



Life Insurance Corporation of India (UK Branch)

Principles and Practices of Financial Management

[2026]

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1 Introduction

- 1.1 This document sets out the Principles and Practices of Financial Management (referred to as the “PPFM”) by which the UK Branch (“the Branch”) of the Life Insurance Corporation of India (“LICI”) conducts its with-profits business. It has been approved by the Corporation’s Board of Directors.
- 1.2 The document has been written to meet the standards required by the Financial Conduct Authority (FCA) according to the relevant rules and guidance as set out in its Conduct of Business sourcebook. Its purpose is to enable a better understanding of the way the Branch conducts its with-profits business and, in particular, the principles and practices adopted by the Board in the application of its discretion. This improved understanding is intended to protect the interests of and promote confidence among with-profits policyholders.
- 1.3 If a with-profits policyholder makes their policy paid-up, it is no longer eligible to participate in profits. This means that such paid-up policies are not covered by this document. The exception to this is a very small number of policies remaining in-force that were acquired from other companies when the Indian Government nationalised the industry in 1956. See section 4.12 for more details.
- 1.4 The Branch has a single long-term business fund (referred to as the With-Profits Fund) in which all insurance business is transacted. A separate Shareholder Fund also exists within the Branch and is the vehicle via which support is provided to the UK Branch by the Parent company and by which the Branch distributes surplus to the shareholders.
- 1.5 Income and expenses of the long-term business are allocated to the With-Profits Fund and any other expenses will be paid by the shareholders, including any mis-selling costs and subject to any subsidies provided by the shareholders.
- 1.6 In particular, where deemed appropriate, at the discretion of the shareholders, the expenses charged to the With-Profits Fund may be limited to amounts that are consistent with any illustrations given to policyholders and as required to ensure that business is profitable. The shareholders are currently exercising their discretion to limit these charges.
- 1.7 All of the Branch’s unit-linked policies that include the option of investment in a with-profits fund are wholly reinsured to a life insurer within the Aviva Group. These policies have the option of investment in the Friends Life FLAS With-Profits Fund. Responsibility for that fund rests entirely with Aviva, including bonus declarations, and therefore that business is covered by the Principles and Practices of Financial Management for that fund rather than this document.

- 1.8 Principles are intended to be enduring statements of the overarching standards adopted by the Branch and are expected to change infrequently. Practices, on the other hand, describe the Branch's current approach and will be subject to more frequent change but within the principles then applying. The format of this report considers each key area where discretion is applied and sets out firstly the relevant principles, followed by the practices.
- 1.9 The Branch reviews the PPFM yearly and also when material changes are required either in principles or practices. These changes may be required due to changes in the regulatory, legal, or other external factors that could affect the management of with-profits business. Changes are also made to improve clarity for policyholders. The changes are discussed in the Branch Management Committee and also reviewed by the With-Profits Actuary and independent advisor to the with-profits fund of the Branch. Once the changes have been agreed upon, they are placed before the Board of LICI for approval.
- 1.10 Changes to principles require three months' notice to with-profits policyholders whereas changes to practices, though they do not require prior notice, must be communicated to policyholders within a reasonable time period in writing. The Branch is required to have and has in place governance arrangements to ensure that the conduct of its with-profits business complies with this PPFM document. These include:
- i) an annual report to with-profits policyholders from the Board,
 - ii) a With-Profits Actuary whose responsibilities include advising the Branch's management on key aspects of discretion affecting with-profits business (including the Branch's application of its PPFM), and
 - iii) a With-Profits Advisory Arrangement whose responsibilities include advising the Branch's Board on the way the with-profits business is managed by the Branch and whether this is properly reflected in the PPFM.
- 1.11 The above documents can be accessed at <http://www.liciuk.com/about-us/principles-and-practices/> The PPFM document is available to all policyholders free of charge and can be downloaded from the Branch's website or supplied in paper form on request. Non-policyholders may have to pay for a paper copy.

2 General Principles

2.1 The Branch has four key financial objectives that can be regarded as overriding the principles and practices contained elsewhere herein if they come into conflict. 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;
- d) Subject to (a), (b) and (c), to maximise the financial returns to with-profits policyholders and the shareholders.

3 The amount payable under a with-profits policy

Principles

- 3.1 In assessing the amounts payable under a with-profits policy, the aim of the methods used is to meet the objectives as set out in 2.1. Importantly, they aim to provide policyholders with a fair return on their policy that reasonably reflects the experience of the fund whilst the policy has been in-force but is subject to any smoothing, as discussed in section 5.
- 3.2 Bonus is generally distributed by means of annual (also known as reversionary) bonus and final (also known as terminal) bonus. The amount payable under a with-profits policy is generally determined by reference to a guaranteed basic benefit, the attaching annual bonuses, and the final bonus applicable at the date of claim. The exception to this is the with-profits ISA where the amount of the basic benefit is not guaranteed, except on certain anniversaries.
- 3.3 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.
- 3.4 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.
- 3.5 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.

Practices

Pay-out Calculations for policies other than ISAs

- 3.6 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.

- 3.7 Amounts payable are determined by considering a bonus reserve valuation of the with-profits liabilities and the assets in the With-Profits Fund.
- 3.8 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.
- 3.9 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.

Pay-outs on maturity and death

- 3.10 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, including any surplus available for distribution, 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.

Pay-outs on surrender

- 3.11 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.
- 3.12 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.

Pay-outs on fully paid-up policies

- 3.13 If a with-profits policy is made paid up before the end of its contractual term, 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. Thereafter, the policy becomes non-profit and receives no further bonus additions. Section 4.15 below provides details of exceptions to this approach.

Pay-outs for ISAs - Shadow Portfolio Calculation

- 3.14 The amounts payable under an ISA are based on a shadow portfolio calculation rather than a prospective bonus reserve calculation. The shadow portfolio calculation is a roll-up of premiums with investment returns, reduced to allow for any charges (such as the annual management charge) applied to the ISAs.
- 3.15 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 With-Profits Fund.

3.16 If an ISA policy is surrendered or transferred to another provider at any date other than one 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 acquisition costs.

Other matters

3.17 The Branch has issued some unit-linked policies that are wholly reinsured to a life insurer within the Aviva Group, which may give rise to an additional tax charge for the Branch. This would not be specifically charged to the existing with-profits policyholders, although it would affect the amount of surplus emerging for distribution. Reinsurance commission received in respect of this business goes into the surplus.

3.18 Where additional capital has been provided by the shareholders to the Branch, such as to meet the one-off costs of a change in administration arrangements, this capital and any associated investment return is deemed to belong to the shareholders, sits in the Shareholder Fund and no charge is made to the With-Profits Fund for the use of that capital.

3.19 The Chief Actuary recommends and documents the methods, parameters and assumptions used to determine the amount payable to policyholders and any transfers to be made to the Shareholder Fund, and key aspects are contained in reports presented to the Board.

4 Annual and Final Bonuses

Principles – annual bonuses

- 4.1 The general aim in declaring annual bonuses is to provide with-profits policyholders with additional guarantees above the guaranteed basic benefits that increase over time. These guarantees apply to the policy at death or maturity but are not guaranteed in nominal terms on earlier termination, except where specific guarantees are given, such as for market value reduction-free dates for ISAs.
- 4.2 The Branch may declare separate annual bonus series for different classes and generations of contract.
- 4.3 The starting point for the approach used is to consider the sustainability of annual 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 solvency position.
- 4.4 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 annual bonus rates will change, if our view of the future long term experience changes, with due regard to treating customers fairly, policyholder reasonable expectations, and recent bonus levels. Bonuses will only be declared if there is a surplus in the fund.

Practices – annual bonuses for policies other than ISAs

- 4.5 Annual bonus rates are declared at the discretion of the Board and allotted to all conventional participating policies in force for the full Sum Assured on 31st March in each year. 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.
- 4.6 The Branch currently has two annual bonus series for conventional with-profits policies. The First Series applies to all single premium conventional with-profits policies issued before April 2002 and all regular premium conventional with-profits policies issued before February 2004. The Second Series applies to all other conventional with-profits policies. Within each series, the annual bonus declared for a particular policy may vary according to the exact type and term of that policy.
- 4.7 As described above, the Board's aim is to set annual bonus rates that will change relatively infrequently and avoiding wide fluctuations. Nevertheless, the Board does not have any

maximum amount by which annual bonus rates would alter. In a situation where solvency was under threat, or there is not expected to be sufficient surplus in the fund, the Board may act to reduce annual bonus rates significantly. Indeed, in extremis, it may decide not to declare a bonus.

- 4.8 For the First Series, historic bonus rates were set based on the investment income earned in the fund. During the 1990s, bonus rates were reduced more slowly than the fall in interest rates warranted. Current bonus rates for this series reflect the move to a lower interest rate environment and the substantial guarantees given in the premium rates. This means that they are currently at low levels and are likely to remain so.
- 4.9 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 facilitate equity between generations and classes of policyholders.
- 4.10 Annual bonuses for both First and Second Series policies are expressed as a percentage of the initial sum assured. This is usually referred to as a simple bonus system.
- 4.11 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 With-Profits Actuary, decide to declare an alternative bonus series or amend the basis of the contract.
- 4.12 The Branch has on its books a very small number of policies that were acquired from other companies when the Indian Government nationalised the industry in 1956. Such policies receive a bonus that is a pre-defined percentage of the main declaration. The percentage is shown in the following table.

4.13

Issuer	Percentage of Standard Rate
All India and Burma Provident Fund	140%
Gresham Life Assurance Society	130%
Norwich Union Life Insurance Society	
Aryan Champion Insurance Company	120%
Indian Mercantile Insurance Company	

Issuer	Percentage of Standard Rate	
Oriental Government Security Life Assurance Company	110%	
Prudential Assurance Company		
Asian Assurance Company		
Bombay Life Assurance Company		
Bombay Mutual Life Assurance Society		
Industrial & Prudential Assurance Company		
New Asiatic Insurance Company		
New Great Insurance Company of India		
New India Assurance Company		
Universal Fire & General Insurance Company		
Jupiter General Insurance Company (all policies)		
General Assurance Society		100%
Hindustan Co-operative Insurance Society		
Lakshmi Insurance Company		
Life Insurance Corporation of India (Including policies issued after 19.01.1956 by Insurers other than Jupiter General Insurance Company, Mysore Government Insurance Department and Patiala Insurance Corporation)		
National Insurance Company		
Asiatic Government Security Life & General Assurance Company		
Prithvi Insurance Company		
Indian Life Assurance Company		

- 4.14 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.
- 4.15 With-profits policies which become claims by death or maturity, or which are surrendered prior to the bonus declaration for the year are entitled to an interim annual bonus, normally at the same rates as applied at the previous declaration date. In the case of surrenders, only a proportionate bonus will be allowed in respect of the policy year current on such date unless all instalments of premiums for the policy year have been paid before the date of surrender.

Practices – annual bonuses for ISAs

- 4.16 The ISA annual 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 annual 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.
- 4.17 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 rates declared net of the fund management charge.
- 4.18 The ISA is deemed to be invested 50% in fixed interest securities and 50% in equities, as discussed in section 3.15. The annual 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.

Principles – final bonus

- 4.19 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 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).
- 4.20 The Branch may declare separate final bonus series for different classes and generations of contract.

Practices – final bonus for policies other than ISAs

- 4.21 Current practice is to set final bonus rates for conventional contracts annually in advance.
- 4.22 Final bonuses for both First and Second Series policies are expressed as a percentage of the sum assured and depend upon the duration the policy has been in-force and participating in profits.

- 4.23 Final bonus rates are declared at the discretion of the Board on the advice of the With-Profits Actuary. The levels of final bonus rates are reviewed at regular intervals, not less frequently than annually, but more frequently when significant changes, for example in the investment markets, dictate.
- 4.24 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.
- 4.25 One or more separate scales will be determined for Second Series policies.
- 4.26 With-profits policies that become claims are entitled to a final bonus at the rate declared at the previous declaration date.
- 4.27 Where a convertible Whole Life policy or a non-profit 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.
- 4.28 Under Children's Deferred Assurance Policies, duration at claim will be reckoned only from the deferred date (vesting date).

Practices – final bonus for ISAs

- 4.29 Final bonus for ISA policies will be expressed as a percentage of the accumulated fund.
- 4.30 Final bonus rates are declared at the discretion of the Board on the advice of the With-Profits Actuary. The levels of final bonus rates for ISAs are reviewed at least monthly and more frequently when significant changes, for example in the investment markets, dictate.
- 4.31 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.

5 Smoothing

Principles – smoothing

- 5.1 In framing a bonus declaration, the With-Profits 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.
- 5.2 The smoothing policy of the Branch has regard to factors such as the bonus policy, the solvency level, the investment mix, and the policyholders' reasonable expectation. The General Principles 2.1(b) and (c) are of vital importance in this regard.

Practices

- 5.3 The current smoothing methodology does not differentiate between generations and types of with-profits policies.
- 5.4 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 With-Profits Actuary, depart from this 10% limit (or make declarations more frequent than annually) should the financial condition of the With-Profits Fund so dictate.

6 Investment Strategy

Principles

- 6.1 The investment strategy for the With-Profits Fund 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.
- 6.2 The strategy, therefore, is to invest a high proportion of the With-Profits Fund 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 Fund's capital requirements.
- 6.3 The asset classes that the Branch will consider are UK and overseas equities, fixed interest investments (such as gilts and other bonds), cash and property.
- 6.4 In setting investment strategy, the Branch has regard to the nature and term of its with-profits 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 solvency levels allow the With-Profits Fund 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 In determining the investment strategy and extent of deviation away from the theoretical matched position, the Branch can rely upon any assets in the With-Profits Fund, and additionally those held in the Shareholder Fund, and no distinction is drawn between with-profits and non-profit liabilities.
- 6.6 There are no constraints that apply with respect to parts of the With-Profits Fund either on account of separate policy classes or generations of business.

Practices

- 6.7 The Branch outsources its investment management. The Branch Management Committee is responsible for maintaining a sound system of governance and control over the investment risk in all its forms. The Branch Management Committee meets quarterly to review the performance of the Investment Manager and consider whether any changes to the investment policy are required.

- 6.8 The investment management agreement includes objectives, guidelines, and constraints. Monthly and Quarterly reports are provided for review purposes. An investment policy 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 (as noted above in 6.2).
- 6.9 The Shareholder Fund may use different investment approaches to the With-Profits Fund.
- 6.10 The fund will invest in derivatives only for the purpose of reducing risk.
- 6.11 Any proposal to invest in a new or novel investment instrument would require approval by the Board based on a recommendation from the Branch Management Committee who in turn would seek advice from the With-Profits Actuary.
- 6.12 The Branch's only holding of an asset that would not normally be traded is limited to a small (less than 5% of funds) property portfolio, which are either used to accommodate senior staff while on secondment to the UK branch or rented out. The scale of this investment is not material in determining claim values and imposes no practical constraint on investment freedom.

7 Business Risk

Principles

- 7.1 Business risks for the With-Profits Fund have historically included the acquisition and maintenance of with-profits, non-profit, and unit linked business. The With-Profits Fund was closed to new business on 24 June 2024. Section 10 contains further details.
- 7.2 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, after taking advice from the With-Profits Actuary.
- 7.3 In general, any business risks outside the routine risks of effecting and carrying out insurance contracts would be supported by the Shareholder Fund, and profits or losses arising would be borne by the shareholders and not attributed to with-profits policyholders.
- 7.4 The assets attributable to the UK long-term business are maintained and managed in the UK.

Practices

- 7.5 The Branch does not operate formal limits on the taking on of business risk.
- 7.6 The profits or losses from the non-profit and unit linked business accrue to the policyholders and shareholders in the same proportion as other surplus as set out in Section 11. This is subject to change as also noted in 11.6.
- 7.7 Any new venture involving significant resource or risk which has 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.
- 7.8 There is currently no exposure to risks from other investments in subsidiary or associated operations.
- 7.9 The successful continuation of the outsourcing arrangement is a significant source of risk for the With-Profits policyholders. The Branch is in regular engagement with the outsourcer 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.

8 Charges and Expenses

Principles

- 8.1 The aim of the Branch's approach to apportioning expenses to with-profits policies is that it should be fair and appropriate.
- 8.2 The basis upon which expenses are apportioned seeks to broadly reflect the drivers and the activities that give rise to such expenses.

Practices

- 8.3 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 overheads and other costs. The basis on which expenses are apportioned broadly reflects the drivers and the activities that give rise to such expenses. Bases used include those based on time analysis, numbers of policies, premium income, 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.
- 8.4 The renewal expense apportionments which are derived are applied to non-profit, unit linked and with-profits business.
- 8.5 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 to the With-Profits Fund, 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 the subsidy of certain expenses by the Shareholder Fund.
- 8.6 A new approach 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 to be more fair in the light of new information.
- 8.7 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.
- 8.8 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 section 1.6.

- 8.9 The third-party management company that carries out administration for the Branch makes a consolidated charge for the administration of existing business. These charges are allocated to renewing policies accordingly, subject to any limits as noted in sections 1.5 and 1.6.
- 8.10 The charges for fund management made by the investment managers are deducted from the investment income before it is allocated.
- 8.11 The costs of other external services will be allocated based on an assessment of relative amounts of time spent.
- 8.12 Any changes to the charges made as a result of the third-party administration agreement will need approval by the Branch Management Committee.

9 Management of the Inherited Estate

Principles

- 9.1 The term “inherited estate” is normally used to refer to surplus in the With-Profits Fund which has accumulated over the years and is not attributable to the current generation of policyholders.
- 9.2 The term “free assets” includes the inherited estate, if any, plus shareholders’ capital and any surplus attributable to the current generation of policyholders which will be distributed in the form of a final bonus on exit. It is generally defined as the excess of the total assets over the statutory liabilities and capital requirements.
- 9.3 The free asset ratio is determined by expressing the free assets as a percentage of total assets. The Branch does not have an explicit target in terms of the size of its free assets.
- 9.4 There are no constraints on the Branch’s freedom to manage the inherited estate as a result of previous dealings.

Practices

- 9.5 The Branch has no “inherited estate” as defined in 9.1, as over time all available surplus has been distributed to policyholders and, now that the fund is closed to new business, there is little likelihood that any inherited estate will arise in the future. 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 allocation of surplus to shareholders is explained in section 11 of this PPFM.
- 9.6 The Branch aims to maintain a solvency level 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 mitigate the immediate impact of financial shocks due to economic change or business risk.
- 9.7 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.
- 9.8 Where the solvency ratio 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 solvency ratio over time.

10 Management of new business

The With-Profits Fund closed to all new business on 24th June 2024 so there are no Principles or Practices relating to arrangements for taking on or ceasing new business in this PPFM.

11 Allocation of profits

Principles

- 11.1 The Life Insurance Corporation of India has until recently been 100% owned by the Government of India. The Government of India sold some 3.5% of its shares in LICl in an Initial Public Offering, which took place in May 2022.
- 11.2 The distribution of surplus between the policyholders and the shareholders is governed by the provisions of the Life Insurance Corporation Act 1956 (under Indian law, “the Act”) as amended from time to time.
- 11.3 The current provisions of the Act allow up to 10% of the distributable surplus to be paid to the shareholders.
- 11.4 As per the provisions of the Act, the Board of LICl can approve varying the surplus to be allocated to policyholders, subject to continuing to comply with the rules and requirements of the relevant UK regulations.

Practices

- 11.5 The current Branch practice is that 5% of the surplus emerging from the valuation of the with-profits business is remitted to India for the benefit of the shareholders. Currently the surplus includes profits or losses from the non-profit and unit linked business as mentioned in section 7.6
- 11.6 In 2021 the Board of LICl announced changes to LICl 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 LICl confirmed that these changes should not be implemented for the LICl UK Branch before April 2025. Further information will be provided to policyholders once the Board has confirmed its long-term intentions in this matter.
- 11.7 Following long-established practice the share of surplus is calculated on the assumptions used for the valuation of the with-profits liabilities.

12 Glossary

amortisation	Gradually reducing over a set period of time.
annual bonus	A method of distributing surplus on a regular, annual basis. Once declared, these are guaranteed. Also referred to as reversionary bonus.
the Chief Actuary	The Chief Actuary has responsibility for the Actuarial Function. Needs to be approved by the Prudential Regulation Authority.
compound bonus system	Where the bonus amount is derived by applying the bonus rate to the accumulated fund (including any previously declared bonuses). This is as opposed to the simple bonus system .
the Board	The Board of the Life Insurance Corporation of India.
the Branch	The UK Branch of the Life Insurance Corporation of India.
final bonus	A method of distributing surplus, whereby the bonus is not guaranteed and is only added when a policy becomes a claim. These are expressed as a percentage of the sum assured.
First Series policy	A single premium policy issued before April 2002, or a regular premium policy issued before February 2004.
inherited estate	Any surplus in the With-Profits Fund which has accumulated over the years and is not attributable to the current generation of policyholders.
ISA	Individual Savings Account policy.
LICI	The Life Insurance Corporation of India.
non-profit business	A policy or group of policies with benefits that are fully guaranteed, i.e. they do not participate in any established surplus of the business (as opposed to with-profits business).
paid-up policy	A policy initially issued as a regular premium policy where the policyholder has chosen to stop paying premiums but retain the policy.
Second Series policy	A single premium policy issued after March 2002, or a regular premium policy issued after January 2004.
simple bonus system	Where the bonus amount is the bonus rate times the original sum assured (as opposed to the compound bonus system).
unit linked	A policy or group of policies for which each premium purchases a number of 'units' of underlying investments. The price of the units changes daily representing the change in value of the underlying investments.
The With-Profits Actuary	The With-Profits Actuary of the Branch has the responsibility under Financial Conduct Authority rules for advising the Board on its application of discretion in relation to with-profits policies.
With-profits advisory arrangement	Established under Financial Conduct Authority rules to act in an advisory capacity to inform the decision-making of the Board. This is a means by which the interests of with-profits policyholders are appropriately considered within the Branch's governance structure.
with-profits business	A policy or group of policies which can share in the profits and losses of the With-Profits Fund, as they are eligible to participate in any established surplus through the addition of policy bonuses (as opposed to non-profit business).