Pramerica
LIFE INSURANCE

PRODUCT MANAGEMENT & PRICING POLICY

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MAY 2023	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
JUNE 2024	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
JULY 2025	No changes.	Sapan Sane – Head Products	1.2	Board Members
JULY 2026	No changes. Minor changes in text to simplify	Sapan Sane – Head Products	1.3	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 and IRDAI/ACTL/CIR/PRO/81/3/2023 dated 4th Oct 2022 and 31st Mar 2023 respectively 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 a 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 Policy that has been updated and aligned to the Master Circular Ref: IRDAI/ACTL/MSTCIR/MISC/89/06/2024 dated 12th June 2024 and the Insurance Product Regulations Ref IRDAI/REG/8/202/2024 dated 20th Mar 2024 issued by the IRDAI.

2. Scope

The Policy is applicable to

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

3. Objective

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

a) 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.
b) 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.
c) Ensure that product pricing (or any modification) is sound & financially viable for the Company.

4. Product Management philosophy

The Product management philosophy covers the following:

4.1 Product Strategy and Planning

Customers are the centre-stage of all the products initiatives. The Company aspires to deliver its promises and partners 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 covers following aspects:

a) Compliance of the product benefits and other terms and conditions with Insurance Act, 1938, extant Regulations and directions from the regulatory authority and as amended from time to time.
b) Cognizance of the various risks involved in the new product design or proposed modifications along with the appropriate risk mitigation measures.
c) 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:

a) Product structure covers the evolving risks and needs of the customers and that the basic principles of insurance are adhered to.
b) The number of options / variants offered under the product are reasonable.
c) All the options are easily explainable to prospective policyholders. Policyholders are not offered any overlapping benefits.
d) Financial viability and fairness of the Premium Rates/Charges and Benefits, in terms of Customer proposition, Shareholder profitability etc.
e) Benefits reflecting in the sales literature, policy document, and benefit illustrations are consistent with the approved product design.
f) There is transparency and clarity in wordings, terms, coverage, exclusion and conditions.
g) Policyholders interests are protected and the market conduct practices are appropriate and fair.
h) Appropriate systems, processes across relevant functions (underwriting, pricing, reinsurance, claims etc.) are in place
i) All products follow applicable provisions set out under different schedules of applicable circulars/regulations/guidelines.
j) Uniformity between all the required documents as per extant 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

Focus is given to marketing aspects of product launch and also help to achieve product's desired potential by appropriate communication of product benefits. This includes 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 need to be ensured for this purpose:

a) 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.
b) 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 seeks to price its products competitively by offering premiums that are fair and affordable to policyholders while generating sustainable value for shareholders and supporting the achievement of the Company's financial objectives. While no minimum profitability thresholds are prescribed at an individual product level, the Company targets an appropriate level of new business margin (NBM) at the aggregate portfolio level, which is monitored and reviewed on a quarterly basis. This philosophy applies equally to the pricing of new products and the repricing of existing products.

The Company measures product profitability using the Indian Embedded Value (IEV) framework, under which the Value of New Business (VNB) is assessed. However, product pricing is undertaken using the Traditional Embedded Value (TEV) methodology, which incorporates an explicit earning rate and risk discount rate. While profit testing is performed on an IEV basis, the TEV methodology continues to be used for regulatory submissions. As a general principle, products are expected to generate positive profits on a TEV basis, although the target level of profitability may vary depending on competitive considerations and strategic objectives.

For linked savings products, charges are subject to the regulatory limits prescribed by IRDAI. Within these limits, the charging structure is determined by balancing customer value, market competitiveness, and profitability requirements. Broadly, products should be priced to cover:

- Cost of benefits provided to policyholders;
- Acquisition and administration expenses;
- Distribution commissions and incentives;
- Reinsurance costs;
- Statutory reserve requirements;
- Cost of solvency capital; and
- Other costs associated with servicing and maintaining the business.

Pricing should ultimately seek to create long-term value for shareholders while delivering fair outcomes to customers.

5.1 Pricing methodology

The pricing of new products shall be based on sound actuarial principles and methodologies that are generally accepted within the insurance industry. These may arise from regulations or guidance issued by IRDAI, standards and professional guidance of the Institute of Actuaries of India, or established market practice. Similarly, any modifications to existing products must comply with all applicable regulatory requirements and prevailing IRDAI regulations and circulars.

In developing or revising product pricing, the following principles shall be observed:

- Premium rates, charges, and benefit structures should be financially sound and appropriately reflect the benefits, terms, and conditions of the product.
- The premium derivation methodology, including any discounts, loadings, or rating factors, should be objective, transparent, and consistently applied so that similar risks are treated equitably.
- Pricing assumptions should be reasonable and, wherever possible, supported by the Company's own experience studies and analyses.
- Assumptions used for pricing should be broadly consistent with those used for valuation and profit testing purposes.
- All pricing models shall be subject to an independent review under a maker-checker framework, with the review conducted by an appropriately senior member of the pricing team.

5.2 Pricing assumptions

The starting point for product pricing is the Company's current best estimate assumptions, actual expense experience, and achievable investment returns. However, adjustments may be made to reflect long-term uncertainties, competitive considerations, product characteristics, or regulatory requirements.

a) **Mortality/Morbidity**: Mortality and morbidity assumptions are primarily based on the Company's experience and best estimate view of future outcomes. However, consideration is also given to reinsurance pricing, the long-term nature of insurance contracts, potential volatility in experience, and differences in customer profiles. Where the Company enters new market segments and credible internal experience is not available, relevant industry experience may be used. Appropriate margins may be incorporated where required.
b) **Persistency:** Persistency assumptions are based on emerging experience of the Company's portfolio. However, suitable adjustments may be made to reflect expected future changes in policyholder behaviour and to avoid excessive reliance on lapse-related profits when determining premium rates and profitability expectations.
c) **Expense and Commissions:** Expense assumptions are derived from the actual costs of acquiring and servicing business. Due to market competition and regulatory constraints, it may not always be feasible to recover the full extent of actual expenses through product charges. Accordingly, pricing may be based on long-term unit cost assumptions or a combination of fixed and variable expenses, as appropriate. Commission assumptions shall be consistent with applicable regulations and Board-approved remuneration policies.
d) **Investment Assumptions:** Investment return assumptions are determined with reference to both new money yields and long-term expected yields. The selected asset mix reflects the nature and duration of the underlying liabilities. Appropriate prudence, including haircuts to achievable yields where necessary, is incorporated to ensure that pricing assumptions remain sustainable over the long term.
e) Other assumptions used in pricing may include, but are not limited to inflation, tax rates, risk discount rates, economic assumptions, etc.

6. Approval Process

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

a) Product features
b) Assumptions used
c) Pricing methodology adopted
d) Competitive benchmarking
e) Business mix and expected volumes
f) Risks arising from the product, possible mitigations and residual risks
g) Financial metrics
h) Any other information necessary for the product

i) Documents that need to be filed as per applicable regulations.

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

a) VNB margin both on TEV and IEV on pricing and profit testing basis
b) Sensitivity of margins on variation of one or more underlying parameters
c) New business strain
d) Capital deployed
e) 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
- Head of Pricing
- Any other member as & when required

The responsibilities of the PMC shall include the following:

a) 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.
b) Review and ensure that the final product design and benefits are appropriate and offer a fair customer value.
c) Review & sign-off on risks related aspects, not limited to, Pricing Assumptions, Profitability, Underwriting, Re-insurance etc.
d) Review and ensure that the shareholder proposition for proposed new/modified product is reasonable
e) 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

f) Distribution arrangement to generate business volumes is as per the target segment and proposition.
g) Review the Product Governance Process and the Product Development Strategy in general ensuring robustness and recommend any improvements, if required.
h) 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
i) 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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IRDAI Registration No. 140. Pramerica Life Insurance Limited. Registered Office and Communication Address: 7th & 8th Floor, Tower 2, Capital Business Park, Sector 48, Gurugram - 122018, Haryana. CIN: U66000HR2007PLC052028. Customer Service Helpline Numbers: 1860 500 7070 (Local charges apply) or 011 4818 7070 Timings: 9:00 a.m. to 7:00 p.m. (Monday-Saturday). For policy details, login to your account at https://customer.pramericalife.in or Send ‘Hi’ to LISA on WhatsApp at 9289187070, Email: contactus@pramericalife.in, Website www.pramericalife.in. The Pramerica mark displayed belongs to ‘The Prudential Insurance Company of America’ and is used by Pramerica Life Insurance Limited under license.

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