Life Insurance Bonus

Some insurance policies guarantee the amount of money that you would receive upon maturity or the minimum amount that you would receive upon maturity.

Usually, this amount is a proportion of the sum assured such as a bonus or a guaranteed addition of say Rs 70 per Rs 1,000 of the sum assured. This means if yo have an insurance policy for a sum assure of Rs 100,000 then you earn a bonus of Rs 7,000 each year on the sum assured.

Other policies may offer you a guaranteed bonus as a percentage such as a guarante addition of 3.5% per annum on a compounded basis. This means you earn R 3,500 on a sum assured of Rs 100,000 in t first year while in the second year you earn Rs 3,623 (3.5% of Rs 103,500).

Whole life insurance plans, money back, and endowment plans shares with the insured part of their profits over and above the sum assured. These plans are thus called participatory or 'with profit' plans. In insurance parlance, the profits are termed bonuses. Bonuses are accrued to your account and are typically paid to the insured at the end of the policy term.

Bonus on insurance policies is of two types simple and compounded.

- **Simple Bonus**
  A simple bonus, paid to a policy-holder, is added to his/her funds and is paid at the end of the term or on death. No interest accrues in this type of bonus.
- **Compund Bonus**
  Compound bonus is one on which interest accrues periodically on the original amount paid. Usually insurance firms pay simple bonus in cash to policy-holders and not one that is compounded.

In insurance jargon, the term 'bonus' is used synonymous to "with profit". This means an insurance firm will pay you bonus after factoring in three things: expenses, investments and mortality risk.

So, logically insurers who are able to control costs better and manage higher return on investments are in a better position to pay bonus to the policy-holders. This is because the insurance firms don't have much control on the mortality risks in any given region.

How does an insurer make a profit?

Insurers are allowed to invest a portion of the premium collected for the above-mentioned plans. These investments are heavily regulated by the norms laid down by the Insurance Regulatory & Development Authority of India (**IRDA**). Typically, a major portion of the corpus is invested in government-secured debt instruments, with an infinitesimal percentage invested in equity.

Therefore, bonuses given on such life insurance plans represent the returns on investing in those products. Bonus is calculated on the sum assured and is expressed in rupees per thousand.

The insured can avail of the sum assured plus bonus accrued throughout the term of the policy on maturity. If the insured is to die within the term of the policy, his/her nominee receives the sum assured plus bonus accrued till the time of death.

Bonus Declarations and updates from insurance firms

- **LIC -** Life Insurance Corporation Bonus Information
- **ICICI -** Historical reversionary bonus rates