

PNB MetLife India Insurance Company Limited

Product Management and Pricing Policy

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1. Background

The Insurance Regulatory and Development Authority of India vide its circular on Use & File (U&F) procedure for life insurance products & riders bearing reference nos.- IRDAI/ACTL/CIR/MISC/115/06/2022 dated 10th June 2022, IRDAI/ACTL/CIR/PRO/207/10/2022, dated 4th Oct 2022, IRDAI/ACTL/CIR/PRO/81/3/2023, dated 31st March 2023 and IRDAI (Insurance Products) Regulations, 2024 (F. No. IRDAI/Reg/8/202/2024), dated 20th March 2024 read with Master Circular on Life Insurance Products dated June 12, 2024 and Master Circular on Health Insurance Business dated May 29, 2024, requires insurers to have a Board Approved Product management and Pricing Policy(BAPMPP). The objective of BAPMPP is to lay down guiding principles to manage products and price them. The Product Management Committee will adhere to the principles articulated in this document when approving products.

2. Scope

This policy is applicable for all aspects of Product design, pricing and product management with respect to

- new products/riders allowed by the Authority under Use and File procedure
- modification of existing products/riders
- new products/riders under File and Use procedure
- withdrawal of existing products/riders

3. Definitions

- “Company” shall mean PNB MetLife India Insurance Company Limited
- “Insurance Act” shall mean the Insurance Act, 1938, or any amendments thereto
- “IRDAI” shall mean the Insurance Regulatory & Development Authority of India
- “Product Regulations” shall mean IRDAI Product Regulations, 2024 and all circulars, clarifications and guidelines issued thereunder from time to time

4. Overall principles for product design, pricing and product management

As part of product design and development cycle, the Company shall ensure that:

- a. evolving risk coverage needs of the customer are taken into account while developing new products and revising existing products;
- b. product covers an insurable risk with an underlying risk transfer;
- c. the products offered are simple to understand and not complex;
- d. there is transparency and clarity in wordings, terms, coverage, exclusions and conditions;
- e. policyholder's interests are protected;

- f. the basic principles of insurance like insurable interest, indemnity, utmost good faith, proximate cause, contribution clause, salvage and subrogation etc. are adhered to;
- g. all the risks relevant to the products are appropriately considered in the pricing;
- h. the premium rates are fair and not excessive, inadequate, unfairly discriminatory and provide value for money;
- i. all relevant factors such as risk appetite, capital availability, claim experience, reinsurance costs, guarantees, options are considered;
- j. products are viable and self-sustainable;
- k. market conduct practices are appropriate and fair;
- l. appropriate systems, procedures relevant to the product, such as underwriting, pricing, reinsurance, claims management are in place.
- m. Additional provisions on pricing as prescribed under the Master Circular on Life Insurance Products
- n. adherence to extant regulatory requirements

5. Product management philosophy

Management of product refers to product life cycle as follows:

- i. *Product Strategy* – Customers are at the centerstage of all product initiatives. In line with its brand promise, the Company aspires to partner with its customers through every life stage and offer life insurance products to cater to various financial needs of Life & Health Insurance protection, Savings for Children, Savings for retirement, generating retirement income through annuities and other Long-term Saving goals.
- ii. *Product planning* – This is to ensure that right products are offered to customers in line with Company's financial objectives. This includes any innovative and experimental products that the Company may offer as per prevailing regulatory framework
- iii. *Product development* – This would utilize customer, distributor, and market insights to come with products and solutions. The Company aspires to have proper product design, reasonable and fair premiums / benefits for customers and simple & easy to understand product literature. This would also include the system readiness prior to product launches.
- iv. *Product marketing* – This would cover the marketing aspects of product launch and also help the product 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.

- v. *Product modification* – It may be necessary to frequently modify the products to ensure continued competitiveness and / or profitability of the product. Such modification shall be carried out after a reasonable time period from the launch date of existing version and shall be based on credible experience or on strong market indicators justifying such modification.
- vi. *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.

6. Pricing policy

- i. 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 and would be achieved through different levers. The pricing policy provides guidance to ensure that these goals are met. The pricing policy is also applicable for repricing of products.
- ii. The Company currently measures profitability of the products based on Value of New Business on Indian Embedded Value (IEV) method. The IEV requires the use of a yield curve which is the forward curve. The implied yield that can be earned over the term of the contract depends on the shape of the yield curve which may be difficult to achieve in practice. Therefore, for non-linked products, pricing would be 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 would be carried out on IEV basis. The TEV method has been followed for Regulatory filing in the past and would continue to be used. For linked savings products, there are Regulatory caps on the charges which can be collected from the customers. Therefore, for linked products, profit testing on TEV and IEV basis would be carried out with no explicit pricing being carried out. The charging structure within the Regulatory caps would be decided based on competitiveness and profitability.
- iii. 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 and cost of setting up statutory reserves and holding Regulatory capital while adding value to shareholders.

- iv. The starting point for pricing products would be use of the current best estimate assumptions and 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 in the following sections.
- v. **The rationale for the pricing assumptions and possible reasons for deviations from the current best estimates are discussed below.**

v.1. Mortality/morbidity

The products currently being sold are very long term in nature. It is possible that the rates currently being observed may not hold in the long term either due to misestimation of parameter, volatility or profile of customers being different than of the current customers. There may be therefore a need to add margins.

v.2. Persistency

Persistency experience has been volatile for the Company and measures are put in place to improve persistency. Hence, Lapse assumptions may need to be moderated so as not to anticipate significant lapse profits.

In general, the guiding principle would be the returns or benefits to customers to be consistent with what they have paid with no significant benefits passed on to customers who persist from those who exit.

v.3. Expenses and commissions

Expenses would be based on actual expenses that are currently being incurred for acquiring and administering the products. However, it may not be possible to load the full extent of actual expenses particularly acquisition expenses due to competitiveness or due to Regulatory caps. Commissions that are paid to distributors would be as per Board approved Policy for Payment of Commission. .

v.4. Economic assumptions

Economic assumptions for savings products would be based on yields which are currently available and would reflect the ability to lock in interest rates by way of derivatives or other instruments. Inputs would be sought from investment team about achievable returns. A reduced rate would be used for future cashflows which are open to interest rate risk due to inability to hedge. For participating products the benefit illustrations can be drawn up at rates prescribed by the Regulator. Any return expected over the prescribed maximum rates would be reflected only for profit testing.

The Risk discount rate would be pegged to the current 10 year Gsec yield with risk premium based on the product. Expense inflation assumption is set consistent with Internal Best Estimate inflation assumption and would be pegged to the current yields.

v.5. Other parameters

Capital, statutory reserves, and the applicable tax rates would be allowed for in the pricing.

v.6. Regulatory compliance

The design, pricing and modification of the products/riders will be in compliance with the Insurance Act, Product Regulations, directions received in the past and such other applicable provisions as may be notified from time.

7. Governance and Approval Process

Once design and pricing of the product is complete, a product note shall be prepared and circulated to the members of the Product Management Committee for approval.

The note shall include,

- Assumptions used
- Pricing methodology adopted
- Competitive benchmarking
- Business mix
- Risks arising from the product along with possible mitigations
- Financial metrics such as VNB margin along with sensitivity of margins on variation of one or more underlying parameters and new business strain
- Any other information necessary for the product

Product modifications without changes in premium /benefit rates or charges may be carried out without a product note, however approval shall be taken from Product Management Committee for changes proposed.

All the documents that need to be prepared shall be submitted to PMC for approval.

8. Review of Policy

This policy will be reviewed annually by the Board of PNB MetLife and any modifications or improvements will be accordingly incorporated. Notwithstanding the foregoing, this policy may be modified, with the consent of the Board prior to any such annual review.