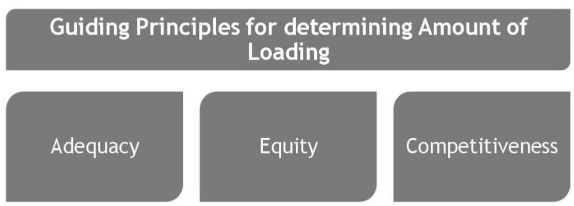
Net premium

The estimates of mortality and interest give the "Net Premium" which is the estimate of present value of future claim costs.

Gross premium

Diagram 3: Guiding Principles for determining Amount of Loading



Gross premium is the net premium plus an amount called loading. There are three considerations or guiding principles that needs to be borne in mind when determining the amount of loading:

i. Adequacy

The total loading from all policies must be sufficient to cover the company's total operating expenses. It should also provide a margin of safety and finally it should contribute to the profits or surplus of the company.

ii. Equity

Expenses and safety margins etc. should be equitably apportioned [divided and shared] among various kinds of policies, depending on type of plan, age and term etc. The idea is that each class of policy should pay for its own costs, so that to the extent possible, one class of policy does not subsidise [pay for] another.

iii. Competitiveness

The resulting gross premiums should enable the company to improve its competitive position. If the loading is too high, it would make the policies very costly and people would not buy.

b) Expenses and reserves

Life insurers have to incur various types of operating expenses including: