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Creating Business Value, Driven by Data Intelligence

CASE STUDY

Optimizing Funeral Product Pricing Strategies



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South Africa | Australia



Case Study

Optimizing Funeral Product Pricing Strategies

A culturally adaptive and data-driven pricing strategy for a new funeral product under the micro-insurance label





Overview

In collaboration with a leading South African insurer, we successfully developed and launched a new funeral insurance product under the micro-insurance category. This initiative required a strategic redesign of the pricing model to address the unique challenges of funeral cover, ensuring the solution aligned with the socio-cultural diversity of the target market while delivering affordability, sustainability, and profitability in a competitive environment.



Challenge

Data Scarcity in Emerging Markets: One of the primary challenges was the scarcity of high-quality, relevant data for the funeral insurance target market. Traditional life insurance data did not fully capture the unique needs, behaviors, and financial patterns of the micro-insurance segment. The insurer had to identify and source reliable data that accurately reflected the characteristics of underserved communities, including non-traditional income streams, informal economies, and cultural practices around funeral coverage.

Culturally-Informed Market Adjustments: The micro-insurance market for funeral products included diverse demographic groups with distinct socio-cultural practices, such as multi-spousal households and varying funeral rituals across different communities. These complexities required nuanced pricing models that accounted for cultural diversity while ensuring inclusivity and fairness. The insurer had to accurately adjust available data to reflect these socio-cultural variations, which was critical for building an equitable product offering.





Challenge

Data Quality and Completeness: A significant issue is the inherent lack of detailed data pre-launch, as well as concerns about maintaining high data quality throughout ongoing data collection post-launch. Missing or incomplete information, such as birthdates, spousal details, child beneficiaries, premium collection methods, and benefit payout specifics, poses a risk to accurate pricing and product sustainability.



Data Source

- Similar insurance products in both local and global markets.
- Standardized actuarial tables for mortality and morbidity data.

To overcome these challenges, data will be sourced from a variety of credible and relevant channels, including:

- Data provided by reinsurers specializing in funeral and micro-insurance.
- Insights from other countries with comparable micro-insurance markets.
- National statistical archives and demographic studies that offer insights into target segments.





Data Strategy

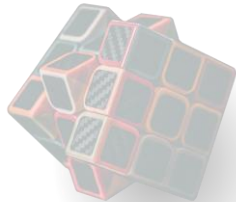
Adjustments to the Data

Once data is collected, it must be thoroughly adjusted to account for key variables that can impact pricing, such as:

- Cultural and Societal Differences: Pricing models will consider cultural factors like the prevalence of multiple spouses and the financial responsibilities that come with such family structures.
- Life Expectancy Variations: Adjustments will be made for differing life expectancies, particularly in regions with limited access to healthcare, potentially increasing mortality rates.

Approach to Adjustments

- Statistical Analysis: Using ratios based on country-specific mortality and morbidity rates.
- Prudence and Flexibility: Incorporating prudent assumptions to account for unknowns and enabling frequent model recalibrations as more data becomes available.
- Ongoing Monitoring: Continuous tracking of data and market shifts to enable quick adaptations to the pricing model.





Solution Approach

- **Data Review and Initial Pricing:** A comprehensive review of available data was conducted, adjusting for identified market-specific factors and filling in gaps with reasonable assumptions. An initial pricing model was developed and subjected to rigorous scenario testing and sensitivity analyses to understand the potential impacts of various market conditions.
- **Scenario Testing and Model Refinement:** The initial pricing exercise underwent multiple rounds of shock and scenario testing to validate the model under various hypothetical conditions. This included testing for high expense ratios, adverse selection risks, and profitability thresholds under different market conditions.
- **Feasibility and Competitor Analysis:** Once the initial pricing was completed, a feasibility study and competitor analysis followed. This stage evaluated whether the product's price was competitive while still meeting profitability targets. Depending on the results, several adjustments were considered:
 - **Expense Management:** A marginal expense basis was implemented to lower operating costs.
 - **Cross-Subsidization:** Cross-subsidies were used across customer segments to balance profitability and affordability.
 - **Product Simplification:** The scope of add-ons was reduced, or benefit caps were applied to control costs.
 - **Minimal Underwriting:** Underwriting processes were kept simple to reduce administrative burdens and lower acquisition costs, with the possibility of leveraging direct sales channels to minimize commissions.





Outcomes

- **Model Application and Initial Results:** The pricing model was applied across various scenarios, utilizing unadjusted raw data and refined variables like mortality rates and cultural differences. Results indicated a strong competitive advantage over existing products, confirming the product's sustainability.
- **Results Monitoring and Adjustments:** The pricing outcomes met profitability and ROI criteria, enabling a successful product launch. A robust monitoring framework was established to allow rapid adjustments as new data emerged, minimizing the need for major overhauls.
- **Contingency Plan Implementation:** A clear contingency plan was articulated, allowing for the option to close the product to new business if significant deviations occurred post-launch. Proactive monitoring ensured product viability without drastic actions.
- **Stakeholder Engagement and Insights:** Active engagement with stakeholders yielded valuable insights that informed product development and marketing strategies, aligning the offering with market needs.
- **Market Penetration and Customer Adoption:** Post-launch, the product achieved higher-than-expected market penetration, supported by targeted marketing strategies that resonated with the micro-insurance customer base.
- **Continuous Improvement Framework:** A continuous improvement framework was established, leveraging advanced analytics to refine the product based on customer feedback and market trends, optimizing satisfaction and profitability over time.



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