Traditional Participating Business – Our Practice

Aviva Life Insurance Company India Limited

Table of Contents

1. Introduction

This document covers the **Aviva India**'s ('Company' or 'Insurer' or 'We') approach on management of traditional participating business under the following products:

First Generation of Traditional Par Products (pre-2024)

Product Name (UIN)	Launch Date	Withdrawn Date
Aviva Money Back (UIN: 122N060V01)	2-May-08	31-Mar-13
Aviva Secure Pension (UIN: 122N055V01)	11-Mar-08	31-Dec-11
Aviva Dhan Nirman (UIN: 122N105V01)	29-Nov-13	31-Jan-20
Aviva Dhan Vriddhi Plus (UIN: 122N110V01)	11-Jun-15	31-Jan-20

Second Generation of Traditional Par Products (2024 onwards)

Product Name (UIN)	Launch Date	Withdrawn Date
Aviva Bharat Parivar Vikas Yojana (UIN: 122N179V01)	24-Nov-24	28-Jan-25
Aviva Bharat Parivar Vikas Yojana (UIN: 122N179V02)	28-Jan-25	

Background:

Participating products are those that allow policyholders to share in the profits (losses) emerging under the participating fund. These products provide both guaranteed benefit on death and/or maturity and discretionary benefits through Regular Reversionary and / or Terminal bonuses depending on Company's fund performance. The Company follows the principles of distribution of surplus as governed by the IRDAI Regulations.

Simple revisionary bonus is a bonus which may be declared by Aviva India as a percentage of the Sum Assured after the end of every financial year based on the Company's experience, and which shall vest in the Policy, provided that all due regular premium till the date of accrual has been received.

Terminal bonus means a bonus which may be declared by Aviva India based on the Company's experience and which will be payable along with the Death Benefit or the Maturity Benefit or the Surrender Value, whichever is payable earlier.

2. Policyholders' reasonable expectations (PRE)

The Company's objective is to act fairly, transparently and responsibly in managing the participating fund and distributing surplus. The Company aims to provide clear communications, follow fair sales practices and claims settlement processes.

The policyholders' reasonable expectations in terms of benefits are mainly driven by the following factors:

- Benefit Illustrations issued at the time of sale or otherwise
- Historical Bonuses declared basis Company's experience
- Any literature / communication to the policyholder mentioning the performance of the fund and its impact on the surplus distribution.

The Company has been declaring bonuses via two ways – Regular (Reversionary) Bonus & Terminal (Final) Bonus. The bonus rates declared for all the participating products is published in the Aviva Indian website in below link. https://www.avivaindia.com/bonus-information

Our practice is to calculate the internal rate of return on an annual basis for participating policies maturing or near maturing and our objective is to offer non-negative return to the policyholder who have paid all due premiums till the scheduled premium paying term. The Company aims to achieve a balance between Regular (Reversionary) bonus rate and Final (Terminal) bonus rates and to set the policyholder expectations at a reasonable level through following practices:

Clear Communication of Features and Benefits: We ensure that each product is approved by the Product Management Committee and the IRDAI before launching. The policy documentations are clear and comprehensive, which discloses the information on benefit features, terms & conditions, claim settlement procedure and grievance redressal mechanism. The guaranteed benefits are separately defined and distinct from the discretionary benefits, which depends on the Company's experience, future investment performance and past practice.

Benefit Illustrations: We provide illustrations of the benefits to the policyholders, with clear distinction between guaranteed and discretionary benefits under various scenarios. These are based on reasonable assumptions and include disclaimers about the uncertainty of future performance that influence the discretionary benefits which may change over time.

Regular Updates and Information: The Company sends annual communication to the policyholders with clear and understandable information on the bonus declarations including the vested bonus under the traditional participating policy. The Company also publishes the bonus rates declared under the participating products in its website.

Customer Support: We ensure that our sales representative and agents are well-trained to explain the features of the policy and the factors that could influence bonus rates through benefit illustrations. They are trained to answer the questions and address the concerns of the policyholders. Our website publishes product features and FAQs to help policyholders better understand our products. Our representatives can be reached out through the helpline numbers and email available in our website.

Reasonable Assumptions: The premium rates of participating products are based on assumptions of future experience reflecting our long-term view of performance. The product filing procedures are followed for products approvals from IRDAI.

3. Bonus Declaration Philosophy

Aviva India has a WPC and Board approved bonus philosophy for the participating business with the objective to declare the bonuses by taking into consideration the following–

- Policyholders' reasonable expectations
- Smoothening
- Fairness

The bonus rates have been derived by taking into consideration the historical bonus rates and the surplus emerging during the year and the likely future experience. The Company has been distributing the terminal bonus for policies terminating on account of death, surrender and maturity, basis the accumulated asset share (described under below section) and bonuses declared in the past.

The Company practices the following measures to ensure that policyholder expectations are set at a reasonable level and the future actions of the Company are in line with meeting those expectations:

- Reversionary bonus rates are proposed while keeping the long-term scenario in mind with endeavor to smooth the bonus from year to year. We practice to absorb the volatility in experience and impact of smoothing through the management of terminal bonus and undistributed surplus.
- Bonus sustainability tests are carried out to assess that proposed bonus rates are sustainable in future.
- We check that the proposed bonus rates do not deviate too far from those used/demonstrated in benefit illustrations and/or the bonus rates assumed at the time of pricing except under exceptional micro / macro scenarios.
- Bonus declarations are done considering the accumulated asset share calculated basis the actual experience under the policy/cohort of policies. The asset share methodology has been kept consistent over the years for each generation of products.
- The Company occasionally declares special bonuses as a one-time reward of good experience emerged over the year and to ensure that the return to policyholder stays positive provided the policyholder has paid all due premiums as per terms and conditions under the policy. We take caution so as not to over-commit and / or create unreasonable expectation for recurring declarations of special bonuses.

Smoothing is applied to provide the element of stability in the returns to the policyholders, building the undistributed surplus thereby providing cushion to policyholders from large fluctuations due to volatility in investment returns and other experience variances. The bonus rates are smoothed to limit the changes in the bonus rates from year to year.

The Company ensures fairness by effective governance process, including an oversight of the Board and With-Profits Committee in the management of participating book. We believe in equitable treatment of all policyholders through fair and transparent practices in bonus declarations.

4. Bonus Earning Capacity

The Company's bonus earning capacity is determined at a product level with the objective that the Targeted Maturity benefit (Maturity Benefit + Accrued Reversionary bonus + Terminal bonus) is in line with a defined proportion of the asset share expected to be paid at maturity. The Company's principle behind the bonus earning capacity is to ensure that at the time of exit of the last policy, the entire Asset share is exhausted i.e. Maturity benefit (including bonuses) to Asset Share is closer to 100%.

Bonus rates are smoothed so that the full extent of changes in the market value of assets under participating fund is not always immediately reflected in benefit pay-outs, thereby limiting the changes in the bonus rates from year to year. As described above, this provides the element of stability in the returns to the policyholders.

5. Investments

The assets under participating fund are invested as per IRDAI extant norms and Aviva India's Investment Committee mandates in the following asset categories:

- Central Government or State Government Securities
- Other Approved Securities
- Corporate Bonds
- Housing or Infrastructure Investments
- Other Debt and Money Market instruments
- Equities

On quarterly basis, the Company publishes the assets composition of participating fund and yield on the investments in Public Disclosures: https://www.avivaindia.com/public-disclosures

6. Asset Share

The asset share reflects the policyholder's contribution to and participation in the Insurer's surplus distribution under participating fund. It is used as a guide for determining the level of pay-outs to participating policyholders and means to quantify the PRE. The asset share is used for:

- Smoothing maturity values
- To determine an appropriate level of reversionary bonus
- To calculate surrender and maturity pay-outs
- The asset share, and its projections assist in financial management and monitoring of participating business.

The asset share includes the historical experience under the policy/cohort of policies, surplus emerging from company's experience along-with the consideration for smoothing and management of PRE. The Company has been keeping the asset share methodology consistent over the years for each generation of participating products. The asset share methodology is described below.

The key Components of Asset Share are -

(+) Premiums Paid: Total premiums paid by the policyholders over the life of the policy.

(+) Investment Returns: The investment income earned on the net cashflows and the last period asset share balance.

(-) Expenses: Costs associated with managing the policy, including administrative costs, acquisition costs, and ongoing maintenance costs.

(-) Claims: Payments made under the policy, including death benefits, maturity benefits, and any other claims including the bonus payouts.

(-) Shareholder Transfers: As per the Insurance Act 1938, the surplus under participating fund will be distributed among policyholders and shareholders in the ratio 90:10. Thus a $1/9^{th}$ of the total cost of bonus will be debited on account of shareholder transfers from the asset share.

(-) Tax on surplus: Any tax on distributed surplus is debited from the Asset Share.