

L-42- Valuation Basis (Life Insurance) – March 2014

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 Health business(other than Easy Health). Ashima Life system is being used for maintaining data for Group business & Easy Health product. 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 2. Pension- Participating policies 3. Life- Non-participating Policies Targeted to mass market Targeted to Rural Market Micro Insurance type 4. Annuities- Participating policies 5. Annuities – Non-participating policies 6. Annuities- Individual Pension Plan 7. Unit Linked 8. Health Insurance ii. Group Business Targeted to mass market For Social Sector Micro Insurance	6.20% p.a. for the first five years and 5.40% p.a. thereafter 6.20% p.a. for the first five years and 5.40% p.a. thereafter 6.20% p.a. for the first five years and 5.40% p.a. thereafter 4.9% p.a. 7% p.a. NA 6.64% p.a. for the first five years and 5.78% p.a. thereafter NA 6.20% p.a. for the first five years and 5.40% p.a. thereafter 4.9% to 6.20% p.a. for the first five years and 5.40% p.a. thereafter 6.20% p.a. for the first five years and 5.40% p.a. thereafter 6.20% p.a. for the first five years and 5.40% p.a. thereafter 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 2. Pension- Participating policies 3. Life- Non-participating Policies Targeted to mass market Targeted to Rural Market Micro Insurance type 4. Annuities- Participating policies 5. Annuities – Non-participating policies 6. Annuities- Individual Pension Plan 7. Unit Linked Single Premium & Pension Regular Premium (Non Pension & Normal underwriting) Simplified Underwriting products Semi-Urban & rural markets 8. Health Insurance ii. Group Business Targeted to mass market (Credit Life & CI) Credit Life new version For Social Sector Micro Insurance	88 to 112% of IAM Table 78% of IAM Table Depends on the target market 35% to 112% of IAM Table 342% of IAM Table 214% of IAM Table NA 110% of LIC(06-08) Annuitant mortality with improvement of 4% p.a. NA Depends on the target market 78% to 93% of IAM Table 93% to 112% of IAM Table 149% of IAM Table 280% of IAM Table 62 % to 112% of IAM Table Factor based on the type of financial institution Factor based on the type of financial institution 215% of IAM Table 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 :569 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 :569 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: 284 to 569 p.a (Increasing with inflation at 5% p.a. at the start of each calendar year)
Targeted to Rural Market	2nd year+: Nil	Maintenance 41p.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 441 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:3.3% to 22% p.a. , 2 to 3rd year :0 to 2.2% p.a. 3+ year: 0%	Maintenance: Fixed expense of 813 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 813 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 (Pension)	<u>Regular Premium</u> 1st year :11% p.a. 2nd year+: 0%	Maintenance: Fixed expense of 813 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.
7 Health Insurance	1 st year+: 22% 2nd - 3 rd year: 0% to 2.2% 3+ year: 0%	Maintenance : Fixed expense of 97 to 178 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+: 0.25% p.a. 1st year: 18% p.a. 2nd year :0%	Maintenance:Varies between 0 p.a. to 9.70 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 :1.5% to 3.25% 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 future bonus rates are discretionary in nature.
5) Policyholders Reasonable Expectations	The illustrated bonus rate are in the range of 1.5% 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 14.1625% p.a. is assumed while valuing the reserves for participating products. Share holder tax rate is 14.1625% p.a.
7) Basis of provisions for Incurred But Not Reported (IBNR)	Expected cost of claims for 'n' months, where 'n' is based on the actual experience by product line.
8) Change in Valuation Methods or Bases	
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 : Indian Assured Lives(IAM) Table -- Indian Assured Lives Mortality (2006-08) (Modified) Ult Table.	