

Pooling (mutualisation)

How the losses of the few are spread among the many

Individuals and businesses buy an insurance policy for a smaller, known premium to remove the risk of a larger, potentially unaffordable loss.

Experience and data enable insurers to broadly predict the number of losses from a group of policyholders with similar risks. From that risk-based underwriting, insurers set premiums and benefits that will be as attractive as possible for their customers.

What happens if the number of claims increases?



The insurer expects 1 life assurance claim per year from a group that all present a similar risk. It sets the premium for each member of the group at €100.



If claims increase to 5 per year, the premium for each group member has to increase to €500 if a similar claim coverage is to be maintained.