IMPACT OF DEMOGRAPHIC FACTORS ON LIFE INSURANCE PREMIUM PRICING: A COMPREHENSIVE ANALYSIS

INTRODUCTION

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**INTRODUCTION**

Life Insurance plays an important role in offering financial security and protection to the policyholder’s family in the event of the policyholder’s death. It is an agreement between an individual (policyholder) and an insurance company where the insurance company agrees to pay benefits to the beneficiaries upon the death of the insured person. In order for the insurance company to honour their part of the agreement, the policyholder pays a specified amount of money either as a single payment or regular instalments known as the premiums. The death benefit being paid replaces policyholder’s income and also provides a tax-free inheritance to the policyholder’s beneficiaries. According to Forbes Advisors’ article on Life Insurance Statistics, Data and Industry Trends 2024, a large number of Americans rely on life insurance for financial protection. The history of life insurance dates back to ancient times, with early forms of life insurance seen in Ancient Rome where the Romans created an association known as the “Burial Club” with its role being covering the funeral expenses of the deceased and also providing financial assistance to the dead ones’ dependents. The first known life insurance policy was issued in 1853 and the first company to issue such a policy was the Amicable Society in London in 1706. During that era, the limitation of mortality data and statistical tools led to challenges in assessing risks and then setting appropriate premiums based on mortality rates to cover risks. Pricing of life insurance products is one important aspect of insurance as it takes into account, risk assessment for the insurance company and also satisfying the policyholder. Due to this, insurance products pricing should be done based on the market demand for insurance products, insurer’s claim experience, financial strength, non-claim expense, guidance from underwriters and actuaries (Jerusha, 2018), compliance with regulatory requirements such as minimum capital and profitability for the insurance company. Insurance companies use the premiums collected to pay out claims to the policyholders on the occurrence of a loss and cover operating expenses which includes employees’ salaries, marketing and technologies useful for their operations. They also use portion of the premiums collected for investment activities and that generates profit to the insurance companies, contributing to their financial sustainability.

With one of the core principles of insurance companies being the timely settlement of claims payout, insurers make it a point to reserve enough capital so as to meet unexpected future claims. Since insurers prioritize building their reputation and being a highly competitive force in the insurance industry, one aspect they consider much is to process claims quickly which helps in showing reliability and commitment to their customers and that in turn helps to retain existing customers and also attract new ones, providing the potentials for an insurer to increase profitability.

The pricing of a life insurance policy is largely based on the variety of factors that are evaluated during the underwriting process. For individuals that are found to have lower risk of mortality, the insurer offers them lower premium rates as compared to individuals that have higher risk of mortality. One significant aspect that insurers take into account when evaluating the risk involved in insuring an individual is the demographics of the individual. These demographics include age, gender, marital status, location, occupation and income level of the individual. Apart from pricing of life insurance premiums based on the demographics of the policyholder, the insurer also considers the policy type whether the policy is a whole life, term life or universal life insurance policy. Setting up the premium rates for the life insurance products also considers the coverage amount and compliance with regulatory standards. This research study mainly aims to shed more light on the impact age, gender and the policy type have on the pricing of life insurance premiums.

**Statement of the Problem**

Insurers price their life insurance products strategically due to the impact it has on both the policyholder and the insurer. When insurance companies underprice their life insurance policies, they may not have enough money to fully pay its customers when claims are made. Overpricing these life policies can also make them unaffordable making it difficult to maintain coverage. And this is why underwriters should carefully assess the risk that comes with insuring a person and then set premium rates that perfectly aligns with the severity of the risk. This research therefore aims to analyse the impact of some factors which are considered when pricing life insurance products, namely: age, gender and policy type.

**Research Objective**

This research study seeks to:

1. To analyse and quantify the influence of key factors on life insurance premium pricing.
2. To analyse variations in premium rates for different types of life insurance (term, endowment and whole life) based on the key factors.
3. To provide insights for insurance companies to improve underwriting and pricing strategies.

**Research Question**

1. What is the relative impact of each factor on life insurance premium pricing?
2. How does each factor affect the variations in premium rates between term, endowment and whole life insurance?

**Significance of the Study**

This research work is significant to insurance companies as understanding and accurately assessing these factors helps the insurance companies to set premiums that aligns with the policyholder’s risks.

**Scope of the study**

The target of the research work was the insurance companies in Ghana. Customers (policyholders) of the insurance companies were the respondents of the study. These data collected rom the insurance companies helped to analyse how these factors influenced the pricing of the insurance policies.

**Limitations of the study**

Since the analysis of these factors were done on few selected insurance companies, the data from these companies may not truly reflect the broader market and also findings from the study may not be applicable to other insurance markets and countries due to differences in regulations and cultural factors.

**Organisation of the study**

This research work is divided into five chapters. Chapter one gives a brief background of the study, the problem statement, research objectives and questions, scope and limitations of the study and definitions of key terms in the study. Chapter two deals with the general literature review of the works that have been done in the field of life insurance. Chapter three deals with the methodology. Chapter fours also deals with the analysis of the data collected for the research work and chapter five, the final chapter discusses the conclusions and recommendations of the study.

**Definition of Key Terms**

**Underwriting**: It is the process of evaluating an insurance application that involves determining an applicant’s risk by reviewing his or her information.

**Premium**: It is an amount of money that an individual or business pays for insurance policy.

**Claim**: It is a formal request by a policyholder to an insurance company for coverage or compensation for a covered loss or policy event.

**Coverage Amount**: It is the sum of money that the insurance company guarantees to pay to the policy’s beneficiaries upon the death of the insured.

CHAPTER TWO

This chapter presents an overview of the existing research and literature on the various factors that impact the pricing of life insurance premiums. It reviews the impact of the age and gender of the policyholder and the policy type in life insurance premiums pricing. This section highlights the most relevant findings in the analysis of life insurance premiums pricing.

* 1. Overview of factors and life insurance pricing
  2. Gender
  3. Age
  4. Policy Type