



Notification of changes to our Principles and Practices of Financial Management (PPFM) in 2026

Introduction

The UK Branch of Life Insurance Corporation of India (LIC UK) is making changes to its Principles and Practices of Financial Management (PPFM). The Board of Life Insurance Corporation of India approved the suggested changes in Feb 2026.

Significant changes have been made to the way in which payouts on with-profits policies are determined. These changes have been implemented on the grounds that they increase payouts to policyholders and are consistent with the General Principles set out in Section 2 which override the other principles. This document therefore confirms the changes and provides notice for any comments policyholders may have.

We have made some changes to the principles to improve the management of the with-profits business and ensure the PPFM is aligned with current Board decisions, regulations and changes to the practices to make them clearer and to help us achieve our General Principles.

This document describes the key changes from the current PPFM, which has been in place since 2018.

It should further be noted that in 2021 the Board approved a number of changes to the way in which the with-profits fund would be managed. In July 2024 it was agreed by the Board that these changes should not be implemented in the UK Branch until further notice and until the Board reviews and approves any additional revisions.

This document covers only material changes to PPFM. A number of further changes were made to aid understanding or improve clarity. Should you want a copy of our new PPFM, to which these changes refer, we would be happy to supply you with one. We have also added a section to our website with “frequently asked questions”. Please refer to the “Where can I find out more?” section.

Changes to Principles

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
General Principles				
2.2	Deleted	Paragraph now covered in Section 11 (Allocation of Profits).	<u>LICI is wholly owned by the Government of India, and currently distributes a dividend of 5% of the distributed surplus to the shareholder. The distribution is governed by the Life Insurance Corporation Act 1956 as amended from time to time. This states that where a surplus emerges “ninety percent or more such surplus, as the Central Government may approve, shall be allocated to or reserved for the life insurance policyholders of the Corporation.”</u>	
2.3	Deleted	Paragraph now covered in Section 1 (Introduction).	<u>The Branch has a single long-term business fund in which all insurance business is transacted. A separate Shareholder Fund also exists within the Branch and is the vehicle via which the Branch distributes surplus to the shareholder. All income and expenses of the long term business are allocated to the long-term business fund, other than any expenses assumed to be paid by the shareholder, including any mis-selling costs and any subsidies provided by the shareholder. In particular, where deemed appropriate, the expenses charged to the long-term business fund may be limited to amounts that are consistent with any illustrations given to policyholders.</u>	

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Amount payable				
3.3 - 3.5	3.3 - 3.5	Removal of the use of asset shares to be replaced by prospective measures for conventional with-profits policies. Clarification of the source of the capital for new non-profit and unit linked business.	<u>Where practical, the Branch calculates asset shares to assist in determining the pay-out due on maturing policies.</u> <u>The Branch will also conduct investigations and projections to establish the appropriate proportion of bonus and pay-out to be paid in final (non-guaranteed) form. The proportion is assessed having regard to the targeted free asset position, investment mix and the desired level of equity required between generations and classes of policyholders.</u> <u>In applying the methods to determine the amounts payable under with-profits policies, there is a need to consider historical experience and, where appropriate, make assumptions about the past. In the light of new information, different methods or new techniques, the Branch may change any assumptions used regarding the historical experience. In making any changes the Branch will have due regard to the fair treatment of with-profits policyholders and the materiality of any change.</u>	<u>The Branch will conduct investigations and projections to establish the appropriate proportion of bonus and pay-out to be paid in final (non-guaranteed) form. The proportion is assessed having regard to the targeted solvency position, investment mix and the desired level of equity required between generations and classes of policyholders.</u> <u>In making any changes to the methods or techniques used to determine bonuses, the Branch will have due regard to the fair treatment of with-profits policyholders and the materiality of any change.</u> <u>Non-profit and unit linked business has been financed by capital in the With-Profits Fund. Surplus arising from this business is therefore a component of the miscellaneous surplus that arises in the With-Profits Fund. Therefore surplus arising from non-profit and unit linked business is allocated between the policyholders and shareholders in the same way as any other surplus, as set out in section 11. Note however the comments made in section 11.6 regarding the Board's intentions for the surpluses arising from non-profit and unit linked business.</u>

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Annual & final bonuses				
4.3 - 4.4	4.3 - 4.4	Rewording to improve clarity.	The starting point for the approach used is to consider the sustainability of bonus rates that do not depart significantly from those declared in recent years, having particular regard to the financial impact on the Branch in terms of its projected <u>free asset</u> position. The Board aims to set annual bonus rates that do not fluctuate widely from declaration to declaration on a year to year basis, and to give policyholders a reasonable expectation that similar bonuses can be declared in future years. However, the bonus rates will change, if our view of the future long term experience changes, with due regard to policyholder reasonable expectations and recent bonus levels. Bonuses will only be declared if there is a surplus in the fund.	The starting point for the approach used is to consider the sustainability of <u>annual</u> bonus rates that do not depart significantly from those declared in recent years, having particular regard to the financial impact on the Branch in terms of its projected <u>solvency</u> position. The Board aims to set annual bonus rates that do not fluctuate widely from declaration to declaration on a <u>year-to-year</u> basis, and to give policyholders a reasonable expectation that similar bonuses can be declared in future years. However, the <u>annual</u> bonus rates will change, if our view of the future long term experience changes, with due regard to <u>treating customers fairly</u>, policyholder reasonable expectations, and recent bonus levels. Bonuses will only be declared if there is a surplus in the fund.

4.20	4.19	Amended to clarify the treatment of conventional with-profits business and ISAs and to remove the implicit reference to asset shares.	In determining the total pay-out on a policy becoming a claim, the Branch may add a final bonus aimed at increasing the benefits guaranteed under a policy to <u>the underlying value of that policy as assessed by</u> the experience throughout its lifetime within the fund.	In determining the total pay-out on a policy becoming a claim, the Branch may add a final bonus aimed at increasing the benefits guaranteed under a policy to <u>an amount representing the policy's share of the With-Profits Fund for conventional with-profits policies (see section 3.6) and for ISAs (see section 3.14).</u>
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Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Smoothing				
5.1 - 5.2	5.1 - 5.2	Rewording to aid clarity.	In framing a bonus declaration, the Actuary compares the pay-out on a maturity claim with that for a similar policy maturing in the previous year to ensure it is not inconsistent. The smoothing policy of the Branch has regard to factors such as the bonus policy, <u>level of free assets</u>, the investment mix and the policyholders' reasonable expectation. The General Principles 2.1(b) and (c) are of vital importance in this regard.	In framing a bonus declaration, the <u>With-Profits</u> Actuary compares the pay-out on a maturity claim with that for a similar policy maturing in the previous year to ensure it is not inconsistent. The smoothing policy of the Branch has regard to factors such as the bonus policy, the <u>solvency level</u>, the investment mix, and the policyholders' reasonable expectation. The General Principles 2.1(b) and (c) are of vital importance in this regard.

5.3 - 5.4	Deleted	The cost of smoothing is no longer relevant as asset shares are no longer referenced and the surplus assets in the with-profits fund are to be distributed.	<u>The cost of smoothing will be monitored at least annually.</u> <u>The total cost (and hence scale) of smoothing must inevitably be subject to the availability of adequate resources and cannot be allowed to grow too large in relation to the size of the long term business fund. The aim would however be to target a zero cost of smoothing over a reasonable period of time.</u>	
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Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Investment Strategy				
6.1 - 6.2	6.1 - 6.2	Rewording to improve clarity.	The <u>Branch's</u> investment strategy supports the key financial objectives set out in Section 2. It is currently based on the view that while the security of the investment is paramount, there are advantages in investing a proportion of the portfolio in equities and property as these can be expected over the longer term to produce a better investment return than can be achieved by investing solely in cash and bonds. The strategy, therefore, is to invest a high proportion of the <u>funds</u> in fixed interest investments but to invest the balance in equities and property with the aim of improving the investment return available to with-profits policyholders subject to an acceptable degree of risk. The strategy takes into account any limits set by regulators and the risks of each asset type, and the potential effects on the <u>Branch's</u> capital requirements.	The investment strategy <u>for the With-Profits Fund</u> supports the key financial objectives set out in Section 2. It is currently based on the view that while the security of the investment is paramount, there are advantages in investing a proportion of the portfolio in equities and property as these can be expected over the longer term to produce a better investment return than can be achieved by investing solely in cash and bonds. The strategy, therefore, is to invest a high proportion of the <u>With-Profits Fund</u> in fixed interest investments but to invest the balance in equities and property with the aim of improving the investment return available to with-profits policyholders subject to an acceptable degree of risk. The strategy takes into account any limits set by regulators and the risks of each asset type, and the potential effects on the <u>Fund's</u> capital requirements.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
6.4	6.4	Improved clarity.	In setting investment strategy, the Branch has regard to the nature and term of its <u>long-term business</u> liabilities, the extent of any guarantees applying and the need to demonstrate solvency. In theory, guaranteed benefits should be backed by fixed interest assets of the appropriate term and security but investment strategy can vary from this to the extent that <u>free assets</u> allow the <u>Branch</u> to support the resulting capital requirements. Regard is also paid to the expectations of policyholders in relation to the nature of the assets backing their policies.	In setting investment strategy, the Branch has regard to the nature and term of its <u>with-profits</u> liabilities, the extent of any guarantees applying and the need to demonstrate solvency. In theory, guaranteed benefits should be backed by fixed interest assets of the appropriate term and security, but investment strategy can vary from this to the extent that <u>solvency levels</u> allow the <u>With-Profits Fund</u> to support the resulting capital requirements. Regard is also paid to the expectations of policyholders in relation to the nature of the assets backing their policies.
6.5	6.5	Improved clarity.	In determining the investment strategy and extent of deviation away from the theoretical matched position, the Branch can rely upon any <u>long-term business assets</u> , <u>including</u> those held <u>outside</u> the <u>long-term fund</u> and no distinction is drawn between with-profits and non-profit liabilities.	In determining the investment strategy and extent of deviation away from the theoretical matched position, the Branch can rely upon any <u>assets in the With-Profits Fund</u> , and <u>additionally</u> those held <u>in</u> the <u>Shareholder Fund</u> , and no distinction is drawn between with-profits and non-profit liabilities.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
6.6	6.6	Improved clarity	There are no constraints that apply with respect to parts of the <u>fund</u> either on account of separate policy classes or generations of business.	There are no constraints that apply with respect to parts of the <u>With-Profits Fund</u> either on account of separate policy classes or generations of business.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Business risk				
7.1 - 7.3	7.1 - 7.3	Improved clarity	Business risks for <u>the long-term business fund</u> will include the acquisition and maintenance of with-profits and non-profit business. New business arrangements are specifically covered in Section 10. Any new venture involving significant resource or risk will be subject to a full cost benefit justification and risk assessment. It will require approval from the Board in India. In general, any business risks outside the routine risks of effecting and carrying out insurance contracts would be supported by <u>shareholder capital</u>, and profits or losses arising would be borne by the shareholder and not attributed to with profits policyholders.	Business risks for the <u>With-Profits Fund</u> have historically included the acquisition and maintenance of with-profits, non-profit, <u>and unit linked business</u>. The with-profits fund was closed to new business on 24 June 2024. Section 10 contains further details. Any new venture involving significant resource or risk will be subject to a full cost benefit justification and risk assessment. It will require approval from the Board in India, <u>after taking advice from the With-Profits Actuary</u>. In general, any business risks outside the routine risks of effecting and carrying out insurance contracts would be supported by <u>the Shareholder Fund</u>, and profits or losses arising would be borne by the <u>shareholders</u> and not attributed to with-profits policyholders.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Charges and expenses				
8.2	8.2	Improved clarity	The basis upon which expenses are apportioned seeks to reflect the drivers and the activities that give rise to such expenses.	The basis upon which expenses are apportioned seeks to <u>broadly</u> reflect the drivers and the activities that give rise to such expenses.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Inherited estate				
9.1	9.1	Improved clarity	The term “inherited estate” is normally used to refer to surplus which has accumulated over the years and is not attributable to the current generation of policyholders.	The term “inherited estate” is normally used to refer to surplus <u>in the With-Profits Fund</u> which has accumulated over the years and is not attributable to the current generation of policyholders.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
New business				
10.1 - 10.3	10.1 - 10.3	Changed to reflect the closure to new business in June 2024	The primary consideration in the setting of new business <u>volumes</u> is the level of resource (both in terms of capital and processing capacity) required. Projections of the Branch under different scenarios are used to establish any maxima in terms of limitations of the Branch's financial capacity to take-on new business where this becomes an issue. This would have regard to business mix if appropriate. Consideration would also be given to the nature of the products being sold, their potential suitability for customers, the financial and business risks associated with the products and the methods and terms upon which they are sold as compared with the market. New business should only be sold if it is in the interests of the existing with-profits policyholders. Should the Branch determine that it is not in the interests of with-profits policyholders to remain open to new business, it will develop a closure plan. This will include a strategy for managing the closed book of business <u>and how any inherited estate will be distributed</u> over the expected lifetime of the with-profits policies.	The With-Profits Fund closed to all new business on 24 th June 2024 so there are no Principles or Practices relating to arrangements for taking on or ceasing new business in this PPFM

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Allocation of profits				
11.1	11.1	Change of ownership of LICl	The Life Insurance Corporation of India <u>is</u> 100% owned by the Government of India (the shareholder).	The Life Insurance Corporation of India <u>has until recently</u> been 100% owned by the Government of India. <u>The Government of India sold some 3.5% of its shares in LICl in an Initial Public Offering, which took place in May 2022.</u>
11.2	11.2	Improved clarity	The distribution of surplus between the policyholders and the <u>shareholder</u> is governed by the provisions of the Life Insurance Corporation Act as amended from time to time.	The distribution of surplus between the policyholders and the <u>shareholders</u> is governed by the provisions of the Life Insurance Corporation Act 1956 (under Indian law, “ <u>the Act</u> ”) as amended from time to time.
11.3	11.3	Clarification of wording.	The current provisions of the Act allow <u>5%</u> of the distributable surplus to be paid to the shareholder.	The current provisions of the Act allow <u>up to 10%</u> of the distributable surplus to be paid to the shareholders.
11.4	11.4	Improved clarity	As per the provisions of the Act, the <u>Shareholder</u> can approve varying the surplus to be allocated to policyholders.	As per the provisions of the Act, the <u>Board of LICl</u> can approve varying the surplus to be allocated to policyholders, <u>subject to continuing to comply with the rules and requirements of the relevant UK regulations.</u>

Changes to Practices

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Amount payable				
3.6 - 3.7	3.6 - 3.9	Rewritten to remove references to asset shares and reflect revised practices being followed do derive payouts.	<u>Asset shares are currently calculated for all non-ISA with-profits policies except whole of life policies. This section therefore does not apply to those whole of life policies.</u> <u>Bonus rates are set after consideration of the asset shares of individual premium-paying policies. Accurate data relating to investment returns and expenses from the point of sale onwards is not always available and, where necessary, approximations have been used. The asset shares are used as a guide to determine how much, if any, final bonus should be paid.</u>	<u>Bonuses will be reviewed at least once each year and more frequently if there are significant changes in the overall fund for example because of movement in the investment markets or changes in policyholder behaviour.</u> <u>Amounts payable are determined by considering a bonus reserve valuation of the with-profits liabilities and the assets in the With-Profits Fund.</u> <u>The bonus reserve calculation allows for all future bonuses, future expenses, including maintenance expenses and investment expenses on a realistic basis allowing for any subsidy of expenses provided by the shareholders.</u> <u>Bonus rates are set after consideration of the relationship between the assets in the With-Profits Fund, the bonus reserve valuation, and the solvency of the Fund.</u>

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
3.8 - 3.9	Deleted	Removed references to asset shares.	<u>The asset share for an individual policy is calculated by taking into account the premiums paid, deducting the expenses incurred under the policy and the cost of mortality (see 3.11below), surrenders and miscellaneous surplus and rolling this amount up at the rate of investment return earned on the assets. The calculation of expenses is based on the premium paid, the asset share and a fixed cost per policy, although the expenses applied to each asset share may be limited to ensure they are reasonable. Any expenses in excess of any limits would normally be charged to the Shareholder Fund.</u> <u>Allowance is made for the expenses incurred over the period, by expressing the new expenses in the year the policy was taken out as a percentage of annualised new business premiums and the renewal expenses for all subsequent years as a percentage of revenue premiums excluding new premiums. Smoothing may be applied to the expense percentages from year to year.</u>	

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
3.10 - 3.11	deleted	Removed references to asset shares.	<u>The asset share calculations for the period up to and including March 1996 assume an investment return based on index returns and in later periods assume an investment return based on the investment income and changes in capital values of the whole fund expressed as a percentage of the liabilities. It also allows for a different assumed investment mix for the ISA policies. Allowance is made in the calculations for the tax paid on investment return and tax relief received on expenses.</u> <u>Credit is given for mortality over the period, with the mortality assumed to be equal to the current best estimate assumption, which is set after considering experience. The cost of the actual mortality experience is charged to the asset share, so the asset share is increased where actual mortality experience is better than that assumed in the premium basis. Credit is given for profits arising from surrenders and other miscellaneous sources, allocated in proportion to asset share.</u> <u>The investment return used to calculate the asset share is reduced by 0.25% pa to fund the cost of guarantees and the cost of capital.</u>	

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
3.12	Deleted	Paragraph now covered in paragraph 3.5 in Principles section.	<u>Surplus arising from non-profit business is included in the miscellaneous surplus that is allocated to the asset share.</u> Therefore surplus arising from non-profit business is allocated between the policyholders and shareholders in the same way as any other surplus, as set out in section 2.2.	
3.15 - 3.16	3.10	New paragraph removing reference to asset shares and explaining payouts on maturity and death.	<u>On maturity, the Branch aims to pay an amount which is between 80% and 120% of asset share.</u> <u>If policies have sum assured and bonus in excess of this amount, they will receive a percentage of asset share in excess of 120% but bonuses would be kept at low levels until most pay-outs fall within the target range.</u>	<u>On maturity and death, the Branch aims to set the final bonus rates in order to distribute a fair share of the With-Profits Fund to policyholders. The final bonus rates are expressed as a percentage of guaranteed benefits, based on the duration the policy has been in-force and participating in profits.</u>
3.17 - 3.18	3.11	New paragraphs explaining payouts on surrender, moving away from referring to asset share.	<u>On surrender, the Branch aims to pay an amount which is between 75% and 115% of asset share.</u> <u>The surrender value for some policies may be in excess of this amount and so they may receive a percentage of asset share in excess of 115% if they surrender, but it is intended that bonuses would be kept at low levels until most pay-outs fall within the target range.</u>	<u>The surrender value for a policy will be based on the prospective bonus reserve calculation used to determine the policy's fair share of the fund.</u> .

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
3.19	3.12	Paragraph renumbered.	The Branch will not pay a surrender value if the policy surrenders within two years of inception. In certain cases, a paid-up policy may be granted.	The Branch will not pay a surrender value if the policy surrenders within two years of inception. In certain cases, a paid-up policy may be granted.
3.12	3.13	Paragraph on payouts on becoming fully paid-up moved to a better location in the document, with signposting to exceptions later in the document.	If a with-profits policy is made paid up before the end of its contractual term the <u>annual bonus added to date is credited to the policy, but</u> the policy then becomes non-profit and receives no further bonus additions.	If a with-profits policy is made paid up before the end of its contractual term, <u>the sum assured would be adjusted to allow fairness between generations and classes of policyholders, and the annual bonus added to date is credited to the policy.</u> Thereafter, the policy becomes non-profit and receives no further bonus additions. <u>Section 4.15 below provides details of exceptions to this approach.</u>
3.13 - 3.14	3.14 - 3.15	ISA payouts reframed in terms of a shadow portfolio calculation, now explained, together with the additional final bonus.	The amounts payable under an ISA are set with respect to a shadow portfolio calculation rather than an <u>asset share</u>. The calculation is a roll-up of premiums with investment return, reduced to allow for any charges applied to the ISAs. When considering the investment return, the ISA business is assumed to be invested 50% in equities and 50% in fixed interest securities. The percentage returns for each of equities and fixed interest securities are those calculated for the assets of that type held by the <u>fund as a whole</u>.	The amounts payable under an ISA are based on a shadow portfolio calculation rather than a <u>prospective bonus reserve calculation</u>. The <u>shadow portfolio</u> calculation is a roll-up of premiums with investment returns, reduced to allow for any charges <u>(such as the annual management charge)</u> applied to the ISAs. When considering the investment return, the ISA business is assumed to be invested 50% in equities and 50% in fixed interest securities. The percentage returns for each of equities and fixed interest securities are those calculated for the assets of that type held by the <u>With-Profits Fund</u>.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
3.20	3.16	Minor wording change.	If an ISA policy is surrendered or transferred to another provider at other than <u>a date</u> where a guarantee applies, a Market Value Reduction may be applied. This will happen if the market value of the assets in which the ISA is notionally invested has fallen below the face value of the units allocated to the ISA. A surrender penalty may also be applied to a surrender in the early years to enable the Branch to recoup some or all of its <u>initial</u> costs.	If an ISA policy is surrendered or transferred to another provider at <u>any date other than one</u> where a guarantee applies, a Market Value Reduction may be applied. This will happen if the market value of the assets in which the ISA is notionally invested has fallen below the face value of the units allocated to the ISA. A surrender penalty may also be applied to a surrender in the early years to enable the Branch to recoup some or all of its <u>acquisition</u> costs.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Annual & final bonuses				
4.5 - 4.6	4.5 - 4.6	Minor wording changes.	Annual bonus rates are declared at the discretion of the Board. Current practice is to set rates for conventional contracts annually in arrears. In the normal course of events, the Board would not expect to re-set annual bonus between declarations. However, in the event of a significant change in economic circumstances that could <u>adversely</u> affect the surplus expected to be available for distribution, the Board can use its discretion to alter annual bonus rates at any time The Branch currently has two annual bonus series for conventional with-profits policies. The First Series applies to all single premium with profits policies issued before April 2002 and all regular premium policies issued before February 2004. The Second Series applies to all other with-profits policies. Within each series, the bonus declared for a particular policy may vary according to the exact type and term of that policy.	Annual bonus rates are declared at the discretion of the Board <u>and allotted to all conventional participating policies in force for the full Sum Assured on 31st March in each year</u>. Current practice is to set rates for conventional contracts annually in arrears. In the normal course of events, the Board would not expect to re-set annual bonus between declarations. However, in the event of a significant change in economic circumstances that could affect the surplus expected to be available for distribution, the Board can use its discretion to alter annual bonus rates at any time. The Branch currently has two annual bonus series for conventional with-profits policies. The First Series applies to all single premium <u>conventional</u> with-profits policies issued before April 2002 and all regular premium <u>conventional with-profits</u> policies issued before February 2004. The Second Series applies to all other conventional with-profits policies. Within each series, the <u>annual</u> bonus declared for a particular policy may vary according to the exact type and term of that policy.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
4.9	4.9	Minor wording change.	For the Second Series, which has a lower guaranteed sum assured than the First Series, the intention is that annual bonus rates should be no higher than the rate earned on the fixed interest investments of the fund, after allowing for guarantees implied in the premium rates and taking expenses into account. The declaration will also take account of current and expected future economic and demographic experience over the lifetime of the policy, and the investment policy. It will be set to include an appropriate margin for final bonus. The latter is important to permit greater investment freedom and <u>establish</u> equity between generations and classes of policyholders.	For the Second Series, which has a lower guaranteed sum assured than the First Series, the intention is that annual bonus rates should be no higher than the rate earned on the fixed interest investments of the With-Profits Fund, after allowing for guarantees implied in the premium rates and taking expenses into account. The declaration will also take account of current and expected future economic and demographic experience over the lifetime of the policy, and the investment policy. It will be set to include an appropriate margin for final bonus. The latter is important to permit greater investment freedom and <u>facilitate</u> equity between generations and classes of policyholders.
4.12	4.11	Minor wording change.	Where circumstances change to such an extent that it would be unfair to existing or new business policyholders to share the same rates of bonus, the Board may, on the advice of the Actuary, decide to declare an alternative bonus series, amend the basis of the contract or withdraw the type of policy altogether. Such a scenario could arise if using the same bonus series would lead to subsidy of new policies by existing policies.	Where circumstances change to such an extent that it would be unfair to existing policyholders to share the same rates of bonus, the Board may, on the advice of the <u>With-Profits</u> Actuary, decide to declare an alternative bonus series or amend the basis of the contract.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
4.15	4.14	Paragraph kept specific to vested business.	<u>Bonuses are allotted to all conventional participating policies in force for the full Sum Assured on 31st March in each year.</u> For those policies issued by the insurers whose business has vested in the Corporation (see table above), the entitlement to annual bonus includes policies which have been made paid-up for a reduced Sum Assured.	For those policies issued by the insurers whose business has vested in the Corporation (see table above), the entitlement to annual bonus includes policies which have been made paid-up for a reduced Sum Assured.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
4.17 - 4.18	4.16 - 4.17	Minor wording changes.	The ISA bonus rate is normally reviewed every six months at the discretion of the Board and the rate is applied on a daily basis for the following six months. So a policy that has been in force for six months will have accrued half a year's bonus. In the normal course of events, the Board would not expect to re-set annual bonus between declarations. However, in the event of a significant change in economic circumstances that could adversely affect the surplus expected to be available for distribution, the Board can use its discretion to alter annual bonus rates at any time. The with-profits ISA operates on a compound bonus system. In this case, the bonus is declared as a percentage of the accumulated fund. This bonus rate is also set in a different manner. The ISA has no "sum assured" and the fund is the accumulation of premiums to date plus the bonus <u>rate</u> net of the fund management charge.	The ISA <u>annual</u> bonus rate is normally reviewed every six months at the discretion of the Board and the rate is applied on a daily basis for the following six months. So a policy that has been in force for six months will have accrued half a year's <u>annual</u> bonus. In the normal course of events, the Board would not expect to re-set annual bonus between declarations. However, in the event of a significant change in economic circumstances that could adversely affect the surplus expected to be available for distribution, the Board can use its discretion to alter annual bonus rates at any time. The with-profits ISA operates on a compound bonus system. In this case, the bonus is declared as a percentage of the accumulated fund. This bonus rate is also set in a different manner. The ISA has no "sum assured" and the accumulated fund is the accumulation of premiums to date plus the bonus <u>rates declared</u> net of the fund management charge.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
4.19	4.18	Minor wording change.	The ISA is deemed to be invested 50% in fixed interest securities and 50% in equities, as discussed in section 3.14. The bonus rate is set by considering the yield available on fixed interest securities and reducing this by the management charge and a prudent margin. The fund's performance is measured using a shadow portfolio and to the extent that the performance of the shadow portfolio exceeds the annual bonus granted and any surrender penalty, a final bonus will normally be payable. However if the policy is surrendered at a time when the value of the shadow portfolio is less than the face value of the units allocated (including vested annual bonus) then a Market Value Reduction may be applied.	The ISA is deemed to be invested 50% in fixed interest securities and 50% in equities, as discussed in section 3.14. The <u>annual</u> bonus rate is set by considering the yield available on fixed interest securities and reducing this by the management charge and a prudent margin. To the extent that the performance of the shadow portfolio exceeds the annual bonus granted and any surrender penalty, a final bonus will normally be payable. However, if the policy is surrendered at a time when the value of the shadow portfolio is less than the face value of the units allocated (including vested annual bonus) then a Market Value Reduction may be applied.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
4.22 - 4.25	4.21 - 4.24	Improved clarity around the non-ISA final bonus practices. Removal of reference to policies expressed in rupees.	Final <u>bonus</u> for both First and Second Series policies are expressed as a percentage of the sum assured. <u>This is usually referred to as a simple bonus system.</u> Final bonus rates are declared at the discretion of the Board on the advice of the Actuary. The levels of final bonus rates are reviewed at regular intervals, not less frequently than annually, but more frequently when significant changes <u>in</u> investment market dictate. Any final bonus is generally only paid on claims where the policy has been in force for a minimum number of years varying by type. <u>Separate scales of final bonus may apply to First Series policies expressed in sterling and rupees.</u>	<u>Current practice is to set final bonus rates for conventional contracts annually in advance.</u> Final <u>bonuses</u> for both First and Second Series policies are expressed as a percentage of the sum assured <u>and depend upon the duration the policy has been in-force and participating in profits.</u> Final bonus rates are declared at the discretion of the Board on the advice of the <u>With-Profits</u> Actuary. The levels of final bonus rates are reviewed at regular intervals, not less frequently than annually, but more frequently when significant changes, <u>for example in the investment markets, dictate.</u> Any final bonus is generally only paid on claims where the policy has been in force for a minimum number of years varying by type.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
4.26 - 4.28	4.25 - 4.27	Minor wording changes.	One or more separate scales will be determined for Second Series policies. With-profits policies that become claims <u>prior to the bonus declaration for the year</u> are entitled to an <u>interim</u> final bonus at <u>the same rates</u> as applied at the previous declaration date. Where a convertible Whole Life policy or a <u>without profit</u> policy is converted to a with profit policy, the qualifying period for final bonus will be reckoned from the date of policy anniversary from which it is entitled to participate in profits.	One or more separate scales will be determined for Second Series policies. With-profits policies that become claims are entitled to a final bonus at <u>the rate declared</u> at the previous declaration date. Where a convertible Whole Life policy or a <u>non-profit</u> policy is converted to a with-profits policy, the qualifying period for final bonus will be reckoned from the date of policy anniversary from which it is entitled to participate in profits.
4.31	4.30	Minor wording changes.	Final bonus rates are declared at the discretion of the Board on the advice of the Actuary. The levels of final bonus rates for ISAs are reviewed at least monthly and more frequently when significant changes <u>in investment market</u> dictate.	Final bonus rates are declared at the discretion of the Board on the advice of the <u>With-Profits</u> Actuary. The levels of final bonus rates for ISAs are reviewed at least monthly and more frequently when significant changes, <u>for example in the investment markets,</u> dictate.
	4.31	New section to explain the additional final bonus for ISAs		Additional final bonus rates will be expressed as a proportion of the accumulated fund and will be declared at least annually on the advice of the With-Profits Actuary.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Smoothing				
5.5 - 5.7	5.3 - 5.4	Improved clarity around the smoothing. Removal of discussion of surrender payouts in this section.	The current smoothing methodology does not differentiate between generations and types of with-profits policies, <u>but this may change in future.</u> The current approach to smoothing is to limit the change in amounts payable under a with-profits policy to 10% from one declaration to the next in normal circumstances. However, as described in the practices governing annual and final bonus rates setting, the Board can, on the advice of the Actuary, depart from this 10% limit (or make declarations more frequent than annually) should the financial condition of the fund so dictate. The cost of smoothing would be a constraint on the smoothing policy; such cost should be reasonable in relation to the Branch's solvency position. <u>Claim pay-outs on surrender will receive any entitlement they may have to final bonus depending on duration in force. The formula applied to surrender values and paid up values reflects economic conditions and can be changed by the Board on actuarial advice. However, any such change will be constrained by the need for surrender pay-outs to fall within the target ranges given above.</u>	The current smoothing methodology does not differentiate between generations and types of with-profits policies. The current approach to smoothing is to limit the change in amounts payable under a with-profits policy to 10% from one declaration to the next in normal circumstances. However, as described in the practices governing annual and final bonus rates setting, the Board can, on the advice of the <u>With-Profits</u> Actuary, depart from this 10% limit (or make declarations more frequent than annually) should the financial condition of the <u>With-Profits</u> Fund so dictate.

5.8		Deleted as now included in the same way as conventional policies	For the ISA contract, the annual bonus rate is set on a smoothed basis and final bonuses will apply according to the dates on which premiums have been paid and any partial withdrawals have been taken.	
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Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Investment Strategy				
6.7 - 6.9	6.7 - 6.9	Improved clarity around the Investment Strategy.	The Branch outsources its investment management. The Branch Management Committee is responsible for maintaining a sound system of control over the investment risk in all its forms. The Branch Management Committee meets quarterly. The investment management agreement includes objectives, guidelines and constraints. Monthly and Quarterly reports are provided for review purposes. <u>A formal investment review</u> is currently carried out at least annually. The Branch has a relatively conservative investment policy with the emphasis on maintaining the security of the funds through investment in fixed interest securities. <u>For the purposes of the approach to investment, the long-term business fund can currently be considered as a single entity incorporating all the assets and liabilities of the Branch other than the assets in the Shareholder Fund.</u> The Shareholder Fund may use a different investment <u>approach</u> to the <u>long-term business</u> fund.	The Branch outsources its investment management. The Branch Management Committee is responsible for maintaining a sound system of <u>governance and</u> control over the investment risk in all its forms. The Branch Management Committee meets quarterly <u>to review the performance of the Investment Manager and consider whether any changes to the investment policy are required.</u> The investment management agreement includes objectives, guidelines, and constraints. Monthly and Quarterly reports are provided for review purposes. <u>An investment policy</u> review is currently carried out at least annually with a formal review at least once every three years. The Branch has a relatively conservative investment policy with the emphasis on maintaining the security of the funds through investment in fixed interest securities <u>(as noted above in 6.2).</u> The Shareholder Fund may use different investment <u>approaches</u> to the <u>With-Profits</u> Fund.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
6.11	6.11	Minor wording changes.	Any proposal to invest in a new or novel investment instrument would require approval by the Board based on a recommendation from the <u>Investment</u> Management Committee who in turn would seek advice from the Actuary.	Any proposal to invest in a new or novel investment instrument would require approval by the Board based on a recommendation from the <u>Branch</u> Management Committee who in turn would seek advice from the <u>With-Profits</u> Actuary.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Business risk				
7.5 - 7.7	7.5 - 7.6	Amendment of business risk with outsourcer to explain shareholder involvement. Notification of potential changes to profit sharing with the shareholder.	There is a risk that future expenses under the third party <u>management</u> arrangement will be higher than at present resulting in less surplus available for distribution. This could happen, for example, if the business volume stays lower than projected and as a result the per policy costs are higher than expected. The LIC Board has undertaken that excess costs of this nature will be borne by the <u>estate</u> rather than by the individual policyholder. The Branch does not operate formal limits on the taking on of business risk. The profits from the non-profit business accrue to the policyholders and shareholder in the same proportion as other surplus.	The Branch does not operate formal limits on the taking on of business risk. The profits <u>or losses</u> from the non-profit <u>and unit linked</u> business accrue to the policyholders and shareholders in the same proportion as other surplus <u>as set out in Section 11. This is subject to change as also noted in 11.6.</u>

7.8 - 7.10	7.7 - 7.9	Minor wording change.	Any new venture involving significant resource or risk which <u>had</u> an impact on the relationship with the third party administrator would need to be agreed by the Branch Management Committee and a representative of the third party administrator. There is currently no exposure to risks from other investments in subsidiary or associated operations. The successful continuation of the outsourcing arrangement is a significant source of risk for the With Profit policyholders. The Branch <u>has the right to inspect the provision of services under the agreement</u> to ensure that such services are being provided in a satisfactory manner. In the event of its termination, the responsibility of each party to the arrangement is laid down in the agreement.	Any new venture involving significant resource or risk which <u>has</u> an impact on the relationship with the third-party administrator would need to be agreed by the Branch Management Committee and a representative of the third-party administrator. There is currently no exposure to risks from other investments in subsidiary or associated operations. The successful continuation of the outsourcing arrangement is a significant source of risk for the With-Profits policyholders. The Branch <u>is in regular engagement with the outsourcer</u> to ensure that such services are being provided in a satisfactory manner. In the event of its termination, the responsibility of each party to the arrangement is laid down in the agreement.
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Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Charges and expenses				
8.3 - 8.4	8.3 - 8.4	Minor wording changes to remove references to new business following closure on 24 June 2024.	The Branch's expenses are wholly attributable to the management of the long-term business operations. Expenses cover the acquisition of business (including commission) and the maintenance of business that includes administration and investment management as well as other costs. Costs are split between acquisition and maintenance. The basis on which expenses are apportioned reflects the drivers and the activities that give rise to such expenses. Bases used include those based on time analysis, numbers of policies, <u>percentage of</u> premium, mean fund size or, indeed, a factoring up of direct costs. The apportionment bases used from time to time have regard to ease of application and consistency as well as fairness. The acquisition and renewal expense <u>ratios</u> which are derived are applied to <u>both</u> non-profit and with-profits business.	The Branch's expenses are wholly attributable to the management of the long-term business operations. Expenses cover the maintenance of business that includes administration and investment management as well as <u>overheads and</u> other costs. The basis on which expenses are apportioned <u>broadly</u> reflects the drivers and the activities that give rise to such expenses. Bases used include those based on time analysis, numbers of policies, premium <u>income</u>, mean fund size or, indeed, a factoring up of direct costs. The apportionment bases used from time to time have regard to ease of application and consistency as well as fairness. The renewal expense <u>apportionments</u> which are derived are applied to non-profit, <u>unit linked</u> and with-profits business.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
8.5 - 8.7	8.5 - 8.7	Clarification that some expenses are borne by the shareholders.	Any expenses included and apportionment basis adopted must be appropriate for the purpose and compliant with any relevant rules and guidance. In general, all costs will be included and apportioned but circumstances can arise where adjustments may be appropriate, for example, in determining the amounts payable under with-profits policies. By way of example, adjustments may be made to allow for the amortisation of significant development costs, non-recurrent expenditure and <u>(providing it is of sufficient size) subsidy by the estate.</u> A <u>basis change</u> might be introduced to reflect changes to these drivers or activities (e.g. new outsourcing arrangements). It might also be introduced to accommodate new business methods and practices (e.g. new distribution). It may simply be introduced to improve the current apportionment basis in the light of new information. An expense analysis is performed at regular intervals (at least annually) and this will include a review of any apportionment methods and bases adopted to ensure they remain appropriate over time.	Any expenses included and apportionment basis adopted must be appropriate for the purpose and compliant with any relevant rules and guidance. In general, all costs will be included and apportioned <u>to the With-Profits Fund</u>, but circumstances can arise where adjustments may be appropriate, for example, in determining the amounts payable under with-profits policies. By way of example, adjustments may be made to allow for the amortisation of significant development costs, non-recurrent expenditure, and <u>the subsidy of certain expenses by the Shareholder Fund.</u> A <u>new approach</u> might be introduced to reflect changes to these drivers or activities (e.g. new outsourcing arrangements). It may simply be introduced to improve the current apportionment basis <u>to be more fair</u> in the light of new information. An expense analysis is performed at regular intervals (at least annually), and this will include a review of any apportionment methods and bases adopted to ensure they remain appropriate over time.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
8.8 - 8.10	8.8 - 8.10	Clarification of the charges made by the outsourcer and other minor clarifications.	There are no current circumstances under which the Branch will charge expenses at an amount higher than cost. However, the expenses charged to policyholders are sometimes limited as set out in <u>section 2.3</u>. The third party management company that carries out administration for the Branch makes <u>specific charges</u> for the setting up of new business and the administration of existing business, <u>and these</u> charges are allocated to new and renewing policies accordingly. The charges for fund management <u>made for investment management</u> are deducted from the investment income before it is allocated.	There are no current circumstances under which the Branch will charge expenses at an amount higher than cost. However, the expenses charged to policyholders are currently limited as set out in <u>section 1.6</u> . The third-party management company that carries out administration for the Branch makes <u>a consolidated charge</u> for the administration of existing business. <u>These</u> charges are allocated to renewing policies accordingly, <u>subject to any limits as noted in sections 1.5 and 1.6</u>. The charges for fund management made <u>by the investment managers</u> are deducted from the investment income before it is allocated.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
8.12	8.12	Minor wording changes.	<u>Changes</u> to the charges made as a result of the third party administration agreement will <u>be approved</u> by the Branch Management Committee.	<u>Any changes</u> to the charges made as a result of the third-party administration agreement will <u>need approval</u> by the Branch Management Committee.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Inherited estate				
9.5 - 9.7	9.5	Clarification that there is little likelihood of an inherited estate arising in future.	The Branch has no “inherited estate” as defined in 9.1, as over time all available surplus has been distributed to policyholders. The current free assets arise as a result of transfers of capital from the Head Office in India, investment return on that capital, surplus attributable to existing policyholders which has not yet been distributed and miscellaneous profits. The Branch intends to keep its capital intact and to build up the estate by virtue of interest earned on the free assets and by making a charge to asset share for the capital support that policyholders have enjoyed during their membership of the fund. Miscellaneous profits arising on non-contractual exits, which have not been distributed to policyholders, will also continue to build up the free assets. In addition, by holding back some of the emerging surplus to be paid as final bonus when a policy becomes a claim, the Branch is building up some free policyholder reserves as part of the free assets, on top of the existing shareholder capital.	The Branch has no “inherited estate” as defined in 9.1, as over time all available surplus has been distributed to policyholders <u>and, now that the fund is closed to new business, there is little likelihood that any inherited estate will arise in the future.</u> The current free assets arise as a result of transfers of capital from the Head Office in India, investment return on that capital, surplus attributable to existing policyholders which has not yet been distributed and miscellaneous profits. <u>The allocation of surplus to shareholders is explained in section 11 of this PPFM.</u>

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
9.8 - 9.10	9.6	R reference to free assets no longer helpful here.	The Branch aims to <u>have a free asset ratio</u> sufficient to give the Branch freedom to manage its business in the best interests of policyholders and other stakeholders. For example, it should enable the investment strategy as set out in Section 6 to be pursued with the prospect of higher investment returns. It can enable higher levels of new business to be written which can help contain or reduce unit costs. It can enable greater smoothing in terms of pay-outs and <u>reduce</u> the immediate impact of financial shocks due to economic change or business risk. <u>The free assets are available to meet all costs associated with the long-term business operations. No explicit allowance is made for the free assets in determining the amounts payable under with-profits policies.</u> <u>The investment strategy for the free assets is the same as the strategy for the rest of the long-term business fund.</u>	The Branch aims to <u>maintain a solvency level</u> sufficient to give the Branch freedom to manage its business in the best interests of policyholders and other stakeholders. For example, it should enable the investment strategy as set out in Section 6 to be pursued with the prospect of higher investment returns. It can enable greater smoothing in terms of pay-outs and <u>mitigate</u> the immediate impact of financial shocks due to economic change or business risk.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
9.11 - 9.12	9.7 - 9.8	Removal of reference to free asset ratio.	In general, the assets backing with-profits policies would not be expected to be applied to fund major business risks. Such risks would normally be funded by the free assets or by a further injection of capital from the shareholder and would be subject to robust risk analysis before implementation. Where the <u>free asset ratio</u> falls to a level that does not give sufficient freedom as described in 9.8, the aim would be to restore the position to within this range over a maximum five year timeframe, provided this did not lead to the material unfair treatment of policyholders. The Branch undertakes regular investigations into the projected statutory solvency position under a range of scenarios. The results and conclusions from these investigations are used to decide upon appropriate actions to manage the scale of the <u>free asset ratio</u> over time.	In general, the assets backing with-profits policies would not be expected to be applied to fund major business risks. Such risks would normally be funded by the free assets or by a further injection of capital from the shareholder and would be subject to robust risk analysis before implementation. Where the <u>solvency ratio</u> falls to a level that does not give sufficient freedom as described in 9.6, the aim would be to restore the position to within this range over a maximum five-year timeframe, provided this did not lead to the material unfair treatment of policyholders. The Branch undertakes regular investigations into the projected statutory solvency position under a range of scenarios. The results and conclusions from these investigations are used to decide upon appropriate actions to manage the <u>solvency ratio</u> over time.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
New business				
10.4 - 10.5	10.4 - 10.5	Deleted following closure to new business on 24 June 2024	There are no specific practices regarding the setting of new business <u>volume limits</u> beyond those implied by the principles set out previously. Currently maximum volumes and business mix are not an issue. The Branch has set no minimum scale in terms of new business volumes to justify staying open to new business. However, the position is subject to review from time to time according to the principles set out previously. The likely progression of unit costs and investment freedom under alternative scenarios would be key factors in any decision taken.	

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
Allocation of profits				
11.5 - 11.7	11.5 - 11.8	Revised to reflect the proposed new surplus distribution approach of LIC India, and the current exemption of the UK Branch from this.	The current practice is that 5% of the surplus emerging from the valuation of the <u>conventional</u> business is remitted to India for the benefit of the <u>shareholder</u>. Following long-established practice the share of surplus is calculated on the assumptions used for the valuation of the with-profits liabilities. <u>Policyholders have no specific rights to surplus emerging from sources other than with profits business.</u> <u>The Branch operates a single long term business fund and the surplus emerging from non-profit business will be determined as the cash flows attributable to that business including an appropriate allocation of expenses and investment income.</u>	The current <u>Branch</u> practice is that 5% of the surplus emerging from the valuation of the <u>with-profits</u> business is remitted to India for the benefit of the <u>shareholders</u>. Currently the surplus includes profits or losses from the non-profit and unit linked business as mentioned in section 7.6 <u>In 2021 the Board of LIC announced changes to LIC India to increase the shareholders' proportion from 5% to 10% and to require profits and losses from non-profit and unit linked business to belong 100% to the shareholders. In July 2024 the Board of LIC confirmed that these changes should not be implemented for the LIC UK Branch before April 2025. Further information will be provided to policyholders once the Board has confirmed its long-term intentions in this matter.</u> Following long-established practice the share of surplus is calculated on the assumptions used for the valuation of the with-profits liabilities.

Others

A number of other amendments have been made to the PPFM which are of less importance or of a clarificatory nature, and so have not been reproduced here. We have also updated the introduction and glossary sections to make them more comprehensive.

Where can I find out more?

To see a copy of the full PPFM (both the current version and new) please go to <http://www.liciuk.com/about-us/principles-and-practices/> You can also get a copy of the new PPFM sent to you by calling us on 08000 685 712 (free).