L-42- Valuation Basis (Life Insurance) – December 2012

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		6.10% p.a. for the first five years and 5.20% p.a. thereafter
2.	Pension- Participating policies		6.10% p.a. for the first five years and 5.20% p.a. thereafter
3.	Life- Non-participating Policies		
		Targeted to mass market	6.10% p.a. for the first five years and 5.20% p.a. thereafter
		Targeted to Rural Market	5.35% p.a.
		Micro Insurance type	7% p.a.
4.	Annuities- Participating policies		NA
5.	Annuities – Non-participating policies		6.64% p.a. for the first five years and 5.78% p.a. therafter
6.	Annuities- Individual Pension Plan		NA
7.	Unit Linked		6.10% p.a. for the first five years and 5.20% p.a. thereafter
8.	Health Insurance		4.9% to 6.10% p.a. for the first five years and 4.4% to 5.20% p.a. thereafter
	ii. Group Business	Targeted to mass market	6.10% p.a. for the first five years and 5.20% p.a. thereafter
		For Social Sector	5% p.a.
		Micro Insurance	7.25% 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	80 to 100% of IAM Table	
2.	Pension- Participating policies		67% of IAM Table
3.	Life- Non-participating Policies		Depends on the target market
		Targeted to mass market	30% to100% of IAM Table
		Targeted to Rural Market	300% of IAM Table
		Micro Insurance type	200% of IAM Table
4.	Annuities- Participating policies		NA
5.	Annuities – Non-participating policies		110% of LIC(96-98) Annuitant mortality with improvement of 4% p.a.
6.	Annuities- Individual Pension Plan		NA
7.	Unit Linked		Depends on the target market
		Single Premium & Pension	84% to 100% of IAM Table
		Regular Premium (Non Pension & Normal underwriting)	83% to 100% of IAM Table
		Simplified Underwriting products	135% of IAM Table
		Semi-Urban & rural markets	250% of IAM Table
8.	Health Insurance		55 % to100% of IAM Table
	ii. Group Business		
		Targeted to mass market	60% to 140% of IAM Table
		For Social Sector	175% of IAM Table
		Micro Insurance	150% of IAM

3) Expense :			
i) Individual Business		Premium %	Per Policy (INR)
1. Life- Participating policies		1st year: 11% to 22%p.a. , 2 to 5 year : 0 to 2.2%p.a. (either for entire term or specified number of years) 6 to 15 year :0 to 2.2% p.a. 16+ year : 0 to 2.2% p.a.	Maintenance :516 p.a (Increasing with inflation at 5% p.a. at the start of each calendar year)
2. Pension- Participating policies		1st year: 22% p.a. , 2+ year : 2.2% p.a.	Maintenance :516 p.a (Increasing with inflation at 5% p.a. at the start of each calendar year)
3. Life- Non-participating Policies			
	Targeted to mass market	1st year: 11% to 33% p.a. , 2nd year :0% to 2.2% p.a. (either for entire term or specified number of years)	Maintenance: 265 to 516 p.a (Increasing with inflation at 5% p.a. at the start of each calendar year)
	Targeted to Rural Market	2nd year+: Nil	Maintenance 37.5 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year)
	Micro Insurance type		

3.	Annuities- Participating policies	NA	NA
4.	Annuities – Non-participating policies	NA	Maintenance 420 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:3.3% to 22% p.a. , 2 to 3rd year :0 to 2.2% p.a. 3+ year: 0%	Maintenance: Fixed expense of 737 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 of737 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 of737 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	1 st year+: 22% 2nd - 3 rd year: 0% to2.2% 3+ year: 0%	Maintenance : Fixed expense of 153 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year)
8	ii) Group Business Targeted to mass market Social Sector Micro Insurance	2nd year+: Nil 1st year: 18% p.a. 2nd year :0%	Maintenance:Varies betweeen 0 p.a. to 122 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year)

4)	Bonus Rates :	The declared bonus rates are as follows: For Par Life :2.75% p.a. on Sum Assured plus vested bonus For Par Pension:For policy benefit term to age 60- 2.75% of Guaranteed Retirement Amount. For policy benefit term of 10yrs - 2% of Guaranteed Retirement Amount. The furture bonus rates are discretionary in nature.
5)	Policyholders Reasonable Expectations	The illustrated bonus rate are in the range of 2.30% to 4.15% of (Sum Assured plus Vested Bonus,Guaranteed Retirement Amount) 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 13.52% p.a. is assumed while valuing the reserves for participating products. Share holder tax rate is 32.45% p.a.
7)	Basis of provisions for Incurred But Not Reported (IBNR)	2 months expected cost of claims.
8)	Change in Valuation Methods or Bases	
	i. Individuals Assurances	
1.	Interest	Yes
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	Yes
2.	Expenses	No
3.	Inflation	No
	iv. Health	
1.	Interest	Yes
2.	Expenses	No
3.	Inflation	No
	v. Group	
1.	Interest	Yes
2.	Expenses	No
3.	Inflation	No

Note : Indian Assured Lives(IAM) Table -- Indian Assured Lives Mortality (1994-96) (Modified) Ult Table.