Report of the Board to With-Profits Policyholders 2020-21

Life Insurance Corporation of India, UK Branch Office

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LICI UK Branch is regulated by Financial Conduct Authority (FCA). The Directors of LICI are pleased to report to the with-profits policyholders of its UK Branch on how their interests have been looked after during the year. This report covers the period 1st April 2020 to 31st March 2021, the last full financial year for LICI. In doing so, we are fulfilling the requirements of the FCA, which regulates LICI UK Branch.

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

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

This report follows the various sections in the PPFM.

Over-riding principles

The Branch has four key financial objectives. These are:

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

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

Amounts payable

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

The Branch calculates individual policy asset shares for each participating policy (except accumulating with-profits contracts, including ISAs) within the Branch with-profits portfolio. The individual policy asset shares are aggregated by product type to assess whether maturity payouts remain appropriate, taking into account the target range in the PPFM. One small change was made to the asset share model during the year to incorporate the use of more modern standard mortality tables for mortality from April 2020.

FCA rules COBS 20.2.5 concerning payouts require the Board to set target ranges for payouts and to ensure that most payouts fall within that range. These ranges currently set by the Board are 80% to 120% of asset share for maturing policies and 75% to 115% for policies which surrender. Each year, the individual policy asset shares are compared to individual claim payouts to assess whether at least 90% of payouts are within the target ranges. In 2020-21, 87% of surrender payouts and 73% of maturity payouts were within the respective target ranges. Only two surrender payouts were outside the range. Surrender payouts are being reviewed in 2021 with the aim of more closely matching asset shares. Less than 1% of maturity payouts were lower than the target range, with payouts greater than the target range being due to high guarantees.

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. Currently the bonus is set at 0% for whole life and Series 1 endowments, 1.0% for series 2 endowments pre 2008 and 1.5% for series 2 endowments 2008 onwards. Treating policyholders fairly suggests using more granular terminal bonus rates to better match asset shares but, as this leads to very small groups, with-profits principles suggest greater aggregation to produce terminal bonus rates. Terminal bonus rates are therefore set by policy series and by broad duration groups. The terminal bonuses for the policies exiting in the year 2021-2022 has been declared and is 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.

Annual and final bonuses

Having analysed the asset shares and policy payouts for both Series 1 and Series 2 conventional policies, the annual bonus rate for conventional policies has been increased for the year ending 31st March 2021. The final (terminal) bonuses have generally been increased in comparison to last year.

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 2020-21 financial year . The terminal bonus rate methodology for ISA contracts reflects the actual premiums paid and withdrawals made for each policy, aiming for surrender payments to reflect a policy's fair share.

Smoothing

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

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

The change in asset share values for the same sample policies during the year is dependent on term and whether a policy is a regular or single premium policy. Asset share values for these sample policies have increased during the year, due to good investment performance over the year. Most of the policies are paying significantly more than asset shares due to guarantees, hence the zero regular bonus amounts for series 1 endowments and nil terminal bonus for some policies.

For ISA contracts, MVRs are separately considered for each premium paid. During some of 2020-21, MVRs were in place for premiums paid on some dates and therefore a market value reduction (MVR) was applied to two surrendering ISA contracts during the financial year. For the remaining policies any MVRs were more than offset by the total final bonus on the policy.

Investment Strategy

The Branch's investment policy delegates investment day-to-day decisions to Investec Wealth & Investment Management Ltd. The investment performance is regularly monitored against benchmarks, and it has been highly satisfactory over several years. The Board believes that the investment practice has been in line with the investment policy as specified in the PPFM. The Branch's investment policy was last formally reviewed in 2018 to reflect the change in liability profile and allows for investment in UK equities, overseas equities, bonds and deposits within the following ranges:

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

The investment return (yield on the fund) is 11.78% for the year 2020-21 compared to -1.23% achieved last year mainly due to recovery from the sharp fall in equity markets in early 2020.

Business Risks

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

Charges and Expenses

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

Management of New business

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

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

Allocation of profits

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

For the year 2020-21, the Government of India has allowed 95% of surplus to be allocated to the policyholders in accordance with the PPFM.

Changes to the PPFM

No changes have been made to the PPFM during the year 2020-21.

Others

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

Summary

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

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