5 jargons you must know when buying insurance

Having an insurance cover is not suffice. It is equally important to understand what your policy covers and what different terminology used in the policy document mean. Here are a few commonly used jargon you would come across when buying an insurance policy.

What are the different asset classes?

You are spoilt for choice when it comes to asset classes! Assets can be allocated to one of seven broad categories:

1 Inclusions & Exclusions

Inclusions are what insurers will provide. If they produce an "all-inclusive" coverage, they must thoroughly describe what is included. They will only cover what is expressly stated in the contract. Everything else is implied prohibited under the policy. Exclusions specify what will not be included.

2 TPA

Third Party Administrator (TPA) is a company/agency/organization licensed by the Insurance Regulatory Development Authority of India (IRDAI) to process claims - corporate and retail policies - as well as provide cashless amenities as an insurance company's outsourcing business. TPAs act as a go-between between the insurance company and the insured. The stakeholders include insurance companies, healthcare providers and policyholders.

3 Sum insured

The sum insured is the amount paid by the insurance company to the policyholder in the event of an unexpected occurrence, such as illness. The amount paid is a reimbursement for the costs incurred and not a fixed sum of money. The sum insured specifies the maximum amount of damages that can be compensated in a given year in the event of an unforeseen event. The bigger the sum insured, the greater the amount that the insurance company is required to pay in the case of a claim.

4 Family Floater

A family floater is a health insurance plan that covers the complete family rather than just one person. Simply put, a floater shelters the entire family under an umbrella. Every family member that is covered by a floater receives benefits from a larger common pool. The primary advantage of a floater is that the policyholder may cover himself and his entire family under a single policy, which is relatively easier to administer than 4-5 different plans.

5 No Claim Bonus (NCB)

A no claim bonus is a remunerative benefit offered to the policyholder in their insurance policy. It is a modest way through which the insurance company rewards the policyholder for having a claim-free year. A monetary benefit is provided to the insured if no claims are raised in the previous policy tenure. The benefit of a no claim bonus encourages the policyholder to only file a claim when it is required.

Types of No-Claim Bonus

Cumulative Bonus:

If the policyholder has a claim-free year then the coverage amount or the sum insured of the policy increases by a certain percentage. However, the premium of the policy remains the same.

Discount on Premium:

Under this type of no claim bonus, the renewal premium rate of the policy decreases by a specific percentage for every claim-free year. However, there are no changes made to the sum insured of the policy.

We hope this information would help you understand the nuances of insurance products better.