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1 Background

The Insurance Regulatory and Development Authority of India vide its circular ref. IRDAI/ACTL/CIR/MISC/115/06/2022 dated 10th June 2022 on Use & File (U&F) procedure for life insurance products & riders expanded 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 will adhere to the principles articulated in this document while approving the products.

2 Scope

The Policy is applicable to

- New products/riders under Use and File procedure
- Modification of existing products/riders
- New products/riders under File & Use procedure

3 Objective

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

- Ensure that the Policyholder Benefits, Premium Rates, Terms & Conditions are in compliance with 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 centerstage of all the products initiatives. The company aspires to deliver its promise and partner with the customers through every stage of life cycle and offer life insurance products to cater various financial needs of life & health protection, savings for retirement, generating retirement income through annuities and other long term savings plan. 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 as per the regulatory framework.

4.2 Compliance & Risk Assessment

It is necessary to carry out appropriate due diligence on various risks associated with development of the new product/modification. The due diligence shall cover the 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 likely risk mitigates.
- Consistency of pricing assumptions and methodology with Company's existing practices.

4.3 Product Development

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

- The number of options / variants offered under the product shall be reasonable.
- All options shall be 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 Competition, Customer proposition, Shareholder profitability etc.
- Benefits reflecting in the sales literature, policy document, and benefit illustrations shall be consistent with the approved product design.
- Uniformity between all the required documents to be filed with the authority. Refer Annexure A specifying the documents to be filed as per Use and File circular (Cir No. IRDAI/ACTL/CIR/MISC/115/06/2022) from IRDAI.

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 IT 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 and trained with respect to all the product features or modifications made under the product.

4.6 Product Withdrawal

This may be triggered due to lack of customer or distributor interest, reduced profitability of the product or due to change in any regulations.

5 Pricing Philosophy

The Company aspires to price its products competitively, keeping the premiums 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. 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 Company level. The pricing policy is also applicable for repricing of 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 which 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, we would expect products to be priced 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 while adding value to 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 assumption: 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 with the Regulator including policy document, sales literatures and benefit illustrations

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 assigns 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 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 Technology/Digital 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
- Chief Investment 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
- Review and ensure that the final product design and benefits 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 reasonableness of the shareholder proposition for proposed new/modified product.
- Distribution arrangement to generate business volumes 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.
- Review of all the products available for new business in every six months

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.

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 will 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 for Regulatory Purposes

<u>For new product filing:</u>

1) Use and File or File & Use application, as applicable, in the same format as per the circular No. IRDA/ACTL/FUP/VER 2.0/Dec. 2001, dated 12-12-2001.
2) Sales literature, benefit illustration wherever applicable
3) Policy document
4) Key features document wherever applicable
5) Proposal form
6) System readiness certificate issued by the PMC.
7) Minutes of the PMC meeting approving the product / rider to be filed.
8) Certificate as per Annexure I of the circular IRDAI/ACTL/CIR/MISC/115/06/2022.
9) Any other documents required to be filed as per other Regulations or circulars issued by the Authority.

<u>For modification of existing product:</u>

10) Table showing all the changes from the existing version, along with a certification from the Appointed Actuary that there are no other changes.
11) Justification of changes in pricing basis, if any
12) List of paras under which modification have been carried out, as mentioned in the circular (IRDAI/ACTL/CIR/MISC/115/06/2022)
13) Date of withdrawal of existing product and date of launch of modified product along with UIN details.

New UF Circular
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