THE EXTENT TO WHICH PRICING POLICY AND STRATEGY INFLUENCE REVENUE GENERATION OF LIFE ASSURANCE FIRMS: DESKTOP STUDY

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ABSTRACT
Pricing policies and strategies are vital tools to confront competitive pressures in a market environment and also as a tool of improving the performance of the funeral sector. Funeral Assurances need to implement a pricing policy or strategy that maximize revenue but remain competitive in the target market. Therefore, the purpose of this study was to investigate the extent to which pricing policy and strategy influence revenue generation of life assurance firms. This desktop study has successfully explored the factors that influence the implementation of pricing policies and strategies used by the funeral sectors. It emerged that in order to curve competition in the market, insurance firms should provide complete quality services to policyholders to add value to customers thereby maximising revenue. The results also showed that dynamic pricing is the best for premium pricing even if it was not yet implemented by life assurance firms. The study recommends that the prices charged for funeral cover packages by the funeral assurance companies should be affordable to all individuals including the low-income earners so that there would generate more revenue.

Keywords: pricing policy, revenue generation, life assurance firms, pricing strategy
DOI Number: 10.48047/nq.2022.20.19.NQ99086 **NeuroQuantology 2022; 20(19): 940-954**

1 Background of the study

Pricing policies and strategies, as noted by Toni etal (2017), have an impact on corporate profitability. According to Nyaga and Muema (2017), pricing policies such as economy, skimming, penetration and premium pricing satisfactorily explain profit. He also suggests that insurance companies implement measures to assess the most effective pricing strategy that reduces costs while increasing profits. Toni (2017) and Paulo (2017) propose that surveyed companies implement a value-based pricing strategy with high level prices in order to increase profitability. Their findings show that cost base pricing strategy and competition-based pricing strategies do not show a significant difference in profit when compared to value-based strategies. Accordingly, Paulo (2017) stated that there is a positive relationship between a value-based strategy and charging high price in order to maximize profits of surveyed companies. As a result, managers should

take a more strategic look at the pricing process.

Dudu (2018) also investigated the impact of pricing strategies on consumer goods purchases. The data obtained suggests that, in addition to focusing on communicating value to customers through prices, firms should also be on the lookout position for competitor prices and investigate how much it influences the purchase of their products. Consumer's perceptions of value are reflected in the price of firm's products, influencing customers purchasing decisions and purchasing power, which in turn influences sales volumes. According to Wangu et al (2018), price can affect both supply and demand, so the pricing strategy used has an impact on the firms' market share, performance and growth; thus, each firm has its own pricing policy or strategy for its products. As a result, prices should be set without compromising quality, and communication with all potential customers should be established.

Furthermore, McCormick (2016) postulated that no single pricing strategy or formula will produce the highest profits under all circumstances. To price for more revenue, you should first understand the various types of pricing policies and how the apply to different business sectors and environments. The manner in which prices are set has implications for business, and not all prices are set to maximize your margins as highlighted by Milano (2019)

From the various researches above, the authors of this article focused on the effects of pricing on profitability and liquidity. As a result, there is little evidence to support the existence of a relationship between revenue and pricing policies. Therefore, the researchers were motivated to carry out the study, which focuses on the impact of pricing policies and strategies on revenue generation of life assurance firms.

2. Research objectives

2.1 To discuss factors that influences the implementation of the current pricing strategy

2.2 To analyze the extent at which the implemented strategy affects revenue generation

2.3 To establish the best pricing policy and strategy in pricing policy premiums

3. THEORETICAL REVIEW

According to Vinz (2020), the purpose of a theoretical review is to present and explain theories and models that have been developed and discussed by other researchers. The overall goal is to compare and critically assess the various approaches suggested by various authors. Kivunja (2018) also postulates that theories assist in determining what hypotheses already exists, their relationships and the extent to which existing theories have been studied. As a result, theoretical review entails assessing, selecting, and contrasting various models in which the researcher find significant concepts, assess them and

compare them with relevant theories Guido (2015).

The first major financial theory is capital asset pricing model (CAMP) established by Sharpe (1964), Treynor (1962), Lintner (1965a, b) and Mossin (1966) and others. It makes assumptions about predicted assets at equilibrium but when it comes to insurance it is however influenced by misperception. The CAMP assumes that assets returns are regularly distributed, however this does not applicable to insurance if the returns are not normally distributed. Since CAPM is not valid for insurance due to the estimation errors in underwriting beta, it encourages the insurers to employ an actuarial risk theory and Yaaris' dual risk of theory (1987).

3.1 The Dual theory of choice under risk (Yaari, 1987)

Yaari (1987) develops a risk theory, dual to expected utility theory altering the von Neumann and Morgenstern (1947) independence. In Yaaris' theory, risk attitudes are defined by a distortion applied to probability distribution functions, as opposed to expected utility theory, which defines risk as a utility function of wealth. In most insurance policies, the indemnity benefit is a piecewise linear function of the underlies, so in a competitive insurance market we find the equilibrium price separating contracts for high and low risks, where risks are defined solely by their projected loses that is a high risk has a higher expected loss than a low risk. Accordingly, Heidelberg (2008) discussed that according to this theory the insured compares and chooses the loss with the highest expected utility. He went on to say that an insured with wealth can choose the largest premium he is willing to pay for a random loss, but an insured with supplementary expenses will opt for the lowest prices. Therefore, people are prepared to pay any premium to be insured, which is why the insurance industry still exists.

3.2 The Weber –Fechner Theory.

Fechner developed the Weber – Fechner law by analyzing subjective sensations with differential increments (Monroe, 1971). In this theory, Monroe (1971), Adam (1970), Gabor and Granger (1966) investigated price thresholds. This law establishes a link between changes in a stimulus and the evolved reaction. The empirical evidence presented these publications supports the concept of upper and lower price thresholds, as well as price range that are acceptable. The Weber-Fechner law can be used to determine such thresholds in an experimental setting. Prices that are below the lower barrier are deemed too low that is the quality can be questionable, while prices above the upper threshold are deemed excessive. This was empirically demonstrated by Monroe, (1973) (Nyaga and Muema, 2017) further on noted the relevance of this theory pertaining to how prices affect the consumer purchasing power. The more favorably these prices are perceived by customers, the more revenue they generate, assisting the organizations in

making pricing decisions, particularly knowing the pricing threshold.

4. The current pricing strategy used by some life assurance firms in Zimbabwe

According to Mohammad and Borujerdi (2014) pricing in insurance refers to the determination of premiums that should be paid for insurance premiums. The price of a premium depends on risk management, statistical assessments and predictions. People are exposed to a wide range of events and difficulties on a daily basis, and they should be covered by insurance therefore Georgescu (2015) emphasises that strategic review on pricing is essential. A pricing strategy is a type of a model or method for determining most cost effective price of a product or a service according to Decker (2021). It assists firms in setting price that generate more revenue, maximizing profits and shareholder value while taking consumer and market consideration. In insurance, an insurance policy protects policyholders against the risk of losses since individuals do not possess the same bargaining power over the policy terms. According to Michaela (2015) strategic review of prices allows insurance companies to have a break even between premium paid and the risk being assumed. Henceforth, when establishing prices, we should consider the probability of risk occurrence, determining the frequency of claims as well as the cost of claims as postulated by Nyaga and Muema (2017).

Tawalbeh (2014) noted that one of the functions that generates revenue is the pricing strategy used by the firm. There are several pricing strategies to consider, such as cost based, completion and customer pricing methods

4.1 Cost based pricing

According to Micu (2014), cost-based strategy calculates prices based on the cost of goods being sold. To generate profit, the selling price of a product is increased by a portion of the cost of production and manufacturing. Cost based pricing strategy can be divided into three costs plus, markup, and break-even pricing (Micu, 2014).

4.2 Mark up pricing

Holland (2016) denotes that markup pricing combines profit percentage with the cost of a service, ensuring that the price is determined by the cost of producing that product.

4.3 Cost plus pricing

It is a simple guide to profitability as it sets a blue print to financial performance according to Mhiripiri (2017). It adds a percentage to a service cost that is not known.

4.4 Breakeven pricing

As postulated by Nagle (2015), at a given level of production, the breakeven price is defined as the price that generates enough income to cover all costs. An entity cannot make a profit or a loss at a breakeven price.

4.5 Demand based pricing strategy

It is the pricing technique that is based on consumer perception as noted by Hollard (2016). It can be subdivided into two that is penetration pricing and price skimming.

4.6 Current pricing strategy: competition based-pricing.

Hollard (2016) defines competition-based pricing as the pricing strategy in which prices are set based on what the competitor is charging for the same services. Prices are set in relation to the prices that are being charged by the competitors. He further noted that this pricing strategy can be subdivided into categories such as discount pricing, premium pricing, dynamic and going rate.

4.6.1 Dynamic pricing strategy

According to Toni et al (2017), the goal of this pricing strategy is to determine the best price at any given time. Customer's perceptions of price, or how much they are prepared to pay at a given time in light of competition and other factors, can cause prices to fluctuate. Therefore, dynamic pricing is in between in such a way that a firm can increase price to capitalize demand and lower price to increase sales result in increased revenue being generated.

4.6.2 Discount pricing

Toni et al (2017) also discussed about discount pricing. He noted that this is a pricing strategy in which a company reduces the price of its items in order to get rid of excess inventory as well as boosting sales. Subscription based industries often uses this strategy.

4.6.3 Premium pricing

As discussed by Campbell (2020), setting a price that is greater than your immediate competitors is known as premium pricing. It is similar to price skimming; however, prices remain high, unlike price skimming where costs gradually decline. There are two basic ways that insurance firms price their premiums competitively according to Jerusha (2018). After analyzing the risk from previous performance, an insurer can assess its own ability to take on that risk wholly on its own, with or without the assistance of reinsurers, who underwrites any excess risk beyond the insures capacity to take on. The firm has to evaluate competitor's price points in order to determine the most appropriate price for a risk to avoid clinching in business.

As postulated by Campbell (2020), if premium rates are excessively low, competition might lead to a decrease in premium income, allowing many firms to receive more revenue while incurring fewer profits. He further denotes that low premium resulted in increased revenue because policy holders will be paying their premiums. However, if the firm is experiencing high costs in claim losses, it will find it difficult to operate. According to Micu (2014), the firm should not ignore its demand and costs when basing with competitor pricing.

5. Factors that influence the implementation of the current pricing strategy

Jerusha (2018) postulated that, a price strategy can be determined by a combination of internal corporate and external market factors. Kotler (2015) agrees to this notion postulating that, implementing a successful price strategy should not run parallel to the organization's aim. Setting aside some of

the items assessed by the model, each company has its own set of values or factors that influences how it prices its own products. A price cycle is the most effective way to introduce a new pricing strategy, (Harvey, 2015). Dudu (2018) further asserts that the involvement of competent workers in implementing the price strategy is crucial for it to be effectively.

According to Haron (2016), both internal and external factors can affect a products price. The firm has control over internal factors, which it can change. These include cash flow management, return on investment, cost-cutting procedures that consider both variable and fixed costs. External factors are beyond the company's control. Although the company has no control over external factors, they can have an impact on pricing decisions (Mhiripiri, 2017) These include pricing decisions based on risk, customer and competition. Customer orientation is concerned with a customer's willingness to pay (customer expectation), which is the elasticity of demand for the product, whereas completion oriented factors are concerned with market share, position relative to the competition and discounts as denoted by Taylor (2020).

According to Torkestani (2019), to be competitive in the market, variables such as organizational goals, internal and external effective factors must be taken into account when establishing a pricing policy and strategy. In addition, Mhiripiri (2017) postulated that, for an effective price implementation, an appropriate leadership style must be used to improve results and two way communications can be used as feedback that will assist management in making changes in areas where they have been overlooked. However, Harvey (2015) argued that, although the implementation of a pricing strategy is a continuous process that requires feedback, two-way communication is unnecessary. He further emphasized that, a poor organization structure can have a negative impact on price implementation; for example, if the structure is long, communication down the hierarchy may be distorted, and decisions may change. Most businesses fail to implement pricing policies and strategies effectively because some stages had been omitted so as to save money at the cost of implementation process. According to Drury (2014), during implementation, the managers are more concerned with the short run rather than the long run consequences, causing them to deviate from their pricing objectives in order to maximize shareholder wealth.

In insurance business industry, risk is a factor that should be considered when implementing price as premium prices vary according on the risk profile of a client as discussed by Toni et al (2016). Insurers have to pay claims hence they must be in a position to fulfil those claims financially while still generating revenue. As a result, the firm can hesitantly to take on high risk clients who could jeopardize its profitability.

As mentioned by Jerusha (2018), insurers should price their insurance products based on the risks of the insured that is they should include the likelihood of a claim made against the policy, as well as the cost of the claim. A risk-based method can be employed in insurance pricing because it attempts to determine the exact cost of insuring each potential individual policyholder. It is difficult to estimate the expected claim cost for each new policyholder because it is neither financially feasible nor statistically ideal. Before obtaining a life assurance policy, an insurer must require all policyholders to undergo numerous medical and specialist according to Saman (2018). These underwriting costs would be passed on to policyholders via the premium rate charges, making the insurer less appealing to customers as a result of the high premiums. As a result, most insurance pricing relies on the Law of large numbers to make statistical deductions on the insured life because individual assessment is less cost effective. The use of risk classification as a cost cutting measure is one of the solutions to this problem. In addition to that, Abaidoo (2015) noted that, by categorizing individuals and pooling risks within these groups, insurers can arrive at prices that include the mean of the anticipated claim costs within the given specific risk category. Marketing costs, claims-handling costs, and costs assigning potential customers to different risk pools based on their expected claim frequency and severity are also considered. In order to increase market share, insurers have created products that address the risks associated with these challenges.

According to the actuarial criteria, factors considered in risk classification must be statistically reliable and precisely risk measured (Wangui et al, 2018). It does not have to imply a causal relationship but rather a strong correlation that has remained stable over an extended course of time. This is critical in determining the correlated risk and length of time for which insurance coverage is provided. However, if every insured risk for each individual is correctly priced, it can result in very high premiums, causing policyholders to drop off their funeral covers, resulting in reduced revenue collected as postulated by Choi etal (2016).

Regulation may also be used to control competition in the insurance industry, which affects price. Regulation may also be used to control competition in the insurance industry, which has an impact on price. Insurance companies are subject to a variety of regulatory requirements. The most important factors a risk based capital requirements, pricing and product design controls as highlighted by Hong et al (2017). Risk based capital requirements are intended to limit the insurers default risk to a level lower than what is desired by regulators. Regulation also aims to control or encourage insurer's behavior in terms of product creation, premium pricing and premium investment. It either raises or lowers premium rates below

competitive levels by establishing price floors and ceilings or by dictating which tariffs rates insurers can charge. It also serves to create a market environment in which insurance companies can charge premiums that cover their claim expenses while still generating sufficient revenue.

Micu (2014) went on to say that most companies in developed countries ignore the importance of obtaining adequate legal advice. Kotler (2015) stated that an organization cannot operate in isolation, and therefore must take into account the legal aspects that surrounds it. Government has the authority to impose government regulations on entities operating within its economy, and if such an organization decides to contempt these price controls, it indeed face penalties. More so, Paulo (2017) emphasized that an entity should not disregard any legalities in the implementation of pricing strategies and policies because it is costly and mighty not work with the organization goals of maximizing operating income. Policies should not be implemented in conflict with government regulations because this may result in penalties that tarnish the company's image or brand. Insurance product pricing should ideally be guided by actuarial recommendations taking into consideration the insurers claim, on-claim expense, financial strength and market demand as denoted by Passalidou (2015). Market dynamics, on the other hand, ted to have an impact on premium pricing in the long run. These dynamics include poor underwriting, premium undercutting, insurance fraud, lack of technology adoption in service delivery, misspelling by agents, underdevelopment of agency force and ballooning management expense, (2018 IPEC REPORTS). Therefore, insurers cannot just solely settle for theoretical approaches when it comes to pricing insurance products. They must adapt to the market dynamics in order to survive.

Data gathered before can be used to determine the pricing structure or strategy to use before implementing price. According to Drury (2014), if managements fail to plan in everything they do, the outcome will fail as well, implying that the data gathered is similar to the outcome. For instance, suppose the marketing agencies unwillingly and incorrectly observes certain behaviors of various clients will negatively yield results that influences the management decision in the implementation of the most effective pricing strategy as they had been basing on a wrong scenario or circumstances. or circumstances. According to KPMG (2016) article, it is difficult for an organization to receive sufficient information from a downsizing economic growth, and this implies that observations made might be prejudicially presented because the firm and the company may be relying solely on dynamic survival techniques

6. The extent at which the implemented strategy affects revenue generation

Revenue generated can be determined by the price of the product as consumers

might perceive price as compared to value. Any monetary rate assigned in relation to a product is referred as price according to Taylor (2020). It is one of components of the marketing technique that generates revenue in the interest of the organization. Changing products price in regards to competing products prices possesses a significant impact on the pricing policy or strategy being employed as it affects product demand thus sales volumes.

According to the IPEC reports 2019, gross written premiums percentage increases due to the price that the life insurers provide. Most insurers in this sector uses competitive pricing strategy which resulted in the same price in the market and this gives clients an opportunity to buy the product since the product becomes cheaper. This pricing strategy was affected by Statutory Instrument Number 142 of 2019, introduction of Zimbabwean dollar as the only one legal currency and disbanded the multi-currency systems. The volumes of clients purchasing different packages of premiums increases can cause the package to become cheap due to the disbanded of multi-currency. The disbanded of multi-currency enables black markets rates to rise hence forth clients will exchange their money with the blank market rate and pay their premiums using the Zimbabwean dollar as the price of the premiums intend to be lower.

Mwangulu (2014) discovered that when business organizations want to implement short term pricing strategies, revenue will maximize. He concluded that a strong positive relationship exists between a company's earnings growth and its pricing strategy for penetration. The company will have a bigger market share, more potential customers, as well as a technological advantage; even so, market penetration challenges are encountered since products are expensive to develop; and endeavoring to even have the lowest rates may not lead to a significant revenue margin as denoted by Mhiripiri (2017). Customers will most likely go elsewhere when a firm maintains low prices for an extended period of time before raising them. Wangui et al (2018) noted since competitors frequently compare prices, especially if their products are similar, market penetration strategy can trigger demand to decline across the entire business sector.

Consumers react in different ways to price fluctuations as highlighted by McCormick (2016). If a firm outpriced products revenue generated can slightly drop, however Dudu (2018) discovered that by increasing price of other products revenue achieved does not change. In insurance, Treynor (2018) stated that, life assurance products should be classified in different categories according to each risk pooling of policyholders so as to maximize revenue.

Accordingly, Onyeaghala (2019) postulated that in order to outperform the competition, the company that

initiated the market penetration pricing strategy must lower its prices even further. As also discussed by Saman (2018), all competitors may soon be selling products at relatively low prices that barely make a profit. Based on the price, different customers have different perceptions of the products. As a result, pricing products for consumers is a very difficult task, primarily because a high price may elicit negative thoughts about a product, while a low price may be deceptive about other product features such as quality. Milano (2019) states that in the private insurance market, insurance providers must generate enough income from premiums so as to cover anticipated insured claims. This appears to mean that, they must be able to accurately determine the average expected loss and start charging insurance premiums predicted on it.

Some insurance companies may develop products that are less likely to result in claim payouts in order to increase their revenue base as discussed by Nyaga (2017). Thus, regulations are enacted to prohibit insurers from engaging in certain types of activities, such as providing coverage for risks or insurance schemes where there is no need for insurance. As a result, Klitzman (2018) discussed that insurers end up with increasing revenue streams at the expense of customers who lack awareness in purchasing these products. To ensure that consumers have access to products that benefit them, policy makers must ensure that consumer interest is prioritized in product development and pricing.

As noted by Ester et al (2019), the procedure to ascertain accurate risk pricing for every policyholder may be thought to be too invasive of a person's privacy. An ideal risk classification basis thus aims to be efficient under existing operational constraints. These operational constraints inform the operational criteria to be used in examining the rating factors an insurer should utilize. Haron (2016) denotes that an insurer has to ensure that exorbitant costs are not incurred when employing different rating factors such that risk estimation and the provision of insurance becomes too expensive. Thus, the rating factors implemented should be objective, verifiable and entail low transaction costs.

Life insurance is aimed at protecting against both current and future risks (Emamgholip, 2017). This means an individual (insured) will take out a policy to insure him or herself against death for a certain amount of money by paying premiums or contributions worth a value less than the policy amount. In the event of death of that member, the beneficiaries receive the policy amount. The member can self-insure his or her own life and such products are categorized as individual life or are insured by an entity such as an employer or a financier (such as banks, Sacco's or SME's) and these products are referred to as Group Life and Group

Credit. Life insurance is mainly linked to the life cycle of income and expenditure of a person. It encompasses death, disability, wealth accumulation and retirement. Hence, life insurance products are created with these events in mind and with the aim of protecting an individual and/or his beneficiaries against unexpected financial loss that may arise due to death or disability.

7. To establish the best pricing policy and strategy in pricing policy premiums

Insurance pricing is no longer a cost-plus methodology, if insurance business wish to preserve a competitive advantage in the sector, they must learn to adapt new technical, market and consumer challenges with better, more dynamic pricing as highlighted by Taylor (2020)

7.1 Dynamic pricing strategy.

The concept of dynamic pricing is to sell the same product at varying prices depending on the current market demand dynamics according to Campbell (2020). He further on discussed the types of dynamic pricing strategy as well as their advantages and disadvantages of dynamic pricing strategy. According to Taylor (2020) the pricing of insurance is now more efficient and transparent in value. Because of technology consumers that are policyholders have grown far more informed and price savvy, they are more susceptible to new pricing policies and offers, as well as security, mobility and various forms of coverage. Therefore, since these advancements have been made, and regulations enacted it is necessary for insurers to develop new pricing policies and dynamic pricing structure.

Management must prepare to meet consumer needs and guarantee that novel technical techniques are applied in order to maintain a competitive advantage enhancing revenue generation streams (Cheng and Liu, 20170). Smith (2017) discovered 69% cases of consumers can exchange information about products and services on social media. By providing products and services conveniently online allows customers to easily search that product making purchasing decisions (Durmaz and Efendioglu, 2016). According to Purkayastha and Sharma (2016) business can achieve economic benefit by collaborating with stakeholders, customers and employees through online marketing. Therefore, to reduce the risk of failure a firm must incorporate online marketing strategy into their business plan. Schaupp and Belanger (2014) further emphasized that for increased revenue, insurers should use social media marketing strategies.

According to Jerusha (2018), before pricing policy premiums, life insurance company executives must consider cost, client impression and market effect as well as technology. Therefore, the insurance companies can determine the pricing strategy by predicting market conditions and the risk of activities. Torkestani (2019) further noted that 3 factors such as customer, cost and

competition should be considered when choosing the best pricing strategy to use so as to boost revenue generated.

8. Summary of major findings

8.1 To what extent does the implemented strategy affect revenue generation?

8.1.1 In order to curve competition in the market, insurance firms should provide complete quality services to policyholders so as to add value to customers thereby maximising revenue.

8.1.2 It is risky to solely base your prices competitively. The firm will lose market share as well as customers.

8.2 Do pricing decisions make an impact on revenue generation?

8.2.1 Factors such as customers, competitors and costs influence pricing decisions will also impact revenue generation as an outcome.

8.2.2 Life insurance demand is affected by price and the consume willingness to avoid risk.

8.2.3 Insurers are no longer satisfied with a one-size-fits-all product approach; instead, they are aiming for a product description that serves and matches their budget precisely whenever they want to pay for the risk factors that they are likely to incur.

8.3 What is the best practice in premium pricing which retains more revenue?

8.3.1 According to this research, results showed that dynamic pricing is the best for premium pricing even if it was not yet implemented by life assurance firms.

9. CONCLUSION

Based on the findings from this desktop study, it is possible to conclude that competitive pricing was ineffective as it caused policy holder to drop off their policy premiums thereby affecting revenue negatively as it began to decline in recent years. Furthermore, according to what emerged from the literature reviewed on pricing policies and strategies, it can be concluded that life insurance pricing policies and strategies are reactive.

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