Financial Services Knowledge series on life insurance products

April 2024

Introduction

In the labyrinth of financial planning, where uncertainties cast their long shadows, life insurance stands as a steadfast guardian, offering not just protection but a myriad of opportunities for wealth creation and long-term financial security. The Indian life insurance industry, with its kaleidoscope of products, reflects the evolving needs and aspirations of a diverse populace.

As we embark on this journey of exploration and discovery, this thought leadership report seeks to unravel the complexities of life insurance in India, casting a spotlight on the diverse range of products that populate this intricate landscape. Beyond being mere instruments of risk mitigation, these offerings serve as financial vehicles, each meticulously crafted to address the multifaceted needs of individuals, families, and businesses.

At the heart of our exploration lies the fundamental understanding that life insurance is not a one-size-fits-all proposition. It is a nuanced tapestry woven with threads of term insurance, non-participating and participating savings plans, unit-linked insurance plans (ULIPs), and the collaborative embrace of group products. Each of these products, like characters in a narrative, contributes its unique essence to the overarching story of financial resilience.

This document aspires to be more than a guide; it is an odyssey through the annals of life insurance, where we navigate the contours of each product type, peeling back layers to reveal the intricate details that define them. From the simplicity and purity of term insurance, where protection takes center stage, to the dynamic nature of returns and risks in ULIPs, and the collaborative strength of group products, we traverse a spectrum of offerings, each with its own narrative to tell.

In our pursuit of knowledge, we will not merely scratch the surface. Instead, we will delve into the heart of each product category, scrutinising the features that distinguish them, exploring the benefits they bring to policyholders, and acknowledging the associated risks that demand thoughtful consideration. Our goal is to empower readers with a depth of understanding that transcends the superficial, enabling them to make informed decisions that resonate with their unique financial goals and aspirations.

Join us as we embark on this expedition through the rich tapestry of life insurance in India, where each product type is a brushstroke, contributing to a canvas of financial prudence, security, and the unwavering pursuit of a prosperous future.

Types of life insurance products

- Term insurance
- Whole life
- Endowment assurance
- Unit-linked
- Participating contracts
- Life annuities
- Group products

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Product types

Term insurance

What is term insurance?

Term insurance is a straightforward life insurance product that provides coverage for a specified term or duration. In the event of the policyholder's death during the term, a death benefit is paid out to the beneficiaries. Unlike other life insurance products, term insurance does not accumulate cash value over time.

The primary purpose of term insurance is to provide financial protection for the policyholder's dependents in case of untimely death. It acts as a pure risk protection tool, ensuring that the family or beneficiaries receive a lump sum amount to cover financial obligations such as mortgages, education expenses, and daily living costs.

Features of term insurance products:

- **Fixed term:** Term insurance is characterised by a predetermined coverage period, typically ranging from 5 to 30 years. The policyholder selects the term based on their specific needs and financial goals.
- **No surrender value:** Unlike some other life insurance products, term insurance does not accumulate cash value or offer any surrender benefits. It is solely focused on providing a death benefit during the term.
- **Affordable premiums:** Term insurance premiums are generally more affordable compared to other life insurance options. This makes it an attractive choice for individuals seeking maximum coverage at a lower cost.
- **Renewable and convertible options:** Many term insurance policies offer the flexibility to renew the coverage at the end of the term. Additionally, some policies may allow conversion to permanent life insurance if the policyholders need change.

Benefits of term insurance products:

- **Financial protection:** Term insurance provides a high level of financial protection for the policyholder's beneficiaries. The death benefit helps cover immediate and long-term financial needs.
- **Cost-effective coverage:** It is one of the most cost-effective ways to secure a significant amount of life insurance coverage, making it accessible for individuals with budget constraints.
- **Flexibility:** Term insurance offers flexibility in choosing the coverage amount and term length based on the policyholder's specific circumstances, such as the number of dependents and financial obligations.

Associated risks for the policyholder:

- **No cash value:** As term insurance focuses solely on providing a death benefit, there is no cash value accumulation. Policyholders seeking an investment component may find other types of life insurance more suitable.
- **Lapse risk:** If the policyholder fails to pay premiums, the policy may lapse, leading to a loss of coverage. Regular premium payments are crucial to maintaining the effectiveness of term insurance.
- **Limited duration:** Term insurance covers a specific term, and if the policyholder outlives the term, there is no payout. Policyholders should carefully consider their coverage needs and whether a longer-term or permanent policy might be more suitable.

Term insurance

Associated risks for the insurer:

- **Mortality risk:** This is the most fundamental risk for life insurance companies. Mortality risk is the likelihood that a policyholder will die during the term of the policy, triggering the payment of the death benefit. If the actual mortality rate is higher than expected, it can lead to higher payouts than anticipated, impacting the profitability of the insurance company.

- **Lapse risk:** Lapse risk refers to the possibility that policyholders may allow their term life insurance policies to lapse or surrender before the term ends. If a significant number of policyholders allow their policies to lapse, the insurance company may not collect sufficient premiums to cover the potential future death benefits, affecting the financial viability of the product. Notably, early lapses can be particularly concerning due to the non-coverage of initial expenses, exacerbating the risk further. While lapse risk is typically less of a concern for term products, it remains a crucial factor for insurers to consider in their risk management strategies.

- **Interest rate risk:** Insurance companies invest the premiums they collect to generate returns. Interest rate risk arises when the interest rates on these investments fluctuate. If interest rates decrease, the returns on investments may not be sufficient to cover the guaranteed components of the policies, affecting the insurer's profitability.

- **Underwriting risk:** Underwriting risk is associated with the process of assessing and selecting policyholders. Inaccurate underwriting decisions can lead to mispricing of policies. If the underwriting process does not accurately assess the risk profile of policyholders, the insurer may face higher mortality rates than expected, impacting financial performance.

- **Reinsurance counterparty risk:** Insurance companies often use reinsurance to manage their exposure to large risks. Reinsurance counterparty risk is the risk that the reinsurer may not fulfill its obligations. If the reinsurer fails to meet its obligations, the insurer may face financial challenges in settling claims, leading to reputational and financial risks.

- **Regulatory and compliance risk:** Changes in regulations or compliance requirements can impact insurance companies. Failure to comply with regulations can result in fines or legal actions. Non-compliance with regulatory requirements can lead to financial penalties, reputational damage, and disruptions in business operations.

Reserves under term insurance:

Reserves held by a life insurance company for a term insurance product are funds set aside to cover future policy obligations, primarily the payment of death benefits. These reserves serve as a financial cushion to ensure that the insurer can meet its commitments to policyholders.

Changes over term of policy:

- **Initial reserves:** At the beginning of the term, the insurer establishes reserves based on actuarial calculations, considering mortality rates, policyholder behaviour, and other relevant factors.

- **Increasing reserves:** Reserves typically increase over the term due to factors such as aging policyholders and the rising probability of claims as the insured population advances in age.

- **Decreasing reserves:** Toward the later years of the term, reserves may decrease as the likelihood of claims decreases, especially for term insurance where the coverage ends at the policy term.

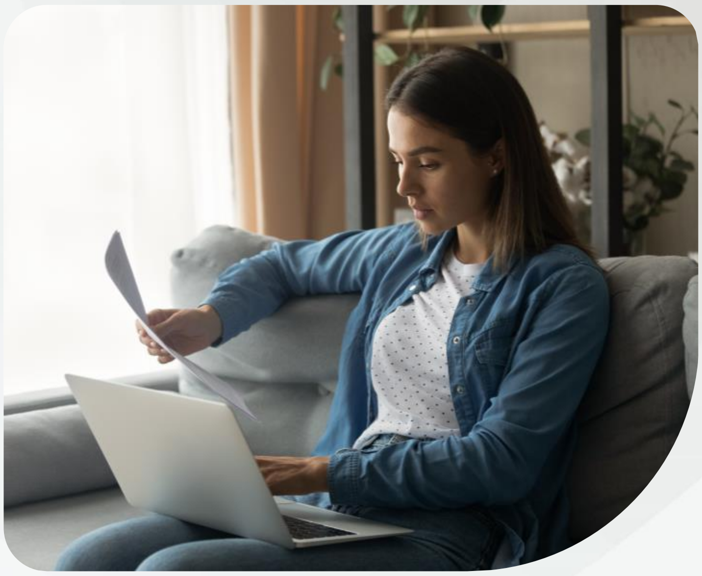
Release in profit stream:

- **End of policy term:** For term insurance, when the policy matures or expires, the reserves are released into the profit stream of the insurer.

- **Profit realisation:** The release of reserves contributes to the insurer's profit for that specific policy, enhancing the overall profitability of the life insurance portfolio.

- **Investment income:** Insurers often invest the reserves during the policy term, generating additional income that also contributes to the profit realised at the end of the policy term.

It is important to note that the specifics of reserve management, release, and profit realisation can vary based on regulatory requirements, company practices, and the terms of individual policies. Insurers carefully manage reserves to ensure financial stability and meet policy obligations while optimising profitability over the life of their portfolios.



Whole life insurance

What is whole life insurance?

Whole life insurance is a comprehensive life insurance product that offers coverage for the entire lifetime of the insured individual. Unlike term insurance, which provides coverage for a specified term, whole life insurance provides lifelong protection and often includes a savings or investment component.

Key features of whole life insurance:

- **Lifelong coverage:** Whole life insurance provides coverage for the insured individual's entire lifetime, offering peace of mind knowing that beneficiaries will receive a death benefit whenever the insured passes away.
- **Fixed premiums:** Premiums for whole life insurance policies remain level and fixed throughout the policyholder's life. This provides predictability and stability in premium payments, making it easier for policyholders to budget for insurance costs.
- **Cash value accumulation:** Whole life insurance policies include a cash value component that accumulates over time. A portion of each premium payment goes towards building cash value, which grows on a tax-deferred basis and can be accessed by the policyholder through policy loans or withdrawals.
- **Guaranteed death benefit:** Whole life insurance policies provide a guaranteed death benefit to the beneficiaries upon the insured's death, as long as premiums are paid. This death benefit is typically higher than the cash value of the policy.
- **Dividends (for participating policies):** Some whole life insurance policies are participating, allowing policyholders to share in the profits of the insurance company through dividends. These dividends can be used to enhance the policy's cash value, purchase additional coverage, or receive as cash.

Associated Risks for the Policyholder:

- **Cost:** Whole life insurance premiums are typically higher than term insurance premiums, making it more expensive for policyholders, especially in the early years of the policy.
- **Limited flexibility:** Whole life insurance policies offer limited flexibility compared to term insurance, as policyholders cannot easily adjust coverage amounts or premium payment schedules.
- **Potential surrender charges:** Surrendering a whole life insurance policy early may result in surrender charges and tax consequences, reducing the cash value received by the policyholder.

Associated risks for insurers:

- **Mortality risk:** Insurers face mortality risk, which is the risk that policyholders may die earlier than expected. If the actual mortality experience is higher than anticipated, insurers may have to pay out more death benefits than initially projected, leading to financial losses.
- **Investment risk**: Insurers invest the premiums they collect from policyholders to generate returns to cover future policy liabilities. However, investment returns are subject to market fluctuations and other economic factors. If investment returns are lower than expected or if there are significant investment losses, insurers may experience reduced profitability or financial instability.
- **Interest rate risk:** Whole life insurance policies often offer guaranteed minimum interest rates on cash value growth. If prevailing interest rates decrease, insurers may struggle to meet these guaranteed rates, particularly if they have made long-term commitments based on higher interest rate assumptions. This can result in reduced profitability and financial challenges for insurers.
- **Policyholder behaviour risk:** Insurers face risks related to policyholder behaviour, such as lapses, surrenders, and withdrawals. If a significant number of policyholders surrender their policies or withdraw cash value, insurers may experience a reduction in premiums and assets under management, impacting profitability and solvency.
- **Expense risk:** Insurers incur various expenses associated with underwriting, policy administration, and distribution of whole life insurance products. If expenses exceed premium income and investment returns, insurers may face reduced profitability and financial difficulties.
- **Reinvestment risk:** Insurers must continually reinvest premiums and cash value to generate returns to meet future policy obligations. Reinvestment risk arises when insurers are unable to reinvest cash flows at favourable rates or when they are forced to reinvest at lower yields, impacting profitability and financial performance.
- **Regulatory and compliance risk:** Insurers operate within a highly regulated environment, and changes in regulations or compliance requirements can impact their operations and financial performance. Non-compliance with regulatory requirements can result in fines, penalties, and reputational damage for insurers.
- **Credit risk:** Insurers may invest premiums and cash value in various assets, including bonds, equities, and real estate. Credit risk refers to the risk of default or downgrade of these investments, leading to losses for insurers and impacting their financial stability and profitability.

Whole life insurance

- **Solvency risk:** Insurers must maintain adequate reserves and capital to meet policyholder obligations and regulatory requirements. Solvency risk arises when insurers have insufficient reserves or capital to cover liabilities, leading to financial instability and potential insolvency.

Understanding these associated risks is essential for insurers to effectively manage their operations, investment portfolios, and risk exposures to ensure financial stability and long-term profitability. Insurers employ various risk management strategies and techniques to mitigate these risks and protect their financial health.

Reserves under whole life insurance:

Reserves held by a life insurance company for whole life insurance products are funds set aside to cover future policy obligations, including death benefits and policyholder dividends. These reserves serve as a financial safeguard to ensure that the insurer can fulfill its commitments to policyholders.

Changes over term of policy:

- **Initial reserves:** At the inception of the policy, the insurer establishes reserves based on actuarial calculations, considering mortality rates, investment returns, and other relevant factors. These initial reserves provide a foundation for future policy obligations.

- **Increasing reserves:** Reserves for whole life insurance policies typically increase over time as policyholders age and the risk of death increases. Additionally, cash value accumulation contributes to the growth of reserves, providing additional coverage for future claims.

- **Release in profit stream:** At the end of the policy term or upon the insured's death, the reserves accumulated over the policy's lifetime are released into the profit stream of the insurer. This release of reserves contributes to the insurer's profit for that specific policy, enhancing the overall profitability of the life insurance portfolio.

- **Investment income:** Insurers often invest the reserves held for whole life insurance policies to generate additional income. Investment income, including interest, dividends, and capital gains, contributes to the overall profitability of the insurer's life insurance business. Effective management of investment portfolios is essential to maximising investment income and ensuring long-term financial stability.

It is important to note that reserve management practices for whole life insurance products may vary among insurers and can be influenced by regulatory requirements, market conditions, and company-specific considerations. Insurers carefully monitor and adjust reserves to maintain financial stability, meet policyholder obligations, and optimise profitability over the life of their portfolios.

Endowment assurance

What is an endowment assurance?

Endowment assurance refers to a type of insurance policy that combines elements of savings and protection. Endowment policies typically provide a lump sum payment to the policyholder at a specified maturity date or upon the insured event, such as death or disability. These policies often offer guaranteed returns and may also include bonuses or dividends, depending on the terms of the policy. The savings component accumulates over time, providing a source of funds for various purposes such as education, retirement, or other financial goals.

Non-par savings life insurance is suitable for individuals seeking a secure and uncomplicated approach to long-term financial planning, providing financial stability and a fixed return on savings without relying on company dividends.

Key features of non-par endowment assurance:

- **Combination of savings and protection:** Endowment life assurance policies combine elements of savings and protection, offering both insurance coverage and a savings component.
- **Fixed term policy:** Endowment policies typically have a fixed term, with the policyholder receiving a lump sum payment at the end of the term (maturity date) or upon the insured event, such as death or disability.
- **Non-participating basis:** Endowment policies are often offered on a non-participating basis, meaning they do not participate in the profits of the insurance company. This means that policyholders do not receive bonuses or dividends from the insurer's profits.
- **Guaranteed returns:** Endowment policies may offer guaranteed returns on the savings component, providing a predetermined payout at maturity, regardless of investment performance.
- **Fixed premiums:** Policyholders pay fixed premiums for the duration of the policy term, providing predictability in premium payments and helping with financial planning.
- **Financial goals:** Endowment policies can be used to save for various financial goals, such as education expenses, retirement income, or mortgage repayment.
- **Cash value:** Endowment policies often accumulate a cash value over time, which can be accessed by the policyholder through policy loans or surrendering the policy, subject to certain conditions and charges.
- **Death benefit:** In addition to the savings component, endowment policies also provide a death benefit to the policyholder's beneficiaries in the event of the insured's death during the policy term.

Associated risks for policyholder:

- **Default risk:** A significant risk to policyholders is when the insurance company defaults on paying benefits, often stemming from financial insolvency. If the insurer becomes insolvent, it may be unable to fulfill its obligations to policyholders, jeopardising their financial security. In such cases, policyholders may face uncertainty and potential losses, as their claims may go unpaid. .
- **Inflation risk:** The guaranteed returns may not keep pace with inflation, leading to a potential erosion of the purchasing power of the policyholder's savings over the long term.
- **Liquidity risk:** While non-par savings products offer access to cash value, policyholders may face liquidity constraints if they need to access funds during a market downturn or when surrender charges are still applicable.
- **Limited investment opportunities:** As non-par savings products provide guaranteed returns, policyholders may miss out on potential higher returns available through other investment vehicles, especially during periods of favourable market conditions.
- **No dividend participation:** Policyholders do not participate in the profits or dividends of the insurance company, potentially missing out on additional returns that participating policyholders might receive.
- **Policy surrender charges:** Surrendering the policy before maturity may result in charges, impacting the overall returns for policyholders who choose to terminate the policy early.
- **Market conditions impact:** Non-par savings products may not benefit from positive market conditions or favourable investment returns, as the returns are predetermined and not linked to the performance of the underlying investments.

Associated risks for insurer:

- **Interest rate risk:** The returns on non-par savings products are often tied to prevailing interest rates. If interest rates decrease, the insurer may face challenges in meeting guaranteed returns, potentially impacting profitability.
- **Mortality and longevity risk:** Life insurance companies face the risk experiencing higher-than-expected mortality rates in early years of the policy term. This can affect the company's liability and the funds set aside for policy payouts.

Endowment assurance

- **Investment risk:** The insurance company invests the premiums received from policyholders to generate returns. If the invested funds underperform or if there are market downturns, it can impact the insurer's ability to meet its obligations.

- **Persistency risk:** Persistency risk refers to the likelihood of policyholders surrendering their policies prematurely or not maintaining premium payments. This risk impacts the insurer's cash flow and may affect the company's ability to meet its long-term obligations.

- **Expense risk:** Insurers face the risk of higher-than-expected operational and administrative expenses. Efficient management and control of expenses are crucial to maintaining profitability in non-par savings products.

- **Economic downturn risk:** Economic downturns can affect the financial well-being of policyholders, leading to lapses in premium payments or surrender of policies. This can pose challenges for insurers in maintaining policyholder persistency.

- **Reinvestment risk:** As premiums are received over time, the insurance company faces the risk of reinvesting these funds at lower interest rates than originally assumed, affecting the overall investment yield.

- **Reserving risk:** Reserving risk involves the uncertainty associated with estimating the adequate reserves required to meet future policyholder obligations. In the context of non-par savings products, ensuring that reserves are appropriately set is crucial for the insurer's financial stability and solvency.

Reserves under endowment assurance:

Reserves for endowment assurance life products play a crucial role in ensuring the financial stability of insurance companies and meeting their obligations to policyholders. Here's how reserves function in the context of endowment assurance policies:

- **Initial reserves:** At the inception of an endowment assurance policy, the insurer establishes reserves based on actuarial calculations, taking into account factors such as mortality rates, policyholder behavior, and investment returns. These initial reserves serve as a financial cushion to cover future policy liabilities.

- **Increasing reserves:** Over the term of the policy, reserves typically increase due to factors such as the aging of policyholders and the accumulation of guaranteed benefits and bonuses. As policyholders grow older, the probability of claims increases, necessitating higher reserves to meet future obligations.

- **Investment component:** Endowment assurance policies often include an investment component where premiums paid by policyholders are invested by the insurer. The investment returns generated from these funds contribute to the growth of reserves over time.

- **Release in profit stream:** When an endowment assurance policy matures or expires, the reserves accumulated over the policy term are released into the profit stream of the insurer.

- **Regulatory compliance:** Insurers must adhere to regulatory requirements regarding the calculation and maintenance of reserves for endowment assurance policies.

Overall, the reserves for endowment assurance life products are essential for ensuring that insurers can fulfill their promises to policyholders, manage risks effectively, and maintain profitability over the life of their insurance portfolios.

Unit-linked life insurance

What is unit-linked life insurance?

Unit-linked life insurance is a type of life insurance policy that combines elements of both life insurance and investment. With a unit-linked policy, the premiums paid are divided into two parts: one portion goes towards providing life insurance coverage, and the other portion is invested in various investment funds, such as stocks, bonds, or mutual funds, chosen by the policyholder or the insurance company. Here, the policyholder is entitled to a minimum sum assured to be paid on death.

The value of the policy is directly linked to the performance of the investment funds in which the premiums are invested. If the investments perform well, the value of the policy increases, potentially providing higher returns. However, if the investments perform poorly, the value of the policy may decrease.

Unit-linked life insurance products offer policyholders flexibility in terms of investment choices and potential for higher returns compared to traditional life insurance policies. However, they also carry higher risk since the policy's value is subject to market fluctuations.

Linking in the context of unit-linked life insurance refers to the connection between the premiums paid and the performance of investment funds. The value of the policy is directly tied to the performance of these funds, with premiums being invested in them, creating a link between the insurance coverage and investment returns.

Features of unit-linked products:

Investment component: Premiums paid are invested in a selection of investment funds chosen by the policyholder or the insurance company.

Life insurance coverage: Alongside the investment component, unit-linked policies also provide life insurance coverage, offering financial protection to beneficiaries in the event of the policyholder's death.

Flexibility: Policyholders can choose the investment funds based on their risk tolerance, financial goals, and investment preferences.

Market-linked returns: The value of the policy is directly linked to the performance of the chosen investment funds, meaning returns can vary based on market fluctuations.

Transparency: Policyholders have access to information about the performance of the investment funds and the charges associated with the policy.

Partial withdrawals: Some policies allow policyholders to make partial withdrawals or surrender the policy to access a portion of the accumulated fund value, subject to certain conditions and charges.

Charges and fees: Unit-linked policies may involve various charges and fees, including fund management charges, administration fees, and mortality charges, which can impact the overall returns of the policy.

Tax benefits: Depending on the jurisdiction, unit-linked policies may offer tax benefits on premiums paid, investment growth, and death benefits, subject to applicable tax laws.

Surrender value: Policies may accumulate a surrender value over time, allowing policyholders to receive a portion of the fund value after deduction of surrender penalty (if any) upon surrendering the policy before its maturity date.

Associated risks for policyholder:

- **Investment risk:** The value of the policy is directly linked to the performance of the chosen investment funds. If the investments perform poorly, the policy's value may decrease, potentially resulting in lower returns or even the loss of principal.
- **Charges and fees:** Unit-linked policies typically involve various charges and fees, including fund management charges, administration fees, and mortality charges, which can reduce the overall returns of the policy and affect the accumulation of the fund value over time.
- **Surrender charges:** Surrendering the policy before its maturity date may incur surrender charges, which can reduce the amount received by the policyholder upon surrender and negatively impact the returns on the investment.
- **Lack of diversification:** Depending on the investment choices made by the policyholder, there may be a lack of diversification within the investment portfolio, increasing the risk of losses if a particular asset class or market sector underperforms.
- **Policy terms and conditions:** Policyholders need to carefully review and understand the terms and conditions of the policy, including any limitations, restrictions, or exclusions that may affect the benefits and coverage provided.
- **Long-term commitment:** Unit-linked policies are typically long-term commitments, and early termination or surrender may result in financial losses. Policyholders should consider their investment objectives and financial circumstances before purchasing such a policy.

Unit-linked life insurance

Associated risks for insurer:

- **Guarantees and obligations:** Insurers may offer certain guarantees or benefits within unit-linked policies, such as minimum death benefits or guaranteed minimum returns. Fulfilling these obligations can pose financial risks to the insurer, especially during periods of poor investment performance or economic downturns.

- **Policyholder behaviour:** Policyholder behaviour, such as lapses, surrenders, or withdrawals, can impact the insurer's profitability and cash flow. High surrender rates or policy lapses can lead to decreased revenue and increased costs for the insurer.

- **Operational risks:** Insurers face operational risks associated with policy administration, investment management, and regulatory compliance. Inadequate systems, processes, or controls can result in errors, fraud, or regulatory sanctions, affecting the insurer's reputation and financial stability.

- **Regulatory and compliance risks:** Insurers must comply with regulations governing the sale, marketing, and administration of unit-linked insurance products. Non-compliance with regulatory requirements can result in fines, penalties, or legal liabilities for the insurer.

- **Reputation risk:** Poor investment performance, customer complaints, or regulatory violations can damage the insurer's reputation and erode customer trust. Negative publicity can lead to decreased sales, loss of market share, and long-term damage to the insurer's brand.

- **Capital adequacy:** Insurers must maintain adequate capital reserves to cover potential liabilities and ensure solvency. Poor investment performance or unexpected losses can deplete capital reserves, necessitating capital injections or other financial measures to maintain solvency.

Reserves under unit-linked life insurance products:

In unit-linked life insurance products, reserves play a crucial role in ensuring the insurer can meet its obligations to policyholders. Here's how reserves function in this context:

- **Unit reserves/investment reserves:** This reserve comprises the funds accumulated from the premiums paid by policyholders. These funds are then invested in various financial instruments, such as stocks, bonds, and mutual funds, according to the investment objectives chosen by the policyholders. The investment reserve reflects the value of the underlying investments held within the ULIP.

- **Non-unit reserves/guarantee reserve:** The guarantee reserve is set aside by the insurance company to cover any potential shortfalls in the investment returns compared to the guaranteed returns promised to the policyholders. This reserve acts as a buffer to ensure that the insurance company can honor its commitments, even if the actual investment returns are lower than expected.

Life annuities

What is a life annuity?

Life annuities provide a reliable source of income for individuals seeking financial security during retirement or other life stages. Annuities can be purchased with a lump sum payment or through a series of premium payments to an insurance company. These products offer guaranteed income streams that last for the duration of the annuitant's life, providing protection against the risk of outliving one's savings.

Life annuities can come in various forms, including immediate annuities and deferred annuities. Immediate annuities start making payments shortly after the annuity is purchased, while deferred annuities delay payments to a later date chosen by the annuitant. Annuity payments can be fixed or variable, depending on the terms of the contract.

Life annuities are suitable for individuals looking to supplement other sources of retirement income, such as social security, pensions, or personal savings. They offer peace of mind by ensuring a steady stream of income throughout retirement, regardless of market fluctuations or changes in economic conditions.

Overall, life annuities serve as a valuable tool for long-term financial planning, offering stability, security, and peace of mind to individuals seeking a reliable source of income during retirement and beyond.

Features of life annuities:

- **Guaranteed income:** Life annuities provide a guaranteed stream of income to the annuitant for the duration of their life, regardless of how long they live.
- **Lifetime payments:** Annuity payments continue for as long as the annuitant is alive, providing protection against the risk of outliving one's savings.
- **Immediate or deferred start:** Annuities can start making payments immediately after purchase (immediate annuities) or at a later date chosen by the annuitant (deferred annuities).
- **Fixed or variable payments:** Annuity payments can be fixed, providing a predetermined amount per payment, or variable, fluctuating based on the performance of some linked index.
- **Payout options:** Annuity contracts may offer different payout options, such as single life annuities (payments made only to the annuitant) or joint and survivor annuities (payments continue to a surviving spouse or beneficiary).
- **Longevity protection:** Annuities offer protection against longevity risk, ensuring that the annuitant receives income for life, even if they live longer than expected.

Understanding these key features is essential for individuals considering purchasing a life annuity to ensure that they choose the right product to meet their financial goals and retirement needs.

Associated risks for policyholder:

- **Inflation risk:** Fixed annuities may not provide protection against inflation, meaning that the purchasing power of the annuity payments could decrease over time, especially if inflation outpaces the rate of return on the annuity.
- **Lack of flexibility:** Once purchased, annuities usually cannot be altered or canceled without incurring penalties or surrender charges. This lack of flexibility can be a risk if the annuitant's financial circumstances change.
- **Credit risk:** Annuities are typically backed by the financial strength of the issuing insurance company. There is a risk that the insurer may become insolvent or is unable to fulfill its obligations, resulting in a loss of income for the annuitant.
- **Death benefit considerations:** If the annuitant selects a single-life annuity without a death benefit option, there is a risk that beneficiaries may not receive any remaining funds upon the annuitant's death, depending on the terms of the annuity contract.
- **Policy fees and charges:** Annuities often come with various fees and charges, such as administrative fees, mortality and expense charges, and investment management fees (for variable annuities), which can reduce the overall returns of the annuity.

Associated risks for insurer:

- **Longevity risk:** Insurers face the risk of underestimating the life expectancy of annuitants, leading to longer-than-anticipated payment obligations. This can result in higher-than-expected payouts and increased liabilities for the insurer.
- **Interest rate risk:** Insurers face interest rate risk if the returns on their investments do not match the level of payouts guaranteed to annuitants. A sustained period of low interest rates can reduce investment income and profitability for the insurer.
- **Investment risk (for variable annuities):** Insurers offering variable annuities are exposed to investment risk if the performance of underlying investment options does not meet the expectations of annuitants. Poor investment performance can lead to higher payout obligations for the insurer.
- **Operational risk:** Insurers face operational risks associated with policy administration, claims processing, and compliance with regulatory requirements. Operational failures or errors can lead to financial losses and reputational damage for the insurer.

Life annuities

- **Policyholder behaviour risk:** Insurers must anticipate and manage policyholder behaviour, such as early annuity surrenders or changes in investment preferences. Unexpected changes in policyholder behaviour can impact the insurer's profitability and risk profile.

- **Regulatory and legal risk:** Insurers are subject to regulatory oversight and legal requirements governing the sale and administration of annuity contracts. Non-compliance with regulatory requirements or adverse legal judgements can result in financial penalties and reputational harm for the insurer.

Reserves under life annuities:

Reserves under life annuities play a crucial role in ensuring that insurance companies can fulfill their obligations to annuitants by providing a steady stream of income throughout the annuitant's lifetime. Here's how reserves work in the context of life annuities:

- **Purpose:** Reserves are funds set aside by insurance companies to cover future annuity payments to policyholders. These payments typically last for the duration of the annuitant's life and must be guaranteed by the insurer.

- **Calculation:** Insurers calculate reserves based on actuarial principles, taking into account factors such as the annuitant's age, life expectancy, prevailing interest rates, and mortality experience. The number of reserves needed depends on the expected duration of the annuity payments and the amount of each payment. There could also be a margin for adverse deviation built into the reserving assumptions.

- **Asset backing:** The reserves held by insurance companies are backed by a portfolio of assets, which may include fixed-income securities, equities, real estate, and other investments. These assets are managed to generate sufficient returns to meet future annuity payments while ensuring the safety and stability of the reserve fund.

- **Regulatory requirements:** Insurance regulators impose requirements on insurers regarding the level of reserves they must maintain to ensure solvency and financial stability. These requirements may vary depending on the jurisdiction and the type of annuity products offered.

- **Dynamic nature:** Reserves for life annuities are dynamic and may change over time, based on factors such as changes in interest rates, mortality experience, and investment performance. Insurers regularly review and adjust reserves to reflect changing market conditions and actuarial assumptions.

Overall, reserves under life annuities serve as a financial cushion for insurers, providing them with the necessary funds to fulfill their obligations to annuitants and ensuring the long-term sustainability of annuity products.

Participating products

What is participating product?

Participating life insurance is a comprehensive financial product seamlessly integrating life insurance coverage with an emphasis on potential financial growth. Distinguishing itself from non-participating policies, it actively involves policyholders in the distribution of company profits and dividends. This dynamic policy offers a multifaceted approach, combining protection with the opportunity for enhanced financial returns.

Participating contracts are also known as with-profit policies. They come in various forms such as term, whole life, endowment, etc.

Key differences between non-participating and non-participating life insurance products:

	Participating products	Non-participating products
Participation in profits	Policyholders participate in the profits of the insurance company through dividends or bonuses.	Policyholders do not participate in the profits of the insurance company; premiums and benefits are fixed and not subject to change based on the company's profits.
Benefit guarantee	Along with guaranteed benefits, non-guaranteed bonuses/dividends are paid based on the insurer's performance	Death and maturity benefits are guaranteed at the outset.
Premiums	Premiums for participating contracts would be higher than non-participating contracts, provided all other things are equal.	Premiums are lower than the participating contract for the same level of benefits.
Risk and uncertainty	Policyholders assume some investment and mortality risks and uncertainties since bonuses are influenced by the company's financial performance.	Policyholders face less risk and uncertainty since premiums and benefits are guaranteed and not affected by the company's profits.
Potential for higher returns	There is the potential for higher returns compared to non-participating policies, as policyholders have a share in the profits of the insurance company.	Returns are fixed and guaranteed, offering stability but potentially lower growth potential compared to participating policies.
Suitability	Suitable for individuals seeking life insurance coverage, with the potential for enhanced benefits and cash value accumulation through participation in the company's profits.	Suitable for individuals seeking a stable and predictable life insurance coverage without exposure to investment-related risks or uncertainties.

Group products

What are group products?

Group life insurance products in the Indian market cater to the insurance needs of groups such as employees of organisations, members of associations, or members of a particular community. These products are designed to provide life insurance coverage to a large number of individuals under a single policy, offering various benefits and features tailored to meet the specific requirements of the group.

Key features of group life insurance products:

- **Group coverage:** Group life insurance products provide coverage to a defined group of individuals, such as employees of a company or members of an association. The coverage extends to all eligible members of the group under a single master policy.

- **Affordable premiums:** Group insurance premiums are generally lower compared to individual policies due to the risk being spread across a large group of individuals. This makes group life insurance an attractive employee benefit for employers and a cost-effective option for organisations.

- **Simplified underwriting:** Group life insurance often features simplified underwriting processes, with minimal or no medical underwriting requirements for members of the group. This streamlines the enrollment process and ensures that coverage is accessible to a broader range of individuals.

- **Employer contribution:** In the case of employer-sponsored group life insurance, the employer typically pays part or all of the premiums on behalf of the employees. This serves as an essential employee benefit, helping to attract and retain talent within the organisation.

- **Portability:** Some group life insurance policies offer portability features, allowing members to continue their coverage even after leaving the group, such as changing employers. This ensures continuity of coverage and provides individuals with ongoing protection against life's uncertainties.

Associated risks for policyholder:

- **Loss of coverage upon leaving the group:** Policyholders may lose their insurance coverage if they leave the group, such as changing employers or memberships in associations. This can leave individuals without life insurance protection when they need it, especially if they have health issues that may make obtaining new coverage challenging.

- **Dependence on group sponsor:** The continuation of group life insurance coverage often relies on the sponsor's decisions, such as the employer or association offering the coverage. If the sponsor decides to discontinue or change the coverage, policyholders may lose their insurance benefits, leaving them vulnerable.

- **Limited customisation:** Group life insurance policies may provide fewer customisation options in comparison to individual policies. Policyholders may not be able to tailor coverage amounts or select specific policy features to meet their unique needs and preferences.

- **Portability constraints:** While some group life insurance policies offer portability features allowing coverage continuation after leaving the group, there may be limitations or restrictions on the portability options available. Policyholders may face challenges in maintaining adequate coverage levels or accessing the same benefits outside the group context.

- **Dependency on group size and stability:** The stability and size of the group offering the insurance coverage can affect the availability and cost of coverage. Smaller groups or organisations may have limited bargaining power or may face higher premiums compared to larger, more stable groups.

- **Insufficient coverage:** Group life insurance coverage may not always be sufficient to meet the financial needs of policyholders and their beneficiaries. The death benefit provided by the group policy may not adequately replace lost income, cover outstanding debts, or provide for dependents' long-term financial security.

Understanding these associated risks can help policyholders make informed decisions when selecting and managing their group life insurance coverage, ensuring they have adequate protection for themselves and their beneficiaries.

2

Benefit illustrations

Term insurance

This example provides a basic understanding of how term insurance works. However, actual premiums and benefits can vary based on individual circumstances and the insurance provider. Let's say 'A', a 30-year-old non-smoker, decides to purchase a 10-year term life insurance policy with a death benefit of INR 1,00,00,000. The other policy details are:

Premium payment term (PPT): 5 years

Premium: INR 21,400

Premium mode: Annual

Yearly Premium Schedule

Policy year	Age attained	Premium	Sum assured
1	30	21,400	1,00,00,000
2	31	21,400	1,00,00,000
3	32	21,400	1,00,00,000
4	33	21,400	1,00,00,000
5	34	21,400	1,00,00,000
6	35	-	1,00,00,000
7	36	-	1,00,00,000
8	37	-	1,00,00,000
9	38	-	1,00,00,000
10	39	-	1,00,00,000

Significance:

- **Premium:** The annual premium for this term insurance policy is INR 21,400.
- **Premium payment term (PPT):** With a PPT of 5 years, you will pay premiums for the first 5 years of the policy term.
- **Sum assured:** The sum assured is INR 1,00,00,000, which is the amount payable to the nominee in case of the insured's demise during the policy term.
- **Coverage:** Throughout the policy term of 10 years, the sum assured remains constant at INR 1,00,00,000. However, after completing the premium payment term of 5 years, no further premiums are payable, and the coverage continues until the end of the policy term.
- **Benefit:** In the event of the insured's death during the policy term, the nominee will receive the sum assured amount of INR 1,00,00,000, providing financial protection to the insured's family.

Strategic implications:

With a relatively low premium of INR 21,400, the policy offers substantial coverage of INR 1,00,00,000. This affordability allows the insured to secure financial protection for their beneficiaries without a significant financial burden.

The premium payment term of 5 years offers convenience and affordability, allowing the insured to fulfill their insurance obligations within a shorter duration.

The policy's relatively short term allows the insured to reassess their insurance needs and financial goals at the end of the policy term. This helps them to make decisions relating to renewal of the policy, purchasing additional coverage, etc.

Endowment insurance

This example provides a basic understanding of how non-participating endowment insurance works. However, actual premiums and benefits can vary based on individual circumstances and the insurance provider. Let's say 'A', a 30-year-old non-smoker, decides to purchase a 10-year endowment life insurance policy with a benefit of INR 2,00,000. The other policy details are:

Premium payment term (PPT): 10 years

Premium: INR 15,800

Premium mode: Annual

Yearly Premium Schedule

Policy year	Age attained	Premium	Life cover	Maturity benefit	Surrender benefit	Surrender value as % of total premium
1	30	15,800	2,00,000	-	0	0%
2	31	15,800	2,00,000	-	0	0%
3	32	15,800	2,00,000	-	14,220	30%
4	33	15,800	2,00,000	-	22,120	35%
5	34	15,800	2,00,000	-	39,500	50%
6	35	15,800	2,00,000	-	47,400	50%
7	36	15,800	2,00,000	-	55,300	50%
8	37	15,800	2,00,000	-	63,200	50%
9	38	15,800	2,00,000	-	1,13,760	80%
10	39	15,800	2,00,000	2,00,000	1,42,200	90%

Significance:

- **Premium:** The annual premium for this endowment insurance policy is INR 15,800.
- **Premium payment term (PPT):** With a PPT of 10 years, the policyholder will pay premiums for the entire policy term (10 years).
- **Life cover:** The sum assured is INR 2,00,000, which is the amount payable to the nominee in case of the insured's demise during the policy term.
- **Maturity benefit:** At the end of the 10-year policy term, if the insured person survives, then he will receive the maturity benefit of INR 2,00,000.
- **Surrender benefit:** If the policy holder decides to surrender the policy before the end of the term, then the policyholder is entitled to a surrender value. This value is a percentage of the total premiums paid over the years.
- **Stability of benefits:** The life cover and maturity benefit remain constant throughout the policy term. The surrender benefit increases gradually over the years, reaching its maximum value by the end of the policy term.

Strategic implications:

This non-participating life endowment product offers both protection and savings. It provides financial security to your family in case of your untimely demise and ensures a lump sum amount at the end of the policy term if you survive.

The increasing surrender benefit over the years provides a safety net, allowing you to access a portion of the invested funds in case of emergencies or changing financial needs.

With a fixed premium and stable benefits, this policy offers predictability and long-term financial planning, making it suitable for individuals seeking a combination of insurance and savings benefits.

Par endowment insurance

This example provides a basic understanding of how participating endowment insurance works. However, actual premiums and benefits can vary based on individual circumstances and the insurance provider. Let's say 'A', a 30-year-old non-smoker, decides to purchase a 10-year endowment life insurance policy with a benefit of INR 2,00,000. The other policy details are:

Premium payment term (PPT): 10 years

Premium: INR 16,200

Premium mode: Annual

Yearly Premium Schedule

Policy year	Age attained	Premium	Guaranteed benefits				Non-guaranteed benefits	
			Life cover	Maturity benefit	Surrender benefit	SV as a % of total premium	Reversionary bonus	Terminal bonus
1	30	16,200	2,00,000	-	-	0%	-	-
2	31	16,200	2,00,000	-	-	0%	-	-
3	32	16,200	2,00,000	-	14,580.00	30%	4000	-
4	33	16,200	2,00,000	-	22,680.00	35%	4000	-
5	34	16,200	2,00,000	-	40,500.00	50%	4000	-
6	35	16,200	2,00,000	-	48,600.00	50%	4000	-
7	36	16,200	2,00,000	-	56,700.00	50%	4000	-
8	37	16,200	2,00,000	-	64,800.00	50%	4000	-
9	38	16,200	2,00,000	-	1,16,640.00	80%	4000	-
10	39	16,200	2,00,000	2,00,000	1,45,800.00	90%	4000	20,000

Significance:

Premium payment term (PPT): The policyholder needs to pay INR 16,200 annually for 10 years.

Guaranteed benefits:

- **Life cover:** Throughout the policy term, the policyholder is covered for INR 2,00,000. In the event of the policyholder's demise, the nominee receives this amount.
- **Maturity benefit**: If the policyholder survives the entire term, they receive the guaranteed maturity benefit of INR 2,00,000.
- **Surrender benefit:** If the policyholder decides to surrender the policy before the term ends, they receive a surrender value. This value is a percentage of the total premiums paid over the years, as per the table provided.

Non-guaranteed benefits:

- **Reversionary bonus:** This bonus is declared annually by the insurance company at a rate of 2% of the sum assured and added to the maturity benefit or surrender value.
- **Terminal bonus:** This bonus is declared at the end of the policy term at a rate of 10% of the sum assured and added to the maturity benefit or surrender value.

Strategic implications:

Participating endowment contracts typically offer guaranteed returns over the contract term. These contracts often allow policyholders to participate in the profits of the insurance company through bonuses or dividends. This feature can provide additional returns beyond the guaranteed portion and can be attractive in a rising market environment.

The increasing surrender benefit over the years provides a safety net, allowing you to access a portion of the invested funds in case of emergencies or changing financial needs.

Participating endowment contracts offer a combination of stability, growth potential, tax advantages, and insurance protection. However, individuals should carefully assess their financial goals, risk tolerance, and liquidity needs before committing to these contracts.

3

Industry overview

Life insurance industry overview

Introduction

The insurance sector plays a pivotal role in the economic advancement of any nation. A robust insurance industry encourages risk-taking by offering a safety net against unforeseen losses, thereby fostering economic stability. Moreover, it extends crucial support to families in times of health emergencies or loss of life. With insurance companies managing substantial assets, they serve as a reservoir for long-term capital, facilitating investment in vital sectors like infrastructure development.

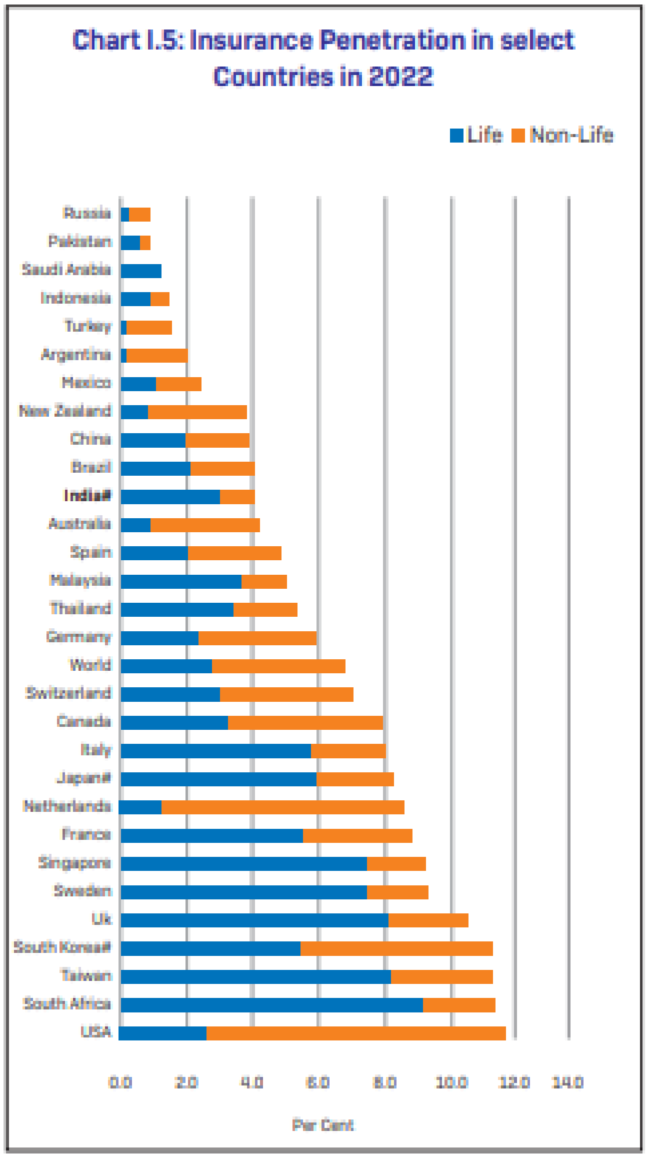
India's insurance sector has witnessed significant growth paralleling the country's economic progress. Both public and private insurance companies are expanding their operations, contributing to this upward trajectory.

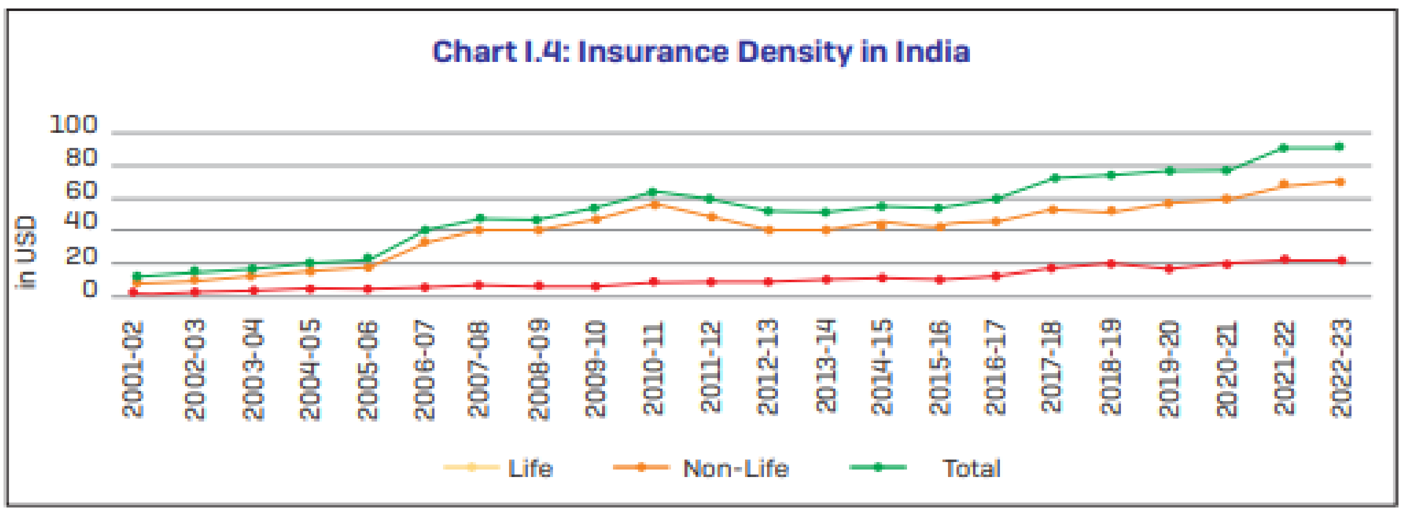
Insurance penetration and density in India:

- When assessing the development of the insurance sector, metrics such as insurance penetration and density are commonly utilised. These indicators gauge the extent of insurance coverage and usage within a country, reflecting its overall insurance market maturity. While insurance penetration is measured as the percentage of insurance premiums, insurance density is calculated as the ratio of the premium to population (per capita premium).

- As per the Swiss Re Sigma Report, the insurance penetration of the life insurance sector in India is reduced from 3.2% in 2021-22 to 3% in 2022-23

- In 2022-23, the life insurance density increased to 70 from 69 in 2021-22.





Source: Swiss Re Sigma World Insurance Report, Various issues (Density In USD)

Life insurance industry overview

The insurance industry of India has 57 insurance companies - 24 are in the life insurance business, while 34 are non-life insurers. Among the life insurers, the Life Insurance Corporation (LIC) is the sole public sector company.

Out of the 24 life insurers in operation during 2022-23, 17 companies reported profits. The profits of life insurance industry grew by 452% in 2022-23 with the profit after tax (PAT) of 42,788 crore as against INR 7,751 crore in 2021-22. In the fiscal year 2022-23, the public sector recorded a remarkable 800% surge in profits, whereas private insurers collectively experienced a noteworthy 72.36% increase in profits. Additionally, private life insurers disbursed dividends amounting to INR 925.88 crore for the same period. The public sector has paid INR 948.75 crore in dividend to its shareholders for the year 2022-23.

Premium growth

The life insurance industry recorded a premium income of INR 7.83 lakh crore in 2022-23, marking a growth of 12.98%. Private sector life insurers saw a growth rate of 16.34%, while the public sector, represented by LIC, experienced a 10.90% growth.

Product mix

Traditional products dominated the sector, contributing INR 6.77 lakh crore (86.59% of total premium), with ULIPs accounting for 13.41% of the total. Traditional products grew by 14.40%, whereas ULIPs grew by 4.61%.

Financial performance indicators:

- **Investment income:** There was a decrease in investment income (including capital gains and other income) by 6.63%, totaling INR 3.89 lakh crore as of 31 March 2023. The public sector insurer saw a growth of 7.25%, while private sector insurers experienced a decline of 39.86% in investment income.

- **Expenses and capital:** In the fiscal year 2022-23, the life insurance sector recorded gross management expenses amounting to INR 1.31 lakh crore, equivalent to 16.88% of the total gross premium. The total other forms of capital held by life insurers stood at INR 4,932 crore.

- **Benefits paid:** During the same period, the industry disbursed total benefits worth INR 4.96 lakh crore, constituting 64.08% of the net premium. Notably, the benefits paid for surrenders/ withdrawals saw a significant increase of 25.62%, reaching INR 1.98 lakh crore.

Government Initiatives:

The government of India has introduced various measures to enhance the insurance sector. Some of them are as follows:

- One of these initiatives, outlined in the Union Budget 2023-24, involves restricting the income tax exemption on the proceeds of high-value life insurance policies. Mooted as part of an emphasis on better targeting of tax concessions and exemptions, the proposal means that the income from life insurance policies with an aggregate premium up to INR 5 lakh (USD 6,075) will be exempt from taxation.

- In 2022, the Indian government plans to sell a 7% stake in LIC for INR 50,000 crore (USD 6.62 billion). This is the largest initial public offering (IPO) in India.

- Union Budget 2021 increased the FDI limit in insurance from 49% to 74%. The Insurance Regulatory and Development Authority of India (IRDAI) has declared the authorisation for insurance firms to issue digital insurance policies via Digilocker.

- Additionally, the IRDAI has granted permission for life insurance companies with over a decade of operations to pursue public listing.

- Several flagship schemes such as Pradhan Mantri Jeevan Jyoti Bima Yojana have been launched by the government to boost the insurance sector.

Key initiatives and technologies:

Life Insurance Underwriting & Claims Search Tool (QUEST): Handled over one crore queries, providing insurance history and flagging potential frauds.

Predictive Life Risk Scoring Model (PRISM): Generated risk scores to help insurers filter out potentially adverse risks at the entry/underwriting stage.

4

Key regulations

Key regulations for products

Here are the key regulations governing life insurance products in the Indian market:

- **Insurance Regulatory and Development Authority of India (IRDAI) Act:** This legislation establishes the IRDAI as the regulatory body overseeing insurance activities in India, including life insurance.
- **Insurance Act, 1938:** This act outlines the legal framework for all types of insurance in India, including life insurance. It covers various aspects, such as licensing, solvency margins, and regulations regarding insurance contracts.
- **IRDAI (Unit-linked insurance products) Regulations, 2019:** These regulations specifically govern unit-linked insurance products (ULIPs), which combine insurance coverage with investment options. The objective of the regulation is to ensure that insurers follow prudent practices in the designing and pricing of life insurance products and to protect the interests of the policyholders.
- **IRDAI (non-linked insurance products) Regulations, 2019:** These regulations oversee non-linked insurance products. The objective of the regulation is to ensure that insurers follow prudent practices in the designing and pricing of life insurance products and to protect the interests of the policyholders.
- **IRDAI (Health Insurance) Regulations, 2016:** While primarily focusing on health insurance, these regulations also cover aspects related to life insurance products that offer health-related coverage or benefits.
- **IRDAI (Protection of Policyholders' Interests) Regulations, 2017:** These regulations aim to protect the interests of policyholders by establishing guidelines for insurers regarding policy terms, claims settlement, grievance redressal, etc.
- **IRDAI (Expenses of Management, including Commission of Insurers) Regulations, 2024:** The purpose of this regulation is to empower insurers with the flexibility to effectively manage their expenses, including commissions, within the prescribed limits set by the authority. This aims to enable insurers to optimise their resources in order to enhance benefits for policyholders and to bolster insurance penetration.
- **IRDAI (Payment of Commission or Renumeration or Reward to Insurance Agents and Insurance Intermediaries) Regulations, 2016:** These regulations shall include the payment of commission or remuneration or reward to insurance agents and insurance intermediaries as defined in the Insurance Act, 1938, IRDA Act, 1999 and Regulations issued thereunder. It defines the maximum limit of commission or remuneration that can be paid to insurance agents and intermediaries.
- **IRDAI (Insurance Advertisements and Disclosure) Regulations, 2021:** The aim of this regulation is to guarantee that insurers, intermediaries, or insurance intermediaries adhere to fair, honest, and transparent practices when creating advertisements. It seeks to prevent practices that could undermine public confidence. The regulation also emphasises the importance of ensuring that advertisements are relevant, fair, and presented in clear language to facilitate informed decision-making.
- **IRDAI (Use and File Procedure for Life Insurance Products):** In accordance with Circular No. IRDAI/ACTL/CIR/MISC/115/06/2022 dated June 10, 2022, the Use & File (U&F) procedure for life insurance products and riders. The expansion of the Use & File procedure aims to enable the life insurance industry to promptly address evolving market demands concerning the design and pricing of insurance products. This initiative seeks to foster a conducive environment for conducting business by streamlining processes and facilitating quicker responses to market dynamics within the life insurance sector.

Overall, these regulations play a crucial role in shaping the landscape of the insurance products in India, ensuring that they meet high standards of quality, fairness, and consumer protection. Compliance with these regulations is essential for insurance companies to operate legally and sustainably in the Indian market.

Disclaimer - These guidelines are based on regulations predating March 2024 and do not encompass any updates introduced by IRDAI thereafter. For the latest information, please refer to the product regulations issued by IRDAI in March 2024.

5

Glossary and references

Glossary and references

Glossary

- **Term product:** A life insurance policy that provides coverage for a specified term or period. If the policyholder dies during the term, a death benefit is paid to the beneficiaries.
- **Endowment assurance:** A life insurance policy that provides a death benefit if the policyholder passes away during the term or a maturity benefit if the policyholder survives the term.
- **Participating life insurance product:** A life insurance policy where policyholders may receive dividends or bonuses based on the insurer's profits, allowing them to participate in the financial success of the insurance company.
- **Unit-linked products:** Life insurance policies that combine insurance coverage with investment options. The policy's cash value is linked to the performance of investment units, offering potential for higher returns.
- **Group life insurance products:** Life insurance coverage provided to a group of individuals, often employees of a company, under a single policy. It offers a cost-effective way to provide life insurance benefits.
- **Immediate annuity:** An annuity product where the annuitant starts receiving regular income payments immediately after a lump sum premium is paid.
- **Deferred annuity:** An annuity product where the annuitant delays receiving income payments until a future date. During the accumulation phase, the premium grows with interest.
- **Persistency:** The measure of policyholders continuing their insurance policies over time by paying premiums regularly.
- **Mortality:** The incidence of death within a specific group of people, influencing life insurance pricing and risk assessment.
- **Reserves:** Funds set aside by the insurer to cover future obligations, ensuring the ability to meet policyholder benefits and claims.
- **Premiums:** Payments made by the policyholder to the insurance company to maintain coverage.
- **Death benefit:** The amount paid to beneficiaries upon the death of the insured policyholder.
- **Bonuses for participating products:** Additional amounts distributed to policyholders based on the insurer's profits in participating life insurance policies.
- **Guarantees under the products:** Promised features or benefits that the insurance company commits to providing in the policy, offering a level of certainty.
- **Bid-offer spread:** The difference between the buying (bid) and selling (offer) prices of units in unit-linked products.
- **Expenses under the product:** The costs associated with administering and maintaining the life insurance policy.
- **Charges under unit-linked products:** Fees deducted from the cash value of unit-linked policies to cover administrative and investment management expenses.
- **Lapse:** The termination of a life insurance policy due to the non-payment of premiums.
- **Surrender:** The voluntary termination of a life insurance policy before its maturity, often resulting in the payment of the policy's cash value.
- **Interest rate:** The rate at which interest is calculated on the cash value of certain life insurance products, impacting the growth of the policy's value over time.
- **Discount rate:** The rate used to calculate the present value of future cash flows or benefits, considering the time value of money. It is often used in the valuation of life insurance products and investments.
- **Annuities:** Financial products that provide a series of regular payments over a specified period or for the lifetime of the annuitant. Annuities can be immediate or deferred, offering income stability.
- **Statutory capital reserves:** The minimum amount of capital that an insurance company is required to hold by regulatory authorities to ensure solvency and financial stability.
- **Sum at risk:** In life insurance, the difference between the face amount of the policy (death benefit) and the cash value or reserves. It represents the amount at risk that the insurer is liable to pay in the event of any contingency.
- **Death strain at risk:** The financial liability or strain on an insurer resulting from the potential payment of death benefits. It is the risk associated with covering the sum at risk in the event of the policyholder's death.

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