2 Not all life insurance policies can be **par** or **non-par**. *Term* insurance plans (see **2.1.1**) are normally not on a participating basis.

3 For discussions on distribution of policy dividends, please see **5.2.7**.

(b) **Competition:** no insurer enjoys a monopoly position. What the market is charging cannot be ignored.

(c) **Economic changes:** extended times of affluence or recession will doubtlessly have an impact on all product prices, including insurance.

(d) **Public health:** abnormal developments in this area (e.g. the AIDS epidemic) cannot be ignored in rating.

(e) **Fiscal changes:** a lasting increase in tax levels must be reflected in higher premium rates (although this can only be for **new** clients).

(f) **Company objectives and marketing strategies:** if a company is determined to increase its market share, competitive premium rating is surely one of the possible marketing strategies.

1.3.2 Natural and Level Premium (Pricing) Systems

These systems for life insurance premium calculations might well be described as "*ancient*" and "*modern*", for reasons that will be clear shortly.

1.3.2a The Natural Premium (Pricing) System

The natural premium system (or the natural premium pricing system) was used by some life insurers in the early days of the business. It was very logical, but it was doomed to failure because of built-in features which virtually guaranteed that it could not work long-term in practice. Its features were:

(a) **Premiums:** these were not to be constant throughout the policy term, but individually calculated each year so that they reflected the *natural risk* position (age, etc.) of the life insured at each policy anniversary.

(b) **Short-term consequences:** with increasing age, there is increased mortality risk. Premiums for existing policies therefore increased every year.