# 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 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.

## 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 emerges then in respect of participating policyholders the following percentage of surplus, relating to such policyholders, shall be transferred to the participating policyholders fund and 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 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:

a. 95% (Ninety five percent) of such surplus for financial year ending March 31, 2022;
b. 92.5% (Ninety two and half percent) of such surplus for financial year ending March 31, 2023;
c. 92.5% (Ninety two and half percent) of such surplus for the financial year ending March 31, 2024;
d. 90% (Ninety percent) of such surplus for the financial year ending March 31, 2025 and thereafter;

4. **<u>In respect of non-participating policyholders</u>:**

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 for the financial years ending March 31, 2022 and thereafter, 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. **<u>General considerations on surplus allocation:</u>**

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 (Assets, Liabilities and Solvency Margins of Insurer) Regulations, 2016 and related Acts/ Regulations, letters, instructions and guidance, Actuarial Practice Standards and Guidance Notes issued by Institute of Actuaries of India.

5.2 The Corporation predominantly shall follow an allocation of surplus 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 benefit like cash bonus, guaranteed addition etc. The Corporation shall allow discretionary benefits to with profit policyholders, in accordance with the “File and Use” for products approved by Insurance Regulatory and Development Authority of India (IRDAI).

5.3 The considerations for discretionary benefit 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 fair treatment of policyholders while considering the solvency requirements individually and as a group and across the generation of policyholders.

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 shareholder(s) 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.