LIFE INSURANCE PREMIUM

Life Insurance as you all may know is insuring the life against unforeseen events happening in your life. Today the life has become so stressful that you need to get yourself protected at every point of time. Your loved ones who are dependent upon you for all your financial needs in life will become helpless if they are to face with any kind of situation like this. Life insurance provides the cash to lighten the financial burden imposed on you or your family by a serious event such as your death, prolonged illness or disablement.

Calculating the life insurance premium is about calculating the chance of having to pay out. For non-life insurance this can be simplified to calculating the chance, multiplied by the costs. For life insurance the premium depends on three factors: costs, interest and mortality.

1. Costs

The insurerâ€™s expenses make up the costs. Think of salaries, computers, and maintenance of buildings. It also includes the commissions to be paid to the agents. It is advisable to base the premium calculation needed for the risk on a fixed percentage of costs in the premium

2. Interest

Especially with regard to life insurance we have to consider interest. When the policy provides for a pay-out for when the insured person dies, then the insurer knows that he will have to pay out at some time. He only does not know when. In the course of the years he will receive insurance premiums that he has to reserve for the pay-out that will happen one day. Suppose that 32 years have lapsed between taking out an insurance policy and the moment of dying, then the insurer will have received interest over 32 years on the first premium payment, over 31 years on the second payment, etc.

If we assume a premium of Rs 100 and a rate of interest of 5% per year, the insurer will receive in premiums and interest: [100*1.0532] + [100*1.0531] + [100*1.0530] + etc. This is 476+454+432+ etc. = 7,906. Especially when it involves a longer period the effects on interest income are huge. In 30 years a 5% rate of interest has more than quadrupled the amount.

The Mortality factor deals with an estimate that the insurer has in mind when he will calculate the Life insurance premium for the policy and accordingly he will place in front of you the life insurance policies which is more suitable to your life.

For all kind of Life Insurance policy needs visit www.bharti-axalife.com

About the Author

Nail Brook is the author of this article on Life Insurance Company. Find more information about Life Insurance Planshere.

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