

## Life Insurance Premium Calculation and costs

When you seek life insurance cover, the first term one comes across is **Premium**. So what is this premium and how much life insurance premium going to cost you is a natural question that arises. We give you the details on **Life Insurance Premium** here.

Well, an insurance premium is the money charged by **life insurance companies** providing you with a coverage that in the unfortunate event of loss of life, Insurance companies are going to pay an amount to the family and thus a cover to take care of one's family needs. Insurance companies take a risk when they take out a life insurance policy from you. Insurance is all about managing risks and insurance companies don't take any risks when they are setting the rates you will pay (this is what is the premium) for a policy. They want you to take precautions to ensure that you won't die prematurely, causing them to pay out a sum more than you paid in via the premiums.

There are many options available to make payments towards life insurance premiums. One may opt for monthly, quarterly, half-yearly, annual, or one-time single premium to purchase a policy. A point to note is that annual premium-paying option is cheaper than a monthly premium paying option and the one-time premium-paying option is cheaper than the annual one, and so on. The difference is due to additional interest one has to pay when premium is paid in installments (just like one pays interest for home loan). The mode of payment also can be setup as direct ECS Debit from your bank account, Cheques or by depositing cash as per the payment plan and frequency.

Insurance premiums for services differ from one insurance company to another, thus it is essential and recommended by us that individuals utilize the information available on the internet for insurance premiums charged by companies for the same coverage. However, it is important to note that, sometimes, insurance premiums quoted are slightly different from the premiums charged. The difference between the quote and the actual charge can be attributed to the way the insurance premium is calculated. The amount of insurance premiums charged by the insurance companies is determined by statistics and mathematical calculations done by the underwriting department of the insurance company. The cost or premium of your insurance policy depends on the type and kind of coverage you get under a life insurance plan. Premiums vary from insurance type to insurance type. So, for an identical insurance cover, term insurance

premiums are extremely low while money back premiums are extremely high.

In life insurance, the insurance company attempts to manage **mortality (death)** rates among its clients. The insurance company collects premiums from policy holders, invests the money (usually in low risk investments), and then reimburses this money once the person passes away or the policy matures. Insurance companies employ mathematicians, called actuaries, who study and compile statistical data about exposure units and risks. This data is the basis for the **mortality (death)** and **morbidity (sickness)** tables that are used to predict probable future losses due to sickness and death. Of course, these tables take into account many different variables which raise or lower the risk of loss. The insured person is classified, and premiums are set, based upon where his or her profile falls with regard to these tables.

The risks that insurance companies fear are those that could cause you to die early. Existing medical conditions that may get worse in the future are one concern. Tobacco and alcohol use, being overweight, high cholesterol, and poor health are other concerns. A status will be applied to your health, either standard or preferred. This is not only based on your health, but age and gender as well. These factors will determine how much your life insurance quote premium will be through your chosen life insurance company. Not all factors that insurance companies look at are under your control. Your age and gender are examples of those. Someone who is younger is going to pay less (a low cost life insurance policy is possible) than that of someone in middle age. Women live longer, generally, so their premiums tend to be lower than men's. Lifestyle comes into play if you are a thrill seeker. People who participate in adrenaline driven activities tend to pay more on their premiums than the average person. These include bungee jumping, deep sea diving, or sky diving. Those who have a profession involving race car driving or instructing mountain climbing or sky diving would also be subject to higher rates.

After the initial life insurance questionnaire, a physical exam may be required. This gives the insurance company all necessary information about your health before they sign you up as a policyholder. It is similar to a routine checkup, but may also include a few extra tests. Blood may be taken or a urine sample may be asked of you. Both of these tests can find illegal drugs in your system or HIV. Sometimes an EKG is performed to check your stress levels.

### **To Summarize How Your Life Insurance Premium is Determined**

The price is based on your specific health and risk assessment by the carrier's underwriting department. Initially you will receive a quote, which is just a "guestimate". The objective for the customer is to get a "fair" quote, one that resembles some sense of reality. Once you sign an application, the underwriting process begins.

The insurance company will:

- Assess your medical exam for abnormal functions
- Examine the application for disclosed familial diseases, motor vehicle and Medical Information Bureau reports (as per local regulations and country specific standards)

Occasionally, they will order medical reports, which could delay the underwriting process by 2-3 weeks.

- After all the information gathering has been completed, the underwriter will "score" your risk and assign you a premium. The final premium may or may not be the same as your initial quoted price.

Each insurance company has their own underwriting guidelines and they vary slightly. **Team eMediclaim** operates a full case management department that works with various insurance companies to provide you with various options and schemes available with leading insurers in India. We are your advocate in obtaining the lowest premium possible.

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- [The Industry Handbook: The Insurance Industry](#)
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