Buy more term cover if liabilities have increased

After annual insurance portfolio review, also increase health insurance cover to keep pace with medical inflation

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If you are planning to undertake a year-end review of your investment portfolio, don't forget to carry out a similar exercise for your insurance portfolio as well. In particular, scrutinise your term and health insurance covers thoroughly as they are vital for ensuring your family's financial well-being.

More responsibilities, higher coverage

Ensure that the sum insured on your term cover is adequate. "It should equal at least 10 times the net annual income so that even in case of the breadwinner's untimely demise the family has income coming in for at least a decade," says Kapil Mehta, co-founder and chief executive officer (CEO), SecureNow. If you have a financial advisor, get him to calculate the appropriate amount (using approaches such as human life value).

Your financial responsibilities may have increased during the year. "You may have got married or been blessed with a child. Both these developments imply an increase in financial responsibilities, necessitating a higher coverage," says Indraneel Chatterjee, co-founder, RenewBuy.

Buying more term cover also becomes essential if a person's liabilities have increased. "The insured may have taken a big-ticket loan," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

One can buy an additional policy to increase coverage. This will require going through the documentation process and medical tests. "To avoid these hassles, one can buy a term cover with the increasing cover feature, where the sum insured keeps on increasing with time until it reaches a maximum limit," says Chatterjee.

In some scenarios, a person may want to reduce his sum assured, say, if he has paid off a large loan. Retirees may want to do the same. "Often people buy a term cover whose tenor is till the age of 75-80. But if they have taken care of their goals, and they don't earn an income anymore, they may reduce the amount of term cover they have," says Dhawan.

Is claim settlement ratio high?

On the qualitative side, check the claim settlement ratio of your insurer. According to Mehta, a high claim settlement ratio indicates the insurer is less litigious and there is a higher probability that your nominees will receive the payout. The claim settlement ratio, he suggests, should ideally be above 95 per cent.

"Treat a declining trend in the claim settlement ratio as a red flag," says Dhawan.

Your insurer should also have a high solvency ratio. The Insurance Regulatory and Development Authority of India (IRDAI) has stipulated a solvency ratio of at least 1.5 for every insurer. "The solvency ratio tells whether the company is financially stable. The higher the rate, the greater is the company's capability to settle claims," says Chatterjee.

If during the past year you have heard a lot of negative news about your insurer, review your decision to continue with it.

Do a price comparison

While term insurance premiums have risen in the past couple of years, they are lower today than they were, say, 10 years ago. "Even though you have grown older, you may be able to buy a similar cover at a lower premium," says Mehta.

If you decide to shift, acquire the new policy first before giving up the old one. There is always a chance that the new insurer may reject your proposal or apply a premium loading, in which case the shift may not be beneficial.

Health cover: Is it enough?

The review on the health insurance side should also begin with an evaluation of whether you have adequate coverage. "One rule of thumb you could apply is to have a cover equivalent to the annual income. Alternatively, check the cost of treatment of cancer and bypass surgery in the hospital you are likely to visit and have adequate sum insured to cover these events," says Mehta.

If you have moved from a tier II or III city to a metro recently, consider hiking your cover. Hiking the premium may also be necessitated by medical inflation, estimated at 15 per cent or higher.

You may also want to increase the sum insured for lifestyle-related reasons. "Earlier, you may have been satisfied going to a mid-tier hospital but may now desire a top-tier facility," says Dhawan.

If the sum insured of your base cover is low, increase it first. If the base cover is adequate, say, ₹10-15 lakh, then buy a super top up, which is likely to be less expensive.

Buying a super top up can, however, make the claim process more cumbersome. "While you may get cashless benefit on the base cover, the claim on the super top up is likely to be met through reimbursement," says Nayan Goswami, head-sales & service, SANA Insurance Brokers.

Get consumables, domiciliary cover

The pandemic highlighted the importance of having a few key features in the health cover. "Check whether consumables and domiciliary (home treatment) are covered," says Goswami.

International, OPD (outpatient department), and mental health coverage are other features you may desire. Consider porting if your current insurer doesn't offer them.

Add a recently born child to the floater cover. Also, move children who have crossed 20 out of the family floater. "This may, in fact, prove to be more cost-effective since the age of the eldest member determines the pricing of a floater cover," says Goswami.

Also check your current policy for sub-limits (room rent, ICU and procedure-related caps) and copayment.

Finally, check your parents' coverage as well. "Even if not stated explicitly, they may be dependent on you to bear health-related expenses. In that case, ensure they are adequately insured," says Dhawan.

REVEAL FULL MEDICAL HISTORY WHILE PORTING

- At the time of porting your health cover, the new insurer will ask questions pertaining to your health condition
- If you fail to disclose something — say, a surgery that happened seven years ago — the new insurer can cite non-disclosure and refuse a claim or even cancel the policy
- Reveal everything to the insurer that you would to your doctor
- Raise sum insured while you are still healthy. Doing so could become harder after, say, 50, when you might have a lifestyle disease
- If the husband has a pre-existing disease, the family floater should be kept exclusively for him, and other members who are healthy may buy another family floater