



**Report of the Board to With-Profits Policyholders
2023-24**

Life Insurance Corporation of India, UK Branch Office

Report of the Board to With-Profits Policyholders 2023-24

LICI UK Branch is regulated by the Prudential Regulatory Authority (PRA) and the 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 2023 to 31st March 2024, 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), in particular section 2 “General Principles”, 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.liciuuk.com/pdf/PPFM%202018%20\(final\).pdf](https://www.liciuuk.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 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 2023-24 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.

A third strand of the governance of with-profits business in the UK Branch is the oversight process provided by Head Office.

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 making payouts in accordance with the general principles of the PPFM

Payouts and Bonus Rates – conventional with-profits

In the light of the buildup of the significant surplus in the with-profits fund, final bonus rates were again derived for each policy series based on a prospective bonus reserve valuation method in accordance with the general principles of the PPFM set out above.

Final bonus rates for the CWP business were considered in May 2023 and the Board approved significant increases in final bonus rates.

Annual bonus rates for the CWP business were reduced in May 2023, and this was approved by the Board. In terms of total payouts, this reduction in annual bonuses was more than offset by the increase in final bonuses.

These new bonus rates for the CWP business were all effective from 1 April 2023.

Payouts and Bonus Rates – ISA contracts

The regular bonus rate for ISA contracts is set twice yearly in advance and was increased to 2%pa in September 2023 and maintained at that level March 2024. 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 2023-24, 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 2023-24, payouts based on changes in the final bonus scales increased by up to 30%. Policy payouts for CWP policies were not subject to smoothing to ensure that the increases in maturity payouts accelerated the distribution of the surplus as fairly as possible.

Investment Strategy

A review of the investment strategy was undertaken by CA and WPA and recommendations were made in March 2024. The Board approved these in May 2024.

The Branch's investment policy delegates investment day-to-day decisions to Rathbones Ltd. Last Year the Investment firm Investec was taken over by Rathbones Ltd and the transition was smooth. 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. It is also managing the agreement with a third party service provider to ensure that good quality service is provided to the Branch and its customers. The Board, in consultation with the Chief Actuary & With- Profits Actuary has explored various options for the Branch, and, keeping in mind the best interest of existing with-profits policyholders, has decided to close the Branch to new business from 24th June 2024.

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 acquisition costs and maintenance costs in the with-profits fund remain at levels which do not affect the interests of with-profits policyholders. Except fixed expenses pertaining to new business acquisition and maintenance, expenses surpassing are subsidised by the Shareholders. The with profits fund therefore has not been charged for any business acquisition or maintenance expenses, except for those subsidized directly by the shareholder. The acquisition expenses were subsidised during the period under review, but this will not be applicable now as the Branch is closed to new business.

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 are being put in place to ensure the fair distribution of the surplus in the with-profits fund to those policyholders who have contributed to it. Addressing this issue is best achieved by using final bonus rates (as opposed to using regular bonus rates) as this defers the distribution of surplus hence maintains greater investment freedom and ability to maintain equity between different

generations and classes of policyholders. The bonuses declared for 2022-23 began that process which has been further developed in 2023-24.

Management of New Business

New business sales continued at a low level for Financial Year 2023-24. The Board, in consultation with the Chief Actuary & With- Profits Actuary has explored various options for the Branch, and, keeping in mind the best interest of existing with-profits policyholders, has decided to close the Branch to new business from June 2024. The policyholders and customers have been informed regarding the decision of closure to new business and the impact of the same by way of a notice on LIC website/letters/emails.

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 30 June 2021. The amended section of the Act provides that 90% or more of such surplus, as the Board of LIC of India may approve, shall be allocated to or reserved for the policyholders.

In September 2021, the Board of LIC in India approved changes to the surplus distribution policy to move from a distribution of surplus in the with-profits fund of 95% to policyholders: 5% to shareholders distribution, ultimately to a 90:10 approach. Further all profits arising from non-profit and unit-linked business would be allocated to shareholders. Implementing these changes for the UK Branch would have significant capital and regulatory implications, and as such, in August 2023, the Annual General Meeting (AGM) of LIC of India provided a temporary exemption for the UK Branch upto 31-03-2024. This means that for the period under review, the Board has allowed 95% of surplus to be allocated to the policyholders in accordance with the PPFM. This proportion may be reduced in future 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. The PPFM will be updated during 2024-25.

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, the discretions exercised by the Board during the period 1st April 2023 to 31st March 2024 have taken the interests of those with-profits policyholders whose policies matured, surrendered or who died into account in a reasonable and proportionate manner.

There is reasonable evidence to support the conclusion that LICI UK Branch has broadly complied with its PPFM during 2023-24, in particular the General principles. I therefore consider 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.

The PPFM has remained unchanged since 2018 and is now in need of updating as noted in the Board's report to policyholders.

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
Fellow of the Institute and Faculty of Actuaries
Zenith Actuarial Ltd
July 2024