

L-42-Valuation Basis (Life Insurance)

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

- ✓ All policy details (excluding micro insurance products and annuity policies) are extracted from the Ingenium, company's policy administration system. Policy data relating to micro insurance products is extracted from a standalone micro insurance policy administration system. Details for payout annuity business are being obtained from the Client Services department. The information extracted includes all the policy details required for the valuation of liabilities.
- ✓ A data file consisting of the outstanding fund balances, cash surrender values and surrender charges as on the date of lapse in respect of lapsed policies, which are eligible for reinstatement, is obtained from Finance department.

b. How the valuation bases are supplied to the system.

All the business is valued in the AXIS, BSLI's Actuarial Valuation System, where the valuation bases are fed into the valuation system. The valuation data extract is read by the valuation system. Based on the assumptions fed into the valuation system and the relevant data information from the data extract, the cash flows are projected.

1. Interest

The interest rates used for the valuation of liabilities were in the range from 4.70% to 5.48% per annum.

2. Mortality Rates

The mortality rates used for valuation of assurance benefits under each segment of business are based on the published L.I.C (1994-96) Ultimate Mortality Table modified for our own purposes, adjusted to reflect past and expected future experience, and with an allowance for adverse deviation.

The mortality rates used for valuation of annuities are based on the published L.I.C (1996-98) Annuitant Table modified for our own purposes, and with an allowance for adverse deviation.

3. Expenses

Maintenance expenses assumed for the valuation of liabilities were in accordance with business plan assumptions and product filing with IRDA. Commission scales have been allowed in accordance with the product filing with IRDA.

4. Bonus Rates

BSLI does not have any with-profit or participating business.

5. Policyholder's Reasonable Expectations

The company sells only non-participating business. Policyholders are informed that the returns on investment related plans are market linked. Each ULIP application is accompanied by a signed illustration using 6%/10% gross returns.

6. Taxation and Shareholder Transfers

BSLI does not have any with-profit or participating business and tax rates are in accordance with current tax laws.

7. *Basis of provisions for incurred but not reported (IBNR)*

IBNR is held for One Year Renewable Group Term Business only with a delay in reporting of 2 months. A reserve equal to two months unexpired premium is set aside as IBNR.

8. *Change in Valuation Methods or Bases*

i. Interest Rates

The changes in interest rates were in accordance with the Guidance Note 7, issued by the Institute of Actuaries of India. The interest rates were in the range from 4.70% to 5.48% per annum as compared to the previous year range from 4.84% to 5.54% per annum.

ii. Expenses

In light of the results from latest expense studies conducted by the company and based on its future business plans, the maintenance expenses assumed for the valuation of liabilities has been revised downwards reflecting the economies of scale/reduction.

iii. Unexpired Premium Reserve

The company introduced unearned premium reserves and held Rs. 91 millions in addition.