

Indian urban consumers not actively planning for unexpected events and external factors, reveal HDFC Life ValueNotes Life Freedom Index

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March 6, 2012, Mumbai: HDFC Life, one of India's leading life insurance companies, in association with ValueNotes, a leading provider of market intelligence and research, today launched its inaugural Life Freedom Index report. The Life Freedom Index at 58.3 on a scale of 0-100 shows that Indian urban consumers' current sense of financial freedom is low and is yet to reach a state of financial nirvana. The lack of financial freedom can be attributed to many factors - low financial awareness, inadequate planning and a general feeling that they need to do more to increase their financial sufficiency and adequacy.

While chalking out their financial plans, Indian urban consumers give highest priority to expected events such as child's education, dependent's marriage, retirement, etc. While unexpected events such as accident, death or natural calamity rank second on the list of priorities, external factors (inflation, regulations, and interest rates) are given the least importance.

The survey findings reveal that only 30-36% consumers take into account inflation during financial planning. The overall Financial Awareness Index for Indian consumers' at 43.3 on a scale of 0-100 denotes low level of financial awareness. On event awareness, Indian urban consumers' score at 28.2 is poor, while product knowledge (58.3), though significantly higher, is still low and needs considerable improvement.

The Life Freedom Index is made up of five sub-indices:

- **Financial Awareness Index:** Captures the financial product knowledge and the awareness level of events (expected, unexpected, and external factors) that can have a significant impact on current and future financial needs of Indian urban consumers.
- **Financial Planning Index:** Reflects the existence of a comprehensive financial plan, which is regularly reviewed and realigned to address evolving financial needs.
- **Financial Sufficiency Index:** Reflects the state of Indian consumers on the sufficiency of their financial plan to meet immediate financial needs.
- **Financial Adequacy Index:** Reflects the level of confidence of the Indian consumer's financial management practices being adequate to live life with dignity, independently and meet the desired standard of living throughout his lifetime.
- **Financial Liberty Index:** Reflects the psychological feeling of 'Financial Freedom' and 'Financial Security' of Indian urban consumers.

These five sub-indices together measure the state of financial freedom of urban Indian consumers across four consumer segments all of which fall under the Socio Economic Classification (SEC) groups A and B:

- **Chief Wage Earner:** A person who contributes the most to the household income and is the key financial decision maker of the family, in the age group of 30 – 45 years
- **Wisdom Investor:** A person who is aged 45 years or above
- **Young Aspirant:** A person who is aged 20 to 30 years
- **Urban Woman:** A woman aged 25 to 40 years

“By releasing HDFC Life ValueNotes Life Freedom Index, we aim to offer key insights into the current state of financial planning in urban India. Macroeconomic scenario is yet to be positive, household savings seem to have gone down because families had less money to put away in a year of high inflation. Moreover, a lack of social security benefits in a country with a majority of young population increases the need of a sound financial plan, which can cover both immediate and future financial needs of an individual. The Life Freedom Index will serve as the primary benchmark for indicating how financial free an Indian urban consumer is in terms of her financial awareness, planning, sufficiency, and adequacy of planning,” said Mr. Sanjay Tripathy, Executive Vice President and Head, Marketing and Direct Channel, HDFC Life.

Mr. Arun Jethmalani, MD, ValueNotes, said, “The survey reaffirms that Indian urban consumers have realized the necessity of financial planning. They are already chalking out financial plans and are generally disciplined in adhering to them. However, on the flip side, these plans lack comprehensiveness and need to be realigned with their desired financial goals. The survey indicates that while 35% of them rely on their social network of friends and relatives for financial planning advice, only 27% seek professional help (Financial Planner/Advisor). Given the gaps in financial plans and low awareness levels, it appears that there exists a need for proper professional advice, which will help consumers in ironing out inconsistencies in financial planning and management.”

Key Findings of HDFC Life ValueNotes Life Freedom Index

Not financially free: Indian urban consumers’ Life Freedom Index at 58.3 on a scale of 0-100 denote that they are not completely insecure financially, but have a long way to go before achieving a complete state of financial freedom. Indian consumers score the least on financial awareness (43.3 on a scale of 100). Financial Awareness Index being significantly lower than the Financial Planning Index (62.7) implies that financial choices are being made in an environment of limited awareness regarding both the risks that need to be managed as well as awareness around the various financial options available to manage these risks.

Most concerned about child’s education: Child’s education (75%) is the primary concern during financial planning for all Indian consumers followed by health expenses (61%) and retirement (57%).

Not actively realigning financial plans: Indian urban consumers are not realigning their plans for most significant events such as marriage of a dependent, birth of a child, higher education, etc. Less than 16% align their plans to ‘all significant’ events and less than 28% very regularly review their plans. However, the positive aspect is that only 5% consumers ‘do not update’ their financial plans, indicating that Indian consumers have developed a habit of reviewing and updating their plans, although not at very frequent intervals.

Tier 2 cities more free than Tier 1: Indian urban consumers residing in Tier 2 cities mirror a higher sense of financial freedom than their Tier 1 city counterparts. Tier 2 consumers across all segments, except Wisdom Investors, perceive themselves better off in terms of planning, sufficiency, adequacy and hence a higher sense of liberty. It is possible that a relatively low cost of living and low financial stress associated with a Tier 2 city contribute to a higher sense of financial freedom among consumers residing in Tier 2 cities compared to Tier 1 cities.

Wisdom Investors most financially free: Among all categories of urban Indian consumers, Wisdom Investors are the most financially free with a score of 63 on a scale of 0-100. They are backed by experience and thus have stronger financial plans. Chief Wage Earners (CWE) follow second with a score of 59.9. Young Aspirants have taken the first steps to financial planning but their plans need significant improvement in all aspects to provide them with the requisite level of financial freedom and

confidence to live life with dignity. Financial freedom of CWEs and Urban Women is low, suggesting that India's Generation X is striving to find a balanced plan, which is capable of meeting immediate and future financial commitments, and provides them with enough confidence to live life with dignity.

Appetite for financial planning prevalent: Indian urban consumers across all segments have realized the necessity of financial planning. They are already chalking out financial plans and are generally disciplined in adhering to them. However, on the flip side, these plans lack comprehensiveness and need to be realigned with their desired financial goals.

Sense of liberty inflated: The sense of financial liberty of Indian urban consumers appears inflated, given the inadequacy in their financial planning and awareness levels. The state of mind of Indian consumers represents two contrasting sentiments. On one hand, they have realized the incomprehensiveness and insufficiency of their financial plans and are not very confident about living life with dignity. However, on the other hand, their sense of financial liberty does not reflect a similar sentiment and score much higher. Thus, it clearly suggests that this sense of liberty is not in line with their financial planning, sufficiency, and adequacy.

Making inappropriate financial choices: Indian urban consumers are making financial choices on a shaky foundation. The degree of freedom and liberty that consumers perceive themselves to have, appears to be over-estimated on a rather contrasting backdrop of low financial awareness - either on account of limited awareness of the risks or on account of low product knowledge. Consumers are chalking out financial plans, despite limited knowledge about financial goals and various investment options available.

Notes to the Editor

>Over 1,600 respondents were interviewed in separate surveys conducted between across several Indian cities; Ahmedabad, Bengaluru, Bhopal, Indore, Bhubaneswar, Chennai, Delhi, Kochi, Kolkata, Ludhiana and Mumbai. The findings from the survey were distilled into various specific measurement indices that collectively form an overall 'Life Freedom Index.'

About HDFC Life

HDFC Life, one of India's leading private life insurance companies, offers a range of individual and group insurance solutions. It is a joint venture between Housing Development Finance Corporation Limited (HDFC), India's leading housing finance institution and Standard Life plc, the leading provider of financial services in the United Kingdom.

HDFC Life's product portfolio comprises solutions, which meet various customer needs such as Protection, Pension, Savings, Investment and Health. Customers have the added advantage of customizing the plans, by adding optional benefits called riders, at a nominal price. The company currently has 28 retail and 9 group products in its portfolio, along with 10 optional riders catering to the savings, investment, protection and retirement needs of customers.

HDFC Life continues to have one of the widest reaches among new insurance companies with about 500 branches servicing customer needs in over 700 cities and towns. The company has a strong presence in its existing markets with a strong base of Financial Consultants. For more information, please visit www.hdfclife.com

About ValueNotes

ValueNotes is a leading provider of market intelligence and research, with expertise across industries. The firm provides a wide range of bespoke business research, financial research and competitive intelligence about markets, industries and companies. Their clients include global corporations, consulting firms, research and B2B publishers, PE and VC firms, and money managers. For more information, please visit www.valuenotes.co.in

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