

**L-42- Valuation Basis (Life Insurance) – July 2015**

A chapter on Valuation basis covering the following minimum criteria should also be displayed on the web-site of the Insurers.

a.	<b>How the policy data needed for valuation is accessed.</b>	The valuation data is extracted from the policy administration system RLS for individual business and Health business. Ashima Life system is being used for maintaining data for Group business.
b.	<b>How the valuation bases are supplied to the system</b>	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.	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	4.9% 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	6.20% p.a. for the first five years and 5.40% p.a. thereafter
	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	6.20% p.a. for the first five years and 5.40% p.a. thereafter
	Micro Insurance	7.25% 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	88 to 112% of IAM Table
2.	Pension- Participating policies	78% of IAM Table
3.	Life- Non-participating Policies	Depends on the target market
	Targeted to mass market	35% to 112% of IAM Table
	Targeted to Rural Market	342% of IAM Table
	Micro Insurance type	214% of IAM Table
4.	Annuities- Participating policies	NA
5.	Annuities – Non-participating policies	110% of LIC(06-08) 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	78% to 93% of IAM Table
	Regular Premium (Non Pension & Normal underwriting)	93% to 112% of IAM Table
	Simplified Underwriting products	149% of IAM Table
	Semi-Urban & rural markets	280% of IAM Table
8.	Health Insurance	62 % to 112% of IAM Table
	ii. Group Business	
	Targeted to mass market (Credit Life & CI)	Factor based on the type of financial institution
	Credit Life new version	Factor based on the type of financial institution
	For Social Sector	215% 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+: 2.2% p.a (within PPT) 0% p.a (after PPT)	Maintenance :Rs 550 and inflating by 4.25% every year thereafter. Year represents a period of 12 months from the valuation date
2. Pension- Participating policies	1st year: 22% p.a. , 2+: 2.2% p.a (within PPT) 0% p.a (after PPT)	Maintenance :Rs 550 and inflating by 4.25% every year thereafter. Year represents a period of 12 months from the valuation date
3. Life- Non-participating Policies		
Targeted to mass market	1st year: 11% to 33% p.a. , 2+: 2.2% p.a (within PPT) 0% p.a (after PPT)	Maintenance :Rs 550 and inflating by 4.25% every year thereafter. Year represents a period of 12 months from the valuation date
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 :Rs 550 and inflating by 4.25% every year thereafter. Year represents a period of 12 months from the valuation date
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+: 2.2% p.a (within PPT) 0% p.a (after PPT)	Maintenance :Rs 550 and inflating by 4.25% every year thereafter. Year represents a period of 12 months from the valuation date  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. , 2+: 2.2% p.a (within PPT) 0% p.a (after PPT)	Maintenance :Rs 550 and inflating by 4.25% every year thereafter. Year represents a period of 12 months from the valuation date  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. 2+: 2.2% p.a (within PPT) 0% p.a (after PPT)	Maintenance :Rs 550 and inflating by 4.25% every year thereafter. Year represents a period of 12 months from the valuation date  Investment expense (% of Unit Fund) : Varies from 0.3% p.a. to 0.425% p.a.
7 Health Insurance	1 st year+: 22% 2+: 2.2% p.a (within PPT) 0% p.a (after PPT)	Maintenance :Rs 550 and inflating by 4.25% every year thereafter. Year represents a period of 12 months from the valuation date
8 ii ) Group Business		
Targeted to mass market	2nd year+: 0.25% p.a	Maintenance:Varies between 0 p.a. to 9.70 p.a. (Increasing with inflation at 4.25% p.a. at the start of each calendar year)
Social Sector		
Micro Insurance	1st year: 18% p.a. 2nd year :0%	

4) Bonus Rates :	<p>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.</p>
5) Policyholders Reasonable Expectations	<p>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% &amp; 10% p.a. respectively.</p>
6) Taxation and Shareholder Transfers	<p>No tax is assumed for Non par products. However 14.42% p.a. is assumed while valuing the reserves for participating products.  Share holder tax rate is 14.42% p.a.</p>
7) Basis of provisions for Incurred But Not Reported (IBNR)	<p>Expected cost of claims for 'n' months, where 'n' is based on the actual experience by product line.</p>
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
<p>Note : Indian Assured Lives(IAM) Table -- Indian Assured Lives Mortality (2006-08) (Modified) Ult Table.</p>	