I. **Cash value component:** Firstly, the savings or cash value component in such policies is not well defined. It depends on the amount of actuarial reserve that is set up. This in turn is determined by assumptions about mortality, interest rates, expenses and other parameters that are set by the life insurer. These assumptions can be quite arbitrary.

II. **Rate of return:** Secondly it is not easy to ascertain what would be rate of return on these policies. This is because the value of the benefits under "With Profit policies" would be known for sure, only when the contract comes to an end. Again, the exact costs of the insurer are not disclosed. This lack of clarity about the rate of return makes it difficult to compare them with other alterative instruments of savings. Obviously one cannot know how efficient life insurance is as a savings instrument unless one can make such comparison.

III. **Surrender value:** A third problem is that the cash and surrender values (at any point of time), under these contracts depend on certain values (like the amount of actuarial reserve and the pro-rata asset share of the policy). These values may be determined quite arbitrarily. The method of arriving at surrender value is not visible.

IV. **Yield:** Finally there is the issue of the yield on these policies. Both because of prudential norms and tight supervision on investment and because bonuses do not immediately reflect the investment performance of the life insurer, the yields on these policies may not be as high as can be obtained from more risky investments.

Non-traditional life insurance products

1. Some non-traditional products

In the remaining paragraphs of this chapter we shall discuss some of the non-traditional products which have emerged in the Indian market and elsewhere.

a) Universal life

Universal life insurance is a policy that was introduced in the United States in 1979 and quickly grew to become very popular by the first half of the eighties.

As per the IRDAI Circular of November 2010, "All Universal Life products shall be known as Variable Insurance Products (VIP)".

About Universal Life

Universal life insurance is a form of permanent life insurance characterised by ts **flexible premiums, flexible face amount and death benefit amounts, and he unbundling of its pricing factors**. While traditional cash value policies require a specific gross or office premium to be paid periodically in order to keep the contract in force, universal life policies allow the policyholder within limits, to decide the amount of premiums he or she wants to pay for the coverage. Larger the size of the premium, greater the coverage provided and greater the policy's cash value.

The major innovation of universal life insurance was the introduction of completely flexible premiums after the first policy year. One had only to ensure that premiums as a whole were enough to cover the costs of maintaining the policy. What this implied is that the policy could be deemed to be in force, so long as its cash value was sufficient to pay the mortality charges and expenses.