

**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 da

<b>I) Interest : Maximum and minimum interest rate taken for each segment</b>	<b>2004-05</b>	
	<b>Max.</b>	<b>Min.</b>
1. Life- Participating policies	8.20% p.a.	5.50% p.a.
2. Life- Non-participating Policies	7.25% p.a.	6.00% p.a.
3. Annuities- Participating policies	9.75% p.a.	6.50% p.a.
4. Annuities – Non-participating policies	7.50% p.a.	5.50% p.a.
5. Annuities- Individual Pension Plan	7.50% p.a.	6.50% p.a.
6. Unit Linked		
7. Health Insurance		
<b>II) Mortality Rates : the mortality rates used for each segment</b>	<b>2004-05</b>	
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	IALM(1994-96) mod. Ult. rated up 2 years	
During Deferment	IALM(1994-96) mod. Ult. rated up 1 year	
After Vesting	LIC a (1996-98) Ult.	
4. Annuities – Non-participating policies	LIC a (1996-98) Ult.	
During Deferment	IALM(1994-96) mod. Ult. rated up 1 year	
After Vesting	LIC a (1996-98) Ult.	
5. Annuities- Individual Pension Plan	LIC a (1996-98) Ult.	
During Deferment	IALM(1994-96) mod. Ult. rated up 1 year	
After Vesting	LIC a (1996-98) Ult.	
6. Unit Linked		
Under Plans 191,193 & 194		
All linked plans except above		
7. Health Insurance (Mortality Rate)		
(Morbidity Rates)		

<b>III) Expense :</b>		<b>2004-05</b>
<b>1. Life- Participating policies</b>		
Premium Related		6.75% of premium
Policy Related		
	For premium paying	Rs.157/- per policy
	For reduced & fully paid-up	Rs.78/- per policy
<b>2. Life- Non-participating Policies</b>		
Premium Related		6.75% of premium
Policy Related		
	For premium paying	Rs.157/- per policy
	For reduced & fully paid-up	Rs.78/- per policy
<b>3. Annuities- Participating policies</b>		
Annuities in payment		Rs.50/- per policy p.a. & Rs.100 for claim payments
	During deferment	3.50% of premium
<b>4. Annuities – Non-participating policies</b>		
Annuities in payment		Rs.50/- per policy p.a. & Rs.100 for claim payments
	During deferment	3.50% of premium
<b>5. Annuities- Individual Pension Plan</b>		
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.
<b>6. Unit Linked</b>		
Premium Related		
Policy Related		
	For inforce plans	
	For reduced paid up and SP plans	
<b>7. Health Insurance</b>		
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		
<b>IV) Bonus Rates :</b>		
<b>V) Policyholders Reasonable Expectations : Future bonuses valued at the current dec</b>		
<b>VI) Taxation and Shareholder Transfers</b>		<b>2004-05</b>
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		-----

<b>VII) Basis of provisions for Incurred But Not Reported (IBNR)</b>		-----
<b>VIII) Change in Valuation Methods or Bases</b>		<b>2004-05</b>
<b>1. Individuals Assurances</b>		
<b>A. Life Participating Policies</b>		
a. Interest		
b. Expenses		
Premium Related		
Policy Related		
For premium paying		
For reduced & fully paid-up		
c. Inflation		
<b>B. Life- Non-Participating policies</b>		
a. Interest		
b. Expenses		
Premium Related		
Policy Related		
For premium paying		
For reduced & fully paid-up		
c. Inflation		
<b>2. Annuities &amp; Pension</b>		
<b>A. Participating Policies</b>		
a. Interest		
b. Expenses		
Annuities in payment		
During deferment		
c. Inflation		
<b>B. Non-Participating Policies</b>		
a. Interest		
b. Expenses		
Annuities in payment		
During deferment		
c. Inflation		
<b>C. Individual Pension Plan</b>		
a. Interest		
b. Expenses		
Annuities in payment		
During deferment		
c. Inflation		
<b>3. Unit Linked</b>		
a. Interest		
b. Expenses		
Premium Related		
Policy Related		
For inforce plans		
For reduced paid up and SP plans		
c. Inflation		
<b>4. Health</b>		
a. Interest		
b. Expenses		
Premium related		
New Business		
Renewal		
Policy related		
For premium paying		
For reduced paid-up & SP policies		
c. Inflation		

