

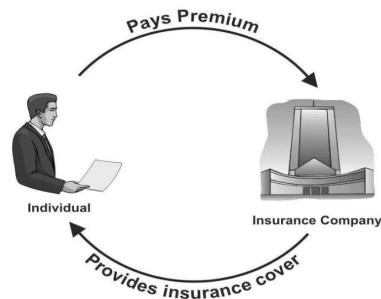
Insurance pricing - Basic elements

1. Premium

In ordinary language, the term premium denotes the price that is paid by an insured for purchasing an insurance policy. It is normally expressed as a rate of premium per thousand rupees of sum assured.

These premium rates are available in the form of tables of rates that are available with insurance companies.

Diagram 1: Premium



The rates that are printed in these tables are known as "Office Premiums". They are typically level annual premiums which implies that the same premium needs to be paid every year during the term of the policy. They are in most cases the same throughout the term and are expressed as an annual rate.

2. Rebates

Life insurance companies may also offer certain types of rebates on the premium that is payable. Two such rebates are:

- For sum assured
- For mode of premium

a) Rebate for sum assured

The rebate for sum assured is offered to those who buy policies with higher amounts of sum assured. It is offered as a way of passing on to the customer, the gains that the insurer may make when servicing higher value policies. The reason for this is simple. Whether an