INSURANCE EXAM · IC-104

IC-104 Products of Life Insurance

Revision book

9	2	167
chapters	master tables	numbered sections

FREE SAMPLE: Chapter 1 of 9

CHAPTER 1

Products: An Overview

1.1	Product: economics and marketing	1.2	Experience and meaning
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MUST KNOW

1. **Economics:** product = good or service, output of effort; commodity = undifferentiated, one version.
2. **Marketing:** product = bundle of features; it can be differentiated.
3. **3 dimensions:** functionality, experience, meaning (self-identity).
4. **3 levels:** core, expected, augmented (the "Wow" level).
5. Life policy = policy of assurance; sum fixed at the start. General policy = indemnity.
6. Immediate Estate starts with the first premium (**Rs 400** can make **Rs 1,00,000**).
7. **3 broad categories:** term, whole life, endowment (+ annuity and pension).
8. **Term:** **5 to 30 years**; USP = low price; nothing after the term ends.
9. Endowment = term + savings; with profit or without profit.
10. **Today:** 30-day free look; ULIP 5-year lock-in, 3-year revival; surrender value after the first full year's premium.

1.1 Product: economics and marketing

Point	Commodity (economics)	Product (marketing)
Differentiation	Undifferentiated	Differentiated
Versions	One only	Many
Appeal	Functionality only	Differing features

- Word "product" from "reproduce" = bring forth, create: output of labour or effort.
- Commodity view fits the early Industrial Revolution: mass production, core needs, affordable price.
- Vanilla product = plain, one model (early mass-made car, black only).
- **Shift after the Second World War:** competition + choosy customers.
- Brands with no differing features become clones; products drift to commodities.

TRAP

- "Product concept" = stress on features, little on customer value: "Marketing Myopia".
- "Better mousetrap fallacy" = belief a better product makes buyers beat a path to the door.

- Product = problem solver, need or want satisfier, means to other ends. Buyer wants the hole, not the drill.

Tangible	Intangible
Building, vehicle, gadget, clothing	Service, idea, method, data, information
	Insurance policy, hospitality

TRAP

Insurance policy and hospitality are NOT tangible.

1.2 Experience and meaning

- **Customer at the centre:** digital revolution, technology, globalisation, competition.
- **1990s ideas:** "a million markets of one"; Customer Intimacy; Customer Lifetime Value.
- Loyalty not won by functionality alone; total experience = feelings and emotions, head and heart.
- **Meaning:** products show who one is or wants to be; ideal self vs real self.
- **Industrial era:** self-identity = "having more". Counter-trend: who I am, what I believe.
- **Quality-of-life concerns:** freedom and control, gender equality and diversity, physical and mental health, material-spiritual balance, life purpose.
- "Brand beneficence" = how the brand serves the whole person and society.

1.3 Dimensions and levels

Dimension	Content
Functionality	Essential functions: what it does and how
Experience	Feelings, emotions, services, support, engagement
Meaning	Values matching the customer's (green products, health and wellness)

Level	Meaning	Example
1 Core	Minimum features to enter the market; end purpose + minimum features	TV that works
2 Expected	What customers expect when comparing	Hotel: service, food, ambience
3 Augmented	Not present in others, not expected; "Wow"	Unexpected extras

TRAP

Levels (core, expected, augmented) are not the dimensions. Tangible is not a level.

- **Product = customer value proposition:** competitive advantage + higher share of customer wallet.
- **Course focus:** functional (contract) attributes of life products.

1.4 Life insurance at the core

Point	General	Life
Name	Indemnity contract	Policy of assurance
Payment	Exact value of loss	Sum fixed at the start
Loss	Property, measurable	Life, cannot be measured

- Death and disease hit human life; events uncertain: whether and when.
- Insurer promises to indemnify and/or mollify.
- Protects loss of productive ability, for dependants or self; death or permanent disability.
- Death or dread disease cover = most common reason to buy.

FORMULA AND WORKED SUM

- **Immediate Estate:** Rs 400 premium makes Rs 1,00,000 estate; 1,00,000 ÷ 400 = 250 times.

- Core = peace of mind and protection to loved ones.
- Private sector and foreign companies opened in **2000**: policies, agents, channels multiplied.
- Premium depends on health, age, gender, type of policy.

1.5 Life products: first idea

- **Value proposition tests:** "Is it effective?" (right solution); "Is it efficient?" (cost).
- **Attributes:** yield, risk, liquidity, flexibility; shaped by actuarial pricing and fund management.
- **Two roles:** protection and wealth accumulation and investment.
- **3 broad categories:** term; permanent (whole life); endowment. Add pension and immediate annuity.

TRAP

Annuity: early deaths pay for long lives. Term and endowment: long lives pay for early deaths.

- **Assurance:** death and old age are certain; timing is the pooled risk.
- Only intangible promise to pay; "grudge" purchase, not a "want"; fund from small premiums; immediate value = peace of mind.
- **Evolution:** death benefit -> living benefits (endowment, disability, dread disease); participating traditional -> market-linked; fixed bundle -> flexible unbundled.

Group	Variants
Endowment	Traditional; market-linked
Term	Mortgage redemption; monthly income replacement; basic HLV
Savings-heavy	Money back; child education; life-stage (chosen maturity dates)

1.6 Term

- Valid for a fixed period; sum stands for human life value (HLV).
- **Mortgage redemption:** cover reduces with the loan.
- **Income replacement:** series of monthly or quarterly payments, not a lump sum.
- **Disability rider:** plain term covers death only.
- **Death after the term:** nothing.

- **5 to 30 years** by entry age; fixed annual rate; renewal = premium recalculated on age and health.
- USP = low price; fits main earner on a limited budget.

FORMULA AND WORKED SUM

- Cover Rs 25 lakh, income Rs 3 lakh (about 8 times). Endowment Rs 40 per 1,000: 25,00,000 ÷ 1,000 × 40 = Rs 1,00,000 (one third of income). Term Rs 5 per 1,000: 25,00,000 ÷ 1,000 × 5 = Rs 12,500.

1.7 Endowment

- Term + long-term savings; maturity date; stable returns.
- Sum assured on death in the term, or permanent disability before maturity.
- **Returns above bank FDs:** longer period, softer tax treatment (lighter tax on premium and receipts).
- Premium higher than term or whole life.

Type	Pays
With Profit (most popular)	Sum assured + share of profit each year (in earlier years it was as high as **95%** of surplus in traditional endowment)
Without Profits	Basic sum insured only

- Fits saving for education or retirement with the money assured.

1.8 Whole life

- Death benefit whenever death occurs; no fixed term; premium for life or limited period.
- **Premium much higher than term:** cash value builds (balance after the cost of term cover is invested).
- **Cash value:** policy loan or surrender; loan outstanding deducted from the death payout.
- **3 benefits:** early death protection (Immediate Estate); later death: stops wealth erosion by terminal expenses; retirement income from cash value.

TODAY'S RULE

Surrender value = higher of guaranteed or special surrender value, after the first full year's premium (single premium and terms under **5 years**: straight away).

1.9 Universal life

- Flexible death benefit and premium; premium can be reduced once cash value is enough.
- Death benefit may lapse if cash value or premium cannot pay the cost of insurance.
- **Some guarantee:** cover stays even if cash value is zero, if set premiums are paid.
- Borrow or withdraw; minimum interest rate guaranteed.
- Fits a person wanting whole life with flexible premium.

1.10 Investment-linked

- Cover + investment; choice of funds; switching while premiums are paid.
- Benefits follow fund performance; sum assured on death or permanent disability.
- Single or regular premium; insurer's fund managers pool and invest.
- Fits those who believe funds beat the insurer's interest rate.

TRAP

Not for stable fixed income, conservative or debt-only investors.

TODAY'S RULE

ULIP: 5-year lock-in; discontinued ULIP revival within **3 years**.

1.11 Group

- Similar standard benefits for all members at a much lower price (lower per-member cost).
- **Groups:** employer-employee; affinity (professionals, borrowers, club, workers, informal).
- **Plans:** One Year Renewable Group Term Assurance; Annuity Funds; Group Savings Linked Insurance; Employee Deposit Linked Insurance.

1.12 Rules now

TODAY'S RULE

Insurance Products Regulations **2024** (from **1 Apr 2024**); Master Circular on Life Insurance Products (**12 Jun 2024**).

Free look **30 days**; grace **15 days** (monthly), **30 days** (other modes).

Death claim **15 days** without investigation, **45 days** with.

GST: individual life policies exempt from **22 Sep 2025**; group **18%**.

Income-tax Act **2025** from **1 Apr 2026**; tax benefit = lighter tax on premium and receipts.

Agents are appointed by the insurer, not licensed.