

a. **How the policy data needed for valuation is accessed:** The IT department provides the data required for performing the valuation. IT extracts the data from the Policy Administration System by means of a query. Fields that are necessary for the purpose of valuation are extracted. Validation checks are performed on the data received from the Policy administration system. The download contains details of both base policies and riders. The data is then converted in to the requisite format, used for valuation purpose, using a Data Conversion System (DCS) package. The actual valuation process is done by means of the actuarial software – Prophet

b. **How the valuation bases are supplied to the system:** The valuation parameters are classified as:
Global: These are common across businesses and do not vary according to product, e.g., tax on surplus, inflation, etc.
Input: These are product-specific, e.g., expenses, commission, etc.
The non-variants are classified as constants and the individual modal points are generated from the policy download after validation checks. These inputs are fed into the Prophet System for generating the valuation output.

The Valuation Bases:

	Dec-10		Mar-11		Jun-11	
	Min	Max	Min	Max	Min	Max
1) Interest : Maximum and minimum interest rate taken for each segment						
i. Individual Business						
1. Life- Participating policies	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
2. Life- Non-participating Policies	4.50%	5.50%	4.50%	6.00%	4.50%	6.00%
3. Annuities- Participating policies						
4. Annuities – Non-participating policies	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
5. Annuities- Individual Pension Plan	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
6. Unit Linked	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
7. Health Insurance	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
ii. Group Business						
1. Mortality Rates : the mortality rates used for each segment ¹						
1. Life- Participating policies	90.00%	135.00%	90.00%	135.00%	90.00%	135.00%
2. Life- Non-participating Policies	90.00%	135.00%	90.00%	135.00%	90.00%	135.00%
3. Annuities- Participating policies						
4. Annuities – Non-participating policies	55.00%	75.00%	55.00%	75.00%	55.00%	75.00%
5. Annuities- Individual Pension Plan	90.00%	90.00%	70.00%	80.00%	70.00%	80.00%
6. Unit Linked	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%
7. Health Insurance ²	90.00%	90.00%	90.00%	90.00%	90.00%	90.00%
ii. Group Business						
1. Life- Participating policies	112.50%	112.50%	112.50%	112.50%	112.50%	112.50%
2. Life- Non-participating Policies						
3. Annuities- Participating policies						
4. Annuities – Non-participating policies	272.66	272.66	276.00	276.00	278.72	278.72
5. Annuities- Individual Pension Plan	578.78	578.78	585.00	585.00	590.76	590.76
6. Unit Linked ³	597.15	597.15	593.00	593.00	598.55	598.55
7. Health Insurance	578.78	578.78	585.00	585.00	590.76	590.76
ii. Group Business (Term Assurance)						
1. Life- Participating policies	378.99	578.78	382.00	585.00	385.76	590.76
2. Life- Non-participating Policies	57.67	578.78	59.00	585.00	59.58	590.76
3. Annuities- Participating policies						
4. Annuities – Non-participating policies	272.66	272.66	276.00	276.00	278.72	278.72
5. Annuities- Individual Pension Plan	578.78	578.78	585.00	585.00	590.76	590.76
6. Unit Linked ³	597.15	597.15	593.00	593.00	598.55	598.55
7. Health Insurance	578.78	578.78	585.00	585.00	590.76	590.76
ii. Group Business (Term Assurance)						
1. Life- Participating policies	16.68	16.68	17.00	17.00	17.17	17.17

1. The percentages shown above refer to the adjustments made to the base tables. The base table used For Non-participating annuity products was "Mortality for Annuitants - LIC (a) (1996-98) Ultimate Rates" and for all other assurance products Indian Assured Lives Mortality (1994-96) (modified) UL (effective 01/01/2002) mortality table was used.
2. The morbidity assumption used in valuation is 110% of CIBT 93 rates and 100% of K₀ factor (proportion of Post-CI deaths out of total deaths at age x in any year).
3. In addition to this in respect of Unit Linked policies additional expenses varying from 0.3% to 0.8% to unit balance based on type of fund was also allowed. In respect of traditional paid up policies expenses @ 200 per policy upto 2005-06 and 208 per policy thereafter was also allowed for in valuation. For financial year 2009-10 this was changed to 216 per policy and for financial year 2010-11 this is 234.
In case of Individual Pension Plan where premium discontinued beyond a year, expense @ 405 has been used for valuation with effect from 2007-08 which was changed to 421 in 2009-10 valuation and to 438 in March 2011.

- 4) Bonus Rates : Each year bonus rates are declared on 31st of March post annual actuarial valuation in accordance with section 49 of Insurance Act, 1938 and IRDA (Distribution of Surplus) Regulations, 2002.
- 5) Policyholders Reasonable Expectations Bonus rates declared were above the bonus rates illustrated @6% and below that illustrated @10% (the lower and higher rates prescribed by Life Council)
- 6) Taxation and Shareholder Transfers Both allowed for in the valuation of participating business. Taxes charged were at 12.5% Base Rate + applicable Surcharge + Education Cess
- 7) Basis of provisions for Incurred But Not Reported (IBNR) Set up assumed 2 month reporting delay in respect of death claims
- 8) Change in Valuation Methods or Bases (comparison to valuation bases as at 31st March,2011)

i. Individuals Assurances

	Jun-11	
	Min	Max
1. Interest	No Change	No Change
Participating	No Change	No Change
Non participating	No Change	No Change
2. Expenses	No change other than allowing for implied inflation	
3. Inflation	No Change	No Change
ii. Annuities		
1. Interest	NA	NA
a. Annuity in payment	NA	NA
b. Annuity during deferred period	NA	NA
c. Pension : All Plans		
2. Expenses	No change other than allowing for implied inflation	
3. Inflation	No Change	No Change
iii. Unit Linked		
1. Interest	No Change	No Change
2. Expenses	No change other than allowing for implied inflation	
3. Inflation	No Change	No Change
iv. Health		
1. Interest	No Change	No Change
2. Expenses	No change other than allowing for implied inflation	
3. Inflation	No Change	No Change
v. Group		
1. Interest	No Change	No Change
2. Expenses	No change other than allowing for implied inflation	
3. Inflation	No Change	No Change