



What is cumulative bonus in health insurance?

It could help you get a higher sum insured without any extra cost

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The pandemic has made us understand the fragility of our ecosystem. It has highlighted the need for prudent risk management and financial planning. One of the most important elements of good financial planning is having comprehensive health insurance.

Today, buying a health cover has become a necessity; health insurance gives you financial support by covering your medical expenses, cost of hospitalisation, consultation cost, ambulance charges, to name a few.

Health insurance has many interesting and valuable features which can be of great advantage for you, one such feature is 'cumulative bonus'.

Cumulative bonus in health insurance refers to the reward you gain if you haven't made any claim in the previous policy year. This bonus keeps accumulating over the years for each claim-free year, up to a certain limit and applies on both, individual and family floater policy basis.

Typically, the insurer gives this reward by increasing your sum insured by a certain percentage without charging any additional premium.

Let's understand how a cumulative bonus works. So, for example, your sum insured is Rs 10 lakh, and your insurer gives a 5% bonus for the first claim-free year, which means your sum insured will increase to Rs 10.5 lakh.

Likewise, for the second claim-free year, the sum insured will increase to Rs 11 lakh. There is no fixed, year-wise slab for the increase in sum insured, and it varies from

insurer to insurer and product to product. At present, there are a few health insurance plans that allow a maximum of 150-200% sum insured enhancement.

Another interesting feature about the cumulative bonus is that, if you raise a claim during a specific year, you will not lose your entire bonus. Bonus will be reduced by the same rate at which it was granted.

So, for example, if your insurer is giving a 10% bonus on your base sum insured for each claim-free year, and you have not made any claim for five consecutive years, your sum insured would have increased by 50%.

Now, if you claim in the sixth year, your sum insured will decrease by only 10%. Also, the insurer can only make deductions from the bonus sum insured, and not from the base sum insured.

For example, your base sum insured is Rs 10 lakh, the insurer grants a 10% bonus for each claim-free year, and by the end of five years, your sum insured has increased to Rs 15 lakh. Now, if you raise a claim, your sum insured will be reduced by 10% and will come down to Rs 14 lakh.

Cumulative Bonus is not available in every plan. Additionally, the bonus limits and rate varies from insurer to insurer. You must read the terms and conditions related to the cumulative bonus clearly to understand what is the maximum bonus that can be accumulated, at what rate the bonus will be given, and any other condition related to it.

Also, now a few insurers offer a higher Cumulative Bonus for the first couple of years followed by the normal rates in subsequent years. Such a product may offer a 50% bonus on the first one or two claim-free years,

followed by the normal 5-10% increase in the successive years. The rates and terms will vary from insurer to insurer and product to product.

Cumulative Bonus is a good way to get a higher sum insured, without bearing any extra cost. However, keeping in mind the ever-increasing medical inflation, you must not solely rely on a cumulative bonus for a higher sum insured.

As mentioned earlier Cumulative Bonus increases by a certain percentage, and the upper limit for the same is capped; hence it is not prudent to only rely on Cumulative Bonus for a higher sum insured, especially today when medical inflation is increasing by 12%-15%.

It is advisable to review the adequacy of your sum insured in very few years and accordingly increase the same if one finds it insufficient. This practice will ensure that during the time of need you are abundantly covered, and all your hard-earned savings are not spent in paying medical bills.

Another point is that you earn a cumulative bonus during claim-free years only, however as you age and head towards retirement, you are more likely to file claims and may not have as many claim-free years as during younger age.

This frequent re-evaluation of your sum insured will ensure that you are comfortably covered during the advanced years of life and are able to avail of the best medical facilities without worrying about the finances. One more point to note is, when you increase your sum insured, you will be entitled to a Cumulative Bonus even on the increased sum insured for the claim-free years.

I will conclude by saying, enjoy the benefits of cumulative bonus during claim-free years, keep re-visiting the adequacy of your sum insured and keep bolstering your financial protection.

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