

# PREMIUMS

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The premium, or contribution to the fund, which an insured pays will take into account:

- (a) the normal rate for this type of business;
- (b) the peculiarities of the risk which differ from the norm; and
- (c) the maximum potential cost to the insurers of the individual case being underwritten.

## Calculation of the premium

Rate per centum of sum insured. Most types of policy are costed by applying a rate per £100 to the sum insured to arrive at the premium. Examples of policies rated in this way are fire, theft, all risks, consequential loss, life and marine. The rating tables used have often been devised several years ago and may not give an adequate level of rating in the light of today's incidence of claims and the effect of inflation on them. In these circumstances, adjustments are made to reflect the experience and sometimes market competition.

It was noted above when discussing rating that the basic rate included a loading to cover expenses. The application of such a composite rate to the sum insured can mean an inequitable contribution to expenses as sums insured rise, as the costs of obtaining the business and maintaining it do not necessarily vary with the size of the sum insured. Large cases may sometimes be charged at a reduced rate as in the fire and theft markets. Alternatively, many life companies only include a measure of costs in the rate percent and add a policy charge, of say £5 irrespective of the size of the sum insured to contribute towards the said expenses.

Flat premium.

In cases where there are limits of liability instead of sums insured it is often the practice to charge a level or unit premium for the risk. The most common example is motor insurance, where the basic or unit premium for a medium-sized family car in a particular town may be £250. Reductions can be obtained for claims-free driving, the most common scale being 30 per cent, 40 per cent, 50 per cent or 60 per cent for one, two, three, four, or more years without a claim. Other discounts are available for restricted driving and for bearing the first £25 or £50 of damage to the car. Certain public liability and goods-in-transit policies are also charged on a flat-rate premium basis.

Liability policies.

Some public liability and all employers' liability policies are rated on a percentage basis on the annual wage expenditure for the different categories of employee. The rate charged will reflect the risk of injury or disease to the employee or public. This might vary from 2tp per cent for clerical workers to £5 per cent or higher for hazardous occupations. Other methods. These methods of premium calculation are by no means an exhaustive list. For example, money in transit risks are charged at a rate per mile on the annual amount of the money in transit. Indeed, any method of rating which takes account of variations in risk can be used. In commercial vehicle insurance, the type of license, carrying capacity or seating capacity are all factors having a bearing on the premium charged.

Adjustable premiums.

Frequently the exact nature of the risk to be run in the coming year can only be estimated at inception, as the volume of business or work done will vary from year to year. In these circumstances the initial or renewal premium is based on an estimate of the level of the rating factor, and the insured undertakes to give a return at the end of the year of the expenditure, value, etc. Examples of such insurances are employers' liability (wage expenditure); fire insurance on stock (stock values per month); contractors' works damage (final value of contract); money insurance (annual carryings).

Long-term agreements. Premiums will be reduced by any discount which applies to a long-term agreement (see Chapter Six) if one is in existence.

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