

ICICI Prudential Life Insurance Company Ltd.

L-42- Valuation Basis

Data

For the purpose of valuation, policy data is downloaded from LifeAsia, which is our policy administration system, after new business processing was completed for the year ended 31 March 2006 and all the movements were updated as on 31 March 2006.

The new business records are created in LifeAsia after extensive validity checks and this is particularly true of the information required for the purpose of the actuarial valuation. Additionally the valuation data was subjected to consistency checks.

Care has been taken to ensure that all the policies which were in force as on the valuation date, policies under which premiums have been discontinued and a liability exists (i.e. paid up or surrender value) and in the case of Smart Kid type of policies that have resulted in death claims and continue to have liabilities until the chosen maturity date of the respective policies, have been included for the purpose of valuation.

Method of Valuation

The methods of valuation used take into account the relevant provisions of the regulations.

Non Linked

Gross premium method of valuation has been used for non-linked base plans.

Linked

Liabilities under linked plans are provided in two parts viz. unit liability and non-unit liability.

Unit fund liabilities have been valued on the basis of the net asset value of the units to the credit of the policyholders on the valuation date.

Further to the IRDA's guidelines on provision of liability under lapsed unit linked contracts, unit reserves are provided for as follows:

- In force contracts – full unit value
- Lapsed contracts
 - For expected revivals, reserve is held in the unit fund on the basis of expected reinstatement rate
 - The balance of the unit value in respect of lapsed policies is transferred to “Funds For Future Appropriations”

We have to deal separately with lapsed policies which have acquired a surrender value and those which have not acquired surrender value.

The non-unit fund liabilities of the linked plans in respect of life cover benefits and riders, namely, accident and disability benefits, level term, income benefit, waiver of premium, critical illness and major surgical assistance benefits have been valued on the basis of unearned premiums.

Adequacy of charges to meet the expected expenses and other outgo in case of linked plans has been tested by projecting the cash flows. This has been tested on scenarios including conversion to paid ups. This analysis also takes into account the additional units, which will be allocated at periodical intervals under some of the linked plans.

A separate reserve has been set up to cover the cost of guarantees provided under linked plans with capital guarantee by projecting the cash flows under different investment scenarios using stochastic modeling tools and deterministic scenarios for other parameters.

Group Term Insurance

Reserves have been set up on unearned premium basis for the group term insurance plan and the group rider plans.

Riders

The riders under individual life and pension plans, i.e. income benefit, level term, waiver of premium, critical illness and major surgical riders have been valued using both prospective method and unearned premium method and reserve has been set up at the higher amount as per the requirement of the IRDA.

Policyholder Reasonable Expectations (PRE)

Due consideration must be given to the reasonable expectations of policyholders when making a distribution of surplus. “Reasonable” is not explicitly defined in the regulations and is left to the interpretation of the

Appointed Actuary. Our interpretation of "Reasonable" refers to a well-informed, financially literate policyholder.

PRE can be formed with respect to many areas including the following.

- Nature of Bonus
- Reversionary (added each year) vs. Terminal (added only on claim)
- Type of Reversionary bonus
- Simple vs. compound vs. super compound
- Level of bonus
- Level of guarantees implicit in the declaration

The main drivers of PRE are currently our point of sale material, the level of guaranteed addition rates, the bonus rates declared last year and past communication with policyholders. We interpret our point of sale material as having created the expectation that bonuses would be compound reversionary.

PRE ultimately needs to be set to the principle that each customer should receive a fair return on the premiums he has paid, allowing for the insurance protection and guarantees provided over the duration of his policy. The basic reference point for this, and therefore PRE, will be the asset share under the policy.

Policyholders enjoy the benefits and protection of both guarantees and smoothing for which they may be charged appropriately. However, the Company will not seek to make any systematic profit through these charges over generations of policies.

PRE will be shaped and actively managed through appropriate communication to the policyholder. The tools that will be used for this purpose are Sales Brochures, Policy Illustrations and annual communications of bonus rates.

Early duration surrender benefits will be established at a level that enables the Company to recover the cost of acquisition and capital support provided subject to the minimum surrender values written into the contracts.

Tax Rate

The allowance for tax is at 14.025% on a base rate of 12.5% with surcharge of 10% and education cess at 2%.

Valuation Assumptions

Mortality rates for different segment

Plan	Mortality Rate		
Par-Assurance			
Save 'n' Protect I & II	100% of LIC 94-96, +1 Male/-1 Female		
CashBak I & II			
SmartKid I & II			
Par-Pension			
ForeverLife I, II, III & IV	100% of LIC 94-96, +1 Male/-1 Female		
ForeverLife – SP			
Non-Par Prot (Urban)			
LifeGuard I (ROP)	100% of LIC 94-96, +1 Male/-1 Female		
LifeGuard II (ROP)	100% of LIC 94-96 upto Age 35, 95% of LIC94-96 upto Age 45 & 90% thereafter, 0 Male/-2 Female		
LifeGuard I (SP)	100% of LIC 94-96, +1 Male/-1 Female		
LifeGuard II (SP)	90% of LIC 94-96 upto Age 35, 85% of LIC94-96 upto Age 45 & 80% thereafter, 0 Male/-2 Female		
Home Assure	80% of LIC 94-96 (calculated at Age last Birthday)		
LifeGuard I (WOP)	100% of LIC 94-96 upto Age 40 & 85% thereafter, 0 Male/-2 Female		
LifeGuard II (WOP)	90% of LIC 94-96 upto Age 35, 85% of LIC94-96 upto Age 45 & 80% thereafter, 0 Male/-2 Female		
Easy Life (DM) (WOP)	125% of LIC 94-96 upto Age 40 & 100% thereafter		
Health Assure Plus	110% of LIC 94-96, +1 Male/-1 Female		
Non-Par Prot (Rural)			
Mitr	195% of LIC94-96 upto Age 31 & 195% of LIC94-96 above age 31 rated+5 Yrs		
Suraksha (RP)			
Suraksha (SP)			
Suraksha Kavach (SP)	Age Group	% of LIC 94-96	
		Male	Female
	18-20	150%	200%
	21-25	175%	225%

Plan	Mortality Rate		
		26-30	210%
	31-35	220%	200%
	36-40	200%	160%
	41-45	200%	130%
	46-50	175%	125%
	51-55	165%	125%
	56-60	165%	115%
Non-Par Investment			
Assure Invest I, II, III, IV, V & VI	100% of LIC 94-96, +3 Male/Female		
ReAssure I, II, III, IV & V			
Single Premium Bond			
Save 'n' Protect (SP)	100% of LIC 94-96, +1 Male/-1 Female		
Non-Par Health			
Health Assure	110% of LIC 94-96, +1 Male/-1 Female		
Riders			
Accident Disability Benefit	Unearned Premium Basis		
Accident Benefit			
Critical Illness (Accelerated)			
Income Benefit	100% of LIC 94-96, +1 Male/-1 Female		
Major Surgical Assistance	100% of LIC 94-96, +1 Male/-1 Female		
Level Term	100% of LIC 94-96, +1 Male/-1 Female		
Critical Illness (Standalone)	100% of LIC 94-96, +1 Male/-1 Female		

Interest

The valuation rate of interest for regular premium plans has been set keeping in mind expected long term yields under various asset classes as well as the expected long term asset mix in the various funds. In making the assumptions, we have taken into account the current level of government security yields. Appropriate MAD 's have been deducted from expected long-term yields to arrive at valuation rate of interest.

Inflation

We have assumed renewal expense inflation at 5%.

Interest rate (conventional plans)

Plan	Interest Rate
Par-Assurance	
Save 'n' Protect I	7.25% (7%)
CashBak I	
SmartKid I	
Save 'n' Protect II	
CashBak II	
SmartKid II	
Par-Pension	
ForeverLife I, II, III	7.25% (7%)
ForeverLife IV	
ForeverLife (SP)	
Non-Par Prot (Urban)	
LifeGuard I & II (ROP)	5.75% (5%)
LifeGuard I & II (WOP)	5.75% (4.5%)
Easy Life (DM) (WOP)	
LifeGuard I & II (SP)	5.75% (5%)
Home Assure (SP)	5.75%
Health Assure Plus	5.75%
Non-Par Prot (Rural)	
Mitr	5.75% (5%)
Suraksha (RP)	5.75% (4%)
Suraksha (SP)	
Suraksha Kavach (SP)	
Non-Par Investment	
Assure Invest I	Term 5 yrs – 7.95% Term 7 yrs – 8.50% Term 10 yrs – 9.00%
Assure Invest II	Term 5 yrs – 7.35% Term 7 yrs – 7.60% Term 10 yrs – 7.85%

Assure Invest III	Term 5 yrs – 6.45% Term 7 yrs – 6.80% Term 10 yrs – 6.90%
Assure Invest IV	Term 5 yrs – 5.55% Term 7 yrs – 5.85% Term 10 yrs – 6.05%
Assure Invest V	Term 5 yrs – 5.15% Term 7 yrs – 5.40% Term 10 yrs – 5.65%
Assure Invest VI	Term 5 yrs – 4.70% Term 7 yrs – 4.80% Term 10 yrs – 5.00%
ReAssure I	Term 5 yrs – 7.95% Term 7 yrs – 8.50% Term 10 yrs – 9.00%
ReAssure II	Term 5 yrs – 7.35% Term 7 yrs – 7.60% Term 10 yrs – 7.85%
ReAssure III	Term 5 yrs – 6.45% Term 7 yrs – 6.80% Term 10 yrs – 6.90%
ReAssure IV	Term 5 yrs – 5.70% Term 7 yrs – 6.00% Term 10 yrs – 6.00%
ReAssure V	Term 5 yrs – 5.20% Term 7 yrs – 5.30% Term 10 yrs – 5.25%
Single Premium Bond	Term 5 yrs – 9.75% Term 10 yrs – 10.00%
Save 'n' Protect (SP)	Term < 10 yrs – 8.75% Term ≥ 10 yrs – 9.00%
Non-Par Health	
Health Assure	5.75%
Non-Par Annuity	
Immediate Annuity	6.25%
Riders	
Accident Disability Benefit	Unearned Premium Reserve
Accident Benefit	
Critical Illness (Accelerated)	
Income Benefit	5.75% (4.5%)

Major Surgical Assistance	
Level Term	
Critical Illness (Standalone)	
Waiver of Premium	5.75% (4%)

Note: Figure in brackets show last year assumptions

Expenses (conventional plans)

Plan	Fixed Renewal Expenses
	INR
Par Assurance	
Save 'n' Protect I CashBack I	
SmartKid I	
Save 'n' Protect II CashBack II	
SmartKid II	250 (235)
Par Pension	
ForeverLife I	
ForeverLife II ForeverLife III	
ForeverLife IV	
ForeverLife – SP	130 (120)
Non-Par Protection (Urban)	
LifeGuard I (ROP)	250 (235)
LifeGuard II (ROP)	
LifeGuard I (SP)	130 (120)
LifeGuard II (SP)	
Home Assure (SP)	130
LifeGuard I (WOP)	250 (235)
LifeGuard II (WOP)	
Easy Life (DM) (WOP)	
Health Assure Plus	365

Non-Par Protection (Rural)	
Mitr	
Suraksha (RP)	
Suraksha (SP)	40 (35)
Suraksha Kavach (SP)	40 (50)
Non-Par Investment	
Assure Invest I, II, III, IV, V & VI	130 (120)
ReAssure I, II, III, IV & V	250 (235)
Save 'n' Protect (SP)	
Single Premium Bond	130 (120)
Non-Par Health	
Health Assure	265
Riders	
Accident & Disability Benefit	
Accident Benefit	0
Critical Illness	30 (25)
Major Surgical Assistance	30 (25)
Income Benefit	30 (115)
Level Term	30 (25)
Waiver of Premium	30 (0)

Note: Figure in brackets show last year assumptions