

L-42- Valuation Basis (Life Insurance) – For the financial year 2011-12

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.	Pension- Participating policies	6.20% p.a. for the first five years and 5.40% p.a. thereafter
3.	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 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. thereafter
6.	Annuities- Individual Pension Plan	NA
7.	Unit Linked	6.20% p.a. for the first five years and 5.40% p.a. thereafter
8.	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.
	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	100% of IAM Table
2.	Pension- Participating policies	70% of IAM Table
3.	Life- Non-participating Policies	Depends on the target market
	Targeted to mass market	80% to 100% 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	90% to 100% 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
8.	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
	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 : 2.2% p.a. (either for entire term or specified number of years) 6 to 15 year : 1.1% p.a. 16+ year : 0 to 1.1% p.a.	Maintenance :491 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 :491 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 25% p.a. , 2nd year :0% to 2.2% p.a. (either for entire term or specified number of years)	Maintenance :491 p.a (Increasing with inflation at 5% p.a. at the start of each calendar year)
	Targeted to Rural Market	2nd year+: Nil	Maintenance 34 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year)
	Micro Insurance type		

3.	Annuitants- Participating policies	NA	NA
4.	Annuitants - Non-participating policies	NA	Maintenance 382 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year)
5.	Annuitants- Individual Pension Plan	NA	NA
6.	Unit Linked		
	Unit Linked (Non Pension -- Normal Underwriting)	<u>Regular Premium</u> 1st year:3.3% to 11% p.a. . 2 to 3rd year :0 to 2.2% p.a. 3+ year: 0%	Maintenance: Fixed expense of 703 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 of703 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 of703 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 140 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 between 0 p.a. to 116 p.a. (Increasing with inflation at 5% p.a. at the start of each calendar year)

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 future bonus rates are discretionary in nature.

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.

No tax is assumed for Non par products. However 12.5% p.a. is assumed while valuing the reserves for participating products.

Share holder tax rate is 35% p.a.

2 months expected cost of claims.

(Please see note below)

4) Bonus Rates :

5) Policyholders Reasonable Expectations

6) Taxation and Shareholder Transfers

7) Basis of provisions for Incurred But Not Reported (IBNR)

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 (1994-96) (Modified) Ult Table.