

L-42- Valuation Basis (Life Insurance)

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 actuarial 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.

		Sep-13		Dec-13		Mar-14		Jun-14	
		Min	Max	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%	6.50%	6.50%
2.	Life- Non-participating Policies	4.50%	6.50%	4.50%	6.50%	4.50%	6.75%	4.50%	6.75%
3.	Annuities- Participating policies								
4.	Annuities – Non-participating policies	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
5.	Annuities- Individual Pension Plan	4.50%	6.50%	4.50%	6.50%	4.50%	6.75%	4.50%	6.75%
6.	Unit Linked	4.50%	4.50%	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%	5.50%	5.50%
ii. Group Business									
2)	Mortality Rates : the mortality rates used for each segment ¹								
1.	Life- Participating policies	90.00%	135.00%	90.00%	135.00%	99.00%	217.50%	99.00%	217.50%
2.	Life- Non-participating Policies	90.00%	135.00%	90.00%	135.00%	51.00%	217.50%	51.00%	217.50%
3.	Annuities- Participating policies								
4.	Annuities – Non-participating policies	55.00%	75.00%	55.00%	75.00%	55.00%	75.00%	55.00%	75.00%
5.	Annuities- Individual Pension Plan	70.00%	80.00%	70.00%	80.00%	70.00%	80.00%	70.00%	80.00%
6.	Unit Linked	90.00%	90.00%	90.00%	90.00%	99.00%	145.00%	99.00%	145.00%
7.	Health Insurance ²	50.00%	90.00%	50.00%	90.00%	54.00%	145.00%	54.00%	145.00%
ii. Group Business (Term Assurance)									
3)	Expense : (all are per policy unless otherwise mentioned)								
1.	Life- Participating policies	421.80	645.91	425.95	652.27	430.15	658.70	434.39	665.19
2.	Life- Non-participating Policies	65.54	645.91	66.19	652.27	66.84	658.70	67.50	665.19
3.	Annuities- Participating policies	-	-	-	-	-	-	-	-
4.	Annuities – Non-participating policies	298.11	298.11	301.05	301.05	304.02	304.02	307.01	307.01
5.	Annuities- Individual Pension Plan	645.91	645.91	652.27	652.27	658.70	658.70	665.19	665.19
6.	Unit Linked ³	621.60	621.60	627.72	627.72	633.91	633.91	640.15	640.15
7.	Health Insurance	645.91	645.91	652.27	652.27	658.70	658.70	665.19	665.19
ii. Group Business (Term Assurance)									
		19.03	66.60	19.22	67.26	19.41	67.92	19.60	68.59

1) Till December 2013 - 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 both Indian Assured Lives Mortality (1994 -96) (modified) Ult [effective 01/01/2005] or Indian Assured Lives Mortality (2006-08) (modified) Ult .mortality table was used.

1) March 2014 onwards - 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 both Indian Assured Lives Mortality (2006 -2008) (modified) Ult.

2) The morbidity assumption used in valuation varies from 110% to 192.5% of CiBT 93 rates and 100% of K₁ 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 @40% of that of inforce policy expense was allowed for in the valuation as at 30 June 2014. In case of Individual Pension Plan where premium discontinued beyond a year, expense @ 75% of inforce policy expense has been used for valuation as on 31 March 2014.

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 - 3 month reporting delay in respect of death claims based on Line of Business

8) Change in Valuation Methods or Bases (comparison to valuation bases as at 31 Mar 2014)

		Jun-14	
		Min	Max
i. Individuals Assurances			
1. Interest			
Participating		No Change	No Change
Non participating		No Change	Change
2. Expenses			
3. Inflation			
		No change other than allowing for implied inflation	
		No Change	No Change
ii. Annuities			
1. Interest			
a. Annuity in payment		No Change	No Change
b. Annuity during deferred period		No Change	No Change
c. Pension : All Plans		No Change	Change
2. Expenses			
3. Inflation			
		No change other than allowing for implied inflation	
		No Change	No Change
iii. Unit Linked			
1. Interest			
2. Expenses		No change other than allowing for implied inflation	
3. Inflation		No Change	No Change
iv. Health			
1. Interest			
2. Expenses		No change other than allowing for implied inflation	
3. Inflation		No Change	No Change
v. Group			
1. Interest			
2. Expenses		No change other than allowing for implied inflation	
3. Inflation		No Change	No Change