Report of the Board to With-Profits Policyholders 2019-20

LICI UK Branch is regulated by Financial Conduct Authority (FCA). The Directors of LICI are pleased to report to the with-profits policyholders of its UK Branch on how their interests have been looked after during the year. This report covers the period 1st April 2019 to 31st March 2020, the last full financial year for LICI. In doing so, we are fulfilling the requirements of the FCA, which regulates LICI UK Branch.

The Principles and Practices of Financial Management (PPFM) set out the way in which the Branch intends to manage its with-profits business and how it ensures that customers are treated fairly.

During the year, we have not made any changes to the Principles and Practices of management of with-profits business. LICI publishes the PPFM on its website. You may access it at https://www.liciuk.com/pdf/PPFM%202018%20(final).pdf You can also request a printed copy of the latest version of PPFM from us.

This report follows the various sections in the PPFM.

Over-riding principles

The Branch has four key financial objectives. These are:

(a) To meet the contractual obligations to policyholders
(b) To meet the tests of solvency and capital adequacy as required by regulatory bodies
(c) To treat policyholders fairly and meet the reasonable expectations of with-profits policyholders and
(d) Subject to (a), (b) and (c), to maximize the financial returns to with-profits policyholders and the shareholder.

During the period, the Branch has ensured that all contractual obligations are met and has comfortably met the various regulatory capital requirements throughout the year.
The Branch has also ensured that it has treated its policyholders fairly by paying them the claim values in accordance with its Principles and Practices.

Amounts payable

Asset shares show the amount the premiums paid by policyholders would have accumulated to, allowing for the investment return achieved by the Branch and deducting a share of the expenses of the Branch, the cost of any risk benefits and tax.

The Branch calculates individual policy asset shares for each participating policy (except accumulating with-profits contracts, including ISAs) within the Branch with-profits portfolio. The individual policy asset shares are aggregated by product type to assess whether maturity payouts are falling within the target range in the PPFM. No Changes were made to the asset share model during the year.

FCA rules COBS 20.2.5 concerning payouts require the Board to set target ranges for payouts and to ensure that most payouts fall within that range. These ranges currently set by the Board are 80% to 120% of asset share for maturing policies and 75% to 115% for policies which surrender.

The Branch has been in a situation for a number of years where, for policies sold prior to April 2004, the guaranteed benefits exceeded their respective asset share. This is because the investment returns have been much lower in recent years than were previously available. The sums assured and declared reversionary bonuses already attaching are guaranteed and cannot, of course, be changed, but bonus rates have now been reduced in line with the lower interest rate environment. Over recent years, bonus rates have been reduced to rectify this situation. Currently the bonus is set at 0% for whole life and Series 1 endowments, 0.5% for series 2 endowments pre 2008 and 1% for series 2 endowments 2008 onwards. Treating policyholders fairly suggests using more granular terminal bonus rates to better match asset shares but, as this leads to very small groups, with-profits principles suggest greater aggregation to produce terminal bonus rates. The terminal bonuses for the policies exiting in the year 2019-2020 has been declared and is in the range of 0% to 11% for Series 1 policies, 0% to 2% to series 2 endowments pre 2008, and 0% to 7.5% to series 2 endowments 2008 onwards policies.

Annual and final bonuses

Having analysed the asset shares and policy payouts for both Series 1 and Series 2 conventional policies, the annual bonus rate for conventional policies has been decreased for the year ending 31st March 2020. The final (terminal) bonuses have generally been reduced or maintained for Series 1, maintained at the same level for series 2 endowments pre 2008 , and increased for series 2 endowments 2008 onwards policies. The exact rates depends on both the Series of the policy and the term in force.

The regular bonus rate for ISA contracts is set twice yearly in advance and was paid at a rate of 0.25% pa for the 2019-20 financial year but was reduced to 0% at 1 April 2020 to reflect the fall in yields in the last quarter of the financial year. The terminal bonus rate methodology for ISA contracts reflects the actual premiums paid and withdrawals made for each policy, aiming for surrender payments to reflect a policy's fair share.

Smoothing

The UK Branch aims to smooth the fluctuations of investment return and other sources of surplus over the period of the contract. The Branch restricts the maximum amount by which claim values on identical policies maturing in consecutive years can change to 10%pa except in extreme circumstances.

In the year 2019-20, payouts on a group of sample regular and single premium endowment policies for terms of 10-25 years changed by between -4% and +2%, whilst those for 10 year single premium bonds showed an increase of 2%.

The change in asset share values for the same sample policies during the year is dependent on term and whether a policy is a regular or single premium policy. Asset share values for these sample policies have mostly decreased during the year, due to changes in investment returns and expense levels varying by year. Most of the policies are paying significantly more than asset shares due to guarantees, hence the decrease in regular bonus amounts.

For ISA contracts MVRs are separately considered for each premium paid. During some of 2019-20, MVRs were in place for premiums paid on some dates. However, no market value reduction (MVR) has been applied to surrendering ISA contracts during the financial year 2019-20 as for all policies the total MVR was more than offset by the total final bonus on the policy.

Investment Strategy

The Branch's investment policy delegates investment day-to-day decisions to Investec Wealth & Investment Management Ltd. The investment performance is regularly monitored against benchmarks, and it has been highly satisfactory over several years. The Board believes that the investment practice has been in line with the investment policy as specified in the PPFM. The Branch's investment policy was reviewed during the year to reflect the change in liability profile and allows for investment in UK equities, overseas equities, bonds and deposits within the following ranges:

Asset Class	Range
UK Equity Shares	0-42%
Overseas Shares	0-14%
Fixed Interest	54-100%
Cash	0-10%

The investment return (yield on the fund) is -2.09% for the year 2019-20 compared to 4.37% achieved last year mainly due to the sharp fall in equity markets in the last quarter.

Business Risks

The Branch is managing its business risks in line with the PPFM. The Board in consultation with the AFH and WPA is considering various strategic options available to the Branch without significantly increasing the business risks to which the with-profits policyholders are exposed. It is also managing the agreement with Wapeka Ltd to ensure that good quality service is provided to the Branch and its customers.

Charges and Expenses

The expenses of running the business have been charged to policyholders' asset shares except those subsidised by the shareholder.

Management of New business

New business sales continue at a low level, mainly due to the regulatory requirements for distribution of retail investment products that came into effect from 1st January 2013.

The Board, in consultation with the AFH, is currently exploring various options for the Branch, keeping in mind the best interest of policyholders.

Allocation of profits

The distribution of surplus is governed by section 28 of the Life Insurance Corporation Act 1956 (of India); this section is amended by Indian Parliament; the amendments are effective from 31st March 2012. The amended section of the Act provides that 90% or more of such surplus, as the Government of India may approve, shall be allocated to or reserved for the policyholders.

For the year 2019-20, the Government of India has allowed 95% of surplus to be allocated to the policyholders in accordance with the PPFM.

Changes to the PPFM

No changes have been made to the PPFM during the year 2019-20.

Others

The With-Profits Actuary advises the Board in a series of reports on key aspects of discretion affecting the Branch's with-profits business, including recommendation of bonuses. The Board is ensuring that progress is made on the issues highlighted by the With-Profits Actuary in her reports to the Board.

Summary

Having reviewed the period in question, the Directors are pleased to report to the with-profits policyholders that in their opinion the affairs of the Branch have been managed in accordance with the firm's PPFM , the Branch has met the capital adequacy norms, and these policyholders have been treated fairly.

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Report of the With-Profits Actuary to Policyholders of the UK Branch of Life Insurance Corporation of India

I reported to the Board of Life Insurance Corporation of India ("LICI") in accordance with the requirements of the Supervision Manual of the Financial Conduct Authority ("FCA") Handbook. This informed them of my view of the way in which the Principles and Practices of Financial Management ("PPFM") have been applied and how discretion has been exercised in respect of the with-profits policyholders of the UK Branch of LICI.

I am also required by the Supervision Manual to draft a report to with-profits policyholders to accompany the firm's annual report required by COBS20.4.7R of the FCA Handbook. That report should state whether, in my opinion, the annual report and the discretion exercised by the firm in respect of the period covered by the report may be regarded as taking the interests of the firm's with-profits policyholders into account in a reasonable and proportionate manner. In doing this, I must have regard to the rules and guidance laid down in COBS20.2 of the FCA Handbook.

I can confirm that, in my opinion, the Board has generally acted in a manner consistent with the PPFM in the year from 1 April 2019 to 31 March 2020. There are items that require further work:

1) The Board needs to ensure the Branch complies with all the requirements of Section 20 of the FCA's Conduct of Business Sourcebook on Treating with-profits policyholders fairly, especially with-profits corporate governance and ensuring that continuing to write new business is not detrimental to existing with-profits policyholders. The Board is currently developing a new strategy for the Branch with the aim of increasing levels of new business to secure the Branch's future without detriment to existing policyholders.

2) The Board needs to incorporate the individual policy asset shares within the surrender value methodology for conventional business to ensure fair values are paid to all policyholders. A revised basis was recommended in 2019 and the Board has now agreed to the work being updated in 2020 and a revised basis being used in future. We recommend that this is then kept under regular review.

I can confirm that, in my opinion, the Board has taken the interests of with-profits policyholders into account in a reasonable and proportionate manner and that the transfer to shareholders is consistent with reasonable expectations of policyholders.

Alison Carr, With-Profits Actuary for the UK Branch of LICI

28 July 2020