

L-42- Valuation Basis (Life Insurance)
Reliance Life Insurance Company Limited
Registration with IRDA : 121 dated 03 January 2002

VALUATION BASIS FOR THE QUARTER ENDED 31ST MARCH,2013

A Chapter on Valuation basis covering the following minimum criteria.

a. How the policy data needed for valuation is accessed.

The policy details under Individual and Group policies are maintained in the database. The details of the policies as at 31 March 2013 were frozen and backed-up after the close of the business.

b. How the valuation basis are supplied to the system

As on 31 March 2013, 81% of the policy liabilities were Unit Linked. The unit linked liabilities recorded in the policy administration systems were reconciled with the Investment Accounting system. The balance of 19% policy liabilities comprise of liabilities in respect of Individual Par, Individual Non par and Group Term Insurance Business. The liabilities under Group Term Insurance Business are valued using Unexpired Premium method. Majority of the policy liabilities under Individual Par and Individual Non Par Business are valued using PROPHET actuarial software. Valuation basis are fed to this software using tables. A very small proportion of the policy liabilities (3.8%) are valued using the excel spreadsheets.

1) Interest : Maximum and minimum interest rate taken for each segment

i. Individual Business	Maximum	Minimum
1. Life- Participating policies	6.75%	6.75%
2. Life- Non-participating Policies	5.75%	5.75%
3. Annuities- Participating policies	Not applicable	Not applicable
4. Annuities – Non-participating policies	Not applicable as reserve is calculated as 150% of Single Premium	
5. Annuities- Individual Pension Plan	Not applicable	Not applicable

6. Unit Linked
The Unit Liabilities are the balances in the policyholders' accounts plus additional reserve for mortality and expenses. No assumption is required for balances in policyholders' accounts. The majority of the additional reserve is calculated by using the unit growth rate as 8% and interest rate assumption of 5.75%. Only for some products the unit growth rate ranges between 6%-10% for computing additional reserve.

7. Health Insurance - Linked
The Unit Liabilities are the balances in the policyholders' accounts plus additional reserve for hospitalisation risk and expenses which is calculated based upon Unexpired charges. It does not require any interest rate assumptions.

ii. Group Business
The liabilities under Unit Linked and Non linked Group business with explicit charging structure are the balances under policyholders' accounts plus additional reserve for mortality. No assumption is required for balances under policyholders' accounts. Under majority of business, the additional reserve is based on unexpired premium method or one month mortality charges wherein no assumptions are required. For a small insignificant part of Group business, the additional reserve is based on the assumption used under Individual non par business (i.e. 5.75%). Under Group Term Insurance, the liabilities are calculated using Unexpired Premium Method wherein no assumption is required.

2) **Mortality Rates : the mortality rates used for each segment**

The mortality rates used for valuing policy liabilities are based on the published mortality table - India Assured Lives Mortality (1994-96) (modified) Ultimate with adjustment to reflect expected experience and with an allowance for adverse deviation

- 3) **Expenses:** Policy related maintenance expenses have been based on the medium term level of expenses projected in the Company's financial model. The maintenance expenses are subject to inflation consistent with the investment returns assumed. Commission rates have been assumed as per the Company policy and as paid
- 4) **Bonus Rates:** Policy liabilities under Par Business are valued using bonus rates consistent with the current experience and expected investment yields.
- 5) **Policyholders Reasonable Expectations:** Most of the business is under Unit Linked and Non Par policies wherein the policy benefits are not subject to the discretion of the Company. As on 31 March 2013, only 8% of the policy liabilities were under Par Business. The expectations of these policyholders are managed by declaration of bonus in line with the current experience under Par policies. 6% of the policy liabilities were under Non Linked Non Par Business where Company declares the Accumulation Rate at the start of the Financial Year. The expectations of these policyholders are managed by declaration of Accumulation Rate in line with expected investment return during the financial year.
- 6) **Taxation and Shareholder Transfers:** An allowance is made for the tax @ 14.1625%. The Shareholders' share of profits is at the rate of 100% and 10% under the Non Par and Par Business respectively.
- 7) **Basis of provisions for Incurred But Not Reported (IBNR):** An explicit provision for IBNR was made based on the total claims paid during the last financial year.

8) **Change in Valuation Methods or basis :**

i. Individuals Assurances

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|------------------------------|--|
| 1. Interest | No change as compared with the assumption used in valuation as on 31 March 2012 for participating policies whereas for non- participating policies the rate has changed from 6.25% to 5.75% as compared with the assumption used in valuation as on 31 March 2012. |
| 2. Expenses | Increased from Rs.330 to Rs. 440 per policy on regular premium policies and from Rs. 120 to Rs. 150 per policy on single premium paying policies, as compared with the assumption used in valuation as on 31 March 2012 |
| 3. Inflation | No change as compared with the assumption used in valuation as on 31 March 2012 |
| 4. Future Bonus Rates | No change as compared with the assumption used in valuation as on 31 March 2012 |

ii. Annuities

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|--|---|
| 1. Interest | |
| a. Annuity in payment | Not applicable as reserve is calculated as 150% of Single Premium |
| b. Annuity during deferred period | Not applicable as reserve is calculated as 150% of Single Premium |
| c. Pension : All Plans | Not applicable as reserve is calculated as 150% of Single Premium |
| 2. Expenses | Not applicable as reserve is calculated as 150% of Single Premium |
| 3. Inflation | Not applicable as reserve is calculated as 150% of Single Premium |

iii. Unit Linked

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|---------------------|---|
| 1. Interest | No change in the Unit growth rate for majority of products as compared with the assumption used in valuation as on 31 March 2012. The interest rate has changed from 6.25% to 5.75% as compared with the assumption used in valuation as on 31 March 2012 |
| 2. Expenses | Increased from Rs.330 to Rs. 440 per policy on regular premium policies and from Rs. 120 to Rs. 150 per policy on single premium paying policies, as compared with the assumption used in valuation as on 31 March 2012 |
| 3. Inflation | No change as compared with the assumption used in valuation as on 31 March 2012 |

iv. Health - Linked

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|---------------------|---|
| 1. Interest | Not applicable - same as last year 31 March 2012 |
| 2. Expenses | Not applicable - same as last year 31 March 2012 |
| 3. Inflation | No change as compared with the assumption used in valuation as on 31 March 2012 |

v. Group

- | | |
|---------------------|---|
| 1. Interest | The interest rate has changed from 6.25% to 5.75% under Group Savings Linked Insurance and Reliance Jan Samriddhi Plan as compared with the assumption used in valuation as on 31 March 2012 |
| 2. Mortality | The mortality assumption for the Reliance Jan samriddhi plan has been changed to 400% of India Assured Lives Mortality (1994-96) as compared to 150% of India Assured Lives Mortality (1994-96) as at 31 March 2012 |
| 3. Expenses | Increased by 33% under Group Savings Linked Insurance and the per member expense assumption for the Reliance Jan samriddhi plan has been changed from Rs.40 to Rs 60 as compared with the assumption used in valuation as on 31 March 2012. |
| 4. Inflation | No change as compared with the assumption used in valuation as on 31 March 2012 |