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.

Data

The company maintains the Policy data in the policy administration system called Life Asia. The system captures all the information required for the purpose of the statutory valuation.

The data for the purpose of annual statutory valuation is obtained after the business closure for the financial year.

A series of validation checks is performed to ensure accuracy and completeness of the data.

Valuation Method

The policy liability for individual line of business is calculated using the actuarial software called PROPHET.

The assumptions (valuation bases) are input into the PROPHET system manually in the format as prescribed/appropriate for the system to perform the calculation.

The actuarial liabilities of the company have been calculated in accordance with the requirements of Insurance Act, 1938, Insurance Regulatory and Development Authority (Assets, Liabilities, and Solvency Margin of Insurers) Regulations, 2016 and other regulations, Actuarial Practice Standards and Guidance Notes issued by Institute of Actuaries of India and having regards to generally accepted actuarial practices.

Individual Linked Business: Reserves consist of two components, namely unit reserves and non-unit reserves. The following methods have been used to determine these reserves:

Unit Reserve:
Under linked life insurance contracts, unit reserves are calculated in respect of the units, under various funds, allocated to the policies in force at the valuation date using unit values at the valuation date.

Non Unit Reserve:
The non-unit liabilities in respect of the linked contracts are determined using a prospective gross premium method under which future net cash flows are discounted back to the date of valuation on policy-by policy basis.

In addition to the above, a separate provision is made for the following:

i) Lapsed policies: I have kept the full unit reserves in respect of lapsed policies which were issued prior to 1 September 2010.

   For unit linked policies issued from 1 September 2010, I have kept value of discontinuance fund as discontinuance liability and an additional non-unit reserve equal to the revival rate multiplied by the discontinuance charges deducted to date for the lapsed policies which are within the revival period.

ii) Unearned mortality charges: One month’s mortality charges based on mortality charges deducted in the month of March 2020 in respect of all in-force policies have been kept as unearned mortality charges reserve.

iii) Unearned morbidity charges: One month’s morbidity charges based on morbidity charges deducted in the month of March 2020 in respect of in-force policies with morbidity benefit have been kept as unearned morbidity charges reserve. For Health product, the charges are deducted annually in advance. In this case the unearned morbidity charges till the next renewal date has been kept as unearned morbidity charge reserve.

iv) Incurred but not reported (IBNR) claims: For individual linked business, I have used run-off triangle approach to allow for the delay in claim intimation. For unit-linked health contract, as the delay in reporting for health related claims is comparatively less than mortality related claims, half month's morbidity charge has been kept as IBNR.

v) Extra Mortality/Morbidity Reserve: The lives subject to extra mortality and morbidity risk pay higher mortality/morbidity charges. The unearned mortality and morbidity charges above will include these extra charges. The extra mortality/morbidity reserve in respect of substandard lives is therefore implicitly allowed in unearned mortality/morbidity charge calculation.

vi) Free Look reserves: The estimated refund of charges on the policies expected to be subject to free-look cancellation is kept as free-look reserve

vii) Options and Guarantees: As none of the contracts offer any financially significant options or guarantees, I have not provided any extra reserve in respect of options and guarantees.

In addition, a global reserve for all lines of business, the components and calculation of which is explained at the end of this section.

Individual Non-Linked Business:
As on valuation date the company had term assurance, mediclaim plan, fund based variable endowment, individual participating business, non-participating cash back plan, non-participating return of premium product and immediate/deferred annuity product under non-linked category. The reserve is determined using gross premium method. The reserve under this method is the excess of discounted value of future benefit outgo and expenses including commission over discounted value of future office premium. For regular premium policies this method may give rise to negative reserve which is zeroised and the reserve is topped up by the unearned premium for the policy year in case of protection policies and surrender value in other cases. For single premium polices where policy is eligible for surrender value the mathematical reserve is the higher of gross premium reserve calculated above and the surrender value.

For lapsed policies, reserve is kept by applying a revival rate on the reserve calculated assuming that the lapsed policies are inforce and after deducting the premiums due net of commission.

An IBNR has been calculated using the run-off triangle approach for the total non-linked individual business.

An extra premium reserve is the extra reserve over the standard mortality reserve. The reserve is recalculated by building in the extra mortality rate into the reserve calculation. The difference between the recalculated reserve and the standard mortality reserve if positive is maintained as the extra premium reserve.

The estimated refund of premium on the policies expected to be subject to free-look cancellation is kept as free-look reserve.

Group Linked Business

Reserves consist of two components, namely unit reserves and non-unit reserves. The following methods have been used to determine these reserves:

Unit Reserve:
The reserve held under the group unit-linked plan is unit reserve which is calculated in respect of the units, under various funds, allocated to the policies in force at the valuation date using unit values at the valuation date.

Non-Unit Reserve:
A UPR reserve has been kept in respect of the death benefit. The future management charges are higher than the future expenses allowing for MAD. As no negative cash flow occurs in the future under valuation assumptions, I have kept non-unit reserve as zero.

Group Non-Linked Business
The method adopted for group yearly renewable term is unearned premium reserve (UPR) method. For group credit life, Gross Premium method was adopted. The reserves are set as the higher of the GPV reserve & minimum surrender value at member level.

For Group Credit Life business, an extra premium reserve is the extra reserve over the standard mortality reserve. The reserve is recalculated by building in the extra mortality rate into the reserve calculation. The difference between the recalculated reserve and the standard mortality reserve, if positive, is maintained as the extra premium reserve. This reserve is not required to be calculated for the Group Term and Group Fund business as the UPR method is used for calculation of mortality reserve where the premium includes the extra premium.

For group yearly renewable term and group credit life, run-off triangle approach has been used to calculate IBNR at the valuation date and apportioned between the two products by proportion of claims outgo.

For Group Retirement Benefit Plan/Corporate Benefit Plan/Group Superannuation Plan/New Corporate Benefit Plan/Employee Welfare Plan, the accumulated fund value net of expenses and transfer to shareholders (if any) is kept as reserve. A UPR reserve has kept in respect of death benefit wherever applicable.

Global Reserve

In addition, a global reserve has been kept for the following.

a) *Closure to New Business Reserve*: This is additional reserve held to service the existing policies in the event that the company would stop writing new business one year from date of valuation. The maintenance expense over-run during the valuation year has been kept as the closure to new business reserve.

b) *Contingency Reserve:* We have kept an extra contingency reserve to allow for any unexpected reserve requirements that may arise. The contingency reserve for unit linked business is kept under non linked reserve of unit linked business. However this reserve is intended to meet any unexpected reserve requirements that may arise under any line of business including unit linked business.

c) *Maintenance Expense Overrun reserve*: The company has kept a maintenance expense overrun reserve which is expense overrun expected to arise in the future based on the projection of the latest approved business plan and the position as at March 2020.

Valuation Assumptions

Individual Unit- Linked Products

Interest Rate

The interest rate assumption is derived based on the current redemption yield and in accordance with the IRDA Regulations 2016.

The interest rate used for the purpose of non-unit unit reserve calculation 3.35% p.a. for next five years and 2.59% p.a. thereafter.

Fund Growth Rate

For the purpose of the projection an assumption is made for future fund growth for various funds. This is arrived based on the current yield on various instruments like G-sec, Money Market etc. and the proportion of these instruments in each of the fund the company offer for its unit-linked policy-holder.

Fund Name	Next 5 Years	Beyond 5 years
Equity	8.14%	7.52%
Debt	5.13%	4.51%
Balanced	7.00%	6.38%
Liquid	4.07%	3.45%
Value Fund	7.68%	7.06%
Index Tracker Fund	8.38%	7.76%
Dynamic Fund	8.14%	7.52%
Equity Elite Opportunities	7.68%	7.06%

Inflation Rate

The inflation rate used of the purpose of valuation is 3.93%.

Mortality

The mortality assumption used is 108.9% of IALM 2012-14 Ultimate except for product IndiaFirst Money Back Health Plan.
The mortality assumption used for IndiaFirst Money Back Health Plan is 89.1% of IALM 2012-14 Ultimate.

Morbidity

This is applicable for inbuilt riders attached to IndiaFirst Education Plan, IndiaFirst Young India Plan and IndiaFirst Happy India Plan. Morbidity rate used is 0.2178 per 1000 SA.

Expense

The renewal expense per policy for the purpose of valuation is Rs. 487.59 for the single premium and Rs. 782.09 for regular premium for the products IndiaFirst Savings Plan, IndiaFirst Education Plan and IndiaFirst Future Plan.

The renewal expense per policy assumed is 1.92% of the annual premium for regular premium and 0.6% of single premium for single premium mode for all the versions of the products IndiaFirst Smart Save Plan, IndiaFirst Young India Plan, IndiaFirst Money Back Health Insurance Plan, IndiaFirst High Life Plan, IndiaFirst Money Balance Plan and IndiaFirst Happy India Plan.

For IndiaFirst Wealth Maximizer Plan, the renewal expense per policy assumed is Rs. 416.75 for regular and single premium mode and for regular premium 0.72% p.a. of the annual premium is also assumed.

The expense is assumed to increase at inflation rate mentioned above.

The fund management expense is 0.15% of the unit-reserve.

Individual Non- Linked Products

Interest Rate

The interest rate assumed for with-profit life products is 5.74% for next five years and 4.98% thereafter. For with-profit pension products is 5.70% for next five years and 4.94% thereafter. The interest rate assumed for term and non-participating endowment products is 5.70% for next five years and 4.94% thereafter. The interest rate assumed for health product is 3.78% for next five years and 3.16% thereafter. The interest rate assumed for immediate annuity product is 3.78% for next five years and 3.16% thereafter. The interest rate assumed for IndiaFirst CSC Shubhlabh Plan is 5.74% for next five years and 4.98% thereafter. The interest rate assumed for Lifelong Guaranteed Income Plan is 6.39% for next five years and 5.49% thereafter.

Mortality

The mortality assumption used is

<table>
<tr><td>Product</td><td colspan="3">as % of IALM 2012-14 ultimate</td></tr>
<tr><td>IndiaFirst Life Plan</td><td colspan="3">72.6%</td></tr>
<tr><td>IndiaFirst Anytime Plan</td><td colspan="3">66.6%</td></tr>
<tr><td>IndiaFirst Simple Benefit Plan</td><td colspan="3">145.2%</td></tr>
<tr><td>IndiaFirst Simple Benefit Plan – v2</td><td colspan="3">145.2%</td></tr>
<tr><td>IndiaFirst Simple Benefit Plan – v3</td><td colspan="3">145.2%</td></tr>
<tr><td>IndiaFirst Secure Save Plan</td><td colspan="3">121%</td></tr>
<tr><td>IndiaFirst Maha Jeevan Plan-v1</td><td colspan="3">145.2%</td></tr>
<tr><td>IndiaFirst Maha Jeevan Plan-v2</td><td colspan="3">145.2%</td></tr>
<tr><td>IndiaFirst Maha Jeevan Plan-v3</td><td colspan="3">132%</td></tr>
<tr><td>IndiaFirst Maha Jeevan Plan-v4</td><td colspan="3">132%</td></tr>
<tr><td>IndiaFirst Maha Jeevan Plan-v5</td><td colspan="3">132%</td></tr>
<tr><td>IndiaFirst Mediclaim Plan</td><td colspan="3">89.1%</td></tr>
<tr><td>IndiaFirst CSC Shublabh Plan</td><td colspan="3">136.7%</td></tr>
<tr><td>IndiaFirst Cash Back Plan – All versions</td><td colspan="3">108.9%</td></tr>
<tr><td>IndiaFirst POS Cash Back Plan</td><td colspan="3">108.9%</td></tr>
<tr><td>IndiaFirst Guaranteed Retirement Plan</td><td colspan="3">108.9%</td></tr>
<tr><td rowspan="3">IndiaFirst Life Plan – v2 and IndiaFirst Anytime Plan – v2</td><td>Sum Assured</td><td>Smoker</td><td>Non-Smoker</td></tr>
<tr><td>Less than 50 lakhs</td><td>78.65%</td><td>78.65%</td></tr>
<tr><td>50 lakhs and above</td><td>60.5%</td><td>36.3%</td></tr>
<tr><td>IndiaFirst Life Little Champ</td><td colspan="3">121%</td></tr>
<tr><td>IndiaFirst Life “Insurance Khata”</td><td colspan="3">169.4%</td></tr>
<tr><td>IndiaFirst Life CSC “Insurance Khata”</td><td colspan="3">169.4%</td></tr>
<tr><td>IndiaFirst Life POS “Insurance Khata”</td><td colspan="3">169.4%</td></tr>
<tr><td>IndiaFirst Life Micro Bachat Plan</td><td colspan="3">154%</td></tr>
<tr><td>IndiaFirst Life E-Term Plan</td><td colspan="3">Smoker: 44.59% and Non Smoker: 23.60%</td></tr>
<tr><td>IndiaFirst Life Guaranteed Monthly Income Plan</td><td colspan="3">121%</td></tr>
<tr><td>IndiaFirst Life Smart Pay</td><td colspan="3">121%</td></tr>
<tr><td>IndiaFirst Life Long Guaranteed Income Plan</td><td colspan="3">110%</td></tr>
</table>

Expense

The renewal expense of IndiaFirst Anytime Plan and IndiaFirst Life Plan is Rs. 234.76 p.a. for regular premium and Rs. 116.69 p.a. for single premium. Claim expense of 1.2% of death benefit subject to maximum of Rs.10,000

The renewal expense of IndiaFirst Anytime Plan – v2 is 3.60% p.a. for regular premium and Rs. 116.69 p.a. for single premium. For IndiaFirst Life Plan – v2 it is 6.00% p.a. for regular premium and Rs. 116.69 p.a. for single premium.

The renewal expense of IndiaFirst Life E-Term Plan Regular Premium is 2.40% p.a. for regular premium, 0% for single premium and Rs. 189 p.a. for both regular and single premium.

The renewal expense of IndiaFirst Cash Back Plan – all versions and IndiaFirst POS Cash Back Plan is Rs. 307 and 2.4% of annual premium.

The renewal expense of IndiaFirst Secure Save Plan & IndiaFirst Maha Jeevan Plan – v1 is 1.2% of annual premium and fixed expense of Rs 437.59. For IndiaFirst Simple Benefit Plan the expense used is 0.6% of annual premium and fixed expense of Rs. 69.46. For IndiaFirst Maha Jeevan Plan – v2, v3, v4 & v5 the expense used is 3.6% of annual premium and fixed expense of Rs 437.59 and for IndiaFirst Simple Benefit Plan-v2 & v3 it is 1.8% of annual premium and fixed expense of Rs 208.38. For IndiaFirst Life Guaranteed Monthly Income Plan the expense used is 3.60% of annual premium subject to maximum of 3,000 and fixed expense of Rs.378.00. For IndiaFirst Smart Pay Plan the expense used is 3.60% of annual premium and fixed expense of Rs.360.

The renewal expense for IndiaFirst Mediclaim Plan and IndiaFirst CSC Shubhlabh Plan is 8.40% of annual premium.
The renewal expense for IndiaFirst Insurance Khata Plan, IndiaFirst CSC Insurance Khata Plan and IndiaFirst POS Insurance Khata Plan is Rs. 2.65.

The renewal expense for IndiaFirst Life Little Champ Plan is 6.00% p.a. of annual premium and fixed expense of Rs. 396.90.

The renewal expense for IndiaFirst Life Micro Bachat Plan is 6% till PPT and 3.0% thereafter p.a. of annual premium.

The renewal expense for IndiaFirst Guaranteed Retirement Plan for regular premium policy is 3.6% p.a. of regular premium and fixed expense of Rs. 437.59. For single premium policy, a fixed expense of Rs. 437.59 is used.

The renewal expense for IndiaFirst Life Long Guaranteed Income Plan is 2.40% p.a. of annual premium and fixed expense of Rs. 360.

One Year Group Term

The reserve with respect to this product is UPR and it is based on the received premium less commission less expense.

Group Credit Life Plan

Interest Rate

The interest rate used is 5.94% for next five years and 5.18% thereafter.

Mortality

The mortality assumption used is

Type of loan	as % of IALM 2012-14 ultimate
Group Credit Life – Housing Loan	77.4%
Group Credit Life – Education	81.1%
Group Credit Life – Vehicle	94.4%
Group Credit Life – Personal	108.9%
Credit Life Plan – V2 and V3 - Housing Loan	72.6% - 94.38%
Credit Life Plan – V2 and V3 - Education	72.6% - 94.38%
Credit Life Plan – V2 and V3 - Vehicle	87.12% - 113.26%
Credit Life Plan – V2 and V3 - Personal	87.12% - 113.26%

IndiaFirst Group Credit Life Plus Plan

Under Non EE Group

Financial Institution Category	Type of Financial Institution	Home/Mortgage /Education Loan	Vehicle Loan	Personal/Business/Gold /Loan against securities/Construction equipment loan	Agricultural Loan/ Tractor and farm Equipment Loan and any other type of loan not covered in previous columns
Tier 1	Foreign Banks,Large Indian Private Banks,Top large 5 PSU Banks (SBI, BOB, BOI, Canara Bank, PNB)	60.50%	72.60%	78.65%	90.75%
Tier 2	Other Private and Nationalized Banks	66.55%	78.65%	84.70%	102.85%
Tier 3	NBFCs(India Bulls Finance, Tata Finance etc)	78.65%	90.75%	102.85%	121.00%
Tier 4	Regional Rural Banks,Co-operative Banks,Credit Societies	84.70%	102.85%	121.00%	151.25%
Micro Finance and Socially Weaker Section: Female Lives		169%			
Micro Finance and Socially Weaker Section: Male Lives		387%			

Under Employer Employee (EE) Group

Type of Employer	**% of IALM table(2012-14)**
EE Groups with White Collar jobs (i.e. IT, Finance & other service industry and other high end professionals)	60.50%
EE Group with Blue Collar jobs (i.e. manual workers, other salaried class and middle end professionals)	72.60%
EE Group with hazardous occupation (i.e. mining and low end professionals)	96.80%

Expense

For Group Credit life product version 1 the renewal expense is Rs.97.25 increasing with inflation and for revised version it is 0.6% of premium.
The renewal expense of Group Credit life Plus product Regular/Limited Premium is 2.40% p.a. of regular premium, 0.6% for single premium subject to maximum of Rs. 5,000.
Claim expense of 1.2% of death benefit subject to maximum of Rs.10,000.