Interview

"Digital Innovation Is Not A Choice Anymore"

Niraj Shah

CFO, **HDFC Life**

What are the top three areas of focus for you as the CFO of HDFC Life?

Our mission is to be one of the most successful and admired life insurance companies, which means being one of the most trusted, the easiest to deal with, offering the best value for money and setting industry standards – in short, the most obvious choice for all. In order to achieve this mission, our primary focus areas include:

- Achieving sustainable and profitable growth through a balanced product mix, diversified distribution, product innovation, stable persistency, focus on cost management and prudent capital management.
- Appropriate risk management to contain volatility of earnings and maintain balance-sheet strength even in stressed market conditions.
- Sustained investment in technology to keep the business model future-proof.

Q1 was widely expected to be a weak quarter, yet the company managed to put up good numbers including 6 per cent profit growth. What is the reason behind this robust performance?

We have been able to increase our market share by 100 basis points in the individual weighted new business premiums and maintain healthy new business margins of 24.3 per cent through the following:

- A balanced product mix within our savings portfolio and increasing the share of protection products. This is in line with the evolving customer demand for conservative savings products, protection products to provide security to their families and long-term income products including annuities to provide post-retirement income. Continuous product innovation across all product categories has been the key in this journey.
- A diversified distribution mix offering our customers touch-points of their choice through pan-India presence with over 400 branches, over 270 partnerships with banks, NBFCs, MFIs, SFBs, brokers, new-ecosystem partners, over 100,000 individual agents and online access to our customers. Our bancassurance partnerships, led by HDFC Bank, focus on our proprietary channels such as agency, online and direct and new-age ecosystem partners like Airtel in telecom to Paytm in e-commerce and Uber in cab aggregators. This has helped us achieve this performance.
- Continued investment in technology as a key differentiator for generating new business and customer servicing. This has enabled us to provide a seamless experience to our customers and distribution partners. Our video-based sales enablement tool, VVISE, enables our sales teams to connect with customers via video calling and complete the entire sales process, thereby providing a near face-to-face experience. Our chat-based verification process has seen increasing adoption, with over 65 per cent of verifications being carried out through this mode. Up to 89 per cent of our renewal premium payments are made online or via direct debits.

PROFILE

Niraj Shah has been associated with HDFC Life since February 2019 and heads Finance, Audit, Risk Management and Investor Relations. He has 20 years of experience in financial services, primarily in life insurance and corporate finance advisory. Prior to joining HDFC Life, he was associated with PNB MetLife, ICICI Prudential Life, EY and BNP Paribas. He holds a Post Graduate Diploma in Management from Indian Institute of Management, Bangalore and is a member of the Institute of Chartered Accountants of India.

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Your customers at this point in time are likely to preserve cash given the uncertain economic environment and this is likely to affect your persistency ratios. How do you plan to address this?

In the initial phase of the lockdown, IRDAI granted an additional grace period (similar to moratorium) to customers up to May 2020 for paying their renewal premiums. The above extension and the inclination of customers to conserve cash led to some impact on the renewal collections in the initial months. While we continue to see some delays in collections, we are seeing improving trends month-on-month. Our persistency ratios have been largely stable and our renewal premiums grew by 24 per cent in Q1. There has been heightened engagement with customers to communicate benefits of continuing to pay premiums in their existing policies, especially in these uncertain times.

We are aware about the potential challenges our customers might be facing with respect to uncertainty of cash flows. We provide liquidity to our customers by offering loans against policies in the traditional savings segment. We are also in discussions with the insurance regulator to allow loans against policies in the unit linked segment. We had also strengthened our persistency assumptions at the beginning of the period in anticipation of weaker persistency, especially in the unit-linked segment.

Given the current tendency of cash conservation, what is the growth outlook for the insurance space in the current and next fiscal years?

As the economy is coming to terms with the effects of the pandemic, we are increasingly witnessing encouraging on-ground trends. Business has started to pick up on a month-on-month basis and we are seeing higher traction, especially in the individual protection business. As the situation begins to normalise, we expect life insurance to emerge as an important avenue for both protection as well as long-term savings, and consequently help attract a higher quantum of inflows from Indian households.

The current situation has led to higher awareness around the need for protection and the inadequacy of the current insurance coverage. This has led to an increase in demand for term insurance and we believe that the trend is likely to sustain. The pandemic could be an inflection point for protection in India, as customers feel a greater need for protection-based products to safeguard themselves and their families. In Q1 FY21, HDFC Life has seen 50 per cent growth in the individual protection business with increase in both, number of policies as well as the average ticket size.

There has been a dip in the savings-oriented insurance products due to the uncertainty of income or jobs and the customer preference to conserve cash. However, we expect demand for savings products to pick up as the situation improves. We expect a higher demand for conservative traditional products as compared to ULIPs in the short term due to market conditions. Maintaining a balanced product mix of relevant and innovative products that help transfer risks of mortality, morbidity, longevity and interest rate will be the key to service customer demand. We remain optimistic about the medium and long-term prospects of the insurance industry in India. We believe protection and retirement categories are multi-decade opportunities and will grow faster than savings.

At this juncture, what are the key risks facing the Indian economy?

We will need to be cognisant that the recovery in economic activity, especially for smaller businesses, will take time. There have been several measures taken by the government and the RBI to support SMEs or businesses in the form of moratorium and new loan restructuring framework introduced recently. Also, there has been slowdown in the credit cycle with significant decline in overall loan disbursements. While we can expect some recovery in Q2, it would take more time to get back to normal. We need to track overall customer sentiments as this will influence consumption demand.

The recent surveys by BCG and Deloitte indicate that while savings and investment remain preferred by Indian consumers, there is increasing uncertainty and financial concerns with respect to upcoming payments resulting in postponement of large purchases. We need to also brace ourselves for potential worsening of the situation due to multiple waves, as seen in other countries, till we find a vaccine.

Do you think that CFOs have to be well-versed with digital innovations in the industry?

We do believe that digital innovation is not a choice anymore. Technology and data will be the key for driving new business, customer service, claim payouts as well as risk management. Online is no longer a channel but a way of doing business and servicing customers. We continue to invest heavily in digital initiatives and think it is a must to stay relevant to the customer. We have invested in making the buying journey very easy for customers and have enabled online claim submission, thereby ensuring that claimants need not step out of their homes during the lockdown. All our service facilities can be accessed via the digital platform. The key will be to find the money to constantly drive new digital initiatives by extracting efficiencies from the existing BAU model and effective spends management.

What are, in your opinion, the most challenging aspects of being a CFO?

There are a few challenges, some of them are:

- Driving sustainable growth with profitability and appropriate risk and capital management across business cycles. Our DNA and governance framework enables us to deliver on this.
- Finding the money to invest in growth and build a future-ready operating model by driving operating efficiencies in BAU is important.
- Ensuring timely, accurate and effective communication of the company's strategy to key stakeholders including investors, analysts and regulators.