An economic decision making approach to estimate the Value for Money of No-IBIPs insurance contracts.

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Abstract.

The POG 'Product over sight and governance' discipline in the insurance sector has directed the attention of the sector supervisory authorities towards the "value for money" understood as the relationship between the price paid by the insured and the benefits obtained from the policy, including the quality of the service offered by the insurer and the benefits guaranteed by the policy itself.

In other words, the "value for money" indicates the relationship between the price paid by the insured and the quality and adequacy of the coverage provided by the policy, as well as the quality of the service offered by the insurer. An insurance that respects the principle of value for money should offer coverage tailored to the customer's needs, a competitive price compared to other options on the market and high-quality customer service.

While with reference to IBIPs products (Insurance-based investment products) EIOPA - (European Insurance and Occupational Pensions Authority), the European supervisory authority for the insurance and pensions sector, has recently published a methodological document for the evaluation of the "value for money, the non-IBIPs product market has not yet been properly investigated.

The aim of this work is to propose a solution to the problem of measuring the "value for money" for the insured of non-IBIPs products by means of the adoption of the Expected Utility Theory introduced by von Neumann and Morgenstern [1944] and evolving into a percentile approach in order to take account of a general Loss Probability Distribution with high asymmetry and kurtosis . Making use exclusively of the basic elements of this model, we represent the way in which a potential insured can evaluate the fairness of an insurance contract, coherently with his particular psychological predisposition towards risk.
An application of the economic model is proposed and an efficient frontier is estimated taking account of different level of the individual insured risk tolerance.

Keywords: POG, value for money, utility function, non-IBIPs.

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