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 no.- IRDAI/ACTL/CIR/MISC/115/06/2022 dated 10th June 2022 ("the U&F circular"), has 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 a Product Management Committee (PMC). The objective of this policy 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.

This Policy shall come into effect from the date of its first approval by the Board of Directors.

2. Scope

This policy is applicable for

- new products/riders under Use and File procedure
- modification 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 (Non-Linked Insurance Products) Regulations, 2019 and IRDAI (Unit Linked Insurance Products) Regulations, 2019, and all circulars, clarifications and guidelines issued thereunder

4. 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 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 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. Target profit margins at product level would be 0.25% on TEV basis but could vary based on competitive considerations. Profit testing would be carried out on IEV basis. 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

Reinsurance rates may be different from the current best estimates and would need to be factored. 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 or Remuneration or Reward to Insurance Agents and Insurance Intermediaries, which may be lower than the maximum commissions as provided in the Regulations.

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 ranging from 3% to 5% 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 provisions of the Use and File circular dated 10th June 2022 and such other applicable provisions as may be notified from time.

6. Approval Process

6.1 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,

- Product features
- Assumptions used and rationale for deviation from current best estimates
- 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 literature and benefit illustrations

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

- VNB margin both on TEV and IEV basis on priced basis and current best estimates
- 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 metrics relevant to the product under consideration

7. 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.