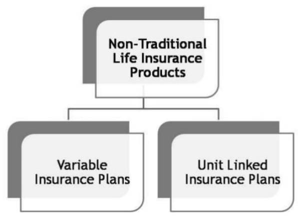
Diagram 1: Non-traditional life insurance products



i. **Variable life insurance**

To begin with it would be useful to know about variable life insurance as introduced in the United States and other markets.

This policy was first introduced in the United States in 1977. Variable life insurance is a kind of "Whole Life" policy where the death benefit and cash value of the policy fluctuates according to the investment performance of a special investment account into which premiums are credited. The policy thus provides no guarantees with respect to either the interest rate or minimum cash value. **Theoretically the cash value can go down to zero, in which case the policy would terminate.**

iii. **Unit linked insurance**

Unit linked plans, also known as ULIP's emerged as one of the most popular and significant products, displacing traditional plans in many markets. These plans were introduced in UK, in a situation of substantial investments that life insurance companies made in ordinary equity shares and the large capital gains and profits they made as a result. A need was felt for having both greater investment in equities nd also passing the benefits to policyholders in a more efficient and equitable manner.

Conventional with profit (participating) policies offer some linkage to the life office's investment performance. The linkage however is not direct. The policyholder's bonus depends on periodic (usually annual) valuation of assets and liabilities and resultant surplus declared, which in turn depends on assumptions and factors considered by the valuation actuary.
Unit linked policies help to overcome both the above limitations. **The benefits under these contracts are wholly or partially determined by the value of units credited to the policyholder's account at the date when payment is due.**