



Class: FY BSc

Subject : Life Insurance

Subject Code: PUSASQF1.5

Chapter: Unit 3 Chapter 7

Chapter Name: Pricing element

Today's Agenda

1. Introduction
 1. Characteristics of life insurance products
 2. Selecting profitability metrics
2. Developing the model
3. Objectives of pricing of life insurance products
4. Sources of pricing information
5. Saving aspects of life insurance
6. Investment aspects of life insurance
7. Experience participation in insurance

1 Introduction

- Governance of pricing of insurance companies and reinsurance contracts is analyzed, evaluated and after effective revisions as per the loopholes identified, the underlying standards are created and adopted.
- There are several internal and external factors that life insurance companies must consider while deciding the price of an insurance product, which are explained below.

1.1 Characteristics of life insurance products

Factors that insurance companies consider while deciding the price of an insurance product:

- The intended objective of the product
- assured returns
- easy claim payouts
- customizable tenure
- the anticipated sales of the product and its alternative pricing
- operational risks involved
- the applicable laws binding the authority
- the tax treatment of the product

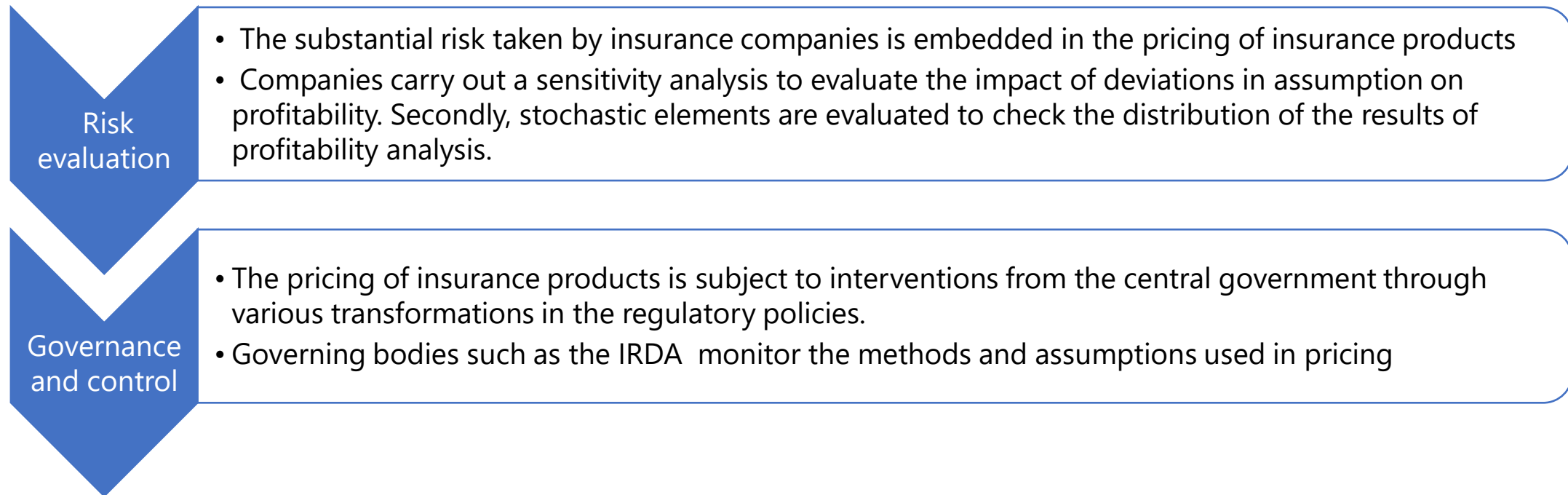
1.2 Selecting profitability metrics

Companies calculate the profitability metric before defining the price of insurance. It must take into consideration the following elements:

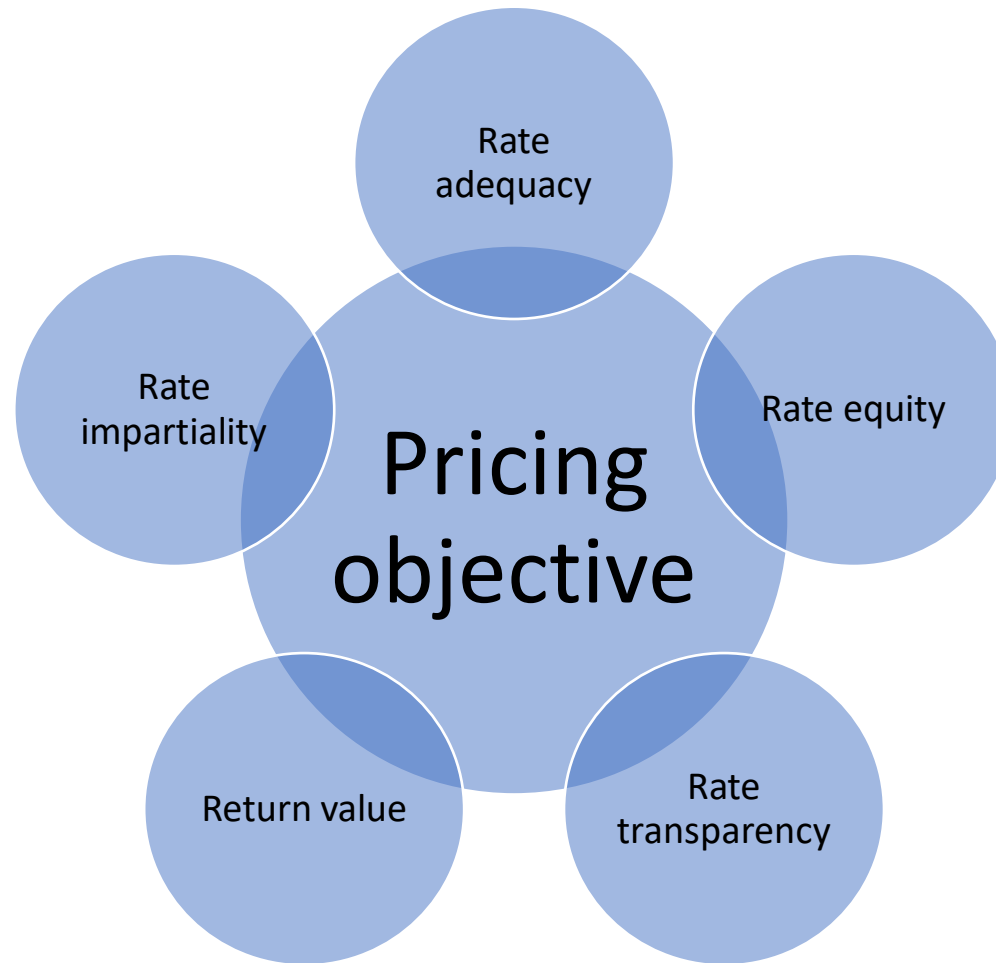
- The expected return on initial capital investment or IRR for a policy.
- The average expected future periodic return on capital.
- The period of cumulative profit or the break-even year.
- The present value of expected future profit from a policy.

2 Developing the model

Developing or selecting a correct model to support pricing in a manner consistent with the criteria of the actuary's guidelines and principles is equally important:



3 Objectives of pricing of life insurance products



4 Sources of pricing information

- The pricing of products by insurance companies is linked to the **cost center** of the company.
- The **internal management** decision-making body decides on a particular margin and keeping a decent margin, the management decides on pricing.
- **Competitor** pricing for the amount of coverage offered impacts the pricing strategy
- The **average policyholder's data or national sample on premium** estimated and paid also has an impact on pricing strategy of a company.
- An important source of pricing information is the **IRDAI** which sets pricing regulations for the protection of policyholders

6 Saving and Investment aspect of life insurance

- Life insurance and its cash values accumulate over time and it can be used to pay a variety of heavy expenses in the future.
- Life insurance enhances the social protection system in a nation and it covers the assets, home, car, and life of people.
- The investment made in life insurance also grants tax concessions for the purchase, ownership.
- Investment also promotes long-term savings for people and offers financial protection against death and disabilities.



7 Experience participation in insurance

Participation is a significant feature that allows policyholders to share profits with the insurer firms. There are numerous types of life insurance policies that provide flexibility to the insured. It is the knowledge and experience of the policyholders which enable them to make wise investments. These are explained below.:

- Guaranteed
- Participating in insurance policies with profits:
- Current assumption whole life insurance: