

# Aditya Birla Nuvo Limited

## Disclosure of EV & VNB of Birla Sun Life Insurance



**strong foundation energised growth**

# BSLI growing profitably: Value of New Business created



<b>FY 2008-09</b>	<b>Rs. Crores</b>
<b>Embedded Value</b>	<b>3,060.1</b>
Insurance Business Value	2,683.6
Adjusted Net Worth	376.5
<b>Value of New Business</b>	<b>496.3</b>



**Implied VNB margins  
of 20.3%\* in FY09**

\* VNB as a % of first year regular premium and 10% of single premium as reported to IRDA

Note : Birla Sun Life Insurance Co. Ltd. (BSLI) is a subsidiary company of Aditya Birla Nuvo Ltd.

# EV & VNB – Definitions and Basis of Preparation

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## ● **Embedded Value (EV)** – EV is the aggregate of:

- Insurance Business Value (IBV), which is the present value of after-tax statutory profits expected to emerge in future from in-force business at the valuation date, discounted at the risk discount rate, less the cost of holding required capital to support the in-force business.
- Adjusted Net Worth (ANW), which is the market value of assets in excess of statutory reserves.

## ● **Value of New Business (VNB):** VNB is defined as the present value, from the point of sale, of after-tax statutory profits expected to emerge in future from the new business written in the period, discounted at the risk discount rate, less the cost of holding required capital to support the new business.

In the EV and VNB, the cost of capital is calculated as the nominal value of the required capital less the present value, at the risk discount rate, of the projected after-tax investment earnings and future releases of the required capital.

## ● **Basis of preparation :**

- The EV and VNB are computed based on a traditional EV methodology.
- Group business is not considered in arriving at the results.
- The EV includes the value of tax losses carried forward as at the valuation date.
- An allowance has been made in the IBV for the expected maintenance expense overruns. No allowance has been made in the VNB for the acquisition expense overrun arising in the period.

The methodology, assumptions and results for the individual business have been reviewed by Towers Perrin. The conclusions of Towers Perrin review are shown in the Appendix.

# EV & VNB – Key Assumptions

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- The key economic and operating assumptions used in preparing the EV and VNB are:

## Economic Assumptions

Asset Class	Expected Investment Returns
Cash/Money Market Instruments	6.50%
Government Bonds	7.25%
Corporate Bonds	8.25%
Equities	12.25%
Other Parameters	Assumption
Risk Discount Rate	12%
Tax Rate	14.16%

## Operating Assumptions

### Operating Assumptions

The demographic assumptions reflect our best estimate view of future experience

Expense assumptions are set at the levels that are expected to eliminate the expense overruns by FY 2012-13

# Appendix - Towers Perrin Opinion

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Towers Perrin has reviewed the methodology and assumptions used to determine the EV and VNB as at 31 March 2009 for the individual business of Birla Sun Life Insurance Company Limited (“BSLI”).

Towers Perrin has concluded that:

- The methodology used is consistent with recent industry practice in India as regards the calculation and reporting of traditional embedded values on a deterministic basis;
- The economic assumptions used are internally consistent and have been set with regard to current economic conditions;
- The operating assumptions, taken in aggregate, have been set with appropriate regard to past, current and expected future experience, noting the exception of BSLI’s approach to setting the acquisition and maintenance expense assumptions and noting the difficulty in setting persistency experience assumptions due to the limited experience data on which to determine these assumptions; and
- Allowance for risk has been made through the use of a single risk discount rate and an explicit assumption for the level and cost of holding solvency capital. Whilst this is in line with recent industry practice as regards traditional actuarial embedded value calculations, this may not correspond to a capital markets valuation of the risks (so called “market consistent valuation”).

Towers Perrin has also performed limited high-level checks on the results of the calculations and has confirmed that any issues discovered do not have a material impact on the disclosed embedded value and value of new business. Towers Perrin has not, however, performed detailed checks on the models and processes involved.

In arriving at these conclusions, Towers Perrin has relied on data and information provided by BSLI. This opinion is made solely to BSLI in accordance with the terms of Towers Perrin’s engagement letter. To the fullest extent permitted by applicable law, Towers Perrin does not accept or assume any responsibility, duty of care or liability to anyone other than BSLI for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion.

# Disclaimer

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