

ABSTRACT

This research aims to fill the gap in sustainable insurance product study. The central research question of this research is how to develop a fair pricing framework in order to design a sustainable financial product. Current profit testing method is arguably lack of policyholder considerations. The profitability decision under current method only considers profit margin for company. There is no profitability measurement for policyholder. To improve fairness under current pricing, study proposes a concept of equity in risk between company and policyholder. In order to establish equity in risk, profitability for policyholder needs to be defined. and risk measure Conditional Tail Expectation (CTE) for company and policyholder is proposed as a solution. Fairness is achieved if CTE between company and policyholder falls within certain range. CTE generated under new framework could be used as a reference point to all stakeholders to assess the fairness of Unit Linked price. The target population for the study was any regular premium Unit Link product. This research used simple random sampling. From the population consisting of 34 companies 20 samples were drawn. Data is taken from the Indonesian Financial Service Authority. The data used is from the time period between 1 January 2015 - 31 October 2019. Using the CTE this study finds that most of the Unit Linked pricing are far from fair. It is recommended that companies could be more efficient in their operating and distribution cost in order to be fairer to policyholder and therefore will make the product more sustainable.

Keywords: *Fair Pricing, Unit Linked, Conditional Tail Expectation, Stakeholder Pricing*