

# PRODUCT AND REGULATION



**16<sup>th</sup> GCA Panel discussion on  
Product and Regulation – Intent and Impact**

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# Concept of Marketing

- **E. Jerome McCarthy gave 4Ps of Marketing**

- **Product**

- **Price**

- **Place**

- **Promotion**

**First two** of these are of critical importance even for Actuaries and more so in the current context and hence marketers and Actuaries have some common bridge to walk together!!!

# Choice of Principle - Prescriptive Regulations

- **In one of the communications and clarifications some very important points were raised on the need for the prescriptive as against the principle based regulations such as-**
- **Principle based approach adopted where state of maturity attained by insurance companies, concerned societies being educated with a long familiarity with various types of financial instruments and have relatively high per-capita income. They show high persistency above 85% and high density of about & \$8000 per capita p. a.**
- **In India the persistency is barely 50% and density about \$50 per capita per annum.**
- **Many products being sold which are lapse supported and essentially discriminate against policyholders and hence India needs prescriptive based approach.**

# World Bank and International Foundation study

- **A report from Thorsten Beck and Ian Webb suggests -**
- **Life Insurance penetration and Density increase with the income level, whereas there is no independent effect of income level on life insurance in force**
- **Education is strongly correlated with all three of them and countries with higher inflation rates experience lower life insurance consumption, a result consistent with all three of them**
- **Younger population would have higher life insurance in force to GDP but not the other two i.e. insurance penetration and density. Older population would have higher life insurance penetration and density**

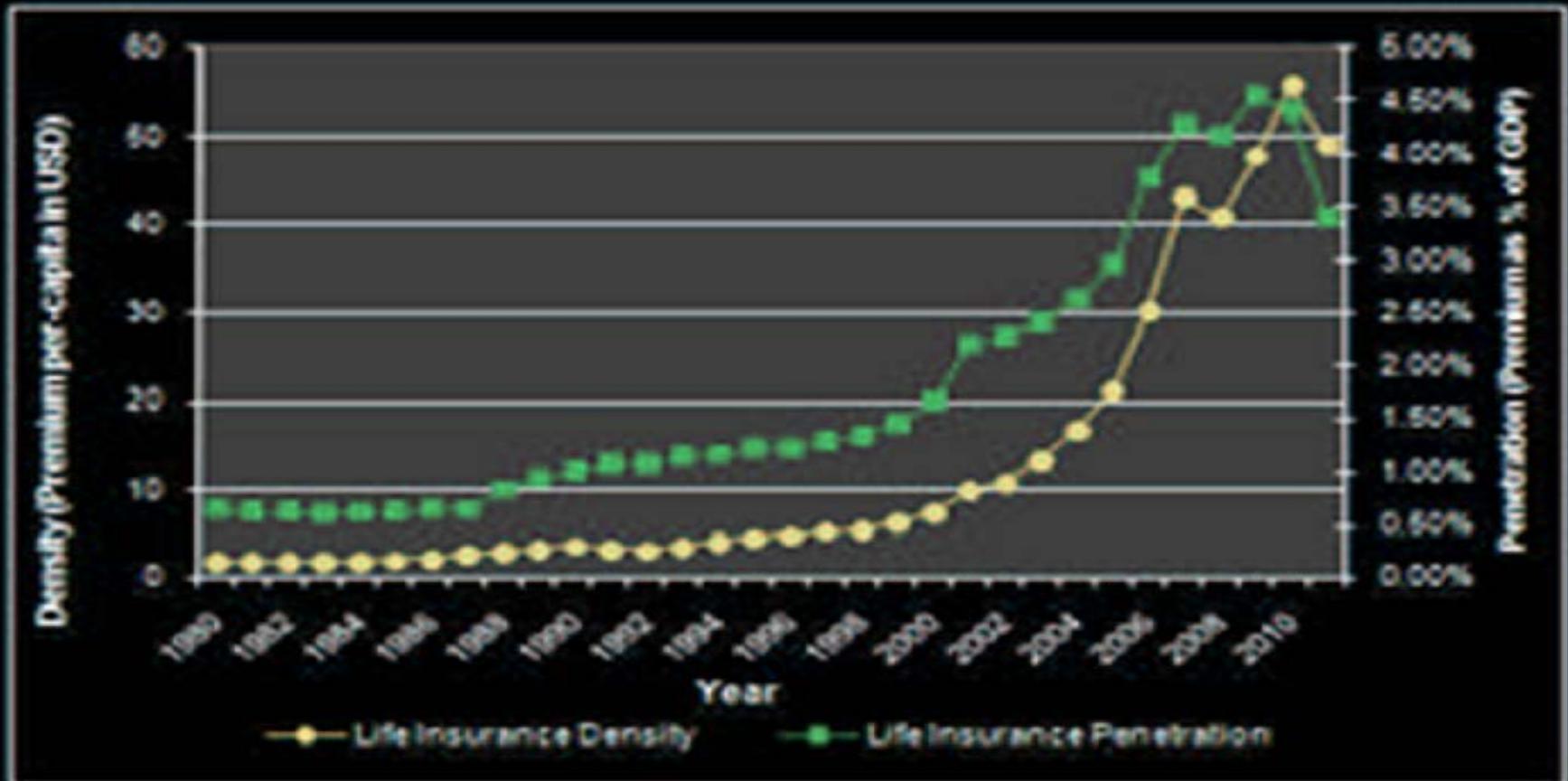
# World Bank and International Foundation study



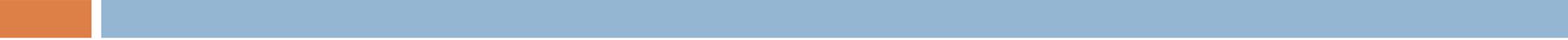
- **Weak correlation in insurance consumption and income level**
- **Banking sector development has strong correlation to Life business in force but not so with insurance consumption**
- **Level of **education** and **price stability** (stable monetary environment) are two strongest indicators of life insurance consumption across countries and over time. **Banking development** is only a weak predictor of insurance consumption**

# LIFE INSURANCE TRENDS - India

## Life Insurance Density and Penetration



# Product Development-- Concerns



- ❑ **Interests of consumers**
- ❑ **Interests of shareholders- viability**
- ❑ **Interests of distribution channels**
- ❑ **Technology**
- ❑ **Economic and social factors**
- ❑ **Data credibility**
- ❑ **demographic changes**
- ❑ **Resources and capabilities**
- ❑ **Financial markets**
- ❑ **Regulatory , Professional and others**

# Product and Pricing- Key Areas



- **CAPITAL**
- **DISTRIBUTION CHANNELS**
- **INVESTMENT**
- **EXPENSES**
- **PERSISTENCY**
- **MORTALITY**
- **PROFITABILITY CRITERIA**
- **DATA QUALITY AND CREDIBLE EXPERIENCE ANALYSIS**

# Product and Pricing- Key Areas



- ❑ **Premium Paying Term – Level Premium- Taxes**
- ❑ **Death Benefit**
- ❑ **Surrender Benefits– Asset Share linkage**
- ❑ **Charges and expenses in Linked business**
- ❑ **Guarantees**
- ❑ **Product structures– limitations and innovation**
- ❑ **Suicide and Non forfeiture**
- ❑ **VIP Products**

# Product and Pricing- Key Areas

- **Regulatory Provisions-consistency with tax provisions**
- **Customized Benefit Illustrations**
- **Structured policy bond- Disclosure vs brevity**
- **Definitions in Health Regulations**
- **Premium reviewability in Health Regulations**
- **Underwriting Policy– Board Approved**
- **Reviewability- Annual and Five year**
- **Discretion of Actuary**

# Regulatory Approach – Alternative

- **Regulations can be around the products or like in US can be around the solvency related to the product specific risks . Such regulations develop around RBC component of the capital**
- **PBR based reserves would lead to changes in product design causing companies to better reflect the costs and risks associated with it**
- **RMORSA basis would lead to higher disclosures and document ERM processes and thereby higher linkage to product pricing and design and risk management**
- **Product design under Solvency II will change the product profile for Products where the pricing basis depends on the more than risk free return and for products with longer guarantees and options, as companies will not be able to reflect expected investment gains till achieved**

# Product Designs under Solvency II

- **Product design under solvency II - Are we prepared?**
- **MIFID IN Europe under Insurance Mediation Directive structured products to fall under approval and oversight including stress testing. Similarly in Portugal Belgium etc. UK working on Product governance and intervention rules**
- **North America is making more regulations under principle based**
- **Europe is focused on solvency II. UK is into RDR for controlling mis-selling. Asia Pacific for Risk based management**
- **Would greater disclosures help reduce the mis-selling risks?**  
**Innovations and innovative products should not be a risk but a solution for emerging countries**

# 10 Principles by OECD- A reference

- **Legal and regulatory framework- regulations tailored to the characteristics type and variety of financial products and consumers their rights and responsibilities to new products designs technologies and delivery mechanism**
- **Role of oversight body**
- **Equitable and fair treatment to consumers**
- **Disclosure and transparency**
- **Financial education and awareness**
- **Responsible business conduct**
- **Protection of consumer rights**
- **Protection of consumer data**
- **Complaints**
- **Competition handling Providers to offer competitive products enhance innovation and maintain high service quality**

# Customer Priorities

- ❑ **Products which are need based simple and transparent provide some guarantees and serve overall wealth management solutions are emerging as near global choice**
- ❑ **Bundled/Unbundled**
- ❑ **Better returns on maturity and expeditious claim settlement particularly at the time of death and trustworthy insurers**
- ❑ **Service is an important element and differentiator in the product bundling**
- ❑ **Innovation to meet the customer specific needs through management actions, technology and operating models. Innovation would rather be a bigger need for emerging countries**
- ❑ **Appropriate distribution channels**
- ❑ **Market efficiency & competition to the advantage of customer**

# Some Suggestions

- ❑ **Pilot testing of customer preferences and preferred products before full roll out. Analyze / monitor the market response to the new products**
- ❑ **Greater Communication and sharing of information**
- ❑ **Professional discipline and self correction**
- ❑ **Greater training and educational needs and awareness**
- ❑ **Consistency between different regulations**
- ❑ **Risk Profile based monitoring of Products and Insurers**
- ❑ **Learning from the experiences , and being ready to act in a dynamic world of expectations and regulations !!!**



**THANK YOU**