LIFE INSURANCE CORPORATION OF INDIA
CENTRAL OFFICE, MUMBAI

Re : Surplus Distribution Policy of the Corporation

1. Introduction

1.1 Part III of the Finance Act, 2021 amended the Life Insurance Corporation Act, 1956 and by Gazette notification dated June 29, 2021, the provisions of Part III of the Finance Act, 2021 have been brought into force with effect from June 30, 2021.

1.2 Section 28 of the Amended LIC Act,1956 empowers the Board of directors ("**Board**") of LIC to determine the purposes for which surpluses and profits as envisaged under Section 28(2) of the Amended LIC Act,1956 can be utilized, including without limitation, for the purpose of declaration or payment of dividend to the members of LIC.

1.3 Section 28(3) of the Amended LIC Act provides that the Corporation shall, with the approval of the Board, publish on its website its Surplus Distribution Policy at least once in five years, or such shorter period not less than three years as the Board may deem fit, and such policy shall specify, among other things, the percentages referred to in Section 28(1) of the said Act.

2. Applicability

The surplus allocation proportion as given hereunder shall apply to all the existing policies of the Within India Business of the Corporation on the date of valuation and in accordance with the terms and conditions of products/policies and the instructions issued by the Corporation from time to time. The Surplus allocation of the Overseas Branches shall be governed by local regulations and any decision under the provisions of the LIC Act.

3. In respect of participating policyholders:

If as a result of any investigation undertaken by the Board under Section 26 of the Life Insurance Corporation Act, 1956, any surplus emerging in respect of participating policyholders, 90% (Ninety percent) of such surplus for the financial year ending March 31, 2025 and thereafter, shall be allocated to or reserved for the life insurance participating policyholders of the Corporation and such percentage of the remaining surplus, as approved by the Board shall be allocated to or reserved for members and may either be credited to a separate account maintained by the Corporation or be transferred to such reserve or reserves as the Board may specify.

4. **In respect of non-participating policyholders**:

If as a result of any investigation undertaken by the Board, under Section 26 of the Life Insurance Corporation Act, 1956, any surplus emerges then in respect of non-participating policyholders one hundred per cent of surplus relating to such policyholders shall be allocated to or reserved for members and may either be credited to a separate account maintained by the Corporation or be transferred to such reserve or reserves as the Board may specify.

5. **General considerations on surplus allocation:**

5.1 An annual investigation into the financial condition of the Corporation shall be carried out in accordance with Section 26 of LIC Act, 1956 and policy liabilities be valued in accordance with IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024, and related Acts/ Regulations, Circulars, letters, instructions, guidelines, Actuarial Practice Standards and Guidance Notes issued by Institute of Actuaries of India.

5.2 The Corporation allocates discretionary benefits to with profit policyholders in the form of Simple Reversionary Bonus, Terminal Bonus (Final Additional Bonus) for longer term policies and Loyalty Addition wherever applicable. There can be other forms of discretionary benefits like cash bonus etc. The Corporation shall allow discretionary benefits to With Profit policyholders, in accordance with the provisions under the approved products in compliance with the Regulations. The Cost of New Bonus under Reversionary Bonus is being considered in the applicable valuation as the incremental emerging surplus under the participating business for the respective financial year for the purpose of declaring shares of surplus allocable to Policyholders and Shareholders in the prescribed proportions.

5.3 The considerations for discretionary benefits to with profit policyholders are based on the experience of the Corporation, the analysis of Bonus Earning Capacity (BEC), Retrospective Earned Asset Share (REAS), factors like consistency, smoothing and Policyholder's Reasonable Expectations (PRE) for determining the level of discretionary benefits that arises from the fact that the policyholders reasonably expect that the Corporation will treat them fairly and responsibly, in exercising discretion, in respect of discretionary policy benefits and may also expect a reasonable degree of continuity in the Corporation's action in this regard. The objective of considering PRE, while determining the level of discretionary policy benefits, is to ensure fair treatment of policyholders in reference to the terms and conditions of the contracts and also considering other stakeholders expectations and target solvency of the Corporation.

5.4 The methodology for the level of annual discretionary benefit allows cross subsidy across and within products and among generation of policyholders. Final Additional Bonus is payable for long term exiting policies and takes into account the actual experience in the Retrospective Earned Asset Share.

5.5 The Corporation shall follow in the matter of allocation/reserving of surplus among eligible policyholders and shareholders all applicable rules and regulations in this regard.

5.6 The Surplus Distribution Policy shall be reviewed by the Board at least once in three years.