



INSTITUTE OF ACTUARIAL
& QUANTITATIVE STUDIES

Subject : Life Insurance – PPP

Topic – Pricing Element

Basic Pricing

What are the Potential Cash-flows ?

- ✓ *Benefit payment*
- ✓ *Initial expense/Claim expense*
- ✓ *Commission*
- ✓ *Tax on income*
- ✓ *Profit Margin*



Basic Pricing

Example

Sr	Cash flow	%	Amount	Final
1	Benefit Payment		1,000,000	
2	Expense		1,000	
3	Commission		500	
	Total			1,001,500
4	Mortality (qx)	1.00%	10,015	
5	Tax	10.00%	1,002	
	After Tax			11,017
6	Profit Margin	5.00%	551	
	Premium			11,567

LAW OF LARGE NUMBERS

- ◆ Law of large numbers states that the larger the group of similar risks, the closer the actual losses experienced by the group will approach the expected losses

This law implies that the greater the number of similar risk, the more accurate the insurer can be in predicting the future losses.

Allows the insurer to fix premium in advance

- ◆ Insurer can assess the risk and fix a premium which reflects the hazard and value of the risk which an insured brings to the pool.



Pricing Objective

- Avoid financial problems and insolvency
- Should be sufficient to fund promised benefit and cover expenses

- Same rates for a homogenous group
- Goal of underwriting

- Should be affordable
- Competition does not allow

Rate Computation

- Single premium plan*
- Level premium plan*
- Flexible premium plan*

Experience Participation in Insurance

- Provide that all policy elements are fixed at policy inception
- Make no allowance for future values to differ from those set at inception

- The distributable surplus is paid to policy owners as dividends or bonuses
- Dividend payments represent each policy's share of accumulated surplus

The Saving Aspect of Life Insurance



The Investment Aspect of Life Insurance



Let's Discuss

Madhu was a young sales manager in an FMCG MNC in Delhi taking home a handsome salary. A bachelor, he maintained a high lifestyle and spent all the money he earned without a thought of saving. Among his acquaintances there was a highly successful LIC agent Mr. Jogender Singh who had been chasing him to book him for a policy and every time he raised the matter, Madhu always good-humouredly brushed him aside saying “I don’t need insurance because I have no dependants”. There was nothing Jogender Singh could do to prevail upon Madhu to insure himself.