THE INSTITUTE OF ACTUARIES OF AUSTRALIA
A.C.N. 000 423 656

GUIDANCE NOTE 253 - DETERMINATION OF LIFE INSURANCE POLICY LIABILITIES

APPLICATION

Appointed Actuaries of Life Insurance Companies.

LEGISLATION

This Guidance Note deals with the determination of Life Insurance Policy Liabilities as required for general purpose financial reporting, and for statutory returns expected under the Life Insurance Act after amendment. It will be reviewed and upgraded to a professional standard after these amendments are finalised.

FIRST ISSUED

September 1993, effective for valuation dates on or after 30 June, 1995, but earlier application where appropriate is acceptable and encouraged.

CLASSIFICATION

This Guidance Note is issued because a trial period is required before a Professional Standard is produced. The Appointed Actuary is expected to disclose any departure from this Guidance Note but departure from the Guidance Note is not, in itself, unprofessional conduct.

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DEFINITIONS

"Valuation (of Policy Liabilities)": A process which uses assumptions and calculation techniques to determine an estimate of the amount now required to meet the company's future obligations under policies currently in force.

"Best Estimate Assumptions": Assumptions about future experience which are made using professional judgement, training and experience and are neither deliberately overstated nor deliberately understated.

"Margin on Services Valuation Method": A valuation approach which uses best estimate assumptions and allows for the systematic release of profit margins as services are provided.

"Policy Liability": A liability calculated on a Margin on Services valuation method in connection with the determination of earned profit.

"Profit Margin": The expected profit is the excess of future premium and investment income over benefit payments and expenses determined using best estimate assumptions. The Profit Margin is included in a Policy Liability to enable a systematic release over the future life of a policy of the expected profit as it is earned through provision of services. The Profit Margin is expressed as a percentage of a financially measurable indicator of the provision of service (or related income).

"Acquisition Expenses": Represent the fixed and variable costs of acquiring new business.

"Investment Management Expenses": Represent the fixed and variable costs of managing the investment portfolio.

"Maintenance Expenses": Represent the fixed and variable costs of administering policies subsequent to the sale and recording of the policies and the fixed and variable costs of administering the general operations of the life insurance company. Maintenance expenses include all operating costs and expenses other than acquisition expenses and investment management expenses.

"Servicing Expenses": The combination of Maintenance and Investment Management expenses.

"Participating Policy": A participating policy as defined in the Life Insurance Act.

"Bonus": An amount added at the discretion of the company to the benefits due under a participating policy. The bonus is a form of profit margin but is referred to separately in this guidance note.

"Supportable Bonus": The level of future bonus which it is expected on best estimate assumptions can be added to a participating policy over its future life without supplementary income from sources outside the policy.

"Actuary": An Appointed Actuary as defined under the Life Insurance Act.

1. VALUATION METHOD

1.1 The Policy Liability will comprise the sum of:

(i) a "best estimate" valuation of policy liabilities, and
(ii) the value of future expected profit margins, to be released as services are provided.

1.2 A "best estimate" valuation of policy liabilities will be the amount expected on best estimate assumptions to be required to the end of the benefit period to meet future benefits and expenses related to past transactions for the business in force. The calculation process will take into account all known material factors, including future investment earnings, taxation, any options under the policies and future premiums where relevant to the calculation.

1.3 The method will allow for the possibility of voluntary discontinuance before the end of the benefit period.

1.4 This method of calculating Policy Liabilities is known as the Margin on Services method of valuation. The Policy Liability may be less than the current surrender value of the policy and may be negative.

1.5 The calculation of the Policy Liability is usually done by projecting expected future receipts and payments and discounting these items to derive a present value. The discounting rate incorporated in the calculations will be based on the average future expected earning rate of assets invested to back the Policy Liability, net of tax on investment earnings and net of expenses and profit margins expressed as a percentage of assets.

1.6 Where a benefit is in the nature of an accumulation starting from the currently accumulated value and adding future investment earnings (eg. in certain investment account or investment linked products) the current accumulation may be taken as an approximation to the Policy Liability for that benefit instead of performing a full projection calculation.

1.7 The use of a benefit accumulation as a liability is appropriate where expected future benefit growth and expected future investment income would occur in the same time pattern, so a projection and discounting is unnecessary. Such an approach will provide for a profit margin on investment income (i.e. any expected excess of investment income over benefit growth) or matched explicit charges (i.e. any expected excess of each year's charges over expenses). Care is needed where a smoothed investment income is added to benefits. A full projection can still be undertaken if required. However the part of such contracts concerned with management fees, deductions on surrender and expenses will need projection unless the time pattern of such items can be considered matched.

1.8 Similar considerations regarding not needing a projection and providing a profit margin apply where a benefit is expected to be fully matched by an income item year by year (such as in group life business).

1.9 Proper allowance should be made for reinsurance having regard to the nature of the arrangement and the materiality of such business.

1.10 A provision will be held in the accounts in respect of deferred tax on unrealised capital appreciation to date. If for investment linked business it is not consistent with the provision in the unit price calculation then an adjustment will be required to the Policy Liability to offset such inconsistency. For example, if the provision in the accounts is not calculated on a discounted basis, (having regard to the assumed net of tax earned rate on the asset backing the deferred tax reserve, the expected realisation pattern of the assets of the fund and any indexation of the cost base of the assets that may apply) but the unit pricing is, then a compensating downwards adjustment will be required to the Policy Liability to make it consistent with such lack of discounting in the accounts.

2. EXPECTED PROFIT EMERGENCE

2.1 There will be explicit allowance for one or more margins for profit.

2.2 The profit margins will relate to the risks accepted by the company and the services provided for the policyowner. The provision of capital to create capital adequacy reserves is not to be regarded as one of these services.

2.3 All expected profits are to be incorporated in the future profit margins so that there will be no release of any expected profits at inception, or on any change in assumptions, except as provided in paragraph 6.2 (loss recognition).

2.4 To achieve the required timing of release, the profit margin can be expressed as a portion of either

a) the expected cost of the service e.g.
- the claim payment
- the investment return to the policyholder
- the cost of ongoing administration
- fund management costs
- bonus allocated

or, as an approximation

b) the expected income item relating to the service, e.g.
- the premium
- the investment income on the assets corresponding to the policy liability
- explicit expense charges specified in the policy

2.5 In concept a profit margin is an item incorporated in a policy liability to generate a systematic release of expected profit over the future life of a policy. This profit release should coincide with the provision of the relevant service or incurring of the risk under the policy. The magnitude of profit margins is governed by the premium charged (i.e. by what is available), not by what is considered appropriate to the risk borne. However the pattern of release of profit margins is related to the incidence of service or risk.

A policy provides some or all of the following :-

a) insurance of mortality, morbidity and other similar risks
b) investment return
c) setting up the policy (sale or acquisition)
d) ongoing administration
e) investment management

all the above are hereafter described as "services". For participating policies the allocation of bonus may for simplicity be regarded as effectively an indication of provision of the above services. At the time of valuation of in force business, the service of setting up the policy has already happened, so will not be the basis of a future profit margin.

2.6 The choice of the appropriate type of profit margin from the list in paragraph 2.4 will depend on : -

a) Which services and income items are applicable to the policy

b) The simpler alternative. For instance, the one item of income (eg. premium) may cover several services (eg. insurance risk, administration), so it would be simpler as an approximation to adopt a single profit margin of a proportion of premiums rather than have two margins relating to cost of insurance and cost of administration. More complex profit margins may be appropriate where more sophisticated record keeping is maintained.

c) If income items are used to approximate the provision of a service, they should approximate the incidence of the service. In particular, a contract which primarily provides investment service should use investment income and not premium income as the basis of a profit margin.

2.7 There will sometimes be several alternative profit margin structures available and it will be a matter of judgement as to which is selected. However, once a structure is chosen it must be retained for a block of business (subject to issues of materiality and error correction) to provide consistent reporting from year to year.

2.8 Because the valuation method involves revising the profit margin proportion whenever there is a change in assumptions about the future, there is an advantage in having only one or two profit margins (relating to the major services) on a policy. Moreover for ease of computation it may be desirable to retain a constant profit margin for all but one of the services selected, allowing residual profit to emerge in proportion to one element, typically premiums.

2.9 To initially determine the size of a profit margin, projected cash flows of premiums, commission and other expenses and claim or maturity payments can be generated using best estimate assumptions for a new business case for each year until the expiry of the policy. The present value of each of the cash flows is then discounted to inception. The net total of these present values represents the present value at issue of expected future profits. The service/income item on which the profit margin is to be based is similarly projected and its present value calculated. The present value at issue of expected future profits is then divided by the present value of the appropriate service or income item to give a profit margin proportion. In practice this calculation is done as at the end of the reporting period in which the policy was issued.

2.10 When Policy Liabilities are first calculated in accordance with this guidance note the profit margins and acquisition expense components for currently in force policies should be calculated having regard to the history of those policies. However where this is not practical profit margins may be determined such that the Policy Liability is equal to the current surrender value for policies at least 5 years in force other than purely risk business (eg. term insurance) and immediate annuities. For policies less than 5 years in force, purely risk business and immediate annuities the profit margins and acquisition expense components may first be determined on a basis consistent with current new business and the Policy Liability then determined. For participating policies supportable bonus rates will be determined alongside profit margins.

3. ACQUISITION EXPENSES

3.1 A component in each premium or other income item (including surrender penalties) which is intended to recover acquisition expenses will be determined at the end of the reporting period in which the policy was issued. The sum of the present values of components for policies issued in the reporting period will equal the acquisition expense incurred in that period (net of tax relief), subject to a maximum such that sum of the present values of profit margins on those policies determined at that date are not negative.

3.2 The impact of this approach is that there will not be any expected or experience profit or loss in relation to the service of acquiring business (unless profit margins are reduced to zero).

3.3 The present value of acquisition expense recovery components for all business in force will be included (as a deduction) in the calculation of the Policy Liability but as an identifiable item. This approach is consistent with current life insurance industry accounting practice of acquisition expenses being fully expensed in the period they are incurred.

3.4 Appropriate adjustment to acquisition expenses and expense components will be needed where acquisition expenses (notably initial commission instalments and write backs) are expected to be incurred in a year subsequent to the year of issue.

4. ASSUMPTIONS

4.1 General

4.1.1 Assumptions must be made about the future cost of the risks accepted and services provided, including probabilities of occurrence. These assumptions should be the best estimate that can be made using professional judgement, training and experience, and having regard to available statistical and other evidence subject to any requirements in this Guidance Note.

4.1.2 The Actuary should review the assumptions at each valuation of liabilities.

4.1.3 The assumptions should be reviewed against the company's own experience and management practices, published information on industry experience and emerging trends (both in Australia and, where relevant, overseas) and professional standards.

4.2 Investment Earnings

4.2.1 The expected earning rate is that applicable to the assets backing the Policy Liabilities, having regard to their value adopted in the accounts (usually market value). It should include an allowance for future capital appreciation in addition to interest, dividends and rents.

4.2.2 The gross average expected earning rate should be a weighting according to the current mix of assets of the expected earning rate on each category of relevant existing assets backing a product line group of policies. Provided the expected earning rate is not increased, the intended asset mix may be used in place of the actual, and expected earning rates on reinvestment can be allowed for, so long as this is done consistently from year to year and is disclosed.

4.2.3 The expected earning rate on each category of the relevant assets should be derived by analysis of the aggregate expected earnings on those assets. These earnings will include the elements of current yield which relate to margins for imperfect marketability and volatility, but not the element relating to possibility of default. This approach will result in an estimate which has been adjusted to exclude the default risk and is hence a market determined (see paragraph 4.2.1), risk adjusted rate (the extent to which this can be regarded as a risk free rate of return depends on whether the asset mix is matched to the policy liability cashflow pattern and guarantees).

4.2.4 In respect of ordinary shares and property assets the Actuary should ensure a reasonable consistency between the implied appreciation of rental and dividend income (including imputation credits) and the assumed inflation rate.

4.2.5 The expected earning rate on fixed or variable interest (or index linked) bonds, loans, deposit accounts and debentures shall be determined by reference to the relevant terms and conditions. For bonds, loans or debentures where the income and/or redemption proceeds are linked to the CPI or any other inflationary index the assumed rate of inflation should be consistent with the other inflation assumptions used in the valuation. Where the interest rate is variable (not index linked), the expected earning rate shall also be subject to a maximum of the rate applying as at the valuation date.

4.2.6 The gross expected earning rate on each category of assets should not exceed any rates determined by The Institute of Actuaries of Australia for the purpose of this Guidance note from time to time.

4.3 Servicing expenses

The servicing expense assumptions for mai ntenance and investment management expenses must be of sufficient level that in aggregate across all business assumed to be in force in the year following the valuation date they are sufficient to cover the estimated expense required in that year to fully support the administration of that business as a going concern and to manage the assets representing the Policy Liability. It may be assumed (unless inappropriate) that the company will continue to write new business, (but the assumed levels of new business must be considered realistic by the Actuary) with consequent impact on projected volumes of business in force. For maintenance expenses beyond the coming year the assumption should incorporate a rate of inflation which is consistent with that used in other assumptions .

4.4 Taxation

Assumptions relating to taxation should be based on current legislation together with any relevant rulings by the Tax Commissioner. The Actuary should have regard to publicly announced future changes in the legislation, and disclose what approach has been adopted for each group of policies. Assumptions are required for:

a) the tax rate on investment earnings;
b) the effective rate of tax relief on expenses and commission deducted from assessable income;
c) superannuation contribution tax

or the relevant tax rates for products such as accident and disability business which have a different tax structure.

4.5 Mortality and morbidity

4.5.1 Assumptions relating to mortality and morbidity should be based on the company's own experience and the latest appropriate published experience tables of The Institute of Actuaries of Australia making reasonable allowance for the estimated effects of factors relevant to the particular company (eg. underwriting standards). Where appropriate Australian tables are not available, an Overseas Table with appropriate adjustments may be used.

4.5.2 If there has been a discernible improving or worsening trend over time in the experience, due allowance can be made to bring it up to the current date. Allowance may be made for the trend into the future but it must be made in light of the nature of the policy. For example improving mortality on a step premium policy could be expected to be reflected in decreasing premium rates.

4.5.3 The main determinants of mortality and morbidity experience include age, sex, habits (e.g. smoking) and occupation.

4.5.4 For exceptional features in the experience, such as AIDS, the Actuary may either include an allowance within the assumptions or keep a special distinct liability (changes in which are treated as changes in mortality assumptions).

4.6 Discontinuance

In respect of discontinuance assumptions the Actuary should at least take account of the influence of product design, age, mode of premium payment and duration. Composite discontinuance rates may be used, provided that they are representative of the company's actual mix of business.

4.7 Policy Conditions

4.7.1 The Actuary should assume paid up values and surrender values on future discontinuance are calculated on the company's current basis unless policyholders have already been notified of a forthcoming change.

4.7.2 Under certain types of policy, the company has the right to change the level of mortality, morbidity or management charges. For the purpose of determining the Policy Liability, the Actuary should assume the current level of charge unless policyholders have already been notified of a forthcoming change.

4.7.3 The Actuary should assume that expense charges which may be indexed in line with the CPI, or increased from time to time to reflect inflationary increases in expenses, will be increased on a regular basis provided that is company practice. The annual rate of increase assumed should be consistent with the assumed general inflation rate applying to the company's expenses (before consideration of special factors such as expense overruns and variations in business volumes).

4.7.4 Under certain types of policy, premiums and/or benefits may be automatically increased on a regular basis. These increases should be allowed for. Where increases are linked to the CPI, they should be consistent with the inflation assumption for expenses. Assumptions about take-up rates for indexation of benefits and premiums should be based on the company's experience, supplemented if necessary by available industry experience in relation to similar policies. A nil take up may be assumed where the effect of the increases is not material.

4.7.5 The Actuary should allow for the actual frequency of premium payment and any experience of premium dormancy under the class of business, where relevant and material, when projecting future premiums and the corresponding benefits. In this context premium dormancy refers to informal non-payment (or delayed payment) of premiums under unbundled contracts, which may lead to a loss of management charges and fees (e.g. on assets under management as well as charges directly related to premium income). Non-payment of premium which leads to formal "paid-up" status, surrender or lapse is dealt with as discontinuance.

4.7.6 In valuing any options (excluding automatic CPI increases), the Actuary should have regard to materiality, given the expected take up rates and analysis of the company's own experience. The Actuary should not anticipate any profit arising from the non take up of an option (eg as in an option to effect a new policy without medical evidence).

5. PARTICIPATING POLICIES

5.1 Calculations for the Policy Liability should include allowance for future supportable bonus, including terminal bonus, to participating policyholders, a profit margin for shareholders and, if required, a contribution by policyholders to working capital.

5.2 A supportable bonus is one which, in conjunction with the shareholder profit margin and any contribution to working capital, results in there being no profit emerging at issue (before the policy commences and before acquisition expenses have been paid) from a best estimate liability calculation.

5.3 In this way the supportable bonus is defined for each year's new business. Instead of retaining separate rates of supportable bonus for each year of issue, a uniform rate of bonus across all, or a selected cohort of, years of issue may be determined by equating Policy Liabilities.

5.4 The relationship between different forms of bonus (for example bonus on sum insured, bonus on bonus and terminal bonus) will usually be determined from a predefined relationship. Where this relationship does not exist, a relationship consistent with current practice should be used.

5.5 The ratio between policyholders bonus, the shareholders profit margin and any working capital contribution in determination of the Policy Liability should be consistent with the allocation of profit.

5.6 Bonus attaching to a policy from past declarations is included in the calculation of the Policy Liability regardless of whether it was at supportable bonus levels. The supportable bonus concept applies only to future bonus.

5.7 Recalculation

5.7.1 For participating business the supportable bonus, shareholders profit margin and working capital contribution are recalculated at each valuation by equating the Supportable Liability using the assumptions applying at the valuation date with the adjusted value of assets applicable to that business. The Supportable Liability is the liability calculated including the supportable bonus / profit margin / contribution due on the current valuation date. The Policy Liability is then determined as the Supportable Liability reduced by the "cost of supportable bonus" and the associated profit margin / contribution due on the valuation date. In this way the value of the supportable bonus / profit margin / contribution attributable to the past year will emerge as profit to be allocated between policyholders and shareholders.

5.7.2 The relevant adjusted value of assets is determined as follows:

(a) Determine the net of tax investment yield applicable to the assets during the past year.

(b) Build up the value of assets at year end by applying this yield to the Policy Liability plus cost of declared bonus at year start and policy related cash flows during the year less profit margins / contributions emerging during the year.

(c) Determine the experience profit on non investment functions (e.g. for expenses by comparing actual payments to those expected on the previous valuation assumptions).

(d) Adjust the year end value of assets in (b) by deducting the experience profits in (c).

5.7.3 The absorption of a change in asset value into supportable bonus may be straight into terminal bonus or be spread by changing reversionary bonus, depending on the company's (stated) bonus philosophy. The spreading into reversionary bonus of an exceptional year's investment performance need not be on an "even across life time" basis if there is a structured bonus philosophy which designates a shorter spread period (e.g. 5 year smoothing).

5.7.4 The above process leads to the calculation of a Policy Liability at year end which will be used to determine profit earned for the year. Note that interim and terminal bonus paid during the year is profit paid in advance and is added back in the earnings statement which determines profit. This profit is then allocated between policyholders and shareholders. As a separate exercise it is necessary to determine the additional liability incurred by distributing profit to policyholders at year end by means of declaring a reversionary bonus. This is the "cost of declared bonus".

5.7.5 Cost of bonus is calculated as the present value of the projected future claim payments of such bonus, except that for accumulation benefits valued in accordance with paragraph 1.6 it is the face value of bonus added to the accumulation. Note that the full amount distributed to policyholders in the reporting year comprises this cost of declared bonus plus any interim and terminal bonus paid during the year.

6. CHANGE OF ASSUMPTIONS AND LOSS RECOGNITION

6.1 On a change in assumptions profit margins and supportable bonus if applicable are to be recalculated resulting in the amortisation of the effect of the change over the policy term rather than immediately recognising the value of the change, except as provided below for discount rates and loss recognition.

6.2 Where the assumptions made at a valuation establish that a related group of products will generate future losses then the present value of those losses should be recognised as a reduction in the total profits of the company at that valuation. When such a product group has previously had future losses recognised and at a subsequent valuation the assumptions made establish that profits will eventuate then a reversal of the effect of the previously recognised value of future losses should be recognised at that valuation.

6.3 The impact of a change in assumptions on the profit margins for non-participating business is assessed by calculating :

(a) the Policy Liability using the previous assumptions (except for the market related change in the investment earnings assumption and hence the discount rate) and the previous profit margins;

(b) the Policy Liability using the new assumptions and the previous profit margins.

For non-participating business where the assumed investment earnings and hence discount rate (net of tax) used to determine Policy Liabilities is changed due to different market conditions applicable to assets, this change is included in calculation (a), and hence the effect of that change impacts directly on the current Policy Liability. Changes to the discount rate for other reasons, e.g. a changed mix of assets, are included in calculation (b).

6.4 If the Policy Liability from (b) is lower than (a) then the profit margins should be increased so that the Policy Liability using the new assumptions and the new profit margins gives a result equal to (a).

6.5 Conversely, if (b) is higher than (a), then the pro fit margins should be decreased so that the Policy Liability equals (a). If the new profit margins would become negative in aggregate for a related group of products to satisfy this equation then the new profit margins will in aggregate be made equal to zero and the discounted value of the eliminated negative profit margins is determined. This value is the amount of the loss that will be recognised in the accounts (because the Policy Liability was larger, having been determined using zero profit margins) and should be noted for future reference when reversal of previous loss recognition is applicable.

6.6 Where for a related group of products a loss from this procedure of using a zero profit margin has been recognised in a previous year and the recalculation of profit margin at this valuation date indicates a positive profit margin is required, then such profit margin will be reduced (subject to a minimum of zero) to reverse the previous loss recognition.

6.7 Where calculations are made in regard to los s recognition the results will be considered as a whole for policies in a related group of products. Such grouping will be of all policies in the same statutory fund. However a company may choose smaller grouping than statutory fund provided it has a philosophy for doing so which it states and applies consistently over time. The same grouping considerations apply in respect of determining a maximum constraint on acquisition expense components, and for recalculating profit margins on a change in assumptions.

6.8 Where there is more than one profit margin for a policy and it is necessary to alter profit margins in accordance with paragraphs 6.4, 6.5 or 6.6 then the profit margin to first be altered will be that which relates to the reason for the change. For example if assumed mortality worsens then reduce the profit margin on the death claim service.

6.9 When assumptions (other than the market related change in the investment earnings and hence the discount rate) change the component for acquisition expenses is recalculated by equating the present value of previous components on the previous assumptions and the present value of new components on new assumptions. This procedure is subject to the same considerations regarding loss recognition as applies to profit margins in paragraphs 6.5 and 6.6.

7. MATERIALITY

7.1 The applicable principle is that values or information are material when their mis-statement or omission would cause the actuarial report to mislead its users when they make evaluations or decisions.

7.2 Unless there is evidence to the contrary, as a guide variations in amounts of at least 10% of the appropriate base amount may be material and of no more than 5% may be immaterial. Judgement against the above principle is required for variations between 5% and 10%. These variations are to be cumulative across the whole Policy Liability.

7.3 The base amount in respect of components of profit statements is the operating result. In respect of balance sheets it is the lesser of (i) the difference between the assets and policy liabilities, (ii) the appropriate policy liability class total. The comparison is done on consistent before tax or after tax figures.

7.4 The above guidance on materiality covers the situation regarding the acceptability of grouped data and modelled projections. The implication is that occasionally a full individual policy valuation has to be done to compare with an equivalent approximate calculation to demonstrate the extent of variation. This will not be mandated because different analytical methods may be developed to assess such variations.

8. STATEMENT BY THE ACTUARY

8.1 In respect of each valuation of Policy Liabilities for statutory purposes the Actuary shall provide a Statement relating to that valuation.

The Statement by the Actuary shall include:-

(a) a summary of the results,
(b) a description of the calculation methods adopted for determining the Policy Liability in respect of each type of policy,
(c) details of the assumptions adopted for the determination of the Policy Liability for each type of policy,
(d) an opinion regarding the data upon which the valuation was conducted,
(e) confirmation that the Actuary has performed all the duties required under the Act and has conformed with all relevant ISC Circulars and Professional Standards.

8.2 This Statement will appear in the Financial Condit ion Report or other document whereby the Actuary reports to the company.

8.3 The Statement shall provide details of the assumptions used for the determination of the Policy Liability for each type of policy, except where the policies are part of a group which are deemed to be immaterial to the financial position of the company. The assumptions include:

(a) the rates of interest, and the asset mix from which they were derived
(b) the future maintenance and investment expenses,
(c) the rates of commission,
(d) the rate of inflation applicable to future expenses and any automatic indexation of benefits and premiums,
(e) the rates of taxation, and their legislative basis
(f) the tables of mortality and morbidity,
(g) the rates of discontinuance,
(h) the surrender value basis applying or a sample of surrender values.

(i) the rates of growth of unit prices in respect of unit linked policies,

(j) the basis of future profit sharing in respect of participating policies,

(k) the rates of future supportable bonus used.

8.4 The Statement shall indicate which types of policy have been classified as participating and which as non-participating. It shall also indicate how products were grouped for purposes of calculating loss recognition and similar adjustments to profit margins and acquisition expense components.

END OF GUIDANCE NOTE 253