

L-42- Valuation Basis (Life Insurance)

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

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

The policy details under Individual and Group policies are maintained in the database. A portion of policies under Group Business is maintained in Excel spreadsheets. The details of the policies as at 31 March 2010 were frozen and backed-up after the close of the business.

b. How the valuation bases are supplied to the system

As on 31 March 2010, 96% 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 4% policy liabilities comprise of liabilities in respect of Individual Par, Individual Non par and Group Term Insurance Business. Majority of the policy liabilities under Individual Par and Individual Non Par Business are valued using PROPHET actuarial software. Valuation bases are fed to this software using tables. Less than 1% of the policy liabilities are valued using the excel spreadsheets. The liabilities under Group Term Insurance Business are valued using Unexpired Premium method.

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	6.25%	6.25%
3. Annuities- Participating policies	Not applicable	Not applicable
4. Annuities – Non-participating policies	Not applicable	Not applicable
5. Annuities- Individual Pension Plan	Not applicable	Not applicable
6. Unit Linked	The Unit Liabilities are the balances in the policyholders' accounts and does not require any assumption.	
7. Health Insurance - Linked	The Unit Liabilities are the balances in the policyholders' accounts and does not require any assumption.	

ii. Group Business

The liabilities under Unit Linked Group Business are the balances under policyholders' accounts. Under Group Term Insurance, the liabilities are calculated using Unexpired Premium Method. As such, no assumption is required under Group Business.

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 future experience.
- 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 2010, only 3% of the policy liabilities were under Par Business. The expectations of these policyholders are managed by declaration of bonus in line with the investment returns achieved.
- 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 year.

8) Change in Valuation Methods or Bases :

i. Individuals Assurances

- 1. Interest** No change as compared with the previous year
- 2. Expenses** No change as compared with the previous year
- 3. Inflation** No change as compared with the previous year

ii. Annuities

- 1. Interest**
 - a. Annuity in payment** Not applicable
 - b. Annuity during deferred period** Not applicable
 - c. Pension : All Plans** Not applicable
- 2. Expenses** Not applicable
- 3. Inflation** Not applicable

iii. Unit Linked

- 1. Interest** No change as compared with the previous year
- 2. Expenses** No change as compared with the previous year
- 3. Inflation** No change as compared with the previous year

iv. Health - Linked

- 1. Interest** No change as compared with the previous year
- 2. Expenses** No change as compared with the previous year
- 3. Inflation** No change as compared with the previous year

v. Group

- 1. Interest** No change as compared with the previous year
- 2. Expenses** No change as compared with the previous year
- 3. Inflation** No change as compared with the previous year