L-42- Valuation Basis (Life Insurance) – For the financial year 2009-10.

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 & Health Insurance 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.
		Micro Insurance	3% 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**		5% p.a.
	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	80% to 90% of IAM Table
		Targeted to Rural Market	300% of IAM Table
		Micro Insurance	200% 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 underwriting)	100% of IAM Table
		Simplified Underwriting products	135% of IAM Table
		Semi-Urban & rural markets	250% of IAM Table
7.	**Health Insurance**		100% of IAM Table
	ii. Group Business		
		Targeted to mass market	60% to 140% 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 :468 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 :468 p.a (Increasing with inflation at 5% p.a. at the start of each calendar year)
Targeted to Rural Market	2nd year+: Nil	Maintenance 32 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year)
Micro Insurance		
3. Annuities- Participating policies	NA	NA
4. Annuities – Non-participating policies	NA	Maintenance 364 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)	Regular Premium 1st year: 11% p.a. , 2nd year : 2.2% p.a. (either for entire term or specified number of years)	Maintenance: Fixed expense of 669 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year) Investment expense (% of Unit Fund) : Varies from 0.3% 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.(either for entire term or specified number of years) 6th year onwards: Varies from 0% to 1.1% p.a.	Maintenance: Fixed expense of 669 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year) Investment expense (% of Unit Fund) : Varies from 0.3% to 0.425%.
Unit Linked (Pension)	Regular Premium 1st year :11% p.a. 2nd year+: 0%	Maintenance : Fixed expense of 669 p.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	2nd year+: Nil	Maintenance : Fixed expense of 133 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year)
ii) Group Business Targeted to mass market Social Sector	2nd year+: Nil	Maintenance:Varies betweeen 4.2 p.a. to 110 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 15% to make it entry year specific.
Indian Assured Lives(IAM) Table -- Indian Assured Lives Mortality (1994-96) (Modified) Ult Table.