भारतीय जीवन बीमा निगम
LIFE INSURANCE CORPORATION OF INDIA
UNITED KINGDOM

# Report of the Board to With-Profits Policyholders 2021-22

## Life Insurance Corporation of India, UK Branch Office

# Report of the Board to With-Profits Policyholders 2021-22

LICI UK Branch is regulated by Prudential Regulatory Authority (PRA) & 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 2021 to 31st March 2022, 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 sets out how we have complied with the PPFM and also provides a summary of the key decisions (e.g. bonus declarations) that have impacted with-profits policyholders during the year.

**Governance of With-Profits Business in the UK Branch**
LICI has two key roles within its governance structure that provide reassurance that our with-profits business is being managed in accordance with the its PPFM –the With-Profits Advisory Arrangement and the With-Profits Actuary. The With-Profits Advisory Arrangement provides advice and recommendations to the Board monitoring on-going compliance with our PPFM. During 2021-22 the With-Profits Advisory Arrangement reviewed and provide recommendations on all matters affecting with-profits policyholders.

The With-Profits Actuary is responsible for providing the Board with advice on all areas of discretion as they relate to the fair treatment of with-profits policyholders. This includes making recommendations regarding bonus rates, surrender values, reviewing communications to policyholders and ensuring the interests of with-profits policyholders are considered in a fair and balanced way. The With-Profits Actuary is also required to comment on the Board's actions with regard to with-profits business and his annual statement can be found in the Appendix to this report. During the period covered by this report the With-Profits Actuary changed and his appointment was approved by the FCA in December 2021.

A third strand of the governance of with-profits business in the UK Branch is the oversight process provided by Head Office. The Board is of the opinion that this oversight process can be streamlined through further delegation of authorities to the UK Branch management so that decisions of a routine nature can be expedited efficiently and effectively.

**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.

**Payouts and Bonus Rates – conventional with-profits**
Asset shares for conventional with-profits business 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 individual policy asset shares are aggregated by product type to assess whether maturity payouts remain appropriate, taking into account the target ranges in the PPFM.

The Branch has been in a situation for a number of years where, for policies sold prior to April 2004 (which are Series 1 policies), 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 are now recommended such that they are in line with the lower interest rate environment. Over recent years, bonus rates have been reduced to rectify this situation.

Having analysed the asset shares and policy payouts for both Series 1 and Series 2 conventional policies, the annual bonus rates for conventional policies were reduced for the year ending 31st March 2022. Currently the bonus is set at 0% for whole life and Series 1 endowments, 0.5% for Series 2 endowments pre 2008 and 1.0% for Series 2 endowments 2008 onwards. The final bonuses have generally been increased in comparison to last year. Final bonus rates are set by policy series and by broad duration groups. The final bonuses for the policies exiting in the year 2021-2022 were in the range of 0% to 27.5% for Series 1 policies, 11.0% for Series 2 endowments pre-2008, and 0% to 20.0% for Series 2 endowments 2008 onwards policies.

Many conventional with-profits policies are paying significantly more than asset shares due to a high level of guaranteed benefits, hence there is no annual bonus for Series 1 endowments for example and no final bonus for some policies.

The Board set target ranges for payouts on conventional with-profits policyholders to enable the UK Branch to have sufficient investment freedom to invest in the mix of assets that will maximise returns for policyholders whilst maintaining solvency and meeting capital adequacy requirements. 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. Surrender payouts were reviewed in 2021 with the aim of more closely matching asset shares. The Board approved the revised surrender values in 2022 and it has been confirmed that the changes should be back-dated to the date of the original recommendations.

**Payouts and Bonus Rates – ISA contracts**
The regular bonus rate for ISA contracts is set twice yearly in advance and has remained at a rate of 0.0% pa for the 2021-22 financial year. The final 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.

For ISA contracts, MVRs are separately considered for each premium paid based on when it was paid and the performance of the underlying assets subsequently. During some of 2021-22, MVRs were in place for premiums paid on some dates and therefore a market value reduction (MVR) may have applied.

**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 2021-22, payouts on a sample of regular and single premium endowment policies for terms of up to 35 years changed by between -4% and +10%.

**Investment Strategy**

The Branch's investment policy was reviewed in 2021 to reflect the change in liability profile and allows for investment in UK equities, overseas equities, bonds and deposits. The recommendations were not accepted as the Board considered that subsequent decisions rendered the recommendations invalidated.

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 satisfactory over several years. The Board believes that the investment practice has been in line with the investment policy as specified in the PPFM.

**Business Risks**

The Branch is managing its business risks in line with the PPFM. The Board, in consultation with the Chief Actuary and With-Profits Actuary, 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 costs of acquiring business and the investment expenses associated with the with-profits fund's assets are charged to the with-profits fund. A subsidy is provided by the shareholder in order to ensure that maintenance costs in the with-profits fund remain at levels which do not affect the interests of with-profits policyholders. No expenses of running the business have been charged to the with-profits fund except those subsidized by the shareholder.

**Management of the Inherited Estate**

The UK Branch has no Inherited Estate and, as the conventional with-profits business is now running off rapidly, plans need to be put in place to ensure the fair distribution of the surplus in the with-profits fund to those policyholders who have contributed to it. The final bonuses declared for 2022-23 begin that process.

**Management of New Business**

New business sales continue at a low level. The Board, in consultation with the Chief Actuary & With-Profits Actuary is currently exploring various options for the Branch, keeping in mind the best interest of existing with-profits 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; with effective date of 30th June 2021. 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. The Board of LIC of India approved the Surplus Distribution Policy on 17.09.2021, allowing for a gradually move to the proposed surplus distribution. For the period under review, the Government of India has allowed 95% of surplus to be allocated to the policyholders in accordance with the PPFM. This proportion will be reduced in 2022-23 along with other changes relating to the allocation of profits arising under non-profit and unit linked business as a result of changes agreed by the Board: further information will be provided to affected policyholders in due course.

**Changes to the PPFM**

No changes have been made to the PPFM during the period under review.

**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 his 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 with-profits policyholders have been treated fairly.

## APPENDIX

# ANNUAL REPORT FROM THE WITH-PROFITS ACTUARY

As With-Profits Actuary for LICI UK Branch, I advise the With-Profits Advisory Arrangement and the Board on the management of the with-profits business and the key aspects of discretion that are applied.

I am required by the Financial Conduct Authority's rules to report to with-profits policyholders as to whether the Board's annual report to with-profits policyholders and the discretion exercised by LICI in respect of the period covered by the report have taken the interests of the with-profits policyholders into account in a reasonable and proportionate manner.

In my opinion and based on the information and explanations provided to me by LICI UK Branch, discretion exercised by the Board during the period 1st April 2021 to 31st March 2022 the interests of those with-profits policyholders whose policy matured or who died have been taken into account in a reasonable and proportionate manner.

The Head Office oversight process led to matters concerning recommendations for changes to the surrender basis made by the previous WPA being delayed before they were finally approved by the Board in May 2022. The recommendations were approved and backdated to August 2021. The delegation of authorities by the Board should help to expedite the approval process in future.

There is therefore reasonable evidence to support the conclusion that LICI UK Branch has complied with its PPFM during 2021-22 and that the annual report to with-profits policyholders prepared by the Board provides a reasonable summary of the key decisions that have impacted with-profits policyholders during the year.

In reaching these opinions I have taken into account the relevant rules and guidance issued by the Financial Conduct Authority, the Actuarial Profession and the Financial Reporting Council.

Tim Bateman
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Zenith Actuarial Ltd
June 2022