Notification of changes to our Principles and Practices of Financial Management (PPFM) in 2018

Introduction

The UK Branch of Life Insurance Corporation of India (LIC UK) is making changes to its Principles and Practices of Financial Management (PPFM) from 1 February 2018. The Board of Life Insurance Corporation of India approved the suggested changes in September 2017 and we are writing to give you three months' notice of the changes. This document describes all the key changes from the current PPFM, which has been in place since 2014. We've made some changes to the principles to improve management of with-profit business and ensure the PPFM is aligned with current regulations and changes to the practices to make them more clear and to help us achieve our Principles. This document covers only material changes to PPFM. Should you want a copy of our new PPFM, to which these changes refer, we would be happy to supply you with one. 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
2.2	2.2	Modified to reflect the latest amendment to the distribution of surplus provision in the LIC Act.	The Life Insurance Corporation of India (LICI) is a company owned by the Government of India, and distributes a proportion of its surplus to the shareholder. The distribution is governed by the Life Insurance Corporation Act 1956. This states that where a surplus emerges "ninety five per cent of such surplus or such higher percentage thereof as the Central Government may approve shall be allocated to or reserved for the life insurance policyholders of the Corporation."	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."

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
New	5.3	added to reflect annual review of smoothing		The cost of smoothing will be monitored at least annually.
7.2	6.2	Limitations on investment strategy modified to be in line with Solvency II regulations	The strategy, therefore, is to invest a high proportion of the funds 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. This spread applies by both asset class and individual holding, within the admissibility limits set by the FCA.	The strategy, therefore, is to invest a high proportion of the funds 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 Branch's capital requirements.
7.4	6.4	"resilience reserve" is changed to "capital requirements" to be in line with Solvency II regulations	In setting investment strategy, the Branch has regard to the nature and term of its long-term business 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 free assets allow the Branch to support the resulting resilience reserve. 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 long-term business 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 free assets allow the Branch 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.
12.2	11.2	Changes reflect the correct position	The division of profits between policyholders and the shareholder is governed by the Articles of Association of the Life Insurance Corporation of India.	The distribution of surplus between the policyholders and the shareholder is governed by the provisions of the Life Insurance Corporation Act as amended from time to time.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
12.4	11.4	Changes reflect the correct position	The only circumstance in which this will change is if the Indian Government decides to amend the Life Insurance Corporation Act, 1956	As per the provisions of the Act, the Shareholder can approve varying the surplus to be allocated to policyholders.

Changes to Practices

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
New	3.13	Added to reflect the exact practice being followed		The amounts payable under an ISA are set with respect to a shadow portfolio calculation rather than an asset share. The calculation is a roll-up of premiums with investment return, reduced to allow for any charges applied to the ISAs.
4.16	3.15	Policy by policy asset share is now used	On maturity the Branch aims to pay an amount which is between 80% and 120% of asset share based on the relevant specimen policy calculations	On maturity, the Branch aims to pay an amount which is between 80% and 120% of asset share.
4.18	3.17	Policy by policy asset share is now used	On surrender the Branch aims to pay an amount which is between 75% and 115% of asset share based on the relevant specimen policy calculations.	On surrender, the Branch aims to pay an amount which is between 75% and 115% of asset share.
New	4.32	Change in practice		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 in investment market dictate.

Paragraph number in old PPFM	Paragraph number in new PPFM	Explanation of change	Old wording	New wording
6.4	5.5	Change in practice	No formal smoothing practice exists as of now. The current smoothing methodology does not differentiate between generations and types of with profits policies.	The current smoothing methodology does not differentiate between generations and types of with-profits policies, but this may change in future.
6.7	5.8	Change in practice	For the ISA contract, the annual bonus rate is set on a smoothed basis and final bonuses will apply according to the year the policy was taken out,	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.
7.10	6.10	added to enable the Branch to change its mandate if appropriate.	The fund does not invest in derivatives	The fund will invest in derivatives only for the purpose of reducing risk.
8.7	7.7	Changed to show the correct position	The capital for writing non-profit business is provided by the shareholder and profits from this business accrue to the shareholder.	The profits from the non-profit business accrue to the policyholders and shareholder in the same proportion as other surplus.
9.12	Deleted	we do not apportion expenses between with-profit and non-profit policies as the profit from non-profit policies is not determined separately	Apart from a split between new and renewal, expenses will be apportioned; using the methods outlined above, between with-profits and non-profit policies so that the surplus emerging from non-profit business can be determined separately.	

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12.8	Deleted	The surplus from non-profit business is distributed 95/5 between policyholder / shareholder, in the same way that the surplus from with-profit business is, as it is all written within one 95/5 fund.	The capital for writing non-profit business has been provided by the shareholder and profits emerging from new non-profit business will, for the present, be retained in the long term business fund to help build up the shareholder's capital. There is no intention that it will be included in the surplus available for distribution to with-profits policyholders	

Others

A number of other minor amendments have been made to the PPFM which are not material, and so have not been reproduced here. We have also updated the glossary section to make it complete.

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).