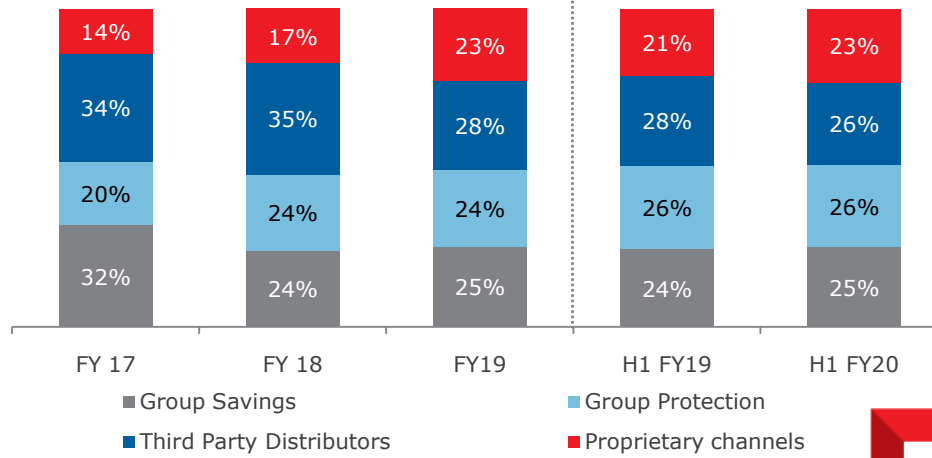
Increasing number of lives insured (Mn.)



Maintaining balanced product mix across cycles ¹



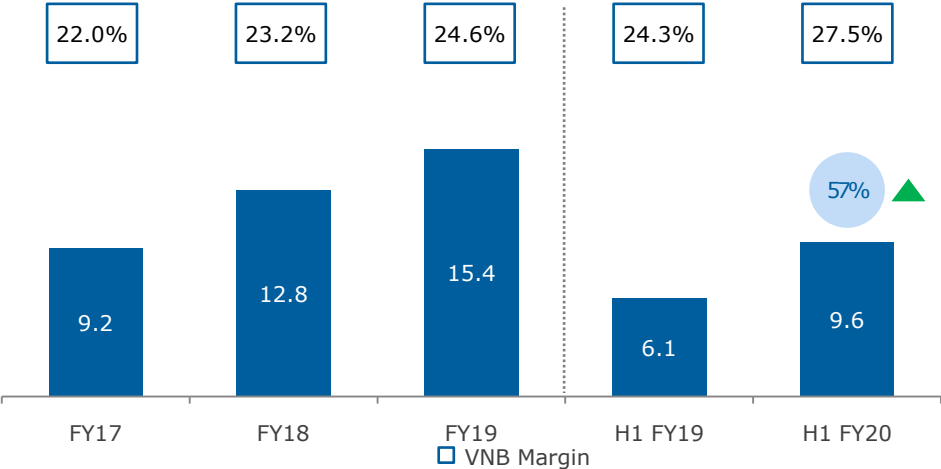
Focus on scaling proprietary channels ¹



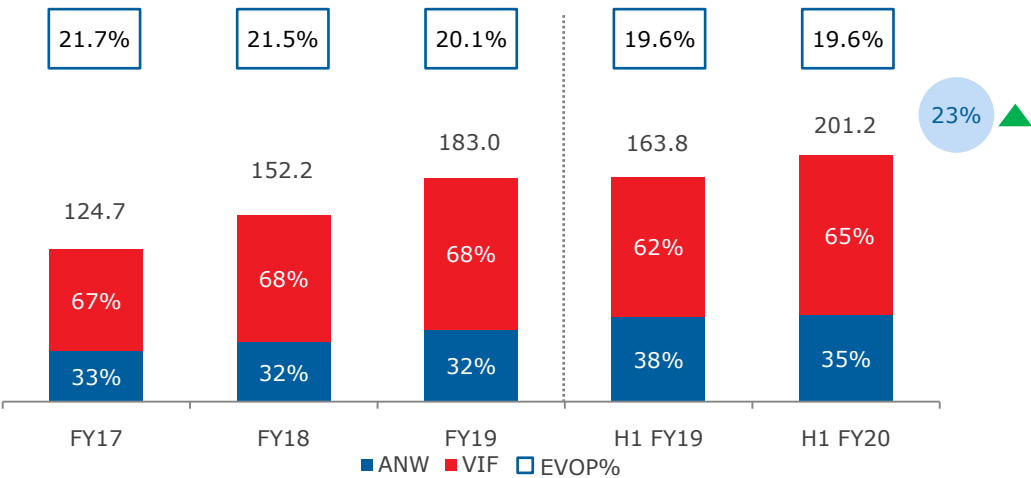
1. As a % Overall NBP

Consistent performance across key metrics (2/2)

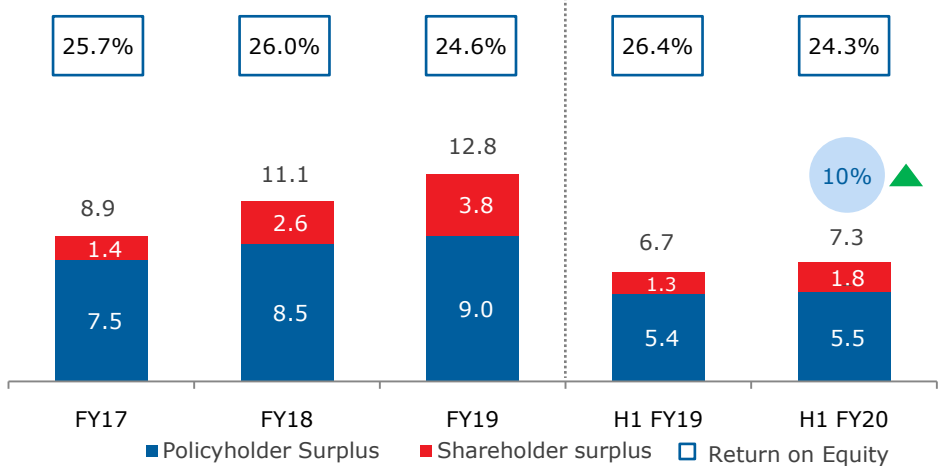
Strong growth in VNB, steady expansion in VNB margins (Rs Bn.)



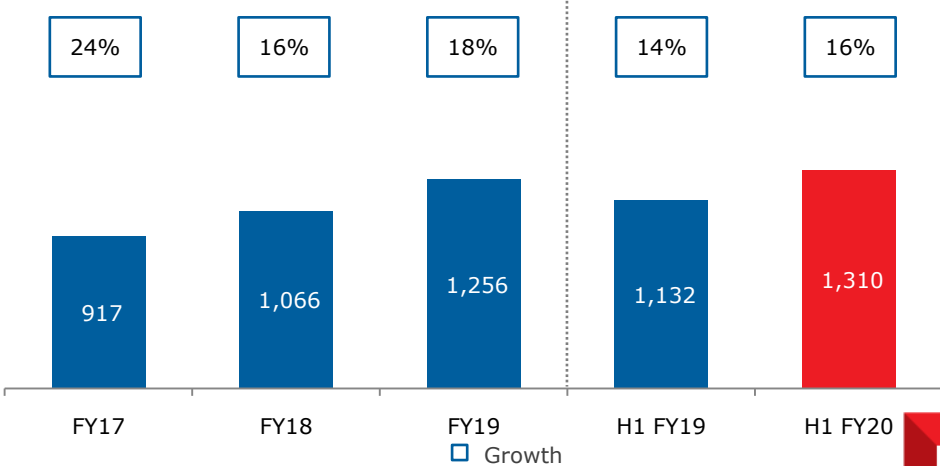
Healthy growth in Embedded Value (Rs Bn.)



Consistent profitable growth (PAT in Rs Bn.)



Stable growth in AUM (Rs Bn.)





Performance
Snapshot

Our Strategy

Annexures

India Life
Insurance

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Our Strategy

Key elements of our strategy

1



Focus on profitable growth

Ensuring sustainable and profitable growth by identifying and tapping new profit pools

2



Balanced distribution mix

Developing multiple channels of growth to drive need-based selling

3



Market-leading innovation

Identifying latent customer needs to create new product propositions

4



Reimagining insurance

Market-leading digital capabilities that put the customer first, shaping the insurance operating model of tomorrow

5

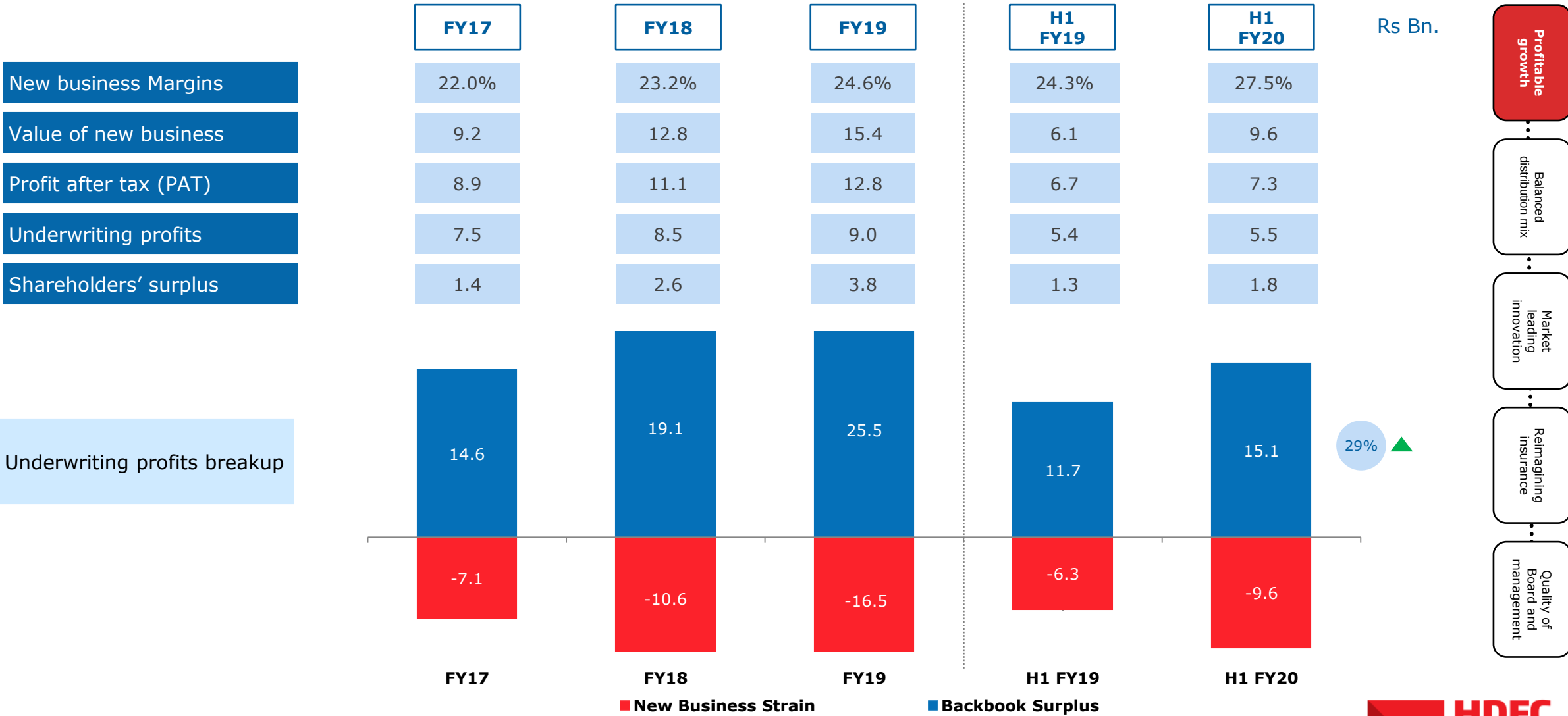


Quality of Board and management

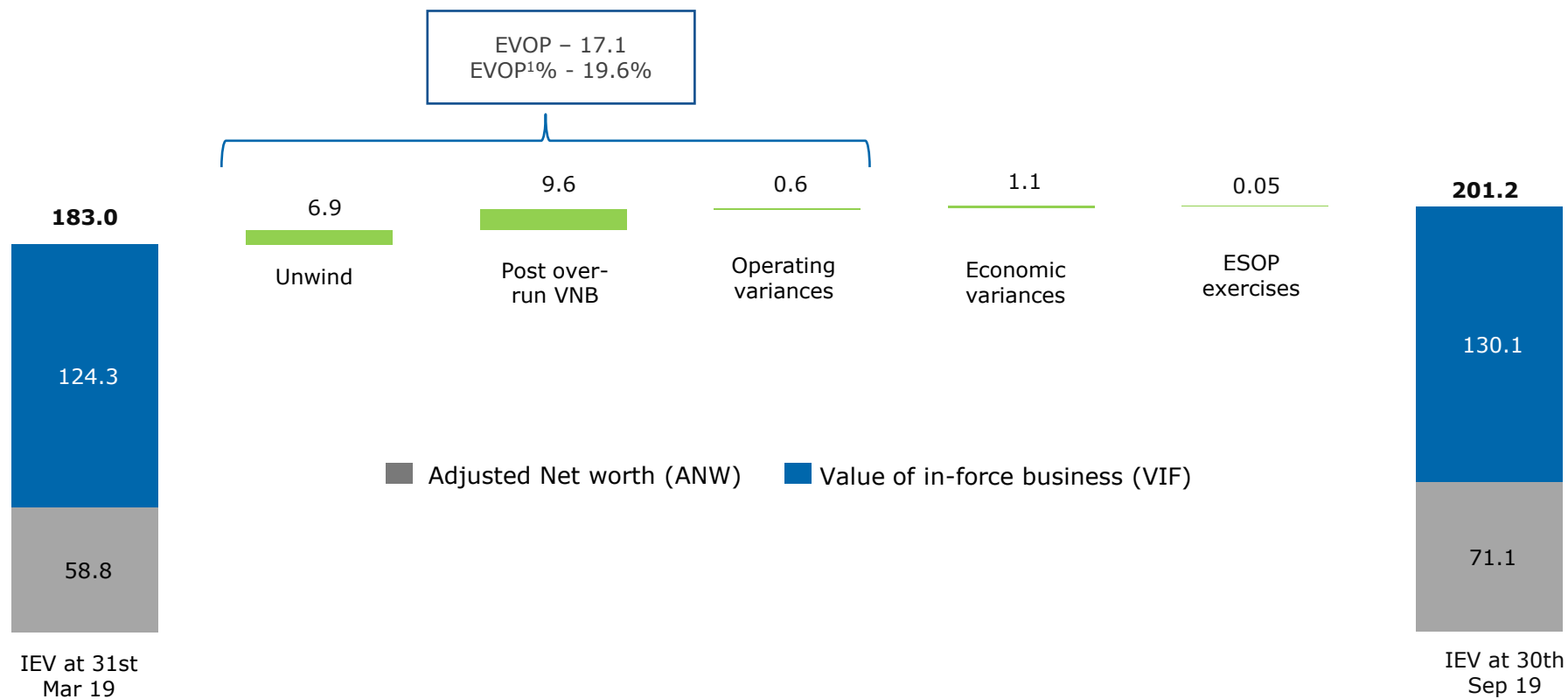
Seasoned leadership guided by an independent and competent Board; No secondees from group companies

Maintaining a diversified distribution mix and profitable product suite powered by technology and backed by a customer-centric approach

Focus on profitable growth

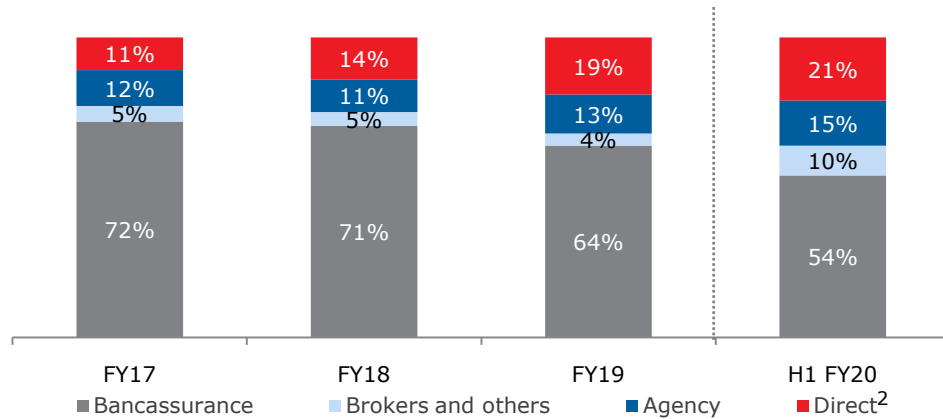


Analysis of change in IEV

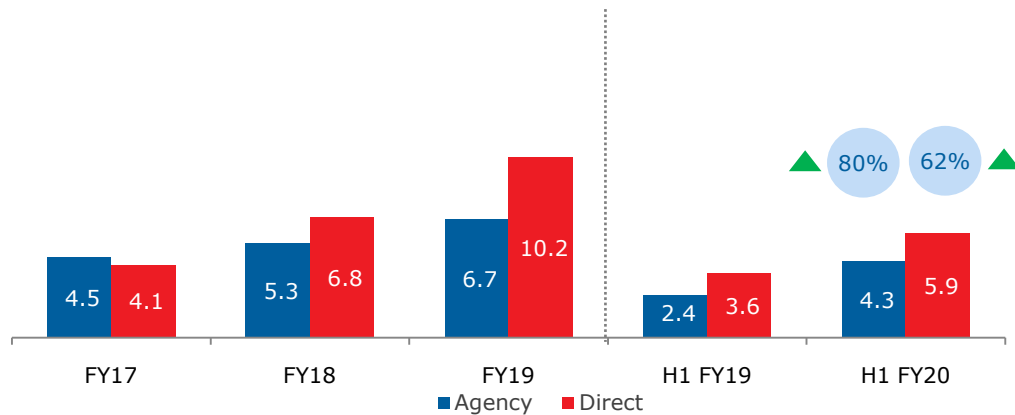


Balanced distribution mix

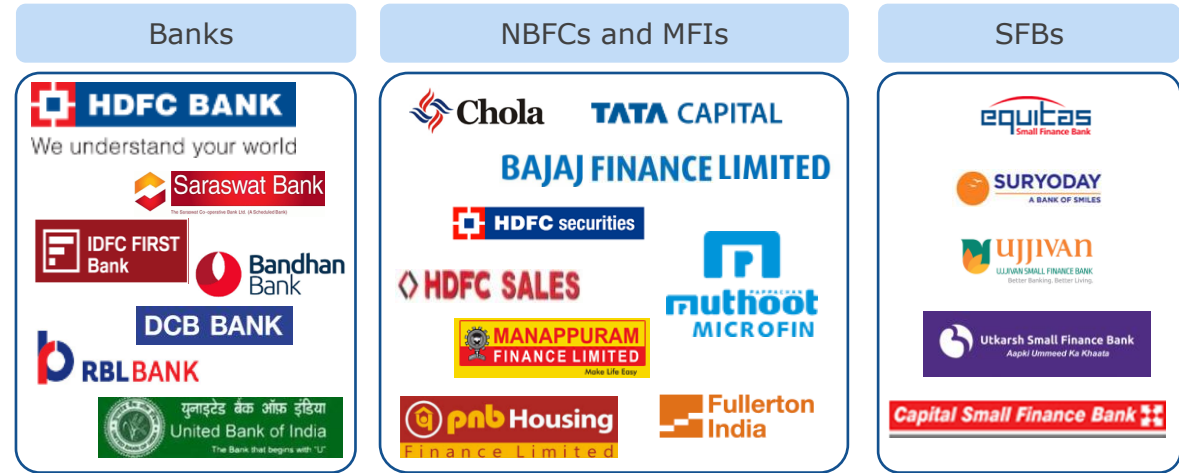
Increasing share of proprietary channels ¹



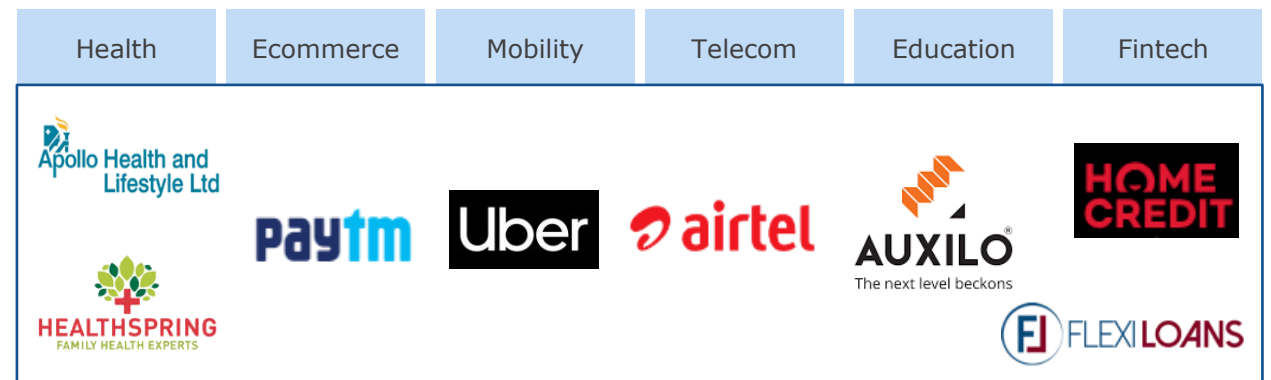
Consistent growth in proprietary channels² (Rs Bn.)



Strong and diversified network of 230+ traditional partners



Developing alternative channels of distribution: 40+ Partnerships in emerging eco-systems



Profitable growth

Balanced distribution mix

Market leading innovation

Reimagining insurance

Quality of Board and management



1. Basis Individual APE

2. Direct includes Online channel

Progress by proprietary channels



Agency



84% - Increase in **FLS productivity** due to ease of doing business and greater agent engagement



91% - Robust **13th month persistency** due to improved focus on quality of business



44% - Increase in **new agent productivity** due to recruitment of higher quality agents



32% - Growth in term business. Better **product mix** has improved profitability



Direct



19% - Improvement in **FLS productivity**



Launch of **ML-based hyper-personalization** solution to enhance employee productivity



Pan-India launch of a robust **lead management tool** with geo-tagging capabilities



32% - Contribution of Annuity and Term in the **product mix**



Online



Younger customers (avg. age 31) as compared to company average



Increasing **contribution from non-metros** (~50% of APE)



Diversified product mix: Protection: Savings – 32:68



ML capability used to increase leads and reduce cost per lead

Profitable growth

Balanced distribution mix

Market leading innovation

Reimagining insurance

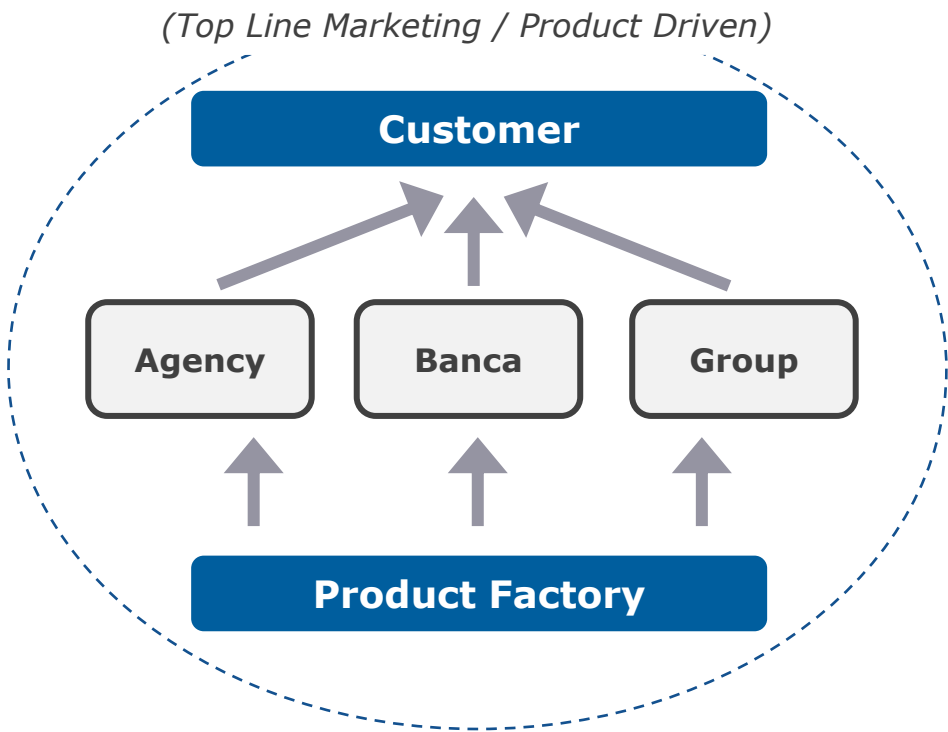
Quality of Board and management

Registered strong growth of 80% in Agency and 62% in Direct (incl Online)

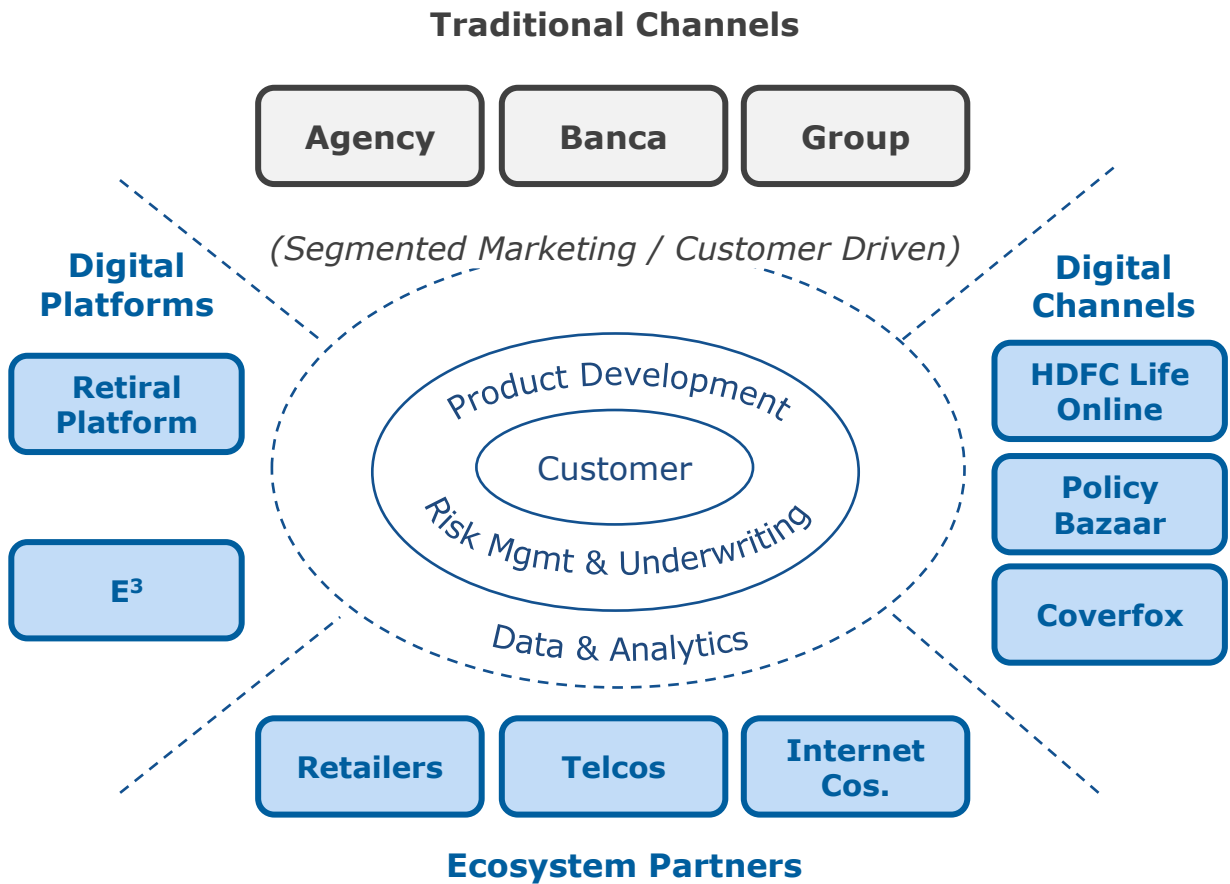


Operating model moved from product centric to being customer centric

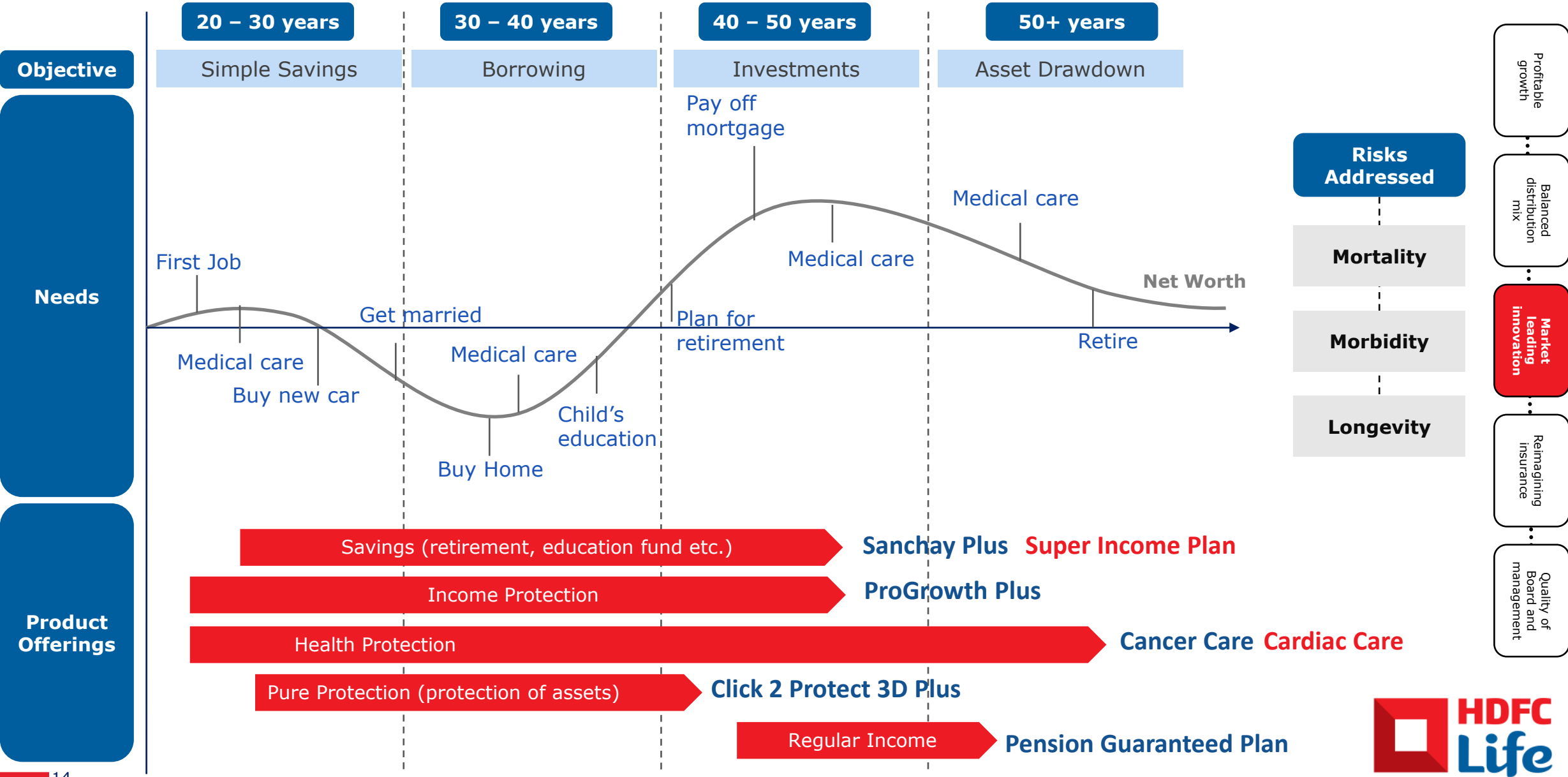
From the Traditional Insurer...



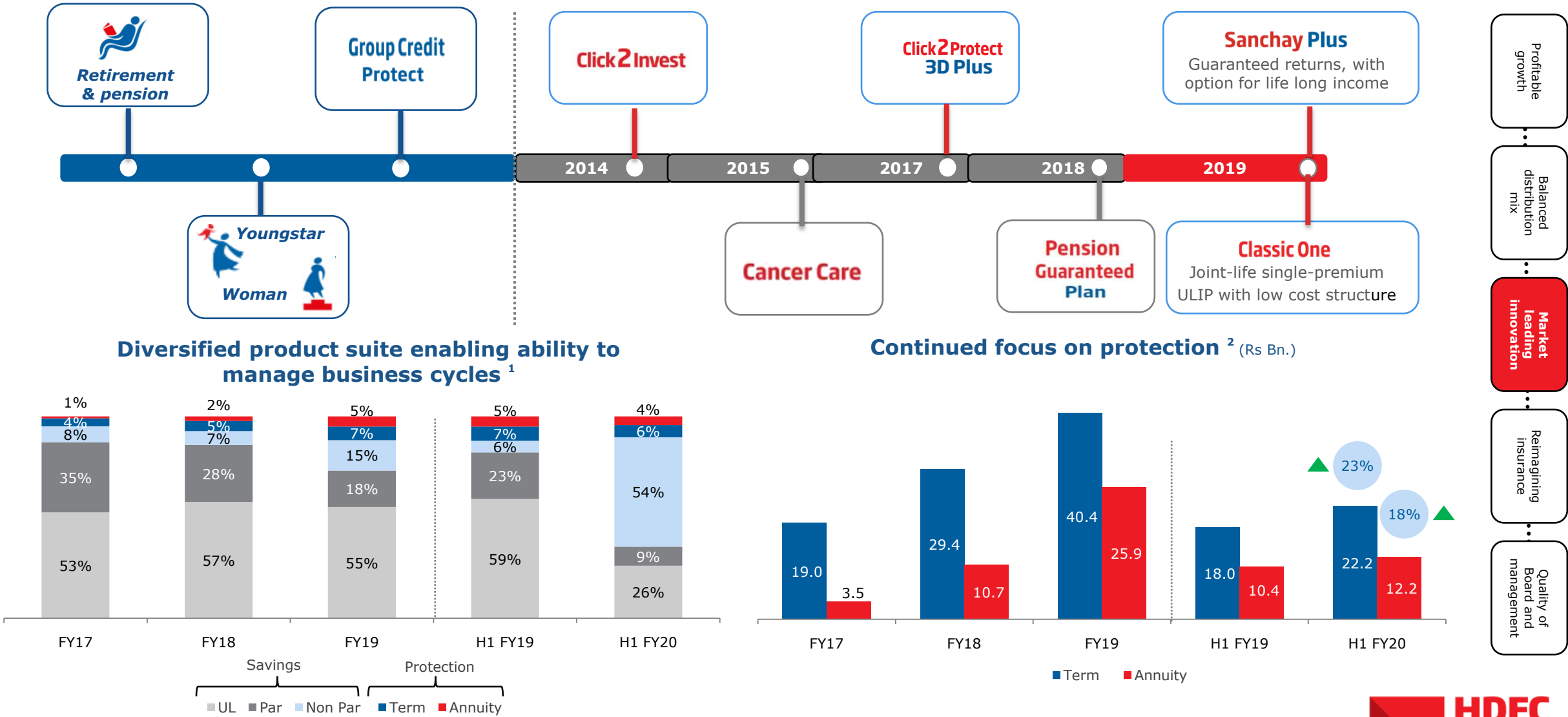
... to the Insurer of the Future



Addressing customer needs at every stage of life



Expanding market through consistent product innovation



Product mix across key channels¹

Banca ²	Segment	FY17	FY18	FY19	H1 FY20
	UL	61%	64%	67%	33%
	Par	30%	26%	14%	8%
	Non par savings	8%	8%	15%	56%
	Term	1%	1%	2%	2%
	Annuity	0%	1%	2%	2%

Direct	Segment	FY17	FY18	FY19	H1 FY20
	UL	47%	58%	50%	33%
	Par	29%	17%	8%	6%
	Non par savings	11%	9%	12%	29%
	Term	6%	5%	6%	4%
	Annuity	7%	11%	24%	28%

Agency	Segment	FY17	FY18	FY19	H1 FY20
	UL	26%	33%	26%	8%
	Par	57%	48%	40%	17%
	Non par savings	6%	5%	17%	63%
	Term	11%	11%	12%	9%
	Annuity	2%	3%	5%	2%

Online	Segment	FY17	FY18	FY19	H1 FY20
	UL	51%	47%	43%	36%
	Par	3%	1%	1%	5%
	Non par savings	1%	0%	15%	27%
	Term	45%	52%	34%	28%
	Annuity	0%	0%	6%	4%

Company	Segment	FY17	FY18	FY19	H1 FY20	Q2 FY20
	UL	53%	57%	55%	26%	26%
	Par	35%	28%	18%	9%	13%
	Non par savings	8%	7%	15%	54%	51%
	Term	4%	5%	7%	6%	7%
	Annuity	1%	2%	5%	4%	4%

Protection	Total APE	FY17	FY18	FY19	H1 FY20
	Term	8%	11%	17%	17%
	Annuity	1%	2%	4%	4%
	Total	9%	13%	21%	20%

Total NBP	FY17	FY18	FY19	H1 FY20
Term	22%	26%	27%	28%
Annuity	4%	9%	17%	15%
Total	26%	35%	44%	43%

Profitable growth

Balanced distribution mix

Market leading innovation

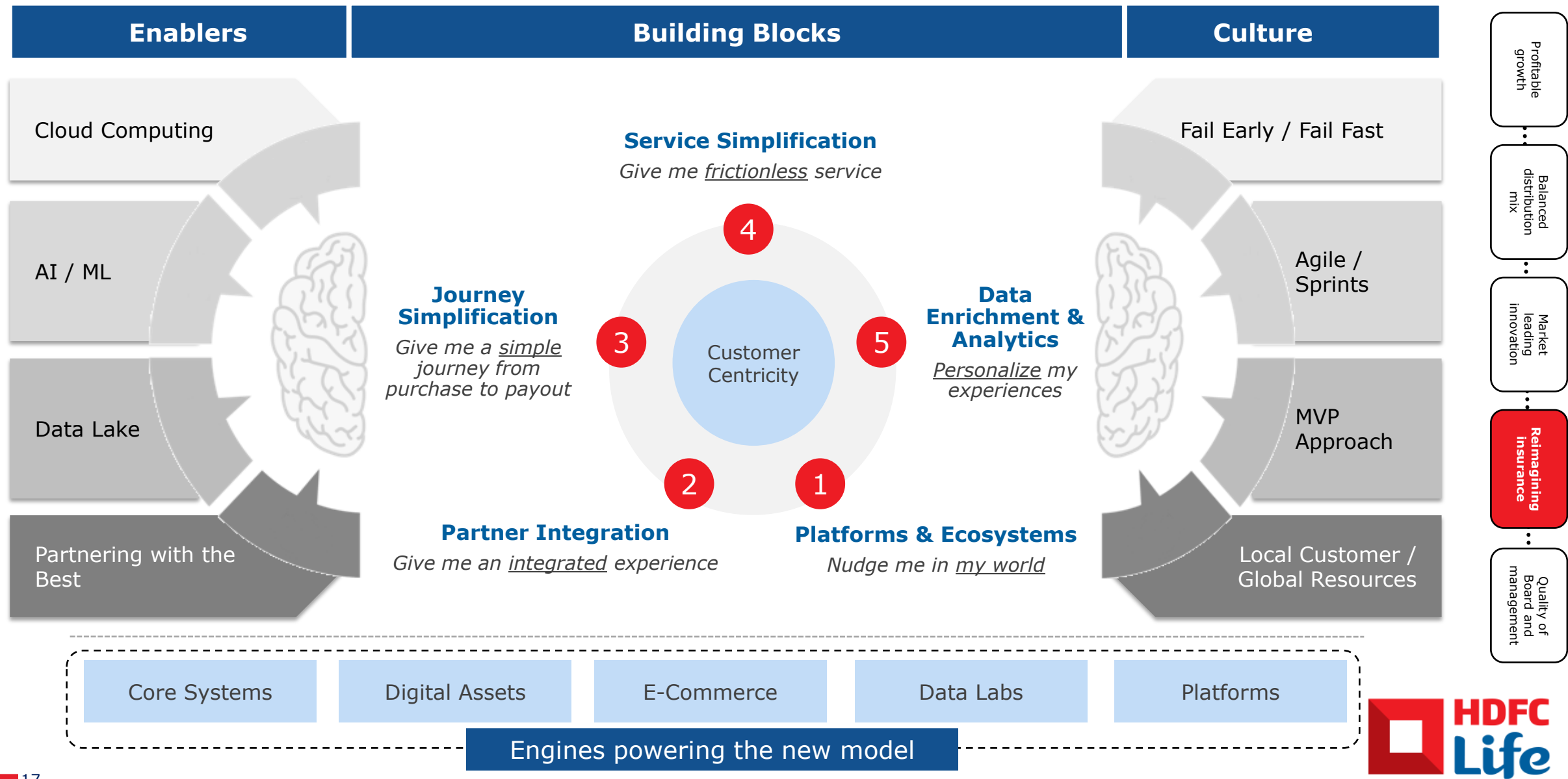
Reimagining insurance

Quality of Board and management

1. Basis Individual APE, Term includes health business

2. Includes Banks and other corporate agents

Created a new operating model to reimagine insurance



Simplifying the customer journey using 5 building blocks



Platforms and Ecosystems

Insurance beyond digital: allow multiple participants to connect, create & exchange value



- One stop shop for retirement planning



Partner Integration

Products and services built on API for ease of partner integration

InstaInsure

- **Pre-approved sum assured** – Partner integrated KYC and income verification
- **Quick easy to understand form filling** – Seamless and customer friendly user interface
- **3-step buying journey** – End-to-end digital journey enabling partner's customers to buy the policy



Journey Simplification

Customer sales journeys simplified via mobility applications for sales force

Insta Suite

- Bringing our technological capabilities on the mobile platform in order to empower sales force



InstaQuote!



Service Simplification

Simplified solutions for customers across the value chain

- **Online payments & services:** ~80% of renewal via online / debit mode



Chat bot
ELLE



Twitter bot
NEO

- ~90% of chats are self-serve via chat-bot
- **InstaA** Virtual Assist for Sales & Service, ~5 million queries per annum
- **Robotic Process Automation:** ~160 bots deployed



Data Enrichment and Analytics

Continuous improvement in raw data by gaining deeper insight into our customers' lives

- **Artificial Intelligence:** Use of predictive analysis for persistency, underwriting and claims (fraud prevention)
- **Big Data / Customer 360:** Brings all customer data – interactions, transactions & relationships in one place, in real time
- **Cloud Storage:** Data Lake (repository for entire enterprise data management)

Lead Lake (For effective lead storage & enrichment)

Profitable growth

Balanced distribution mix

Market leading innovation

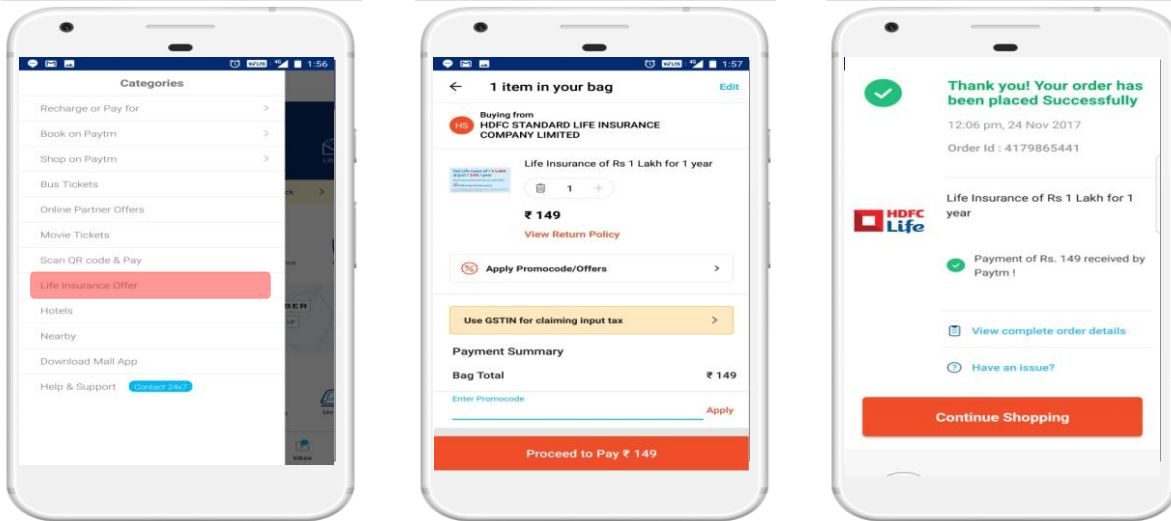
Reimagining insurance

Quality of Board and management



Partner Integration – New Ecosystems

paytm



- Get insured in 3 clicks
- Around 7.7 lakh lives insured this year

airtel



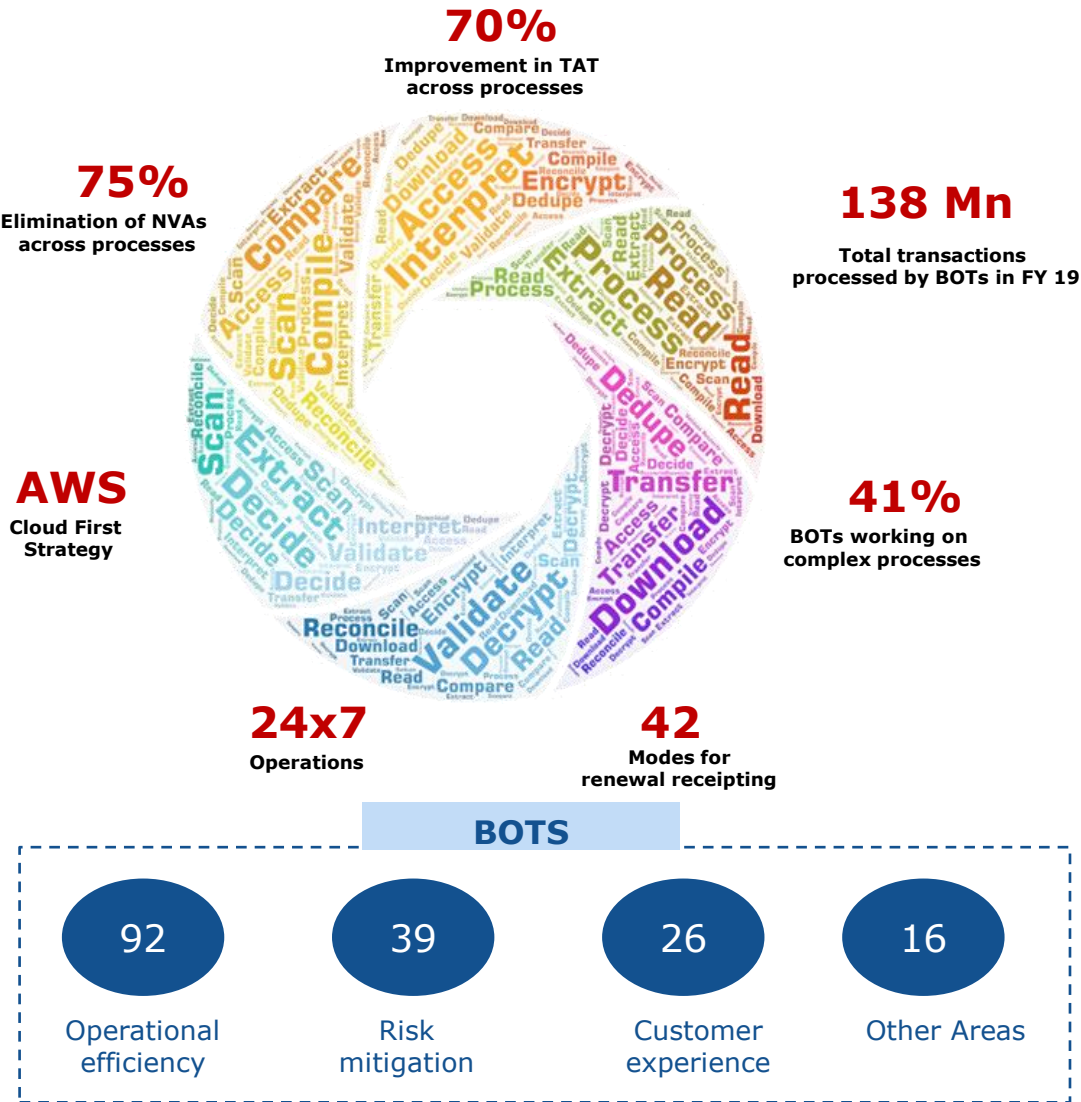
- Over 30 lakh lives insured since launch
- About 28k lives being insured per day
- Average real-time issuance in <1 second



HDFC Life

Service Simplification – RPA and InstA

Digitizing processes through 150+ BOTs



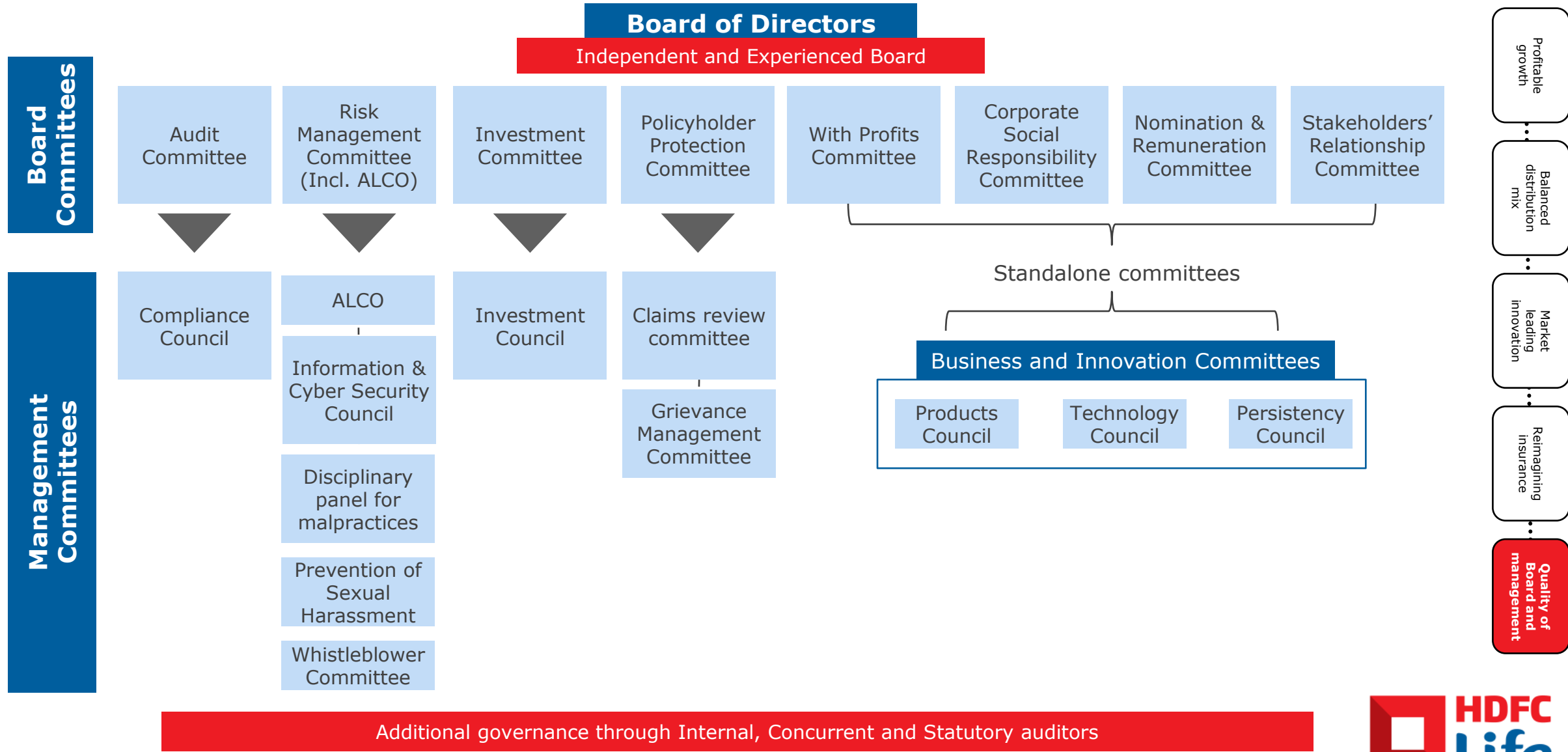
instA – Virtual Assistant for Sales & Service



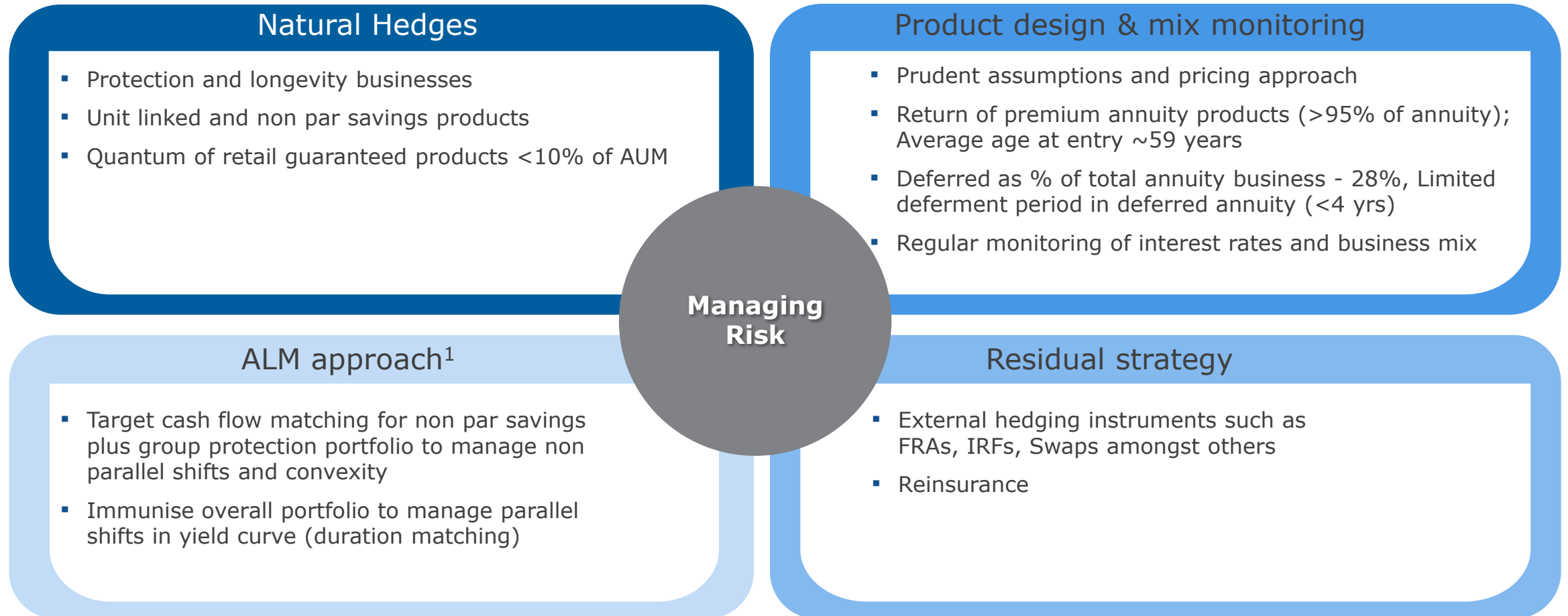
- Personal assistant for employees to access business information at their fingertips
- Leverages Artificial Intelligence, Machine Learning and NLP technology
- Equipped to answer 950+ query types addressing 1 lakh+ intents
- 12 lakh+ monthly queries with 99% accuracy



Governance Framework



Financial risk management framework



Calibrated risk management has resulted in low EV and VNB sensitivity

¹ Our approach has been validated by a leading actuarial firm

EV and VNB Sensitivity		FY19		H1 FY20	
Scenario	EV	VNB Margin	EV	VNB Margin	
Interest Rate +1%	(1.7%)	(0.1%)	(1.4%)	(0.1%)	
Interest Rate -1%	1.6%	0.1%	1.2%	0.1%	

Risk Management for Non Par products

	Key risks	Quantum of risk	Mitigation	ALM metric
Annuity	Interest rate risk	ROPP ¹ : Low Life: Low	- Duration matching - No supply side constraints on the long dated Govt bonds² - Dynamic re-pricing in line with change in market yield	Net Sensitivity Ratio#: 1.02
	Reinvestment risk	ROPP: Low Life: Low	Coupons used to meet annuity payouts	
	Longevity risk	ROPP: Low Life: High	Life Annuity less than 2%	
Non - Annuity	Interest rate risk	Savings: High Protection: Moderate	Target cash-flow matching at portfolio level	Net Sensitivity Ratio#: 1.01
	Reinvestment risk	Savings: High Protection: Low	- Well diversified portfolio over future time periods - Internal STRIPS, Partly paid bonds, FRA - Assessment of slope change stress testing on cash flows	
	Mortality risk	Savings: Low Protection: High	Adequate reinsurance	

1. ROPP: Return of Purchase Price

2. Refer appendix on slide 36

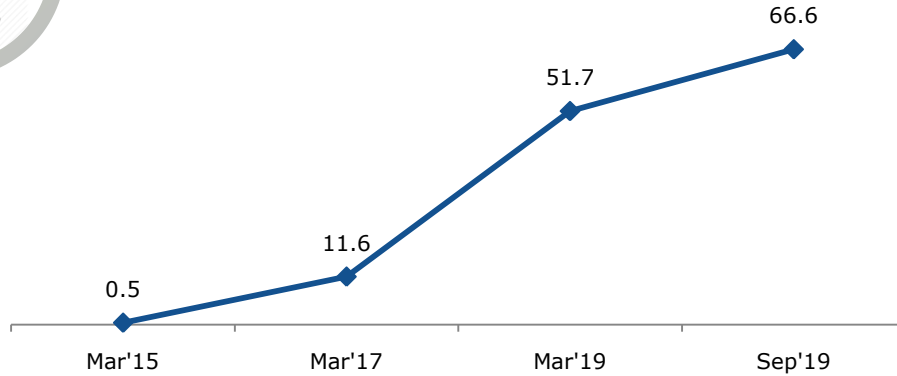
#Net Sensitivity Ratio = $\frac{\text{Sensitivity of Assets}}{\text{Sensitivity of Liabilities}}$

Performance of wholly-owned subsidiary¹ companies



HDFC Pension

Rs Bn.



- Fastest growing PFM (Pension Fund Manager) under the NPS architecture (YoY growth of 96% in AUM)
- Market share grew from 24.0% in Sep'18 to 29.0% in Sep'19 amongst all private PFMs
- Ranks #1 in corporate subscribers base, #2 amongst all PFMs in net fund flow, retail subscriber base and AUM
- Received licence to operate as POP (Point of Presence)



HDFC International Life and Re



- Registered growth of more than 100% in revenue to USD 3.1 Mn in H1 FY20.
- Continues to trend positively on both technical & net profit
- Currently offers reinsurance capacity in GCC countries, Jordan & Egypt

Performance
Snapshot

Our Strategy

Annexures

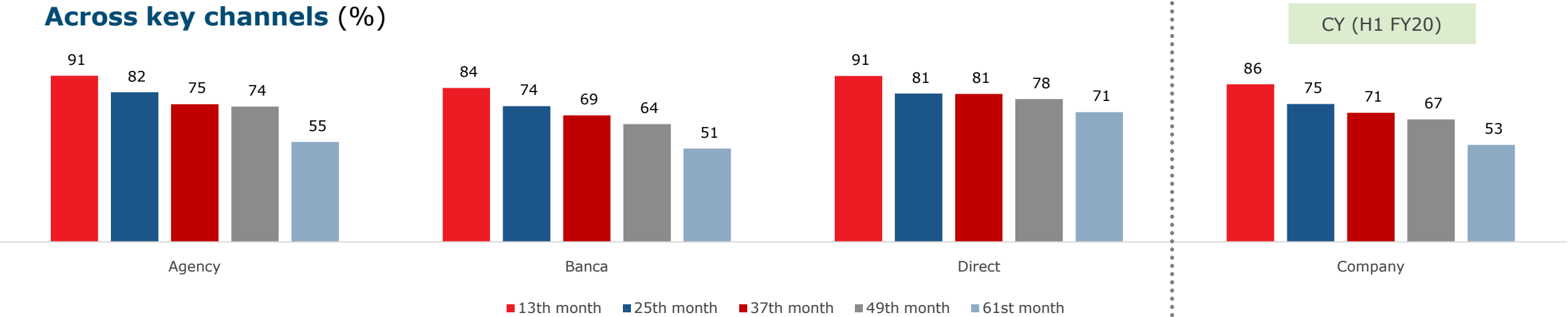
India Life
Insurance

3

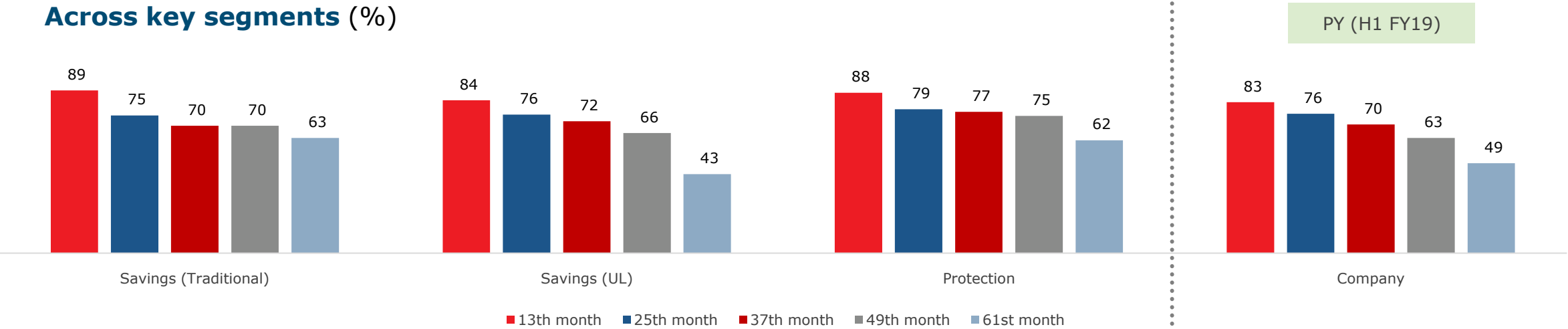
Annexures

Individual persistency for key channels and segments¹

Across key channels (%)

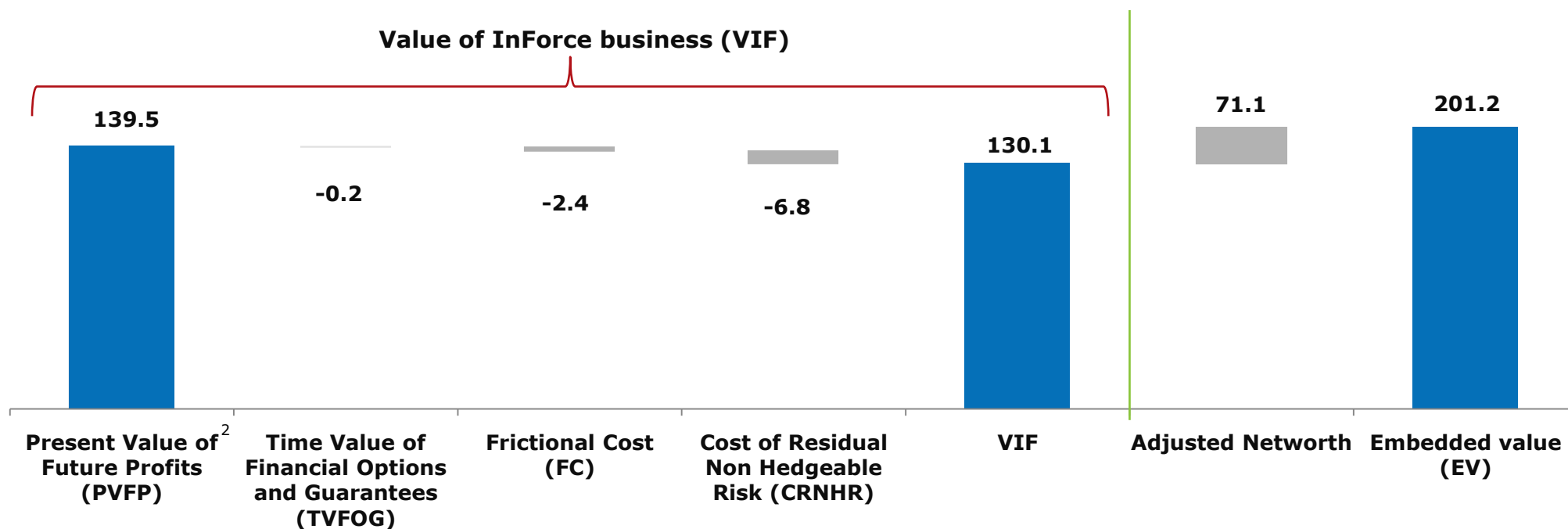


Across key segments (%)



Indian Embedded Value (IEV)¹

Rs Bn.

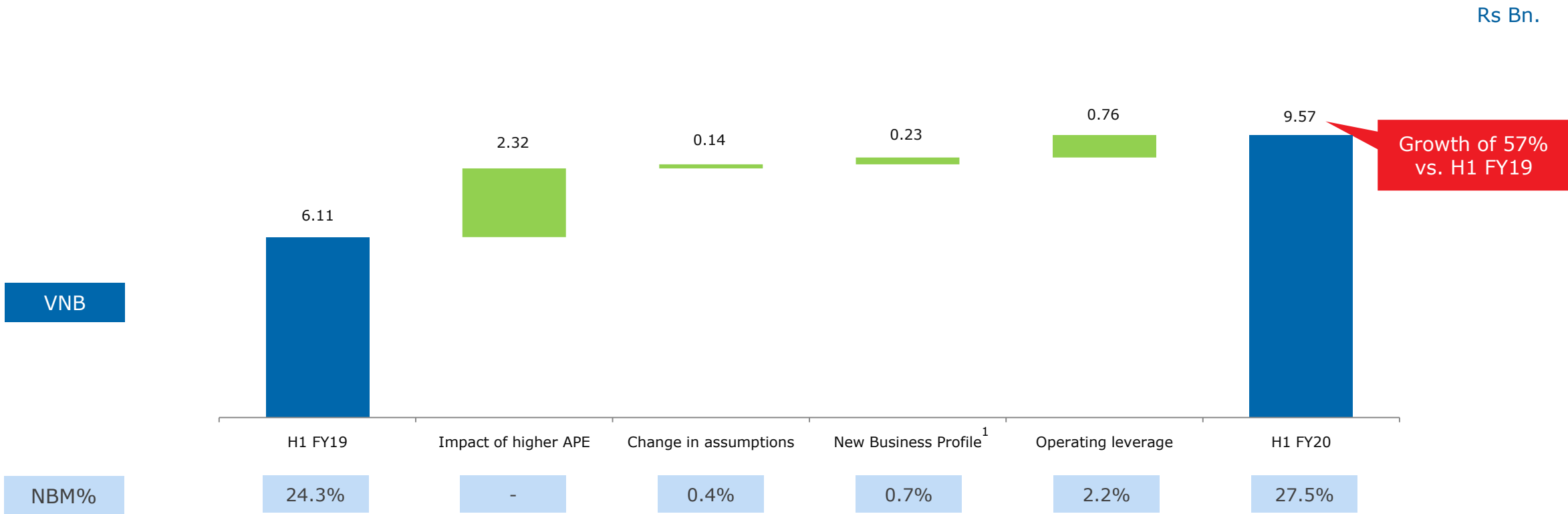


- Significant proportion of VIF at almost 2/3rd of the total Embedded value
- TVFOG includes cost of guarantees for conventional participating and unit linked products

1. Based on internal analysis, detailed explanation of components provided in the Appendix to the presentation

2. PVFP pertains to Overall (Individual + Group) business

VNB and NBM walkthrough



1. Reflects the impact of difference in mix of segment/distribution channel/tenure/age/sum assured multiple etc

VNB – Value of New Business

NBM – New Business Margin

Sensitivity analysis: H1 FY20

Analysis based on key metrics	Scenario	% Change in VNB ¹	Change in VNB Margin ¹	% Change in EV
Change in				
Reference rate	Increase by 1%	-0.3%	-0.1%	-1.4%
	Decrease by 1%	0.3%	0.1%	1.2%
Equity Market movement	Decrease by 10%	-0.9%	-0.3%	-1.3%
Persistency (Lapse rates)	Increase by 10%	-0.8%	-0.3%	-1.0%
	Decrease by 10%	0.6%	0.2%	1.2%
Maintenance expenses	Increase by 10%	-2.2%	-0.7%	-0.8%
	Decrease by 10%	2.2%	0.7%	0.8%
Acquisition Expenses	Increase by 10%	-13.1%	-4.3%	NA
	Decrease by 10%	13.2%	4.4%	NA
Mortality / Morbidity	Increase by 5%	-3.8%	-1.1%	-0.8%
	Decrease by 5%	3.6%	1.0%	0.9%
Tax rate ²	Increased to 25%	-17.4%	-5.8%	-7.3%

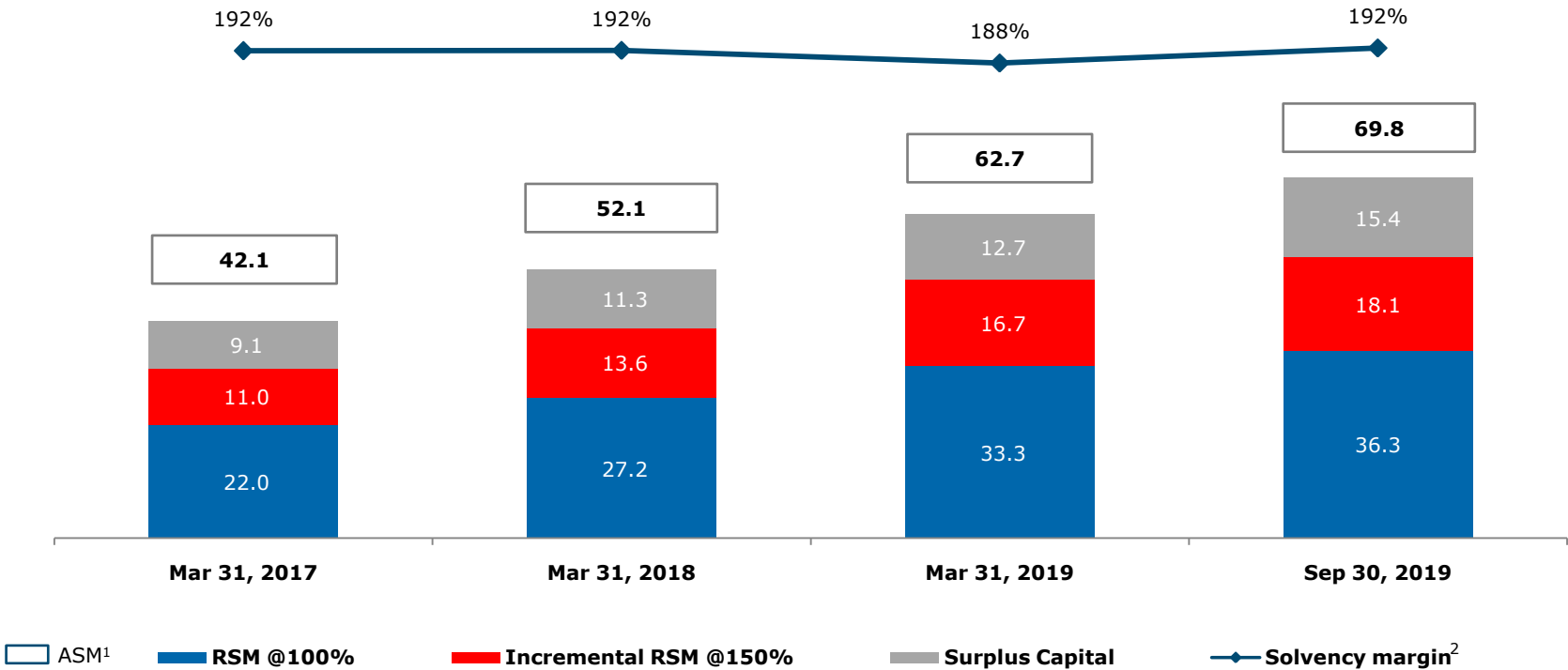
1. Post overrun total VNB for Individual and Group business

2. The tax rate is assumed to increase from 14.56% to 25% and hence all the currently taxed profits in policyholder/shareholder segments are taxed at a higher rate. It does not allow for the benefit of policyholder surplus being tax-exempt as was envisaged in the DTC Bill.

Stable capital position

Dividend paid	2.6	3.3	4.0	-
New business premium growth	33%	32%	32%	26%

Rs Bn.

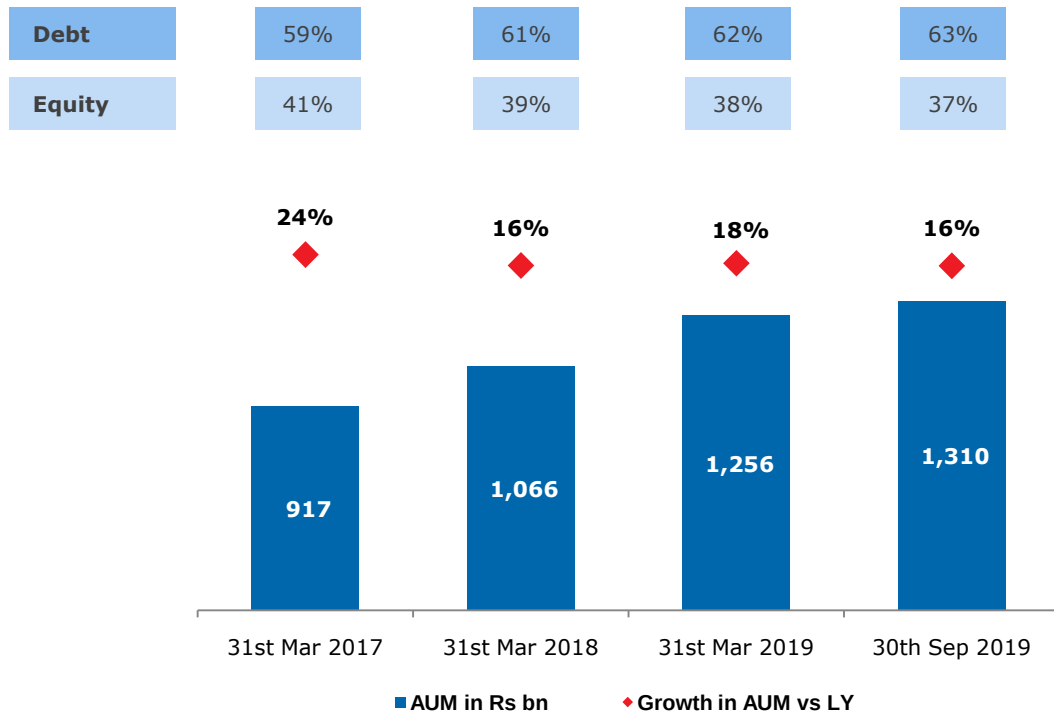


- Internal accruals have supported new business growth with no capital infused in last eight years (except through issuance of ESOPs)

1. ASM represents Available solvency margin and RSM represents Required solvency margin
 2. Investment in subsidiaries not considered in solvency margin

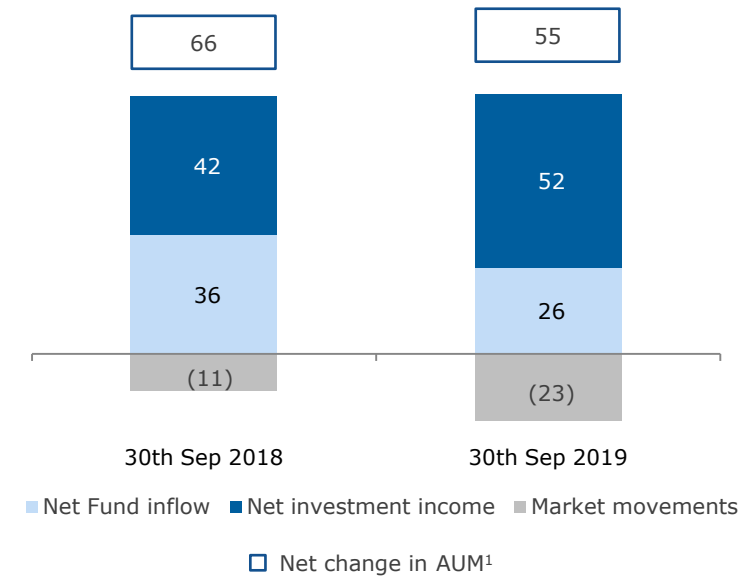
Assets under management

Assets Under Management



Change in AUM ¹

Rs Bn.



- Continue to rank amongst top 3 private players, in terms of assets under management ²
- Almost 96% of debt investments in Government bonds and AAA rated securities as on Sep 30, 2019

1. Calculated as difference from April to September

2. Based on Assets under Management as on Jun 30, 2019

Performance
Snapshot

Our Strategy

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India Life
Insurance

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India Life Insurance

Backspace

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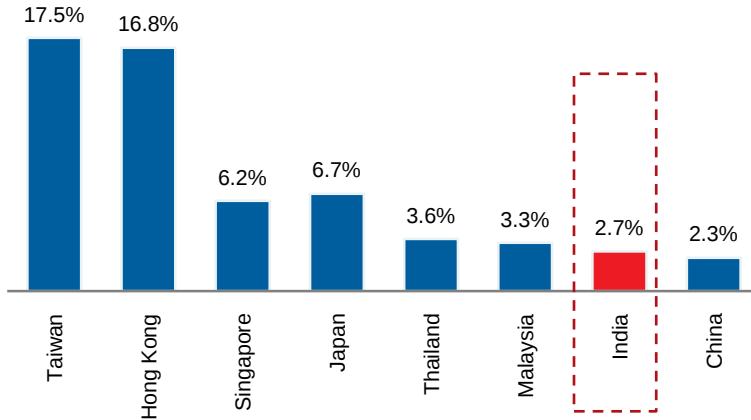
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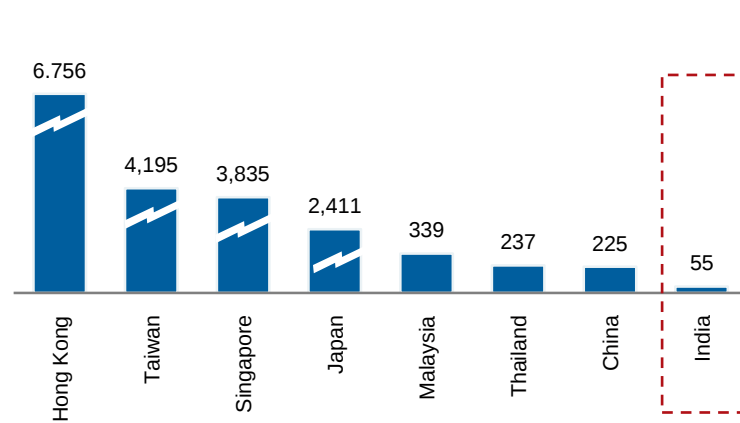
**Life
Insurance**

Growth opportunity: Under-penetration and favourable demographics

**Life Insurance penetration ¹
(2018)**

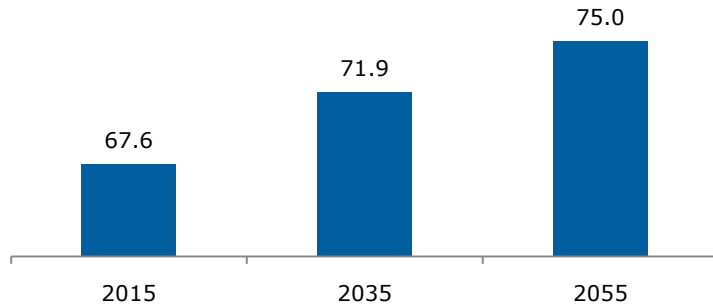


**Life Insurance density US\$ ²
(2018)**

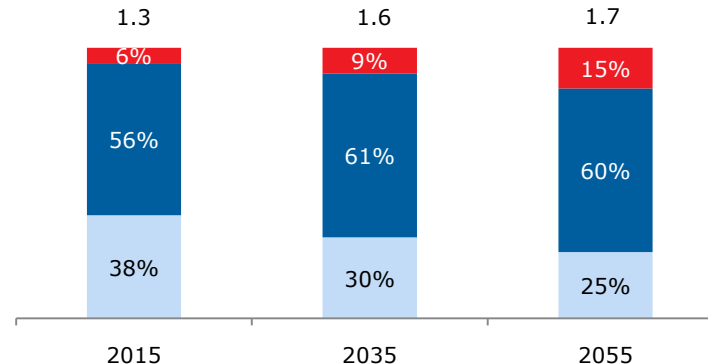


- India remains vastly under-insured, both in terms of penetration and density
- Huge opportunity to penetrate the underserved segments, with evolution of the life insurance distribution model

Life expectancy (Years)



Population composition (Bn.)



■ Less than 20 years ■ 20-64 years ■ 65 years and above

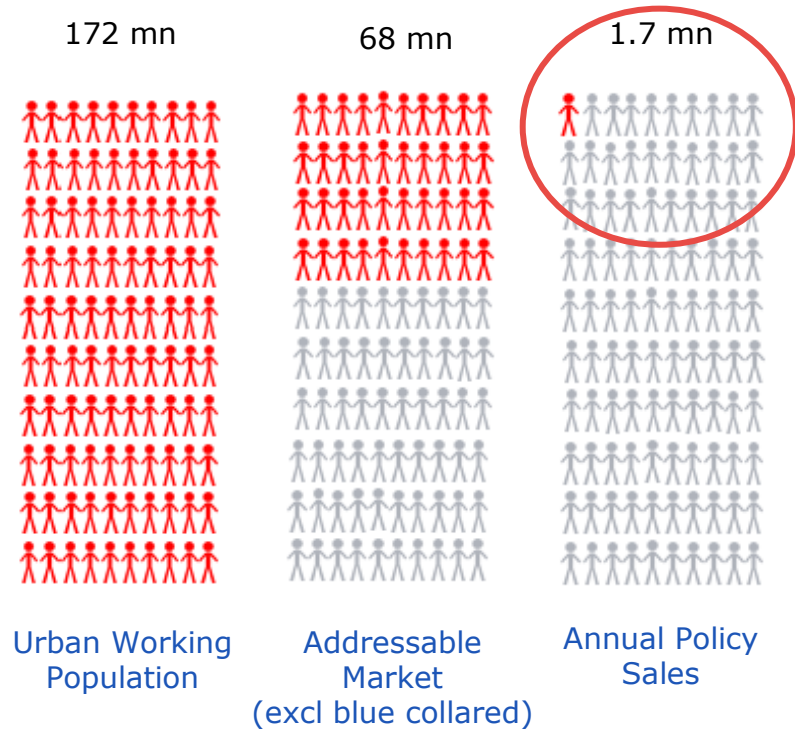
- India's insurable population is expected to touch 750 million by 2020
- India's elderly population is expected to double by 2035 (as compared to 2015)
- Emergence of nuclear families and advancement in healthcare facilities lead to increase in life expectancy thus facilitating need for pension and protection based products

1. Penetration as measured by premiums as % of GDP,

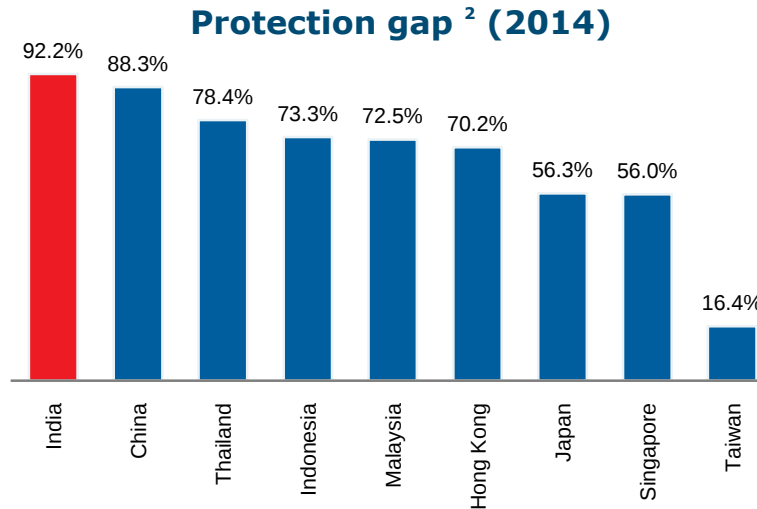
2. Density defined as the ratio of premium underwritten in a given year to the total population

Source: Swiss Re (Based on respective financial year of the countries), MOSPI, United Nations World Populations Prospects Report (2017)

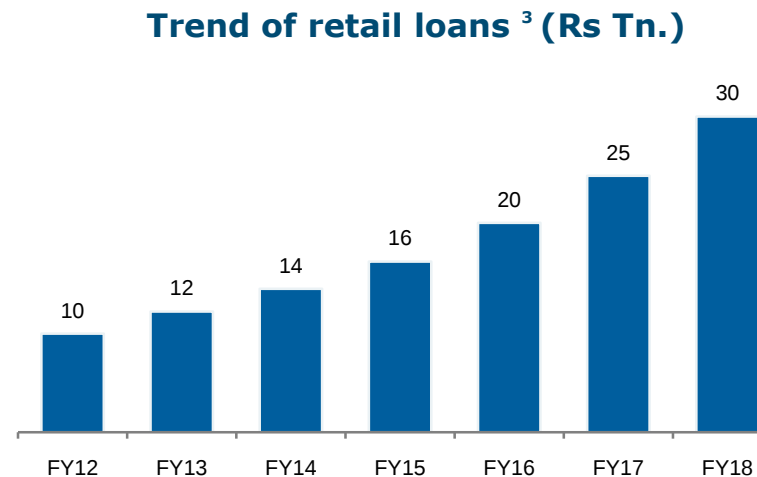
Low levels of penetration – Life Protection



- Only 1 out of 40 people (2.5%) who can afford it is buying a policy every year 1
- Even within the current set, Sum Assured as a multiple of Income is <1x



- 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



- Retail credit has grown at a CAGR of 21% over last 6 years
- Increasing retail indebtedness to spur need for credit life products
- Immense opportunity given:
 - Increasing adoption of credit
 - Enhancement of attachment rates
 - Improvement in value penetration
 - Widening lines of businesses

1. Goldman Sachs Report, March 2019

2. Swiss Re (Based on respective financial year of the countries)

3. Kotak institutional equities

India has a rapidly increasing ageing population with lack of awareness regarding systematic retirement planning



By 2050, **1 in 6 people** in India will be over the age of 60, bringing the future market to **200 million** people



41.5% of elderly male (65+) are working to meet their retirement needs



Unorganized workforce not under any formal pension scheme is **82.7%**

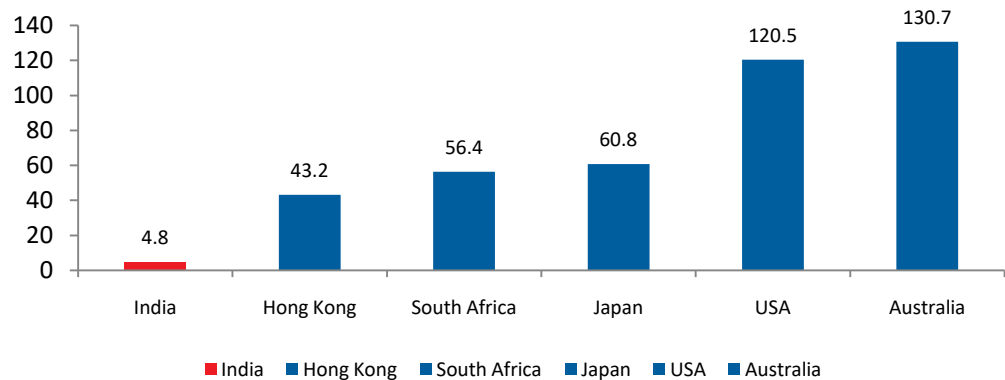


52% of elderly population in both urban and rural areas are fully dependent on others

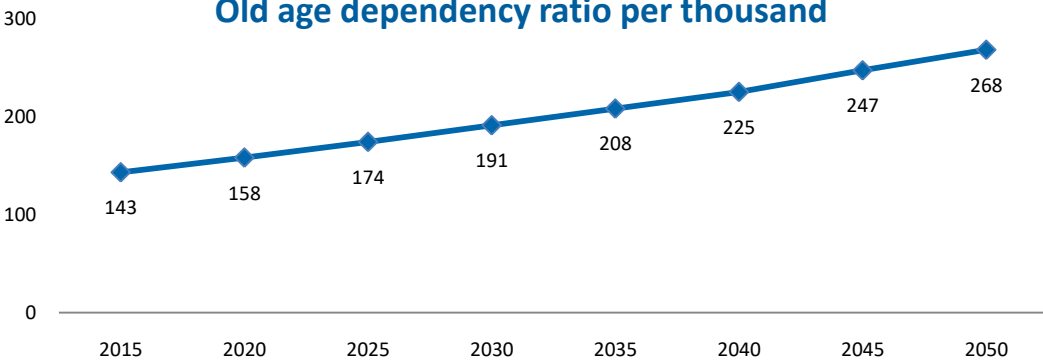
India's pension market is under-penetrated at 4.8% of GDP

Rising old age dependency along with emergence of nuclear families to drive demand for retirement saving products

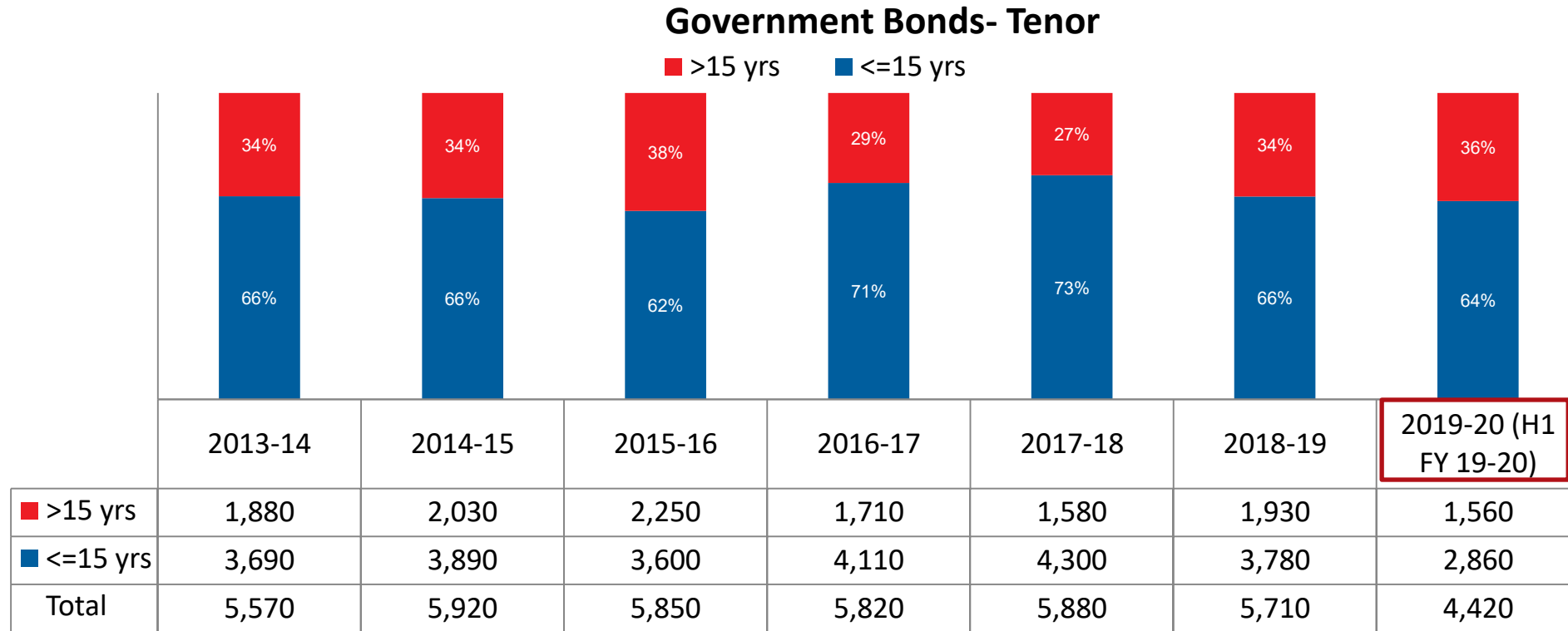
Pension Assets / GDP Ratio



Old age dependency ratio per thousand



Government Bond Auctions

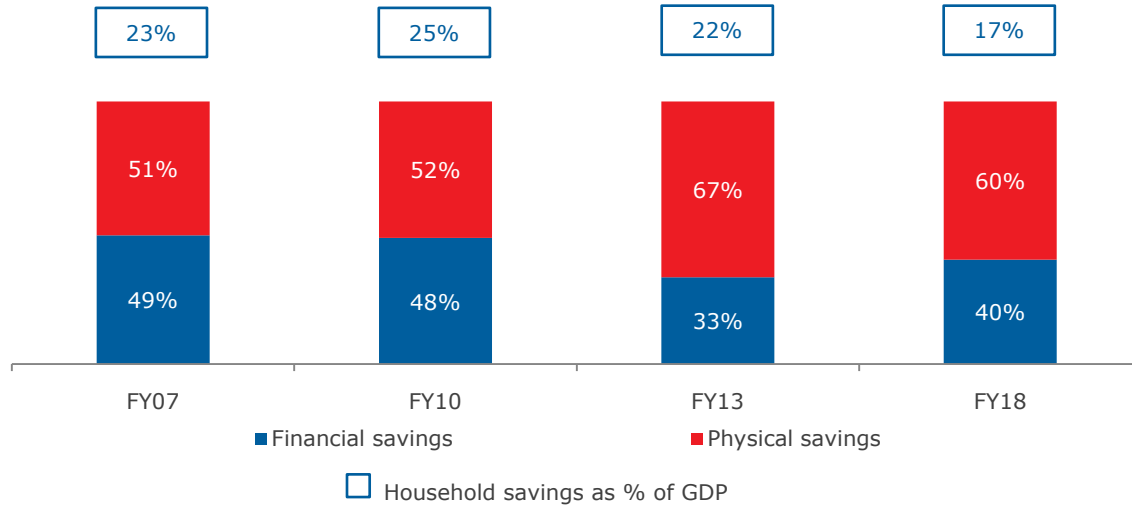


Rs Bn.

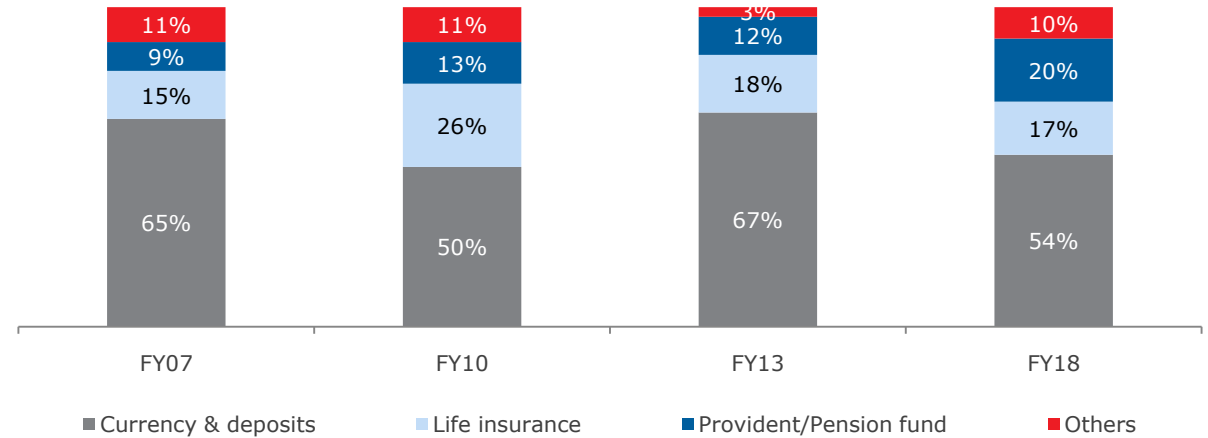
- Auction of >15 year maturity bonds has been ~33% on an average facilitates writing annuity business at scale
- Budget estimate plan for government borrowing for FY20 at Rs. 7.1 trillion on gross basis.
- The actual borrowing for H1 is 62% of the budget.

Life Insurance: A preferred savings instrument

Household savings composition

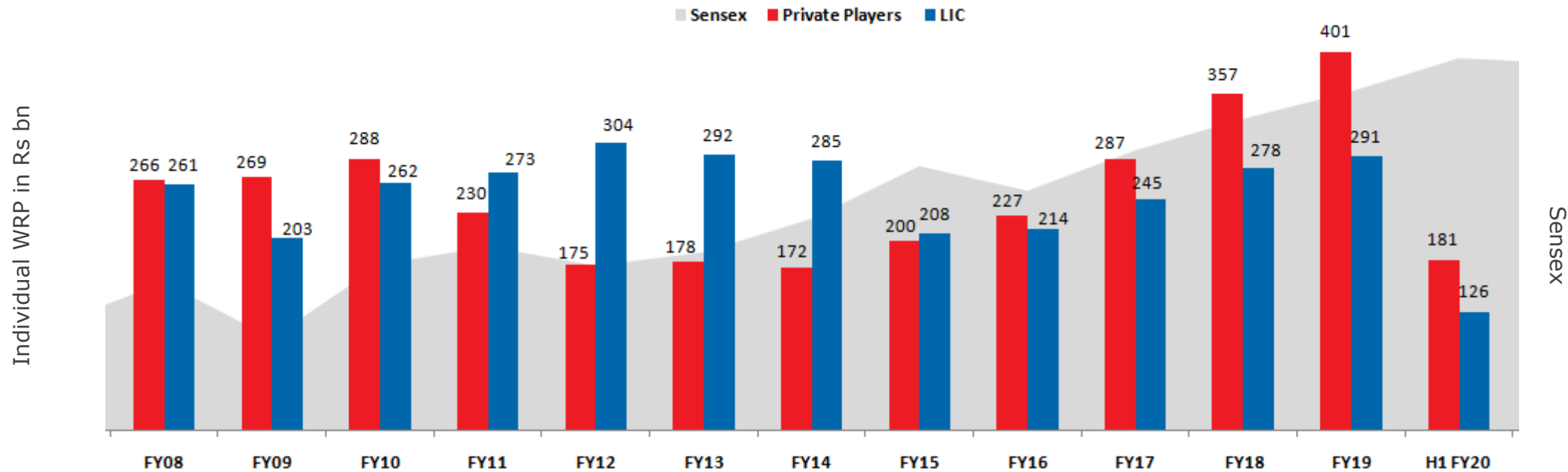


Financial savings mix



- Increasing preference towards financial savings with increasing financial literacy within the population
- Various government initiatives to promote financial inclusion:
 - Implementation of JAM trinity – around 372 mn new savings bank accounts opened till date
 - Launch of affordable PMJJBY and PMSBY social insurance schemes
 - Atal Pension Yojana promoting pension in unorganized sector

Industry new business¹ trends



Private players Market share

Growth %

Private
LIC
Overall

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	H1 FY20
Market share	50%	57%	52%	46%	37%	38%	38%	49%	52%	54%	56%	58%	58%
Private	86%	1%	7%	-20%	-24%	2%	-3%	16%	14%	26%	24%	12%	24%
LIC	0%	-22%	29%	4%	11%	-4%	-2%	-27%	3%	15%	13%	5%	3%
Overall	31%	-10%	17%	-9%	-5%	-2%	-3%	-11%	8%	21%	19%	9%	14%

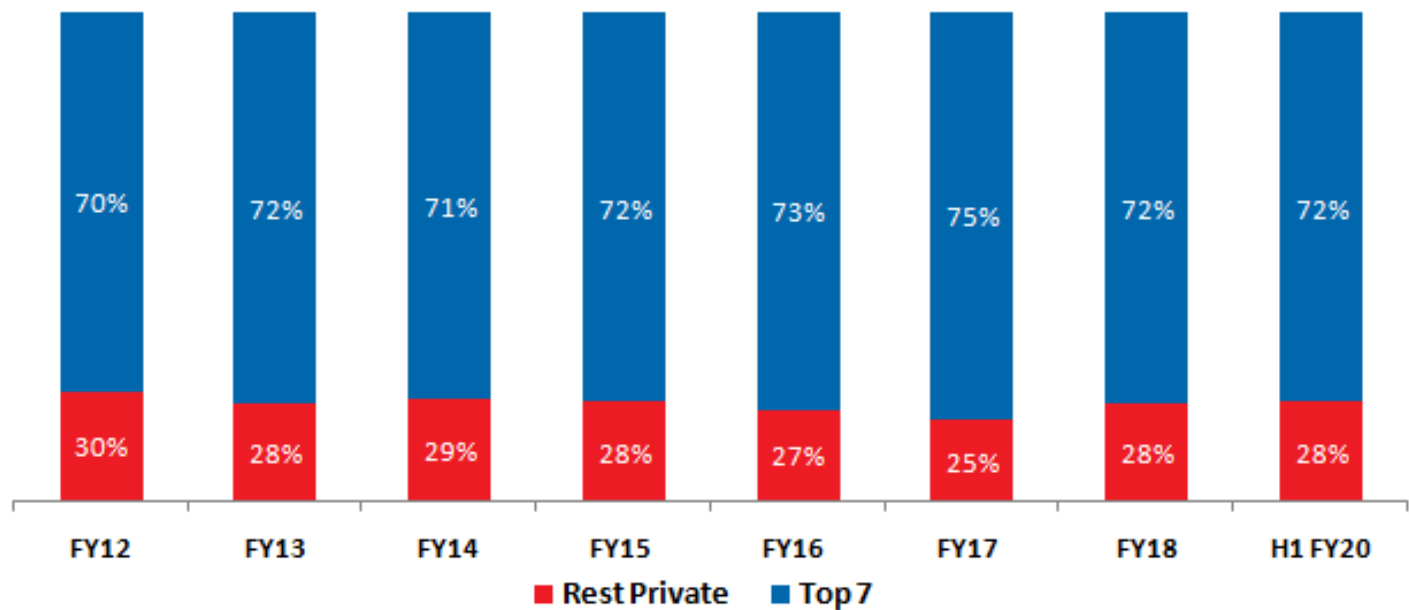
- Private sector gained higher Market share than LIC for the first time in FY16, post FY11 regulatory changes
- Private sector continues to outpace LIC based on individual WRP

1.Basis Individual Weighted Received Premium (WRP)

Source: IRDAI and Life Insurance Council

Private industry: Market share trends

Top 7 private players vs other players

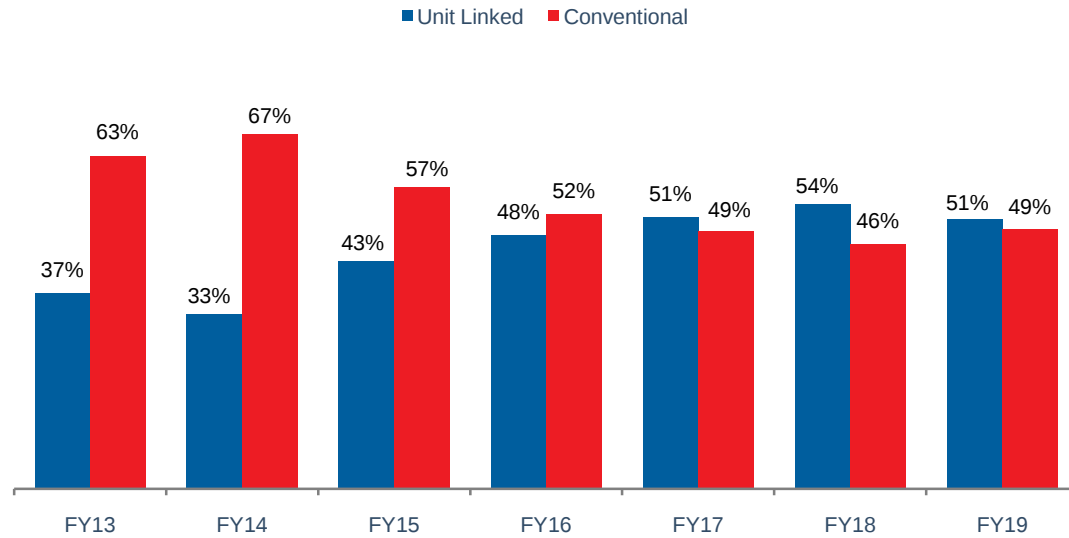


- Amongst private insurers, insurers with a strong bancassurance platform continue to dominate with increasing market share of the total private individual new business

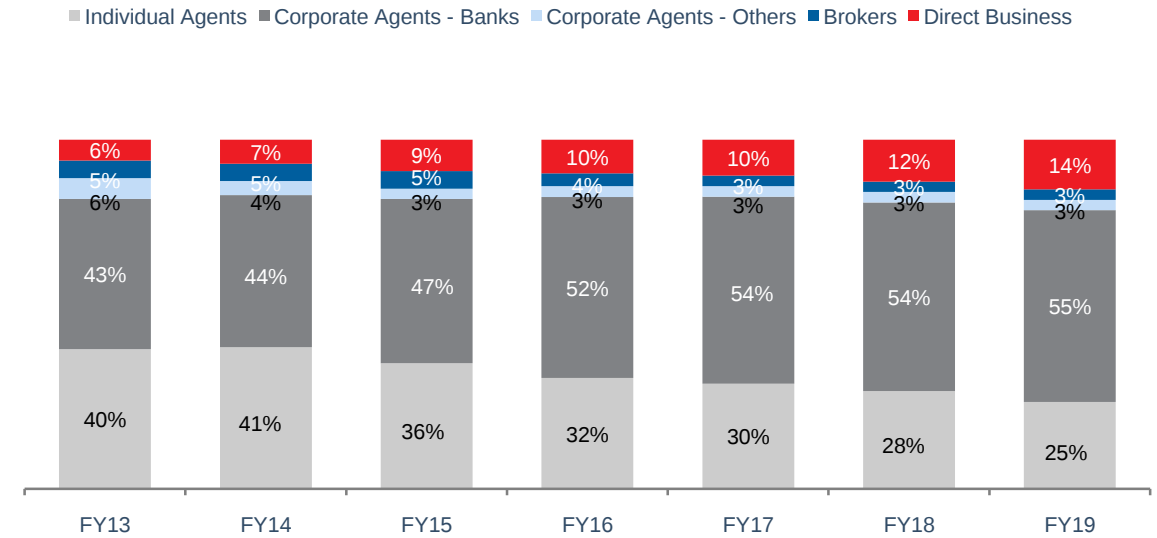
Notes :
Basis Individual Weighted Received Premium (WRP) as disclosed by IRDAI, Life Insurance Council
Top 7 players based on Q1 FY20 business numbers, comprising of, SBI Life, ICICI Pru HDFC Life, Max Life, Tata AIA, Bajaj Allianz and Birla Sun Life

Private industry: Product and distribution mix

Product mix ¹



Distribution mix ²



- Product mix has moved towards balanced mix between UL and Conventional business for the private players
- Increasing thrust on protection business in recent times by top players has helped improve the new business margins
- Banca sourced business has consistently increased on the back of increasing reach of banks while share of Agency has declined post regulatory changes in FY11

1. Basis Overall WRP (Individual and Group);

2. Basis Individual New business premia

Source: IRDAI and Life Insurance Council

Appendix

Financial and operational snapshot (1/2)

	FY17	FY18	FY19	CAGR	H1 FY19	H1 FY20	Growth
Key Metrics (Rs Bn.)							
New Business Premium (Indl. + Group)	86.2	113.5	149.7	32%	62.9	79.1	26%
Renewal Premium (Indl. + Group)	108.2	122.1	142.1	15%	56.1	61.8	10%
Total Premium	194.5	235.6	291.9	23%	119.0	140.9	18%
Individual APE	37.4	48.9	52.0	18%	21.0	28.7	37%
Overall APE	41.9	55.3	62.6	22%	25.1	34.7	38%
Group Premium (NB)	44.2	54.1	73.3	29%	32.0	40.2	26%
Profit after Tax	8.9	11.1	12.8	20%	6.7	7.3	10%
- Policyholder Surplus	7.5	8.5	9.0	9%	5.4	5.5	2%
- Shareholder Surplus	1.4	2.6	3.8	64%	1.3	1.8	41%
Dividend Paid ⁽¹⁾	2.6	3.3	4.0	22%	-	-	NA
Assets Under Management	917.4	1,066.0	1,255.5	17%	1,132.3	1,310.1	16%
Indian Embedded Value	124.7	152.2	183.0	21%	163.8	201.2	23%
Net Worth ⁽²⁾	38.1	47.2	56.6	22%	54.1	64.0	18%
NB (Individual and Group segment) lives insured (Mn.)	20.9	33.2	51.4	57%	21.6	28.7	33%
New Business Sum Assured ⁽³⁾	3,887.6	4,734.5	6,058.2	25%	2,618.2	4,386.6	68%
No. of Individual Policies (NB) sold (In 000s) ⁽⁴⁾	1,082.3	1,049.6	995.0	-4%	439.3	420.4	-4%

1. Including dividend distribution tax (DDT)

2. Comprises share capital, share premium and accumulated profits/(losses)

3. Comprises individual and group business

4. Including rural policies. Excluding rural policies, NOPs grew by CAGR of 8% between FY17-19



Financial and operational snapshot (2/2)

		FY17	FY18	FY19	H1 FY19	H1 FY20
Key Ratios						
Overall New Business Margins (post overrun)		22.0%	23.2%	24.6%	24.3%	27.5%
Operating Return on EV	(1)	21.7%	21.5%	20.1%	19.6%	19.6%
Operating Expenses / Total Premium		12.6%	13.5%	13.2%	14.1%	14.1%
Total Expenses (OpEx + Commission) / Total Premium		16.7%	18.0%	17.0%	18.0%	19.0%
Return on Equity	(2)	25.7%	26.0%	24.6%	26.4%	24.3%
Solvency Ratio		192%	192%	188%	193%	192%
Persistency (13M / 61M)	(3)	84%/59%	87%/51%	87%/52%	87%/50%	89%/54%
Market Share (%)						
- Individual WRP		12.7%	13.3%	12.5%	13.0%	15.2%
- Group New Business		24.3%	28.5%	28.4%	28.0%	28.9%
- Total New Business		17.2%	19.1%	20.7%	21.2%	22.4%
Business Mix (%)						
- Product (UL/Non par savings/Non par protection/Par)	(4)	52/9/4/35	57/9/5/28	55/20/7/18	59/11/7/23	26/58/6/9
- Indl Distribution (CA/Agency/Broker/Direct)	(4)	72/12/5/11	71/11/5/14	64/13/4/19	67/11/4/17	54/15/10/21
- Total Distribution (CA/Agency/Broker/Direct/Group)	(5)	32/7/2/7/52	33/7/2/10/48	26/7/2/16/49	27/7/2/14/50	23/7/3/16/51
- Share of protection business (Basis Indl APE)		4.0%	5.1%	6.7%	6.8%	6.1%
- Share of protection business (Basis Overall APE)		7.8%	11.3%	16.7%	16.2%	16.7%
- Share of protection business (Basis NBP)		21.8%	25.9%	27.0%	28.7%	27.9%

1. During FY18, there was a one time positive operating assumption change off Rs 1.4 bn based on review by an external actuary as part of the IPO process. Excluding this one time adjustment, Operating return on EV would have been 20.4% for FY18

2. Calculated using net profit and average net worth for the period (Net worth comprises of Share capital, Share premium and Accumulated profits)

3. Persistency ratios (based on original premium). Group business, where persistency is measurable, has been included in the calculations.

4. Based on individual APE. UL: Unit Linked, Trad: Traditional, Par: Participating & CA: Corporate Agents. Percentages are rounded off

5. Based on total new business premium including group. Percentages are rounded off



Revenue and Profit & Loss A/c

Revenue A/c

	H1 FY19	H1 FY20
Premium earned	119.0	140.9
Reinsurance ceded	(1.2)	(1.9)
Income from Investments	28.9	31.9
Other Income	0.5	0.6
Transfer from Shareholders' Account	0.2	0.2
Total Income	147.3	171.7
Commissions	4.6	6.9
Expenses	16.7	19.8
GST on UL charges	1.6	1.7
Provision for taxation	0.2	(0.2)
Provision for diminution in value of investments	0.7	1.4
Benefits paid	61.2	75.0
Change in valuation reserve	55.3	57.6
Bonuses Paid	1.6	3.6
Total Outgoings	142.0	165.8
Surplus	5.3	5.9
Transfer to Shareholders' Account	5.5	5.7
Funds for future appropriation - Par	(0.2)	0.2
Total Appropriations	5.3	5.9

Profit and Loss A/c

	H1 FY19	H1 FY20
Income		
- Interest and dividend income	1.4	1.7
- Net profit/(loss) on sale	0.2	0.7
Transfer from Policyholders' Account	5.5	5.7
Other Income	0.1	0.0
Total	7.2	8.1
Outgoings		
Transfer to Policyholders' Account	0.2	0.2
Expenses	0.1	0.1
Provision for diminution in value of investments	0.0	0.2
Provision for Taxation	0.2	0.3
Total	0.5	0.8
Profit for the year as per P&L Statement	6.7	7.3
Interim Dividend paid (including tax)	0.0	0.0
Profit carried forward to Balance Sheet	6.7	7.3

Rs Bn.

Balance Sheet

Rs Bn.

	Mar 31, 2019	Sep 30, 2018	Sep 30, 2019
Shareholders' funds			
Share capital (including Share premium)	23.8	23.5	23.9
Accumulated profits	32.7	30.6	40.1
Fair value change	(0.0)	(0.0)	(0.4)
Sub total	56.6	54.1	63.6
Policyholders' funds			
Fair value change	11.1	8.2	8.0
Policy Liabilities	536.3	472.9	597.1
Provision for Linked Liabilities	605.2	548.6	597.5
Funds for discontinued policies	28.6	28.9	33.2
Sub total	1,181.2	1,058.5	1,235.8
Funds for future appropriation (Par)	11.0	9.4	11.2
Total Source of funds	1,248.8	1,122.0	1,310.5
Shareholders' investment	50.5	44.4	53.0
Policyholders' investments: Non-linked	571.2	510.5	626.4
Policyholders' investments: Linked	633.8	577.4	630.6
Loans	0.8	0.3	1.9
Fixed assets	3.3	3.3	3.4
Net current assets	(10.8)	(13.9)	(4.9)
Total Application of funds	1,248.8	1,122.0	1,310.5

Balance Sheet

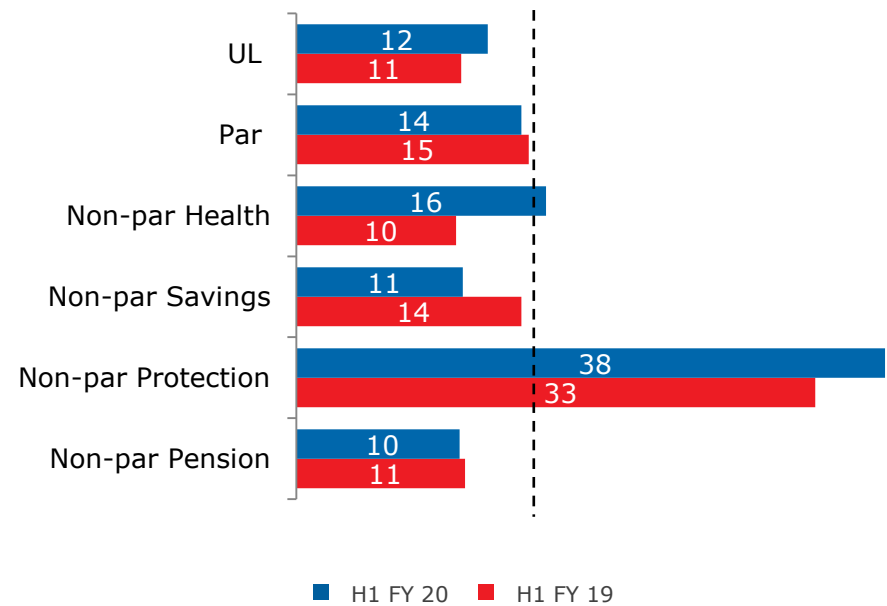
Rs Bn.

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Share capital (including Share premium)	23.8	23.9	23.5
Accumulated profits	32.7	40.1	30.6
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Sub total	56.6	63.6	54.1
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Policyholders' investments: Linked	633.8	630.6	577.4
Loans	0.8	1.9	0.3
Fixed assets	3.3	3.4	3.3
Net current assets	(10.8)	(4.9)	(13.9)
Total Application of funds	1,248.8	1,310.5	1,122.0

Segment wise average term and age¹

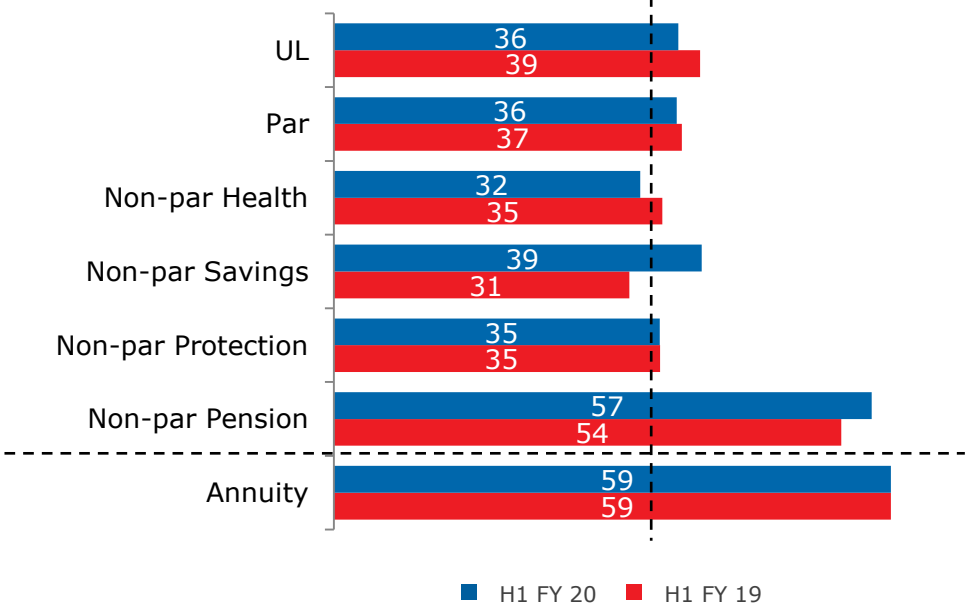
Average Policy Term excluding annuity (Yrs)

H1 FY20: 15.7 (H1 FY19 : 14.9)



Average Customer Age excluding annuity (Yrs)

H1 FY20: 37.6 (H1 FY19: 36.8)



- Focus on long term insurance solutions, reflected in longer policy tenure
- Extensive product solutions catering customer needs across life cycles from young age to relatively older population

Indian Embedded value: Methodology and Approach (1/2)

Overview

Indian Embedded Value (IEV) consists of:

- **Adjusted Net Worth (ANW)**, consisting of:
 - Free surplus (FS);
 - Required capital (RC); and
- **Value of in-force covered business (VIF)**: Present value of the shareholders' interest in the earnings distributable from assets allocated to the covered business, after making sufficient allowance for the aggregate risks in the covered business.

Components of Adjusted Net Worth (ANW)

- **Free surplus (FS)**: FS is the Market value of any assets allocated to, but not required to support, the in-force covered business as at the valuation date. The FS has been determined as the adjusted net worth of the Company (being the net shareholders' funds adjusted to revalue assets to Market value), less the RC as defined below.
- **Required capital (RC)**: RC is the amount of assets attributed to the covered business over and above that required to back liabilities for the covered business. The distribution of this to shareholders is restricted. RC is set equal to the internal target level of capital equal to 170% of the factor-based regulatory solvency requirements, less the funds for future appropriations ("FFA") in the participating funds.

Indian Embedded value: Methodology and Approach (2/2)

Components of Value in-force covered business (VIF)

- **Present value of future profits (PVFP):** PVFP is the present value of projected distributable profits to shareholders arising from the in-force covered business determined by projecting the shareholder cash flows from the in-force covered business and the assets backing the associated liabilities.
- **Time Value of Financial Options and Guarantees (TVFOG):** TVFOG reflects the value of the additional cost to shareholders that may arise from the embedded financial options and guarantees attaching to the covered business in the event of future adverse market movements. Intrinsic value of such options and guarantees is reflected in PVFP.
- **Frictional costs of required capital (FC):** FC represents the investment management expenses and taxation costs associated with holding the RC. VIF includes an allowance for FC of holding RC for the covered business. VIF also includes an allowance for FC in respect of the encumbered capital in the Company's holdings in its subsidiaries.
- **Cost of residual non-hedgeable risks (CRNHR):** CRNHR is an allowance for risks to shareholder value to the extent that these are not already allowed for in the TVFOG or the PVFP. In particular, the CRNHR makes allowance for:
 - asymmetries in the impact of the risks on shareholder value; and
 - risks that are not allowed for in the TVFOG or the PVFP.

CRNHR has been determined using a cost of capital approach. CRNHR is the present value of the cost of capital charge levied on the projected capital in respect of the material risks identified.

Embedded Value: Economic assumptions¹

Years	Forward rates %		Spot rates %	
	As at Sep 30, 2019	As at Sep 30, 2018	As at Sep 30, 2019	As at Sep 30, 2018
1	5.67	7.69	5.51	7.41
2	6.14	8.33	5.74	7.70
3	6.58	8.57	5.95	7.88
4	6.94	8.67	6.14	7.99
5	7.25	8.72	6.31	8.06
10	7.90	8.73	6.88	8.22
15	7.85	8.62	7.12	8.25
20	7.68	8.52	7.21	8.24
25	7.55	8.45	7.23	8.22
30+	7.48	8.41	7.23	8.20

Glossary (Part 1)

- **APE (Annualized Premium Equivalent)** - The sum of annualized first year regular premiums and 10% weighted single premiums and single premium top-ups
- **Backbook surplus** – Surplus accumulated from historical business written
- **Conservation ratio** - Ratio of current year renewal premiums to previous year's renewal premium and first year premium
- **Embedded Value Operating Profit (“EVOP”)** – Measure of the increase in the EV during any given period, excluding the impact on EV due to external factors like changes in economic variables and shareholder-related actions like capital injection or dividend pay-outs.
- **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 example, for a monthly mode policy sold in March 2019, the first instalment would fall into first year premiums for 2018-19 and the remaining 11 instalments in the first year would be first year premiums in 2019-20
- **New business received premium** - The sum of first year premium and single premium.
- **New business strain** – Strain on the business created due to revenues received in the first policy year not being able to cover for expenses incurred

Glossary (Part 2)

- **Operating expense** - It includes all expenses that are incurred for the purposes of sourcing new business and expenses incurred for policy servicing (which are known as maintenance costs) including shareholders' expenses. It does not include commission.
- **Operating expense ratio** - Ratio of operating expense (including shareholders' expenses) to total premium
- **Proprietary channels** – Proprietary channels include agency and direct
- **Protection Share** - Share of protection includes annuity and health
- **Persistency** – The proportion of business retained from the business underwritten. The ratio is measured in terms of number of policies and premiums underwritten.
- **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

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