

**L-42- Valuation Basis (Life Insurance) – For the financial year 2010-11.**

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.
<b>1) Interest : Maximum and minimum interest rate taken for each segment</b>		
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. thereafter
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.
<b>2) Mortality Rates : the mortality rates used for each segment (Please see note below for definition of IAM table)</b>		
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

<b>3) Expense :</b>		
i) Individual Business		
		<b>Premium %</b>
		<b>Per Policy (INR)</b>
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)
	Targeted to Rural Market	2nd year+: Nil
	Micro Insurance	
		Maintenance :468 p.a (Increasing with inflation at 5% p.a. at the start of each calendar year)
		Maintenance 32 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 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)	<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 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)	<u>Regular Premium</u> 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 between 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.