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Co-pay and deductible: How they impact health insurance claims?

Today, health insurance has become an essential safeguard against mounting medical inflation and the alarming rise of ailments. However, navigating through the terms and conditions of a health insurance policy can sometimes be confusing. Two commonly misinterpreted terms in health insurance are 'co-pay' and 'deductible,' let us understand what these words mean and how they impact the claim amount.

What is co-pay? Co-pay in health insurance refers to the predetermined amount or a fixed percentage of a claim amount that the policyholder is required to pay. The insurance policy clearly mentions the amount or percentage of co-pay.

You might wonder if the co-pay impacts the premium; the answer is yes. Co-pay is inversely proportional to the premium, i.e., the higher the co-pay, the lower the premium. A policy with a 10% co-pay will likely have a higher premium than a policy with a 15% co-pay, given all other factors are the same.

Does that mean it is better to opt for a higher co-pay? Not necessarily; suppose

you have a policy with a 10% co-pay, and the claim amount is INR 20,000; you will have to bear INR 2,000, which does not have much impact on your pocket. However, suppose the claim amount is INR 2,00,000; now you will have to pay INR 20,000 from your pocket. To sum it up, in the case of substantial claim amounts, co-pay can result in policyholder paying significant sums out of their pocket.

It is also important to note that not all health insurance policies include a co-pay clause. The other bit to keep in mind is that some policies might apply co-payments selectively for a certain ailment or treatment; it is advisable to read the policy terms thoroughly to be aware of the extent of the cover.

What is Deductible? A deductible represents a fixed amount the policyholder must pay before the insurance coverage takes effect. It acts as a threshold or initial payment the insured must make before the insurer begins covering the medical expenses. The deductible amount is explicitly mentioned in



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the policy document.

There are two types of deductibles - Compulsory Deductible and Voluntary Deductible. As the name implies, compulsory deductible is mandatory and is determined by the insurance company; this is typically non-negotiable. Voluntary deductible, on the other hand, is something that the policyholder chooses or opts for according to their risk appetite. While compulsory deductible does not impact the premium amount, voluntary deductible impacts the premium in inverse proportion. However, opting for a voluntary deductible to get a lower premium might not be the best decision since it entails higher out-of-pocket expenses at the time of claim.

What is the main difference between deductible and co-pay? The significant difference between co-pay and deductibles lies in their nature and when they are applied. A deductible is the initial cost that the policyholder bears before insurance coverage begins. For example, a policy has a deductible of INR 5,000; this means the policyholder has first to pay INR 5,000 before the cover kicks

in; the insurer will pay the amount over and above the deductible threshold. Co-payment, on the other hand, is a cost-sharing mechanism between the insurer and the insured.

If the insured has opted for co-pay it means they have agreed to share the claim expense with the insurer, in a certain proportion. So, if a policyholder opts for a 10% co-pay on all claims, it implies they will contribute 10% of the total claim amount while the insurer will bear the remaining 90%.

Privy to this difference between co-pay and deductible, you should carefully evaluate your requirement and risk appetite while opting for a co-pay or voluntary deductible and take an informed decision. The idea of a lower premium is indeed enticing, but more often than not, it comes with a cost, which is usually a higher out-of-pocket expense at the time of claim. Always remember, the cost of insurance is much lower than the claim amount. When it comes to insurance it is crucial to weigh the short-term savings against the potential financial strain during critical moments.