

India: Participating Business Management and Asset Shares

Survey results and insights

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Introduction to Milliman 2025 India asset share survey

We are pleased to present the results and insights from a recent survey of Indian life insurers, covering their approaches to managing participating business and performing asset share calculations. 12 life insurers in India participated in this survey, representing around half of the industry. The insurers surveyed represent a range of sizes of par funds.

The questions covered aspects including sources of surplus shared with policyholders, triggers and limits on bonus declarations, asset allocation and the level of statutory reserves relative to asset shares. The share of respondents giving each answer is shown in the graphs on the following slides.

We hope you find this an interesting snapshot of how companies are managing this important product line. While the discretion inherent in the management of participating business may allow a wide variety of practices, we hope that understanding the different approaches by peer companies can highlight areas for review, refinement and improvement.

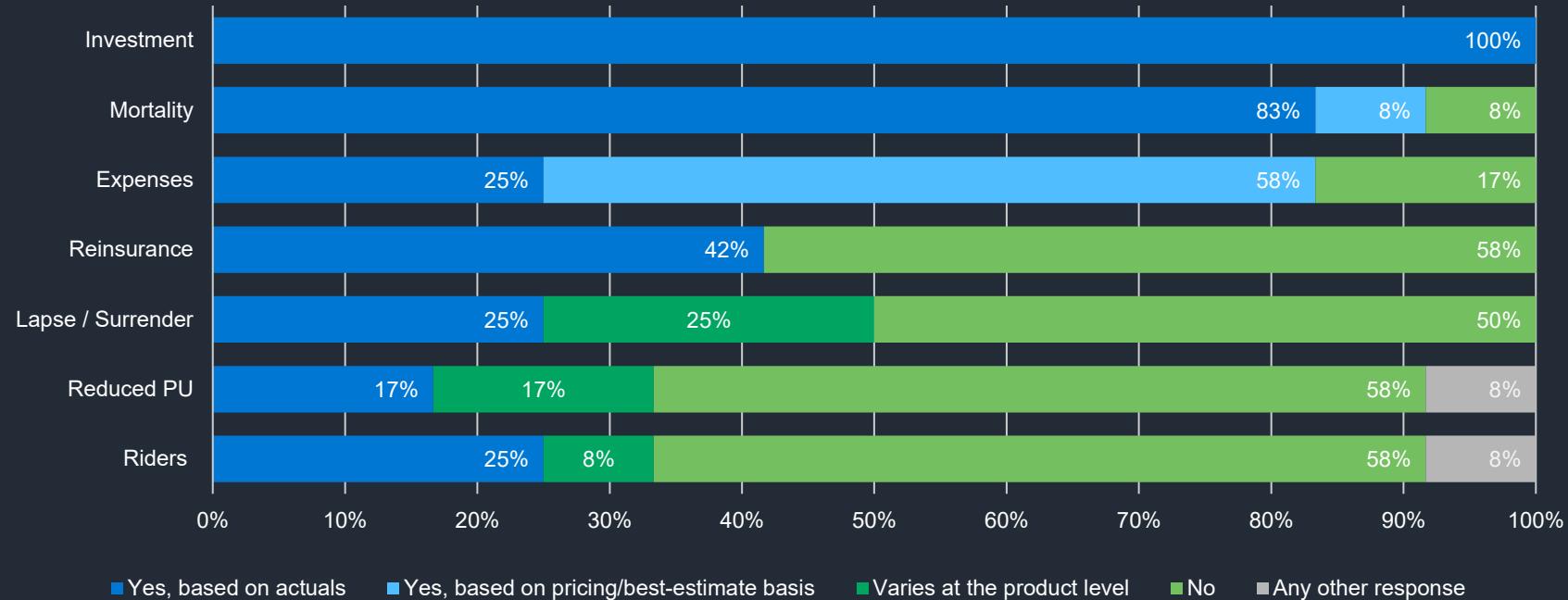
The survey results of our earlier 2020 study can be found [here](#).

Key insights from our survey and executive summary

Based on the results in 2025 we have observed the following market trends related to participating business management:

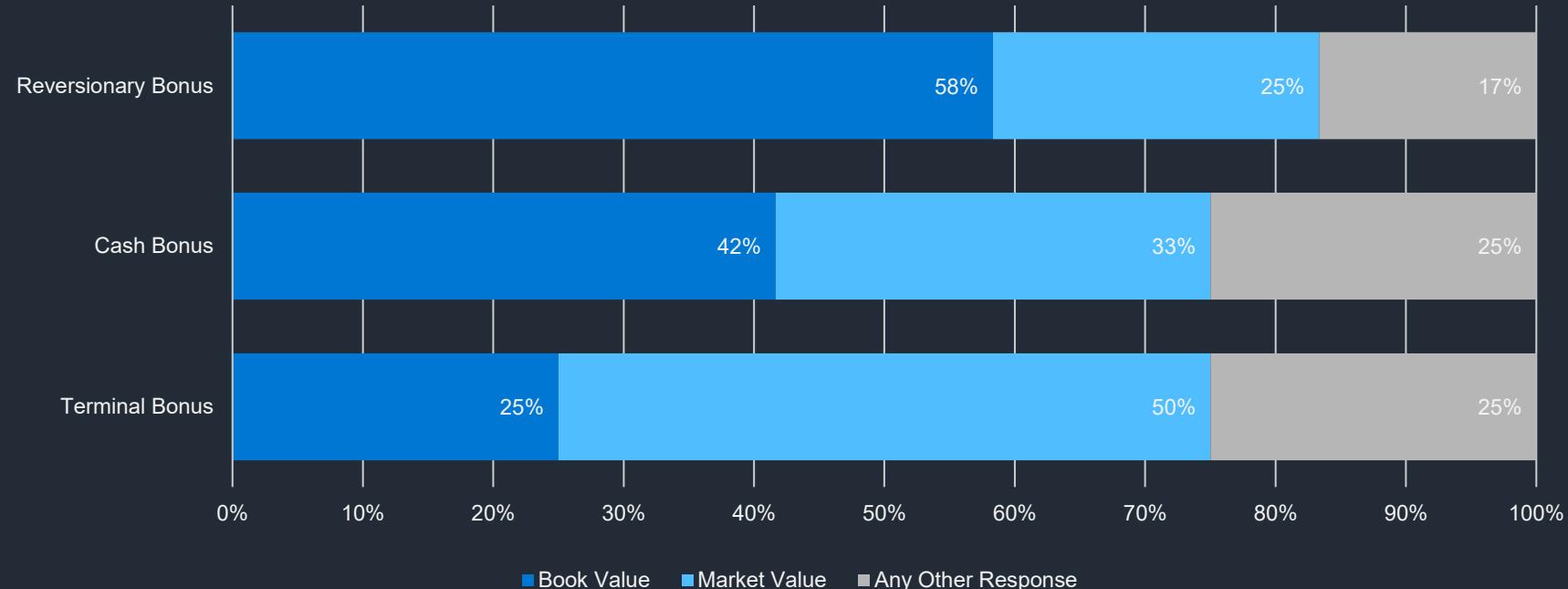
- Persistency surpluses have become more commonly incorporated into asset shares than in previous surveys, although the market practice still varies.
- The market practice is mixed around allowances for cost of capital and cost of guarantee charges, suggesting asset share definitions do vary across insurers.
- While some insurers track the sources of surplus in the estate, many do not.
- The extent to which insurers believe that asset shares drive policyholders' reasonable expectations is limited, with benefit illustrations and the general economic environment appearing to be more prominent factors.

Which sources of surplus do you incorporate into asset shares?



- All respondents incorporate investment surplus into asset shares. Given that this is a key source of surplus, with benefit illustrations explicitly showing the impact of different investment assumptions on customer returns, this is not surprising.
- Most respondents re-circulate mortality and expense surplus into asset shares.
- The number of respondents sharing lapse / surrender and reduced paid-up surplus has increased since our last survey, suggesting a change in practice, especially for newer products. As participating business has become more competitive in recent years, insurers may be sharing more surpluses in order to boost customer returns.

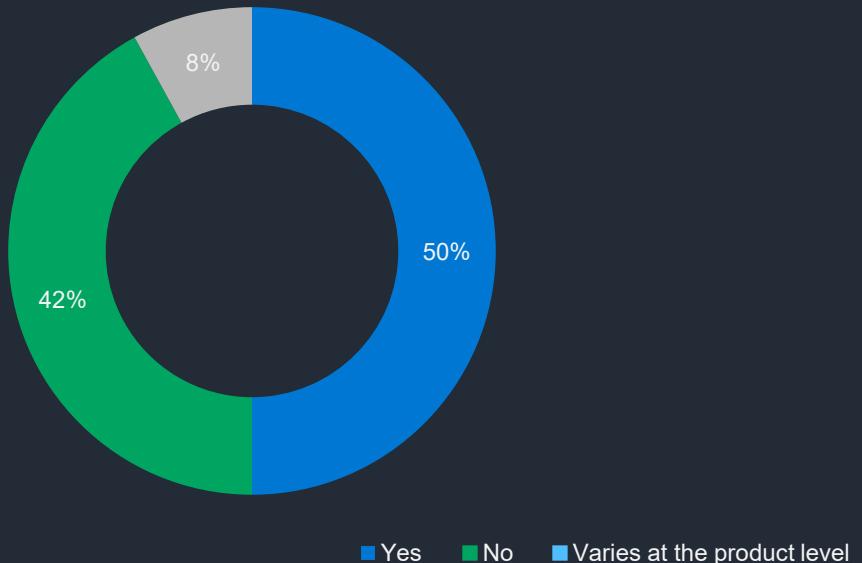
When developing asset shares that are used to set various bonuses, on what basis do you credit investment returns?



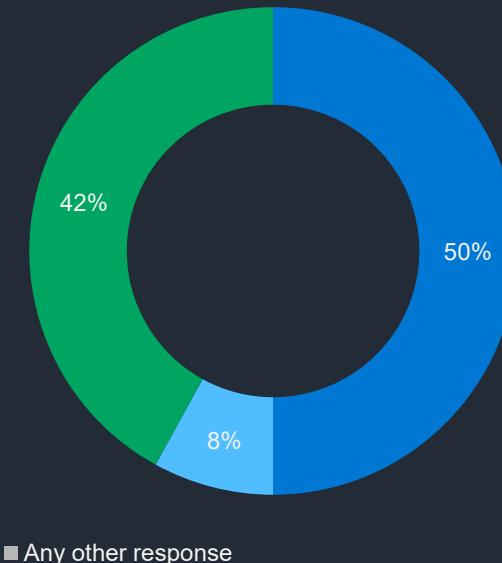
- Overall, the results suggest that reversionary bonuses tend to be based more on book value returns (suggesting a more 'smoothed' asset share) whereas terminal bonuses tend to be more linked to market value returns.
- For those participants that responded 'other' these tended to adopt an IGAAP valuation approach – i.e. where debt is at book value but equities are at market value.
- For cash bonus products, which have grown in popularity in recent years, some insurers use market value returns (as for TB), while others use book value returns (as for RB).

Do you allow for the following charges in your asset share calculation?

Cost of Capital (COC) charges in asset shares



Cost of Guarantees (COG) charges in asset shares

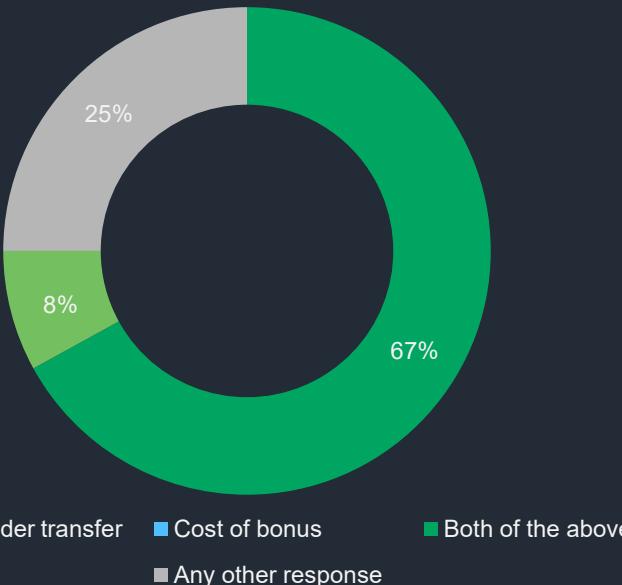


- Cost of Capital - More insurers appear to adopt a COC charge than in our previous survey.
- The use of COG charges appears to have increased since our last survey, perhaps indicating an increased complexity in the way businesses are managed, or to ensure more fairness between customers. This increased level of differentiation between low and high guarantee policies may also reflect the fact that with-profits business has become more heterogeneous as new product types and varying levels of guarantees have been introduced.

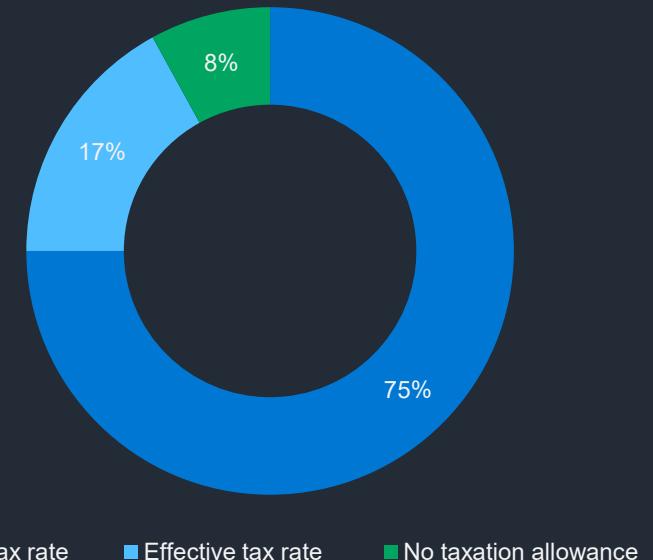


Taxation treatment in the asset share calculation

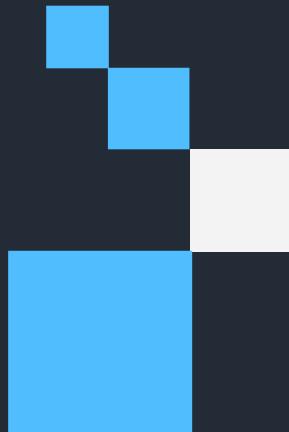
On what basis do you allow for taxation in your asset share calculation?



Does the applied tax rate reflect actual tax paid or the full applicable business rate?

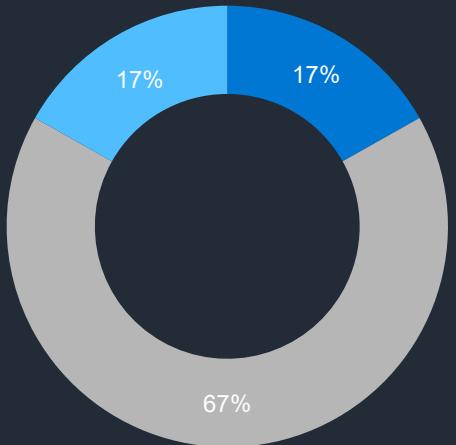


- On the whole, insurers appear to be following a more 'traditional' approach to taxes where the cost of bonus and shareholder transfers are assumed to be taxed at the 'full' tax rate.
- However, we have observed a shift since our previous survey towards insurers reflecting their effective tax rate (i.e. a lower rate when various tax deductions have been claimed). This would tend to lower the tax charges and improve customer returns.
- A small number of insurers use other methods, including charging asset shares with the actual tax paid from the participating fund.



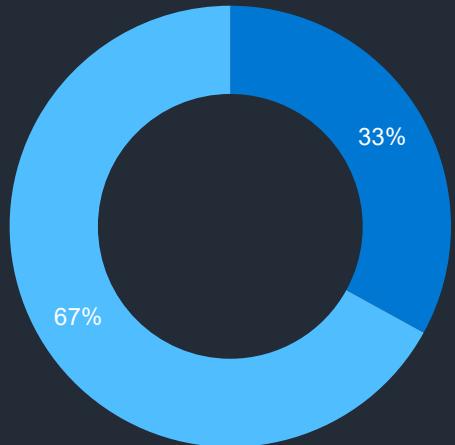
Asset share and par fund actuarial analysis capabilities

Tracking the 'estate' sources of surplus



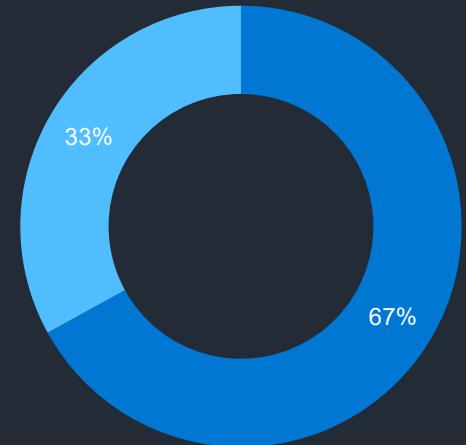
- Full historic roll-up from inception
- Annual roll-forward
- No analysis

Asset share calculation approach



- Rolled for each period
- Computed from inception in each run

Asset share projections embedded within the best estimate cash flow projections

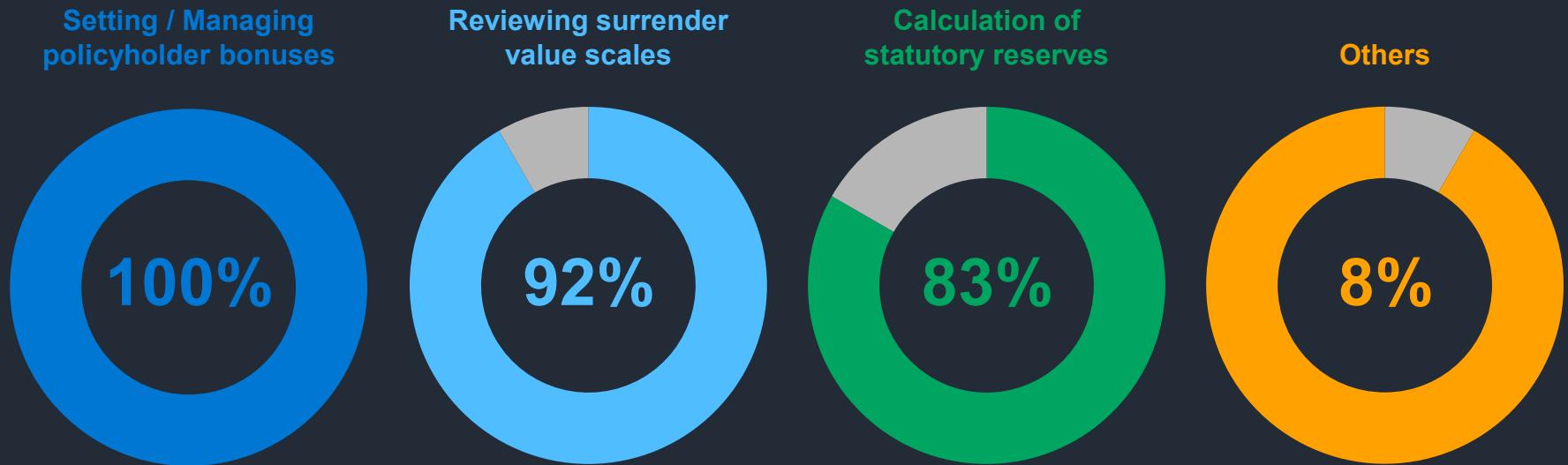


- Yes
- No

- We also surveyed insurers to understand the depth of actuarial analysis that is performed on funds. Historically this has been relatively low, but in our experience, this has been increasing in recent years.
- A growing proportion of insurers are now tracking their estate, although there is still some way to go here.

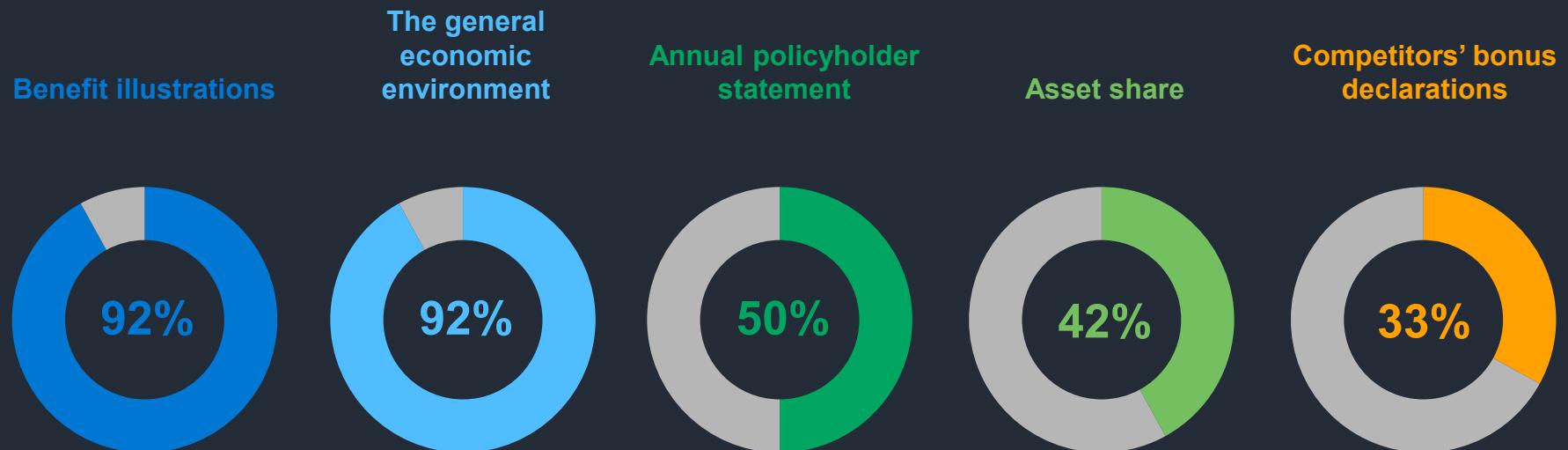


For which of the following purposes do you use asset shares?



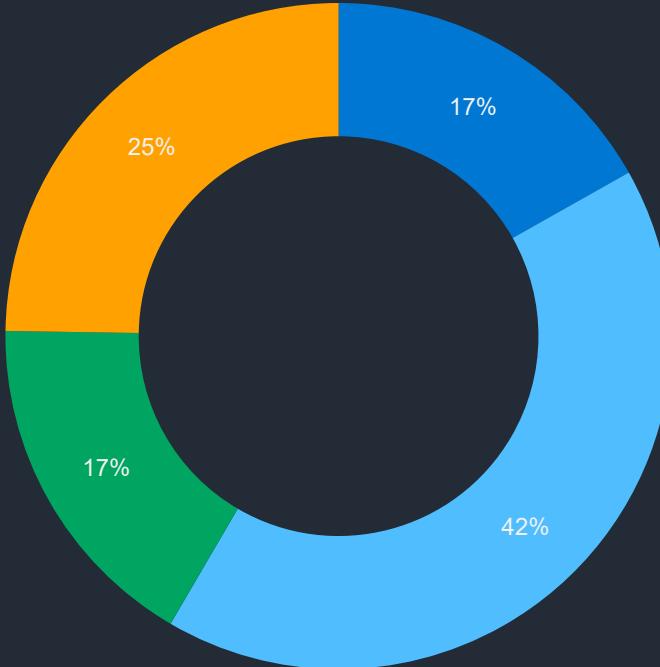
- All insurers surveyed use asset shares to set their bonus rates, however we also note that an increasing proportion of insurers are now using them to review surrender values (especially since the introduction of new surrender value regulations) and for reserving.
- We would expect a stronger link between reserves and asset shares, and more dynamic surrender values to improve the overall financial management of participating funds.

Which of the following sources do you consider to form part of policyholders' reasonable expectations?



- All insurers surveyed believe that benefit illustrations help to determine policyholders' reasonable expectations. In our experience, many insurers now explicitly check the declared bonuses for consistency with illustrations. This can sometimes result in bonuses that deviate from those implied by asset shares, but we note that only half the insurers thought that asset shares can set PRE.
- In our experience, linking payouts too strongly to benefit illustrations can complicate the financial management of the fund as they do not take into account the evolving environment and are fixed at the point of sale. This is as opposed to asset shares that can help better capture the experience of the fund over many years.
- The general economic environment also appears to play a key role, suggesting that while insurers may use their actual experience and asset shares, where this deviates from the general market, this may also need to be considered.

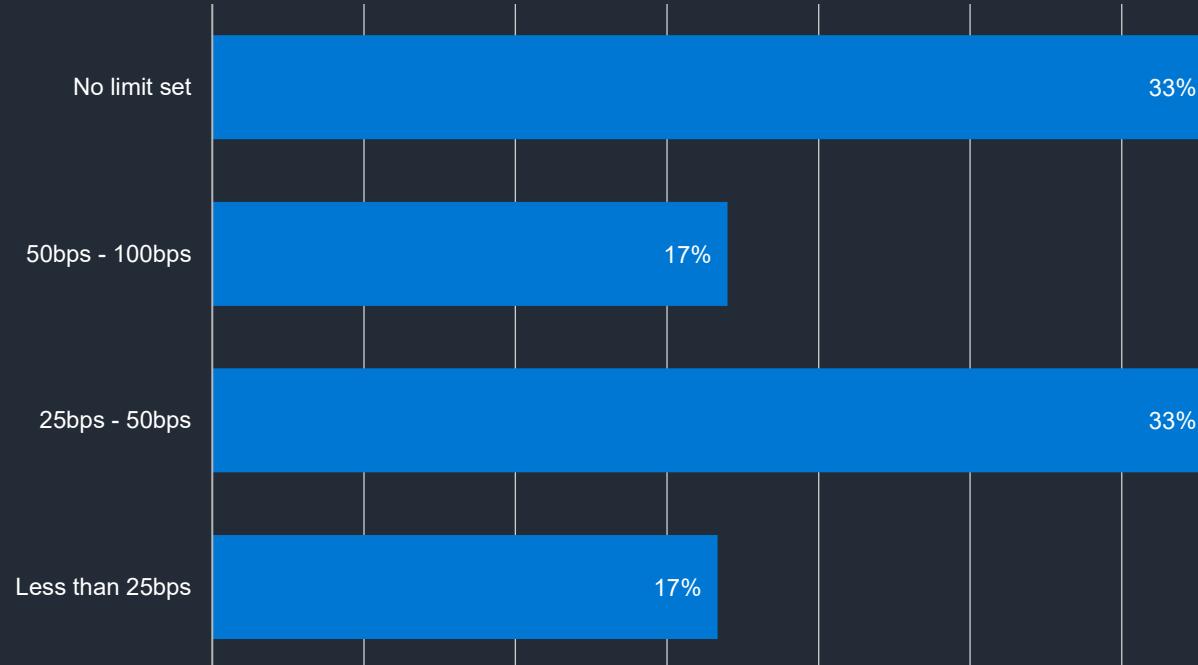
How do you take the point-of-sale illustrations into account when setting maturity benefits?



- Rely only on asset shares (ignore illustrations)
- Ensure maturity benefit is at least as high as that obtained on the illustration basis (covering all aspects such as mortality, persistency, expenses etc.), but taking into account the actual investment returns over the lifetime of the policy
- Ensure maturity benefit is at least as high as the illustrated values at 4% or 6% (as applicable to different versions) investment returns
- Other

- The proportion of insurers relying exclusively on asset shares has decreased since our last survey. For most insurers, asset share is only one factor with benefit illustrations also considered in their assessments.
- In general, where benefits exceed asset shares, this can sometimes create a strain on the fund. Hence the stronger the asset share link (and less other factors are considered), the less likely there are to be shortfalls created.

Under normal circumstances, what maximum amount do you permit reversionary bonuses to change by each year?



- Insurers typically express reversionary bonuses as a percentage of sum assured, and this question highlights how much this percentage is typically allowed to move in a given year.
- A majority of insurers have set some limit on the amount of variation in declared RBs from year to year. In our experience, most insurers do aim to avoid large changes in reversionary bonuses from year to year. Thus, the answers to this question may underline a possible difference between insurers who have documented this in their internal participating fund management policies and those that manage this process on a more ad-hoc basis.

Asset allocation policies and equity backing ratios

At what level are the asset allocations set for participating funds?

Participating fund level 58%

Fund level, separate allocation for liabilities and FFA 25%

Product level 17%

As at 31st March 2025, what percentage of participating fund assets is invested in equities/property

More than 25% 17%

20-25% 25%

15-20% 8%

10-15% 8%

5-10% 25%

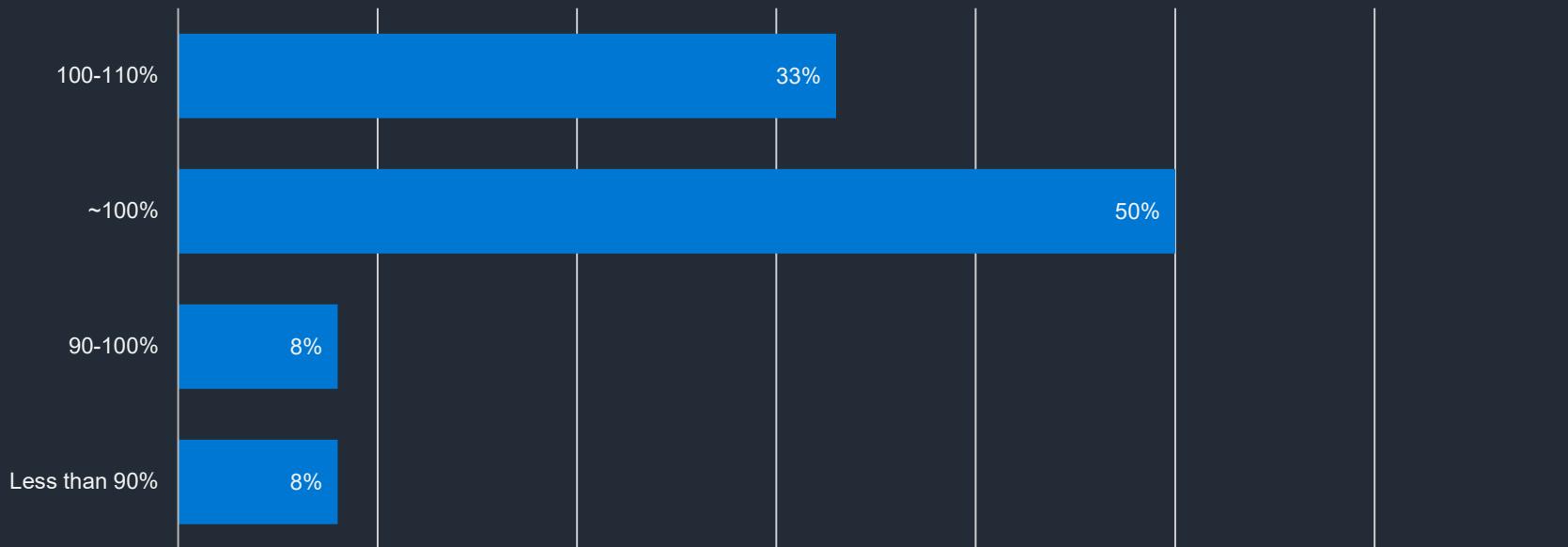
Less than 5% 17%

- We note that there is a wide variation in the level of equity investments made by insurers within their participating funds, with some holding more than 25%. This may reflect the product mix within the fund or different approaches to the level of investment upside insurers aim to pass to customers through investment in risk assets.
- While most insurers adopt a largely uniform asset allocation across the fund, some insurers have begun to adopt different allocations to different products.



Level of statutory reserves relative to asset shares

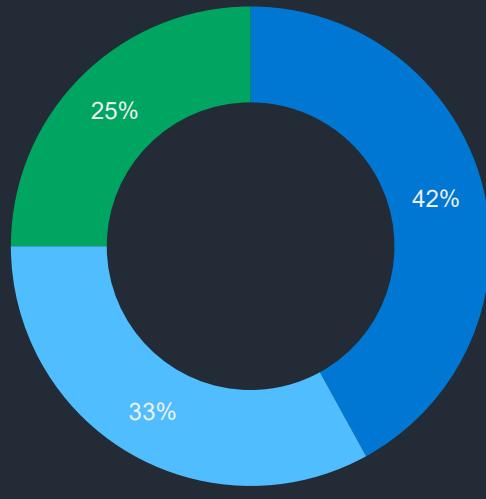
As at 31st March 2025, for policies where you calculate asset shares, at what level did you set the statutory reserves as compared to the asset shares?



- Compared to previous surveys, there is greater consistency in how insurers set statutory reserves relative to asset shares, with most now maintaining reserves near 100%. Higher reserve margins (above 110%) are less common, indicating a more stable approach to participating fund reserving.

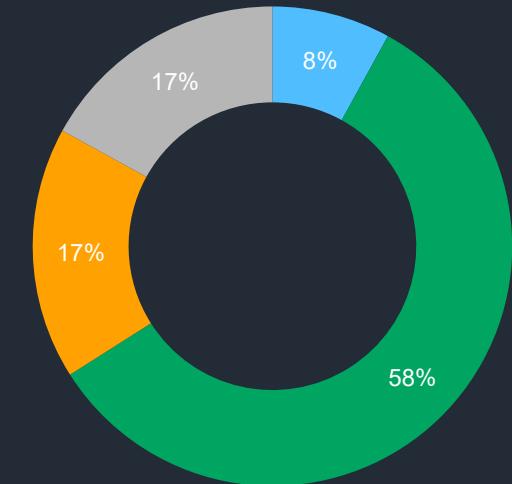
Approach to policyholder disclosures

Disclosure of asset share methodology — do you disclose it and through what medium?



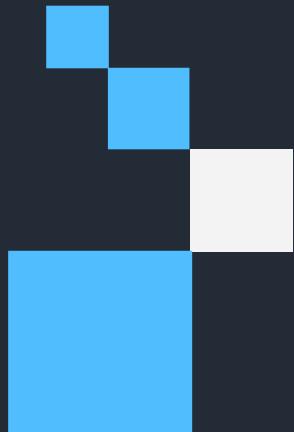
■ Yes, attached to policy statements ■ Yes, published on the website ■ No

Do you provide return-related disclosures to policyholders in annual statements?



■ Policyholder's individual projected or historic IRR ■ Range of IRRs
 ■ No/generic IRR information ■ Others ■ Respondent skipped

- The requirement to disclose information to customers is a recent addition and market practice is still evolving. It is therefore not surprising that the answers around this are still not standard.
- No insurer disclosed policyholder specific IRRs (neither projected nor historic).



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