L-42 Valuation Basis (Life Insurance)

a. How the policy data needed for valuation is accessed

✓ All policy details (excluding micro insurance products) are extracted from the policy admin systems Ingenium and the Compass for individual business and group business respectively. Policy data relating to micro insurance products is extracted from a standalone micro insurance policy administration system. Details for payouts for annuity business are 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 policies are valued in valuation system Prophet, providing therein policy data and the valuation assumptions as input. For the valuation as on 30th June 2021, ABSLI (formerly known as BSLI) has used following valuation assumptions. All these assumptions include margin for adverse deviations.

1. Interest

Segments	*Maximum*	*Minimum*
Non-Linked Life – Participating Policies	6.15%	6.15%
Non-Linked Life – Non participating Policies	7.11%	5.35%
Annuities – Non participation Policies	7.60%	7.60%
Unit Linked – Life	6.63%	5.35%
Unit Linked – Pension	6.63%	5.35%
Non-Linked – Pension	5.35%	5.35%
Unit Linked – Health	6.63%	5.35%
Non-Linked – Health	5.63%	5.63%
Group Life	5.35%	5.35%

2. Mortality Rates

The mortality rates used for the valuation of assurance benefits under each segment of business are based on the published IALM (2012-14) Ultimate Mortality Table. Further to reflect the expected experience for own portfolio, ABSLI has taken multiple of IALM (2012-14) mortality rates. Such mortality multiples are in the range of 22.58% to 309.38% for non- rural products and 482.94% for rural-products as mentioned below:

Segments	*Maximum*	*Minimum*
Non-Linked Life – Participating Policies	250.88%	98.44%
Non-Linked Life – Non participating Policies	125.44%	22.58%
Annuities – Non participation Policies*	112.5%	87.5%
Unit Linked – Life	68.99%	68.99%
Unit Linked – Pension	68.99%	68.99%
Non-Linked – Pension	125.44%	125.44%
Unit Linked – Health	53.66%	53.66%
Non-Linked – Health	97.56%	82.93%
Non-Linked - Life (Rural Policies)	482.94%	482.94%
Group Life	309.38%	24.84%

*Expressed as a % of the L.I.C (1996-98) Annuitant Mortality Rates

3. *Expenses*

The per policy maintenance expenses assumed for the valuation of liabilities are set looking at our recent experience. The per policy maintenance expenses are up to Rs 761 (FY 21-22) depending on the product.

Commission scales have been allowed in accordance with the product filing with IRDAI.

4. *Policy Termination Rates*

The policy termination rates used for the valuation of liabilities ranges from 0% per annum to 48% per annum for the first three policy years thereafter in the range of 0.60% per annum to 16.80% per annum.

5. *Bonus Rates*

Regular and Terminal bonus rates, where applicable, are consistent with the valuation discount rate. This takes in to account the policyholder's reasonable expectations (PREs).

6. *Policyholder's Reasonable Expectations*

For unit linked products Policyholders know that the returns on such plans are market linked and hence ultimate benefit payout would depend upon the mark to market performance of the underlying funds. Each ULIP proposal form is accompanied by a signed sales illustration illustrating values using gross return of 4% and 8% pa. For par products the bonus rates are declared consistent with the performance of the par fund and the illustrated rate of bonuses in the sales illustration provided at the time of selling the policy.

7. *Taxation and Shareholder Transfers*

Future transfers to shareholders as 1/9th of Cost of Bonus and tax on the future surpluses to be distributed between policyholders and shareholders are considered in calculation of policy liability for par products.

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

IBNR for individual life business, one-year renewable group term business and group credit life business is determined using chain ladder method taking into account the claim reporting pattern from past claim experience.
For one-year renewable group term business, this reserve equals to two months' premium as expected claim.

9. *Change in Valuation Methods or Bases*

There have been no changes to valuation methods.