

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.

		Dec-14		Mar-15		Jun-15		Sep-15	
		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%	6.75%	4.50%	6.75%	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%	6.75%	4.50%	6.75%	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									
1.	Mortality Rates : the mortality rates used for each segment ¹								
1.	Life- Participating policies	99.00%	217.50%	99.00%	217.50%	99.00%	217.50%	99.00%	217.50%
2.	Life- Non-participating Policies	51.00%	217.50%	51.00%	217.50%	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	99.00%	145.00%	99.00%	145.00%	99.00%	145.00%	99.00%	145.00%
7.	Health Insurance ²	54.00%	145.00%	54.00%	145.00%	54.00%	145.00%	54.00%	145.00%
ii. Group Business									
1.	Expense : (all are per policy unless otherwise mentioned)								
1.	Life- Participating policies	442.99	678.37	447.36	685.05	451.76	691.80	456.22	698.62
2.	Life- Non-participating Policies	68.84	678.37	69.32	685.05	70.00	691.80	70.69	698.62
3.	Annuities- Participating policies	-	-	-	-	-	-	-	-
4.	Annuities – Non-participating policies	313.09	313.09	316.18	316.18	319.29	319.29	322.44	322.44
5.	Annuities- Individual Pension Plan	678.37	678.37	685.05	685.05	691.80	691.80	698.62	698.62
6.	Unit Linked ³	652.83	652.83	659.26	659.26	665.76	665.76	672.32	672.32
7.	Health Insurance	678.37	678.37	685.05	685.05	691.80	691.80	698.62	698.62
ii. Group Business (Term Assurance)									
1.	Interest	19.98	69.95	20.18	70.64	20.38	71.33	20.58	72.03

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 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 September 2015. 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 30 September 2015.

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.
 Bonus rates declared were in line with the bonus rates illustrated at the time of sale based on rates prescribed by the Life Council/IRDA Regulations.

5) Policyholders Reasonable Expectations Both allowed for in the valuation of participating business. Taxes charged were at 12.5% Base Rate + applicable Surcharge + Education Cess

6) Taxation and Shareholder Transfers Set up assumed 2 - 3 month reporting delay in respect of death claims based on Line of Business

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 30 Jun 2015)

		Sep-15	
		Min	Max
i. Individuals Assurances			
1. Interest			
Participating		No Change	No Change
Non participating		No Change	No Change
2. Expenses			
3. Inflation			
		No change other than allowing for implied inflation	No Change
		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	No Change
2. Expenses			
3. Inflation			
		No change other than allowing for implied inflation	No Change
		No Change	No Change
iii. Unit Linked			
1. Interest			
2. Expenses		No Change	No Change
3. Inflation		No change other than allowing for implied inflation	No Change
		No Change	No Change
iv. Health			
1. Interest			
2. Expenses		No Change	No Change
3. Inflation		No change other than allowing for implied inflation	No Change
		No Change	No Change
v. Group			
1. Interest			
2. Expenses		No Change	No Change
3. Inflation		No change other than allowing for implied inflation	No Change
		No Change	No Change