

Insurance

How Much Should We Pay For Insurance?

Calculate the percentage of premium you should pay for insurance policies

By **Nirmala Konjengbam**

While choosing the right policy, the proverb - cut your cloth - closely connects to it. However, due to lack of awareness, insurance penetration has always remained low, most of us confusing it as a tax benefit instrument.

According to Insurance Regulatory Development Authority of India (IRDAI) annual report 2017-18, the overall insurance penetration in 2017 was 3.69 per cent. And, the highest insurance penetration of 5.20 per cent was recorded in 2009. Sasikumar Adidamu, Chief Technical Officer, Bajaj Allianz General Insurance, said, "Mostly people feel that insurance is a dead investment with no return value.

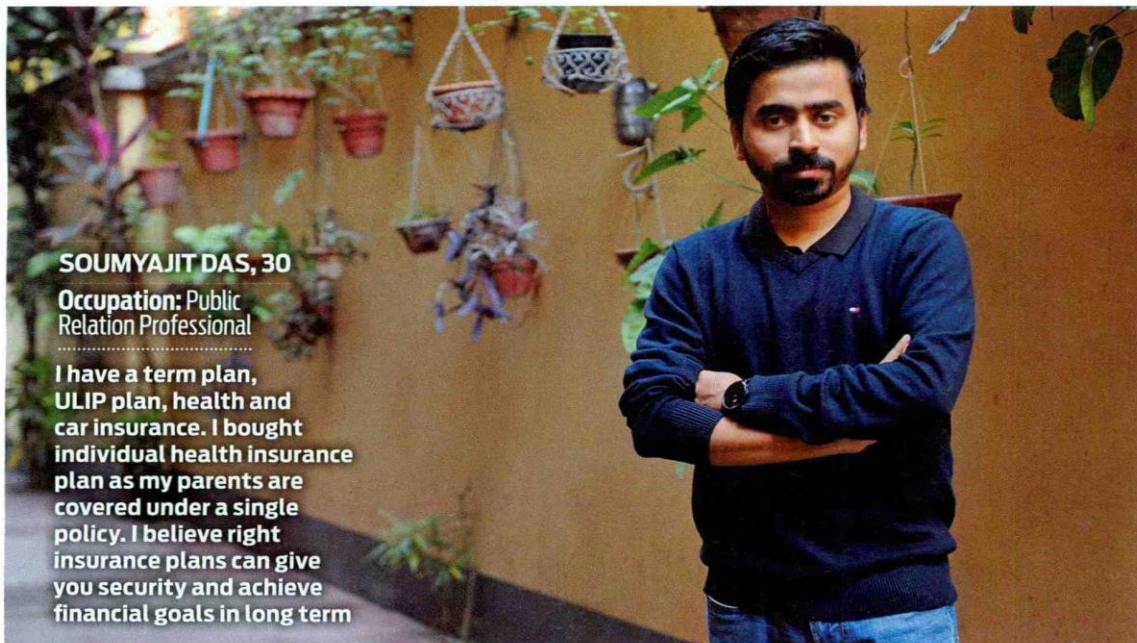
This attitude needs to change. It is important to properly research about the various insurance plans available."

Apart from providing an extra layer of protection, insurance also eases the financial hardships during rainy days. However, clueless about our needs, we often ponder over the question, how much should be spent on insurance.

According to experts, life insurance cover should be about 10-15 times of one's annual salary. Souvik Jash, Appointed Actuary, Aegon Life Insurance, said, "On an average, the rule of thumb generally followed for recommended life insurance cover is to multiply the annual gross income by 10 or 12 and add to it any outstanding liabilities such as home loans or motor loans.

In addition to annual income, current age, life stage and liquid assets versus liabilities also define the recommended insurance cover."

For instance, those in the age group of 25 to 35 years should look at an insurance cover of around 20 times of their annual income + liabilities - liquid assets. Also, at the same age, those who are married and have children should have a higher insurance cover. Thus, life insurance cover should change with change in life-stage of a person. Increasing sum assured plans are recommended since they allow customers to increase their coverage depending on their life stage. Also, term plan is a good choice if you are looking for high cover at a cheaper premium. Unit linked insurance plans are ideal for those who want to spread and



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I have a term plan, ULIP plan, health and car insurance. I bought individual health insurance plan as my parents are covered under a single policy. I believe right insurance plans can give you security and achieve financial goals in long term

Photos: SOUMIK KAR

invest to create wealth in long-term.

To encourage people to take up life insurance and increase its penetration, the Government introduced Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) in 2015. Anyone between 18 and 50 years can get the cover of sum assured ₹2 lakh for a premium amount of ₹330 per annum without GST. Meanwhile, Pradhan Mantri Suraksha Bima Yojana (PMSBY) is an accidental death insurance that anyone between 18 and 70 years can avail. A premium of ₹12 can assure a cover of ₹2 lakh.

Most nationalised banks provide PMJJBY and PMSBY insurance schemes to the account holder if they have opted for insurance.

As compared to the general inflation rate of six to seven per cent, in India, healthcare inflation is as high as 11.3 per cent. Hence, skipping health insurance is almost suicidal.

"I strongly believe that one must have an appropriate health insurance cover, enabling him to focus on proper recovery rather than worrying about the medical expenses in case of hospitalisation. I feel that one must have a basic health insurance cover of at least ₹5 lakh considering inflation and increasing medical costs," added Adidamu. Apart from individual plans, one can also opt for family floater insurance plan. Such plans cover all the dependants (non-working spouse, children and parents) under a single policy.

Apart from providing financial aid during medical emergencies, health insurance plans also offer tax benefits under Section 80D of the Income Tax Act. The Finance Act, 2018, offers higher deductions for health insurance plans for senior citizens. For instance, if no family member is over 60 years, the deduction is up to ₹25,000. However, in case one of the parents is above 60, tax benefit is up to ₹50,000. But one should not buy health insurance only for availing tax benefits. It has other purposes.

Family health insurance illustration

| Insured age | Sum insured (lakh) | Premium (in Rs) | | Policy term (year) |
|---|--------------------|-----------------|--------|--------------------|
| | | Monthly | Yearly | |
| Self 32, spouse 30, son 5 and daughter 2 | 5 | 1,120 | 13,440 | 1 |
| Self 25, spouse 26, mother 48, father 50 | 5 | 1776 | 21,312 | 1 |
| Self 38, spouse 36, daughter 2, mother 55 | 5 | 2165 | 25,980 | 1 |
| Self 45, spouse 44, daughter 17, son 14 | 5 | 2579 | 30,948 | 1 |
| Self 52, spouse 51, daughter 17 | 5 | 2741 | 32,892 | 1 |
| Self 63, spouse 62 | 5 | 3816 | 45,792 | 1 |
| Self 67, spouse 68 | 5 | 4850 | 58,000 | 1 |

SASIKUMAR ADIDAMU

Chief Technical Officer, Bajaj Allianz General Insurance



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Industry experts suggested, one can add a super top-up health plan ensuring a holistic coverage for the entire family, in case the base cover is insufficient. Also, one must check for network hospitals and the features offered under the policy and exclusions to avoid claim rejection. Most of the insurers provide cashless hospitalisation facilities to provide a hassle-free experience at the time of emergencies.

Government-backed Ayushman Bharat or the National Health Protection Mission (AB-NHPM) was launched on September 25, 2018 to provide free health insurance

coverage of up to ₹5 lakh per family per year. The scheme is applicable to only low income and economically deprived people to provide free health insurance across the country.

IRDAI has announced unbundling of compulsory personal accident cover (CAP) from motor insurance from January 1, 2019. Individuals owning two and four-wheelers will now have a mandatory CAP of ₹15 lakh, with the payment of premium ₹750 per annum without GST. It also covers accident, fire, theft, car-owner cover, third-party liability, natural calamities and riots. However, various insurers offer additional coverage or a more comprehensive plan for a little extra premium.

Also, with an increase in the number of natural calamities in India, having a home insurance is the need of the hour. Household insurance policy is meant for everyone, irrespective of their status within the occupied property. Most general insurers have householder package policy to insure the valuable contents. □

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