insurer services a policy for Rs.50,000 or Rs.5,00,000, the amount of effort required for both, and consequently, the cost of processing these policies remain the same. But higher sum assured policies yield more premium and so more profits.

b) Rebate for mode of premium

Similarly a rebate may be offered **for the mode of premium**. Life insurance companies may allow premiums to be paid on annual, half yearly, quarterly or monthly basis. More frequent the mode, more the cost of service. Yearly and half yearly modes involve collection and accounting only once a year while quarterly and monthly modes would mean the process is more frequent. Half-yearly or yearly premiums thus enable a saving in administrative costs as compared to quarterly or monthly modes. Moreover, in the yearly mode, the insurer can utilise this amount during the entire year and earn interest on it. Insurers would hence encourage payment via yearly and half yearly modes by allowing a rebate on these. They may also charge a little extra for monthly mode of payments, to cover additional administrative expenses involved.

3. Extra charges

The tabular premium is charged for a group of insured individuals who are not subject to any significant factors that would pose an extra risk. Such individual lives are known as **standard lives** and the rates charged are known as ordinary rates.

If a person proposing for insurance suffers from certain health problems like heart ailments or diabetes, it can pose a hazard to his life. Such a life is considered to be sub-standard, in relation to other standard lives. The insurer may decide to impose an extra premium by way of a health extra. Similarly an occupational extra may be imposed on those engaged in a hazardous occupation, like a circus acrobat. These extras would result in the premium being more than the tabular premium.
Again, an insurer may offer certain extra benefits under a policy, which are available on payment of an extra premium.

4. Determining the premium

Let us now examine how life insurers arrive at the rates that are presented in the premium tables. This task is performed by an actuary. The process of setting the premium in case of traditional life insurance policies like term insurance, whole life and endowment considers following elements:

- Mortality
- Interest
- Expenses of management
- Reserves
- Bonus loading