L-42- Valuation Basis (Life Insurance) – For the financial year 2008-09.

A chapter on Valuation basis covering the following minimum criteria should also be displayed on the web-site of the Insurers.

a.	**How the policy data needed for valuation is accessed.**		The valuation data is extracted from the policy administration system RLS for individual business and Ashima system for Group business. Data for Rural individual and Group Social is maintained in spreadsheets.
b.	**How the valuation bases are supplied to the system**		Bases are supplied through tables of Actuarial Software (Prophet). The valuation is performed using Prophet system.
1)	**Interest : Maximum and minimum interest rate taken for each segment**		
	i. Individual Business		
1.	**Life- Participating policies**		6.20% p.a. for the first five years and 5.40% p.a. thereafter
2.	**Life- Non-participating Policies**		
		Targeted to mass market	6.20% p.a. for the first five years and 5.40% p.a. thereafter
		Targeted to Rural Market	5.45% p.a.
3.	**Annuities- Participating policies**		NA
4.	**Annuities – Non-participating policies**		6.64% p.a. for the first five years and 5.78% p.a. therafter
5.	**Annuities- Individual Pension Plan**		NA
6.	**Unit Linked**		6.20% p.a. for the first five years and 5.40% p.a. thereafter
7.	**Health Insurance**		NA
	ii. Group Business	Targeted to mass market	6.20% p.a. for the first five years and 5.40% p.a. thereafter
		For Social Sector	5% p.a.
2)	**Mortality Rates : the mortality rates used for each segment (Please see note below for definition of IAM table)**		
	i. Individual Business		
1.	**Life- Participating policies**		100% of IAM Table
2.	**Life- Non-participating Policies**		Depends on the target market
		Targeted to mass market	90% of IAM Table
		Targeted to Rural Market	300% of IAM Table
3.	**Annuities- Participating policies**		NA
4.	**Annuities – Non-participating policies**		110% of LIC(96-98) Annuitant mortality with improvement of 4% p.a.
5.	**Annuities- Individual Pension Plan**		NA
6.	**Unit Linked**		Depends on the target market
		Single Premium & Pension	90% of IAM Table
		Regular Premium (Non Pension & Normal underwritin	100% of IAM Table
		Simplified Underwriting products	135% of IAM Table
7.	**Health Insurance**		NA
	ii. Group Business		
		Targeted to mass market	60% to 130% of IAM Table
		For Social Sector	175% of IAM Table

3) Expense :		
i) Individual Business	**Premium %**	**Per Policy (INR)**
1. **Life- Participating policies**	1st year: 11%p.a. , 2nd year : 2.2%p.a. (either for entire term or specified number of years)	Maintenance :445 p.a (Increasing with inflation at 5% p.a. at the start of each calendar year)
2. **Life- Non-participating Policies**		
Targeted to mass market	1st year: 11% p.a. , 2nd year : 2.2% p.a. (either for entire term or specified number of years)	Maintenance :445 p.a (Increasing with inflation at 5% p.a. at the start of each calendar year)
Targeted to Rural Market	2nd year+: Nil	Maintenance 30.3 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year)
3. **Annuities- Participating policies**	NA	NA
4. **Annuities – Non-participating policies**	NA	Maintenance 346.5 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year)
5. **Annuities- Individual Pension Plan**	NA	NA
6. **Unit Linked**		
Unit Linked (Non Pension -- Normal Underwriting)	<u>Regular Premium</u> 1st year: 11% p.a. , 2nd year : 2.2% p.a. (either for entire term or specified number of years)	Maintenance: Fixed expense of 637p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year) Investment expense (% of Unit Fund) : Varies from 0.4% p.a. to 0.425% p.a.
Unit Linked (Non Pension -- Simplified Underwriting)	1 st year: 11% p.a. , 2nd - 5th year : 2.2% p.a. 6th year onwards: 1.1% p.a.	Maintenance: Fixed expense of 637p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year) Investment expense (% of Unit Fund) : 0.425% p.a.
Unit Linked (Pension)	<u>Regular Premium</u> 1st year :11% p.a. 2nd year+: 0%	Maintenance : Fixed expense of 637p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year) Investment expense (% of Unit Fund) : 0.425% p.a.
7 **Health Insurance**	NA	NA
ii) Group Business Targeted to mass market Social Sector	2nd year+: Nil	Maintenance:Varies betweeen 4 p.a. to 75 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year)

4)	**Bonus Rates :**	2.75% p.a. on Sum Assured plus vested bonus
5)	**Policyholders Reasonable Expectations**	The illustrated bonus rate are in the range of 2.30% to 4.15% of (Sum Assured plus Vested Bonus) based on benefit illustration of the product at illustrated gross investment return of 6% & 10% p.a. respectively.
6)	**Taxation and Shareholder Transfers**	No tax is assumed for Non par products. However 12.5% p.a. is assumed while valuing the reserves for participating products.
7)	**Basis of provisions for Incurred But Not Reported (IBNR)**	2 months expected cost of claims.
8)	**Change in Valuation Methods or Bases**	(Please see note below)
	i. Individuals Assurances	
1.	**Interest**	No
2.	**Expenses**	No
3.	**Inflation**	No
	ii. Annuities	
1.	**Interest**	No
a.	**Annuity in payment**	No
b.	**Annuity during deferred period**	No
c.	**Pension : All Plans**	No
2.	**Expenses**	No
3.	**Inflation**	No
	iii. Unit Linked	
1.	**Interest**	No
2.	**Expenses**	No
3.	**Inflation**	No
	iv. Health	
1.	**Interest**	No
2.	**Expenses**	No
3.	**Inflation**	No
	v. Group	
1.	**Interest**	No
2.	**Expenses**	No
3.	**Inflation**	No

Note : The lapse rate for first year in case of unit linked regular premium business was changed from 10% to 15% in 2008-09.
Indian Assured Lives(IAM) Table -- Indian Assured Lives Mortality (1994-96) (Modified) Ult Table.