

How do insurers calculate the likelihood of claims and set premiums and benefits?

Insurers use risk-based underwriting, which takes relevant risk factors into account. The factors that are relevant will vary depending on the type of insurance and the duration of the contract. In life insurance, for example, relevant factors could include age, whether the individual smokes, medical history and pre-existing medical conditions.

Mortality risk within next 12 months

20-year-olds



Mortality risk: 1

80-year-olds



Mortality risk: 120

For underwriting a life assurance contract, for example, which pays out in the event of death, age is a significant risk factor because the risk of mortality for an 80-year-old is 120 times higher than for a 20-year-old.