

L-42- Valuation Basis (Life Insurance - Individual)

A chapter on Valuation basis covering the following

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

The policy data is extracted from policy masters maintained at branch level.
The data is consolidated first at the Divisional level and then at Zonal level.
The summary files are created for every zone and sent to Corporate office where they are merged after verification for purity and consistency.

b. How the valuation bases are supplied to the system

Once the valuation parameters are decided they are keyed in to the system to create explicit parameter file, in a form compatible to the system. The program for calculating reserves takes input from two files, viz. parameter file and policy data file.

I) Interest : Maximum and minimum interest rate taken for each segment	2006-07	
	Max.	Min.
1. Life- Participating policies	7.80% p.a.	7.00% p.a.
2. Life- Non-participating Policies	7.00% p.a.	7.00% p.a.
3. Annuities- Participating policies	9.00 % p.a.	7.00% p.a.
4. Annuities – Non-participating policies	7.25% p.a.	7.25% p.a.
5. Annuities- Individual Pension Plan	7.25% p.a.	7.25% p.a.
6. Unit Linked	7.00% p.a.	7.00% p.a.
7. Health Insurance	Does not exist.	
II) Mortality Rates : the mortality rates used for each segment	2006-07	
1. Life- Participating policies	IALM(1994-96) mod. Ult. rated up 2 years	
2. Life- Non-participating Policies	IALM(1994-96) mod. Ult. rated up 2 years	
3. Annuities- Participating policies		
During Deferment	IALM(1994-96) mod. Ult. rated up 1 year	
After Vesting	LIC a (1996-98) Ult. rated down 1 year	
4. Annuities – Non-participating policies		
During Deferment	IALM(1994-96) mod. Ult. rated up 1 year	
After Vesting	LIC a (1996-98) Ult. rated down 1 year	
5. Annuities- Individual Pension Plan		
During Deferment	IALM(1994-96) mod. Ult. rated up 1 year	
After Vesting	LIC a (1996-98) Ult. rated down 1 year	
6. Unit Linked		
Under Plans 191,193 & 194	Does not exist	
All linked plans except above	IALM(1994-96) mod. Ult. rated up 2 years	
7. Health Insurance (Mortality Rate)	Does not exist.	
(Morbidity Rates)	Does not exist.	

III) Expense :		2006-07
1. Life- Participating policies		
Premium Related		6.75% of premium
Policy Related		
For premium paying		Rs.160/- per policy
For reduced & fully paid-up		Rs.80/- per policy
2. Life- Non-participating Policies		
Premium Related		6.75% of premium
Policy Related		
For premium paying		Rs.160/- per policy
For reduced & fully paid-up		Rs.80/- per policy
3. Annuities- Participating policies		
Annuities in payment		Rs.50/- per policy p.a. & Rs.100 for claim payments
During deferment		3.50% of premium
4. Annuities – Non-participating policies		
Annuities in payment		Rs.50/- per policy p.a. & Rs.100 for claim payments
During deferment		3.50% of premium
5. Annuities- Individual Pension Plan		
Annuities in payment		Rs.50/- per policy p.a. & Rs.100 for claim payments
During deferment		5% of premium for endowment & 2% of premium for other options. Rs.0.50 per 1000 NCO as per policy expenses.
6. Unit Linked		
Premium Related		1.5% to 3.5% of premium depending on plan
Policy Related		
For inforce plans		Rs.160/- per policy
For reduced paid up and SP plans		Rs.80/- per policy
7. Health Insurance		Does not exist.
Premium related		
New Business		
Renewal		
Policy related		
For premium paying		
For reduced paid-up & SP policies		
**Per policy inflation rate is 3% p.a. for all plans		
IV) Bonus Rates :		
V) Policyholders Reasonable Expectations : Future bonuses valued at the current declared rates.		
VI) Taxation and Shareholder Transfers		2006-07
1. Life- Participating policies		14.025% & 5%
2. Life- Non-participating Policies		-----
3. Annuities- Participating policies		14.025% & 5%
4. Annuities – Non-participating policies		-----
5. Annuities- Individual Pension Plan		Exempted from tax.
6. Unit Linked		-----
7. Health Insurance		-----

VII) Basis of provisions for Incurred But Not Reported (IBNR)		-----	
VIII) Change in Valuation Methods or Bases		2006-07	
1. Individuals Assurances			
A. Life Participating Policies			
a. Interest		Reduced by 0.20%	No Change
b. Expenses			
Premium Related		No Change	
Policy Related			
For premium paying		Increased by Rs.3/-	
For reduced & fully paid-up		Increased by Rs.2/-	
c. Inflation		No Change	
B. Life- Non-Participating policies			
a. Interest		No Change	No Change
b. Expenses			
Premium Related		No Change	
Policy Related			
For premium paying		Increased by Rs.3/-	
For reduced & fully paid-up		Increased by Rs.2/-	
c. Inflation		No Change	
2. Annuities & Pension			
A. Participating Policies			
a. Interest		No Change	No Change
b. Expenses			
Annuities in payment		No Change	
During deferment			
c. Inflation		No Change	
B. Non-Participating Policies			
a. Interest		No Change	No Change
b. Expenses			
Annuities in payment		No Change	
During deferment		No Change	
c. Inflation			
C. Individual Pension Plan			
a. Interest		No Change	No Change
b. Expenses			
Annuities in payment		No Change	
During deferment		No Change	
c. Inflation			

3. Unit Linked		
a. Interest		
b. Expenses		
Premium Related		
Policy Related		
For inforce plans		
For reduced paid up and SP plans		
c. Inflation		
4. Health		
a. Interest		
b. Expenses		
Premium related		
New Business		
Renewal		
Policy related		
For premium paying		
For reduced paid-up & SP policies		
c. Inflation		