# WITH & WITHOUT PROFIT POLICIES

# WHAT ARE WITH-PROFIT POLICIES?

- A **with-profits policy** is an insurance contract that participates in the profits of a life insurance company.

- With-profits policies evolved over many years. Originally they developed as a means of distributing unplanned surplus, arising e.g. from lower than anticipated death rates.

- More recently they have been used to provide flexibility to pursue a more adventurous investment policy to aim to achieve long-term capital growth.

- hey have been accepted as a form of long-term collective investment whereby the investor chooses the insurance company based on factors such as financial strength, historic returns and the terms of the contracts offered.

- Under With-Profit policies, a large part of the life fund is invested in equities, bonds, and property to aim to achieve a high overall return.

- The insurance company aims to distribute part of its profit to the with-profits policy holders in the form of a **bonus** attached to their policy.

- (**Closest Example is** – State Life Insurance Corporation Products)

# WHAT ARE WITH-PROFIT POLICIES?

- There are two main categories of with-profits policies:

  1. **Single premium contracts** - insurance bonds (with-profit bonds), single premium endowments, single premium pension policies.
  2. **Regular premium contracts** in which premium payments are usually made monthly - endowment policies, pension policies.

# WHAT ARE WITH-PROFIT POLICIES?

- With-Profit Policies can be categorized as:
  1. **Single premium contracts** - insurance bonds (with-profit bonds), single premium endowments, single premium pension policies.
  2. **Regular premium contracts** in which premium payments are usually made monthly - endowment policies, pension policies.

- There are two Types of with-profits policies:
  1. **Conventional** - have a **basic sum assured** to which bonuses are added. The basic sum assured is the minimum amount of life assurance payable on death; for endowment contracts it is also the minimum lump sum payable at maturity.

  2. **Unitized With-Profits** are Policies that work in a similar way to Conventional except that the policy value is expressed as a number of units. Various models have been adopted by different insurers, but typically either:
     - the fund value is represented by the bid value of units, which may increase with time, *or*
     - the number of units increases each year to represent the increase in value and the unit price remains fixed.

# WHAT ARE WITHOUT-PROFIT POLICIES?

- A life insurance **policy** in which the sum insured is fixed from the start of the contract
- the **policy** holder has no share in the **profits** of the insurance company.