

# PRODUCT MANAGEMENT & PRICING POLICY - PRAMERICA LIFE INSURANCE LIMITED

VERSION: V1.2 JUNE 2024

### Document Information

Document name: <b>Product Management &amp; Pricing Policy</b>		Pages	12
	<b>Designation</b>	<b>Date</b>	
<b>Prepared by</b>	Head – Products	14 June 2024	
	<b>Designation</b>	<b>Date</b>	
<b>Reviewed by</b>	Appointed Actuary	14 June 2024	
<b>Approved by</b>		<b>Date</b>	
Board			
Document Classification/Accessibility	Private & Confidential		

### Change History:

Change Date	Change Reasons	Change By	New Version	Approved by
<b>NA</b>	Policy Creation in line with IRDAI circular IRDAI/ACTL/CIR/MISC/115/06/2022	Tarun Chadha – Head Products	1.0	Board Members
<b>MAY 2023</b>	Policy update in accordance with IRDAI circular IRDAI/ACTL/CIR/PRO/207/10/2022 and IRDAI/ACTL/CIR/PRO/81/3/2023	Tarun Chadha – Head Products	1.1	Board Members
<b>JUNE 2024</b>	Policy Update in accordance with the IRDAI Master Circular IRDAI/ACTL/MSTCIR/MISC/89/06/2024 and Insurance Product Regulations IRDAI/REG/8/202/2024	Sapan Sane – Head Products	1.2	Board Members

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## 1 Background

The Insurance Regulatory and Development Authority of India vide its circular ref. IRDAI/ACTL/CIR/PRO/207/10/2022 dated 4<sup>th</sup> Oct 2022 and IRDAI/ACTL/CIR/PRO/81/3/2023 dated 31st Mar 2023 on Use & File (U&F) procedure for life insurance products & riders introduced the scope of the approval of life insurance products/riders through Use & File procedure, and *inter alia* requires insurers to have a Board Approved Product management and Pricing Policy (BAPMPP) and requires its Board to constitute Product Management Committee (PMC). The objective of this policy is to lay down guiding principles for management & pricing of products. The Product Management Committee, while approving the products will adhere to the principles articulated in this document that has been updated and aligned to the Master Circular Ref: IRDAI/ACTL/MSTCIR/MISC/89/06/2024 dated 12<sup>th</sup> June 2024 and the Insurance Product Regulations Ref IRDAI/REG/8/202/2024 dated 20<sup>th</sup> Mar 2024 issued by the IRDAI.

## 2 Scope

The Policy is applicable to

- New products/riders under Use and File (U&F) or File and Use (F&U) procedures as applicable; and
- Modification of existing products/riders

## 3 Objective

The primary objectives of the Company's Product Management & Pricing Policy are:

- To institutionalize Internal governance framework to ensure that the Policyholder benefits, Premium Rates, terms & conditions and other principles on product design & pricing follow latest regulatory requirements
- Provide a framework for the PMC members for their due diligence and to provide concurrence on risks associated with the products and their mitigating mechanism.
- Ensure that product pricing (or any modification) is sound & financially viable for the Company.

## 4 Product Management philosophy

The management of products can be broadly categorized into the following tasks:

### 4.1 Product Strategy and Planning

Customers are the centre-stage of all the products initiatives. The Company aspires to deliver its promises and partner with the customers to offer life insurance solutions for their various financial needs.

Further, product planning is done to ensure that right products are offered to customers in line with their financial goal and objectives. This may also include any innovative products that the Company may offer within the regulatory framework.

#### 4.2 *Compliance & Risk Assessment*

It is necessary to carry out appropriate assessment on various risks associated with development of the new product/modification. The assessment shall cover following aspects:

- Compliance of the product benefits and other terms and conditions offered with Insurance Act, 1938, all Regulations and directions from the regulatory authority.
- Cognizance of the various risks involved in the new product design or proposed modifications along with the appropriate risk mitigation measures.
- Consistency of pricing assumptions and methodology as per Company's existing practices.

#### 4.3 *Product Design and Development Philosophy*

Product structure and benefits should be objectively evaluated against the following parameters.

- Product structure covers the evolving risks and needs of the customer and that the basic principles of insurance are adhered to.
- The number of options / variants offered under the product shall be reasonable.
- All options are easily explainable to prospective policyholders. Policyholders shall not be offered any overlapping benefits.
- Financial viability and fairness of the Premium rates/Charges and Benefits, in terms of Customer proposition, Shareholder profitability etc.
- Benefits reflecting in the sales literature, policy document, and benefit illustrations are consistent with the approved product design.
- There is transparency and clarity in wordings, terms, coverage, exclusion and conditions.
- Policyholders interests are protected and the market conduct practices are appropriate and fair.
- Appropriate systems, processes across relevant functions (underwriting, pricing, reinsurance, claims etc) are in place
- All products shall follow applicable provisions set out under different schedules of applicable circulars/regulations/guidelines.
- Uniformity between all the required documents as per extent regulatory requirements. Refer Annexure A specifying the documents to be submitted to the Product Management Committee as per Master Circular (Cir No. IRDAI/ACTL/MSTCIR/MISC/89/06/2024

#### 4.4 *Product Marketing*

This would cover the marketing aspects of product launch and also help to achieve its desired potential by appropriate communication of product benefits. This may include periodic review of customer value proposition in line with emerging market scenarios.

#### 4.5 *Product Readiness*

This shall cover the readiness aspects for the purpose of launch of product in the market. The following activities needs to be ensured for this purpose:

- Sign off on System Readiness Certificate. It is imperative to confirm that all the benefits and terms and conditions offered under the product are accurately set up in the system through successful completion of system testing.
- Ensuring that the distribution and other stakeholders are well informed about any changes and upcoming products.

#### 4.6 *Product Withdrawal or Modification*

Company may decide to withdraw or modify certain products depending upon the periodic review of products w.r.t their performance and various other factors like complaints received, mis-selling/distribution channels, rampant cancellations or any other matter concerning products/solicitation and offer an improved version by means of modifications or a substitute of the product being withdrawn.

This may be triggered due to lack of customer or distributor interest, reduced profitability of the product; redundant product design; deviations in pricing / economic assumptions, change in any regulations

Modification of existing on sale product may be carried out after a reasonable time period of 3 months from the launch date of existing version. The same period may be reduced in case of exceptional circumstances as deemed necessary based on the economic scenario and market conduct.

Annual Review of SSV: In accordance with IRDAI (Insurance Product) Regulations, 2024 and Master Circular on Life Insurance Products, IRDAI/ACTL/MSTCIR/MISC/89/6/2024, the special surrender value (SSV) shall be reviewed annually based on the prevailing yield on 10 year G-sec and the underlying experience. The prevailing interest rate for the same will be based on average of the daily yield on 10-year G-sec (annualised) recorded over the past 1 year with a spread of not exceeding 50 basis points.

### 5 *Pricing Philosophy*

The Company aspires to price its products competitively, keeping the premium fair and affordable for the policy holders and ensuring that the product can generate the desired Value of New Business margins and profitability for the shareholders and meet its other financial KPIs. There are no product level recommended margins, however, the Company targets the New Business margin at an overall level which is tracked closely on quarterly basis. The pricing policy provides guidance to ensure that these goals are met at the Company level. The pricing policy is also applicable for repricing of the products.

The Company measures profitability of the products based on Value of New Business on Indian Embedded Value (IEV) method. However, the pricing of products is carried out based on the Traditional Embedded Value (TEV) method that requires the use of an explicit earning rate and a Risk Discount rate. Profit testing is carried out on IEV basis. The TEV method has been followed for Regulatory filing in the past and would continue to be used. Target profit margins at product level would be at least positive on TEV basis but the target profit may vary based on competitive considerations. For linked savings products, there are Regulatory caps on the charges as prescribed by IRDAI. The charging structure within the Regulatory caps would be decided based on competitiveness and profitability requirements. In general, the Company

would price the products in such a way that they cover the costs of benefits, costs of acquisition, administration expenses, commissions, reinsurance costs, cost of statutory reserves and solvency capital etc while adding value to the shareholders.

Pricing of new products should ensure that the methodology used is based upon commonly accepted actuarial principles. These could be issued either by IRDAI or Institute of Actuaries of India or may be based on general market practices being followed. Similarly, while making modifications to any existing products it should be ensured that the proposed changes are in accordance as per the prevalent circular/regulations prescribed by the IRDAI.

Some of the general conditions that shall be satisfied are as follows;

- The premium rates/charges, benefit structure are derived basis a defined profitability criteria and should be financially sound and workable, appropriately reflecting the benefits, terms and conditions of the product.
- The premium derivation, rating process, discount or loadings shall be unambiguous and objectively defined such that similar risks shall not be discriminated in terms of premium being charged.
- All the underlying assumptions are reasonable and is in line with Company's own experience, to the extent possible, supported by comparison of actual experience with the assumptions under that product / rider wherever available.
- Pricing assumptions to be consistent with the valuation assumptions used for the purpose of profit testing.
- Independent review of the pricing model through a maker checker process by a senior member of the pricing team.

The starting point for pricing of products would be use of the current best estimate assumptions, actual costs and current achievable investment returns. However, there could be a need to deviate from the current demographic assumptions and expenses for reasons as discussed below:

- **Mortality/Morbidity:** Reinsurance rates may be different from the current best estimate assumption and would need to be factored. The products currently being sold are very long term in nature and hence it is possible that the current best estimate assumption may not hold in the long term either due to misestimating of volatility parameter or profile of customers being different than of the current customers. There may be therefore, a need to add margins. The assumption used for pricing may also differ from the current best estimate, if the company wants to enter into a new target segment and in those case the company may rely on the industry experience, wherever available.
- **Persistency:** The lapse rate used for the purpose of pricing is based on the emerging experience of the portfolio. However, this is further adjusted in view of improvement of lapse rate in future and not to take too much credit of lapse profits in premium rate.
- **Expense and Commissions:** Expenses would be based on actual expenses that are currently being incurred for acquiring and administering the products. However, it is not be possible to load the full extent of actual expenses, particularly acquisition expenses due to competitiveness or due to regulatory constraints. Hence, the products are priced on the basis of long term unit cost assumption or using a mix of fixed and variable cost depending on competitiveness of the product. Commissions that are paid to distributors would be as per the regulatory norms or Board approved policy.
- **Investment Assumptions:** The investment return derived for the purpose of pricing is based on the New money yield and the Long term yield. The asset mix selected for this purpose is based on the liability profile. Further, a haircut is also used on the available new money and long term yield to reflect the long term pricing assumption.
- Any other assumption includes: Inflation, Tax rate, Risk discount rate etc.

## 6 Approval Process

A product note shall be prepared and circulated to the members of the Product Management Committee after finalization of product design and pricing of the product for their approval. The note shall include the following:

- Product features
- Assumptions used and rationale for each assumption
- Pricing methodology adopted
- Competitive benchmarking
- Business mix and expected volumes
- Risks arising from the product, possible mitigations and residual risks
- Financial metrics
- Any other information necessary for the product
- Documents that need to be filed as per applicable regulations.

The Key financial metrics shall include, but will not be limited to:

- VNB margin both on TEV and IEV on pricing and profit testing basis
- Sensitivity of margins on variation of one or more underlying parameters
- New business strain
- Capital deployed
- Payback period
- Minimum earnings rate for savings products
- Any other relevant to the product under consideration

## 7 Roles & Responsibilities

The Product Management & Pricing Policy of the Company falls under the authority of the Board of Directors who in turn delegates the authority for its formulation, revision and monitoring to the Product Management Committee (PMC).

The PMC shall provide oversight over the product development process, features, pricing, market competitiveness, risk assessment & mitigation and customer value review in respect of the products. The committee shall also be responsible for reviewing & approving products / riders presented before it, in line with the Policy.

The committee, constituted by the Board, shall have Appointed Actuary, Chief Risk Officer, Chief Marketing/Distribution Officer, Chief Investment Officer, Chief Technology Officer and ,Chief Compliance Officer as members.

In addition, other senior members of the Organization can also be included in the PMC as an invitee. The invitee to the PMC will be the following members:

- Chief Financial Officer
- Head of Operations
- Head of Product development & Pricing
- Any other member as & when required

The responsibilities of the PMC shall include the following:

- Discuss & approve product design, pricing, profitability, product positioning vis-à-vis target customer needs for new as well as modifications to the existing products under U&F or F&U as applicable.
- Review and ensure that the final product design and benefits are appropriate and offer a fair customer value.

- Review & sign-off on risks related aspects, not limited to, Pricing Assumptions, Profitability, Underwriting, Re-insurance etc.
- Review and ensure that the shareholder proposition for proposed new/modified product is reasonable
- Recommend the launch of approved products after ensuring that all the processes, suitable infrastructure, system requirements and standard operating procedures are in place on an ongoing basis
- Distribution arrangement to generate business volumes is as per the target segment and proposition.
- Review the Product Governance Process and the Product Development Strategy in general ensuring robustness and recommend any improvements, if required.
- Ensure the entire set of documents required under U&F or F&U is complete, correct, digitally signed and are in compliance with the extant applicable legal and regulatory framework
- Required representation in the different committees including Board Approved Advertising Committee and granting approvals required in accordance with the specified frameworks.

If during the review process, the PMC determines that major risks associated with product design or pricing are not being adhered to, and that the potential effect of this could have a material adverse impact on the Company's financial performance objectives, then the PMC shall consider necessary modification in product design or profitability criteria for the product in discussion.

The MD & CEO have an overall responsibility for ensuring that a robust due diligence process is in place to mitigate risks arising from the products and will countersign the relevant certifications

The quorum of the Product Management Committee (PMC) shall be 3 members in addition to the Appointed Actuary.

## 8 Policy Revision and Exceptions

This policy is approved by the Board of Directors, and may be reviewed at the discretion of the Board in order to align with any new developments. There may be a variety of circumstances and reasons for example a change in the environment; an unanticipated opportunity or the requirements are disproportionate to the size of a business or any other instructions from the Regulator etc., in which the PMC/Board may agree to provide exception to the policy for a temporary period as it may recognised that management may not able to conform to full requirements set out in this Policy.

## 9 Governance Mechanism

The PMC will meet for approval and review of new or modified product / rider, to assess any risks arising out of the products offered by the Company. The Company's Internal Audit may verify on an annual basis, compliance with the Policy, procedures and controls relating to product management and pricing. The reports will specifically record the robustness of the internal processes and will make constructive suggestions, where necessary, to strengthen the implementation aspects. Any material deviations from the policy, if identified in the Internal Audit will be reported to the Board.

The Company will preserve all records pertaining to new products/riders and modification of existing products / riders and the minutes of PMC.

Annexure A - Documents to be filed

1. Application form for F&U or U&F as applicable
2. Market conduct related documents:
  - a. Sales literature
  - b. Benefit illustration wherever applicable
  - c. Online flow chart
  - d. Policy document
  - e. Customer Information Sheet (CIS)
  - f. Key Features document wherever applicable
  - g. Proposal form
  - h. Any other market conduct related document
3. Certification I & II as per Part B of section – VIII
4. Confirmation of compliance with para 32 and 53 of Master circular IRDAI/ACTL/MSTCIR/MISC/89/6/2024
5. Duly filled in Check list as updated from time to time.
6. Any other document required to be filed as per other norms as applicable
7. Minutes of PMC meeting approving the product
8. Justification of pricing and/or profit testing basis
9. Additional documents as mentioned below for modification of existing product/rider
  - a. Documents mentioned above in Pt. 1 and 2 (para 75.1 and 75.2 of Master Circular IRDAI/ACTL/MSTCIR/MISC/89/6/2024) in track changes mode, showing changes from the earlier version.
  - b. Table of changes showing all the changes from the existing version, along with a certification -III of this circular stating that there are no other changes
  - c. Date of withdrawal of existing product and date of launch of modified product along with UIN details.

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