Customer Friendly Principles and Practices of Financial Management (*CFPPFM*) of With-Profits Fund

Edelweiss Life Insurance Co. Ltd.

Contents

1 Introduction

1.1 What is this document for?

This document is known as the Consumer-Friendly Principles and Practices of Financial Management (CFPPFM) of the With Profits Fund. It gives information about the with-profits policies (also known as participating policies) issued by Edelweiss Life Insurance Company Limited (the Company). It is intended to help policyholders understand how the Company will manage the with-profits fund in which your policy is invested and how bonuses are calculated. It also describes various matters which affect the with-profits fund and let you know how the Company deals with them.

1.2 Background of the Company

Edelweiss Life Insurance Company Limited (formerly known as Edelweiss Tokio Life Insurance Company Limited) established nationwide operations in July 2011 with an immovable focus on protecting people's dreams and aspirations. The Company has been focused on bringing innovation, simplicity, and a new-age approach to life insurance, aligned with the expectations of the customer today. It has been offering need-based and innovative life insurance solutions to help customers live their #zindagiunlimited. With a customer-centric approach, the Company has been operating as a multi-channel distribution business to effectively serve its customers across the country.

1.3 What type of products does this document cover?

It covers all with-profits policies issued by the Company, including the policies in participating life fund and participating pension fund.

2 Governance

The Board of the Company has overall responsibility for the management of the with-profits fund and takes all the key decisions that affect the fund.

The Company has constituted a 'With-Profits Committee' to help the Board in taking key decisions for the with-profits fund. The 'With-Profits Committee' comprises of one Independent Director of the Board (the Chairperson of the Committee), the Managing Director & CEO, the Appointed Actuary, an Independent Actuary, the Chief Financial Officer, the Non-Executive Director, the Executive Director which is also in line with the IRDAI directive.

The With-Profits Committee provides with oversight of the management of the with-profits fund and application of the discretion. The views of the committee on the management of the funds are provided to the Board to help it make the key decisions for the with-profit funds.

This governance arrangement, with their combination of Board level decision making, advice from appointed actuary and independent actuary, and oversight and challenge from with-profits committee, help ensure that the Company manages its with-profits fund in accordance with the applicable regulations and guidance notes and treats its with-profits policyholders fairly.

3 With Profits Contracts/ Policies

3.1 How does your policy work?

With-profits policies are designed to provide both guaranteed benefits and bonuses, offering policyholders the potential for higher benefits over time.

The guaranteed benefits are fixed and payable as per the terms and conditions of the policy. In addition, each year the Company may declare bonuses as and when applicable to the policy, depending on the performance of the with profits fund and other relevant factors. Once declared, either the reversionary bonuses become guaranteed and added to your policy benefits, or paid as cash bonus as per the product feature. The total benefit received by the policyholder comprises of both guaranteed and declared bonuses. This structure ensures a balance of stability through guaranteed benefits and growth through declared bonuses, thereby enhancing the overall value of your policy.

To understand the overall rate of return you may receive from your participating policy, you should consider all premiums paid by you and the total benefits receivable, including both guaranteed benefits and declared bonuses.

3.2 What type of bonuses does the Company pay?

a) Reversionary bonus:

Reversionary bonus is declared annually by the Company for its participating products wherever it is applicable. The bonus rate is applicable on the sum assured of the policy or as per the policy conditions and vests in the policy as part of the guaranteed benefit after declaration. The bonus is payable on death, maturity or survival of the policy as applicable in line with the product feature. Reversionary bonus is further classified into simple and compound reversionary bonus. In case of simple reversionary bonus, the bonus rate is applicable only on the sum assured whereas in case of compound reversionary bonus, the rate becomes applicable on the sum assured and the bonus amount accrued till the preceding year.

b) Cash bonus:

Similar to reversionary bonuses, cash bonus is also declared annually for products where it is applicable. Bonus accruing in a year will be paid to the policyholder at the end of the policy year. This gives the policyholder an opportunity to receive the bonus year on year rather than the usual way of accruing bonus till maturity.

c) Terminal bonus:

In addition to reversionary bonus and cash bonus, Company may declare terminal bonus which will depend on the overall performance of the with profits fund. The terminal bonus is also known as final bonus and is payable to eligible terminating policies in that financial year.

3.3 How are bonus rates determined?

Bonuses are a key part of a with-profits policy, providing policyholders with a share in the with profit fund's performance. To ensure fairness and stability, the Company follows a well-structured approach when determining bonus rates. Every year, the Board, guided by the Appointed Actuary (AA) and the With-Profit Committee (WPC), carefully assesses various factors in bonus determination. A major consideration is the expectations of policyholders, who look forward to consistency in bonus declarations as a reflection of the Company's financial health and its sound management of the with profit fund. To maintain this trust, the Company strives for stability in bonus declarations, avoiding sharp fluctuations even when market conditions vary. This is achieved through a smoothing mechanism, which helps balance returns over time, ensuring that surplus funds can be used effectively during periods of lower investment returns.

The Company also looks at the accumulated value of policies, known as asset share, to determine a fair and sustainable bonus rate. The Asset Share represents the net contribution of a policy to the fund. It is calculated by accumulating the premiums received plus investment income earned year on year less deductions such as benefit payments, commission, expenses. The Company considers actual experience in terms of investment performance and mortality for the asset share calculation.

Investment strategy plays a crucial role as well—prudent investments ensure that the Company can honor its commitments without taking excessive risks. At the same time, fairness is maintained by distributing bonuses equitably among different groups of policyholders, ensuring no one is unfairly advantaged or disadvantaged.

Through this careful and balanced approach, the Company ensures that policyholders benefit from long-term, sustainable returns while maintaining financial strength.

3.4 How will the Company manage policyholder's money?

The Company is committed to manage policyholders' funds in accordance with four key financial principles:

1. Ensuring the timely payment of guaranteed benefits to policyholders.
2. Maintaining adequate financial reserves to sustain the Company's long-term stability.

3. Upholding fairness in the treatment of all policyholders.
4. Subject to the above principles, optimizing investment strategies to achieve the best possible returns for with-profits policyholders and shareholders.

3.5 What if you decide to stop paying premiums on your Policy?

You might decide to stop paying premiums and, subject to certain conditions:

- have a paid-up policy where the policy will continue with reduced paid-up benefits, payable on death or maturity or on other contingent event as applicable to the policy or
- terminate the policy by way to surrender and receive the applicable surrender value.

While you may choose to stop paying premiums and either continue with a reduced paid-up policy or surrender it for its applicable value, the Company recommends continuing paying premiums as and when due and to continue the policy till maturity to ensure you get the full benefits from your policy.

4 What is the investment strategy?

The investment strategy of with profits fund is as per the Company's investment policy. The investment policy considers the prevailing insurance law and IRDAI Regulations, the practices prevailing in the insurance industry. It is based on the risk management principle of balancing risk and reward.

The investment objective of with profits fund is to maximize the expected investment returns subject to general prudential constraints, acceptable degree of risk, required liquidity and sustainability of the business and the protection of policyholders' reasonable expectations. All the investment transactions comply with all the applicable legislation and Regulations.

The current investment policy primarily invests into Debt and some proportion into Equity, Real Estate, etc.

5 How much profits are Shareholders entitled to?

In accordance with the Company's guidelines/principles, all investment profits (and losses) arising on assets of the with profit fund are held for the benefit of with-profits policyholders.

The shareholders are entitled to receive a maximum of 1/9th of cost of bonuses declared in a year. Any changes to the profit-sharing arrangement between shareholders and policyholders would require approval from the IRDAI.

6 What is Fund for Future Appropriation?

Fund for Future Appropriation (FFA) refers to undistributed surplus in the with profits fund which has accumulated over the years. It represents the excess of assets over and above the amount required to meet the fund's liabilities, including those associated with discretionary benefits and regulatory obligations to treat customers fairly. There are multiple ways in which FFA helps and supports the with profits fund. For example, it helps to maintain regular bonus rates (reversionary bonus/cash bonus) during years of adverse investment performance, also provides working capital that supports the implementation of the Company's investment strategy, provides support to meet regulatory capital requirement.