WEALTH ACUMEN

INSURANCE

Insurance simplified
A beginners guide

Prepared By
Wealth Acumen

ABOUT THIS BOOK

This book is written to help you understand the world of insurance in a clear and simple way. For most people, insurance feels complicated and full of confusing terms, but in reality, it is nothing more than a financial safety net.

Here, you will learn:

- Why insurance is important in today's life and how it protects you from unexpected risks like illness, accidents, and financial loss.
- Step-by-step guidance on choosing the right policy for your needs, avoiding common mistakes, and understanding key factors like coverage, premiums, and claim settlement.
- How the claim process works in real life, with practical examples so you know exactly what to do if the need arises.

Everything is explained in simple words, real-life examples, and easy comparisons so even beginners can understand without difficulty.

By the end of this book, you will have a clear picture of how insurance works and how to use it smartly to protect yourself, your family, and your assets. This knowledge will help you make confident financial decisions and secure your future.

DISCLAIMER

This book is for educational and informational purposes only.

It is designed to help readers understand the structure and functioning of the stock market ecosystem. The content provided does not constitute financial, investment, legal, or tax advice. Parts of this eBook have been developed with the assistance of AI-powered tools to simplify concepts, structure content, and improve readability. While every effort has been made to ensure accuracy, there may be unintentional errors or updates over time.

Readers are advised to consult with a qualified financial advisor or professional before making any investment decisions.

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Stock market investments are subject to market risks. Please read all related documents carefully before investing.

ACKNOWLEDGEMENT

Writing this book has been a journey of learning, reflection, and purpose. I would like to express my heartfelt gratitude to everyone who contributed—directly or indirectly—to making this eBook a reality.

First and foremost, I thank my family and friends for their constant encouragement and belief in my vision. Their support gave me the motivation to complete this project with dedication and clarity.

I am also thankful to the countless individuals in the financial industry—authors, educators, advisors, and investors—whose knowledge and insights have helped shape the ideas presented in this book.

Special thanks to my mentors and professional peers who provided valuable feedback and guidance throughout the writing process.

Lastly, to every reader who picks up this book with the desire to learn and grow—I acknowledge you with gratitude. This book is for you.

ABOUT WEALTH ACUMEN

Wealth Acumen is a one-stop platform for financial education and investment solutions. We aim to simplify mutual funds, stock markets, and personal finance for beginners while also offering practical investment services through our partnership with Angel One.

Whether you're looking to learn or invest, we guide you with clear insights, expert support, and trusted tools—helping you grow your wealth with confidence.

WEALTH ACUMEN

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INTRODUCTION

1.1 Why Insurance Matters in Today's Life

Insurance is often seen as a complicated financial product, but at its core, it is a safety net for life's uncertainties. We live in a world where risks can come at any time—illness, accidents, job loss, or even natural disasters. Insurance ensures that these risks don't completely derail your finances.

- **Health Perspective:** Medical costs are rising every year. A simple surgery can cost ₹2–3 lakh in a private hospital. Without health insurance, this can wipe out your savings. With health insurance, most of the expense is covered, allowing you to focus on recovery instead of bills.
- Example: Rohan, a 28-year-old professional, had a sudden appendix surgery costing ₹1.8 lakh. His health insurance covered ₹1.5 lakh. Without insurance, he would have dipped into his emergency fund, delaying his financial goals.

- **Family Security:** Life insurance protects your family if something happens to you. If you are the breadwinner, your family's lifestyle, children's education, and even day-to-day expenses depend on your income. Insurance ensures they are financially secure even in your absence.

Example: Priya, a schoolteacher, bought term insurance for her husband worth ₹1 crore. Unfortunately, her husband passed away in an accident. The insurance payout helped Priya pay off the home loan and secure her children's education.

- **Asset Protection:** General insurance (motor, home, travel) protects the assets you've built with hard-earned money.
- Example: A small fire at a shop can cause lakhs of losses. Without insurance, the shop owner bears the burden. With fire insurance, he gets compensation and can restart his business quickly.

In short, insurance is not about making profits; it's about preventing losses and ensuring peace of mind.

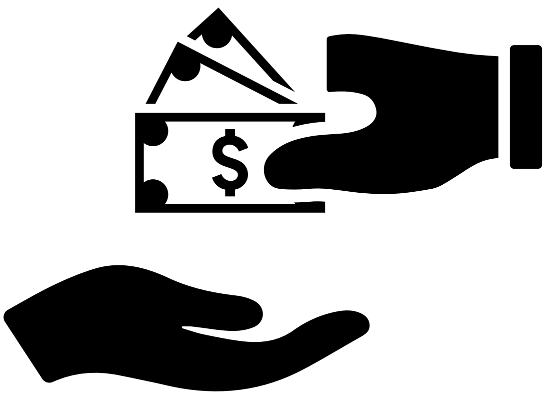
1.2 Common Myths & Misconceptions about Insurance

Many people avoid insurance because of half-truths or myths they've heard. Let's clear them one by one.

- Myth 1: "Insurance is a waste of money if I don't use it."
  - Reality: Insurance is like a seatbelt in your car. Most of the time, you may not need it. But the one time you do, it saves your life (and finances).
  - Example: Ajay paid health insurance premiums for 5 years but never had a claim. In the 6th year, he had a heart surgery costing ₹5 lakh. Insurance paid for it. His 5 years of premiums (~₹60,000) suddenly became the best decision of his life.

Myth 2: "My company provides health insurance, so I don't need personal insurance."

- Reality: Employer health covers usually end when you leave the job or retire. They also have limited coverage (like ₹3–5 lakh), which may not be enough in big emergencies.
- Example: Neha had corporate health cover of ₹3 lakh. After quitting her job, she was left without insurance. Unfortunately, she fell ill before she could buy personal cover. She had to bear huge hospital costs out of her pocket.



Myth 3: “Life insurance is only for old people.”

- Reality: Insurance is cheapest when you’re young and healthy. Waiting till old age makes premiums higher and may even lead to rejection.
- Example: At 25, a ₹1 crore term plan may cost ₹700/month. At 40, the same plan may cost ₹2,000/month or more.

Myth 4: “All insurance policies are investments.”

- Reality: Insurance is protection first. Some policies combine investment (like ULIPs, endowment), but pure insurance like term plans or health insurance is purely for financial safety

1.3 How This Book Will Help You

This book is written with beginners in mind—people who may have heard of insurance but find it confusing. It will simplify insurance step by step:

- Clear Explanations: Every concept (premium, claim, riders, exclusions) will be explained in plain, everyday language with examples. You won't feel like you're reading a financial textbook.
- Example: Instead of saying "insurance spreads risk," we'll explain it with a simple example of friends pooling money to help one in need.
- Practical Guidance: You'll learn not just what insurance is, but also how to use it in real life—how much coverage to buy, how to file a claim, what to check before signing a policy.
- Decision-Making Tools: Through checklists, case studies, and comparisons, you'll gain the confidence to select the right insurance for your needs, instead of blindly trusting agents or advertisements.
- Protection for Every Stage of Life: Whether you are a student, a young professional, a parent, or nearing retirement, you'll find guidance on the insurance that suits your stage.

👉 By the end of this book, you'll not only understand insurance but also know how to use it smartly to secure your future.

1.4 What is Insurance?

Insurance is a financial safety agreement between you (the insured) and an insurance company (the insurer). You pay a fixed amount called premium, and in return, the insurer promises to protect you from specific risks.

Think of insurance as a promise of compensation in case of unexpected events like accidents, illness, or death.

🔹 Simple Analogy:

Imagine five friends contribute ₹1,000 each into a common pool. Together, they now have ₹5,000. If one friend's phone breaks and costs ₹4,000 to repair, they take money from this pool. Everyone shares the burden, so no single person suffers a huge loss.

That's exactly how insurance works — many people contribute small amounts so that the few who face losses can be compensated.

🔹 Real-Life Example:

- Ramesh buys health insurance with a sum insured of ₹5 lakh. He pays a yearly premium of ₹12,000.
- After 8 months, he has an accident that costs ₹3 lakh in hospital bills.
- The insurance company pays the ₹3 lakh (as per policy terms), and Ramesh only bears minor expenses (if not covered).
- 👉 Without insurance, Ramesh would have struggled with debt or broken his savings.

So, in essence, insurance = protection against financial shocks.

1.5 Key Terms in Insurance

Beginners often get lost in the jargon. Let's break it down clearly:

(a) Policy

The legal document (contract) between you and the insurer that lists all the terms, conditions, inclusions, and exclusions.

👉 Think of it as the "rulebook" of your coverage.

(b) Premium

The amount you pay to keep your insurance active. It can be monthly, quarterly, yearly, or one-time.

👉 Like a membership fee to keep the cover.

Example: A 25-year-old pays ₹7,000 yearly for a term plan of ₹1 crore.

(c) Sum Assured (or Coverage Amount)

The maximum amount the insurer will pay in case of a claim.

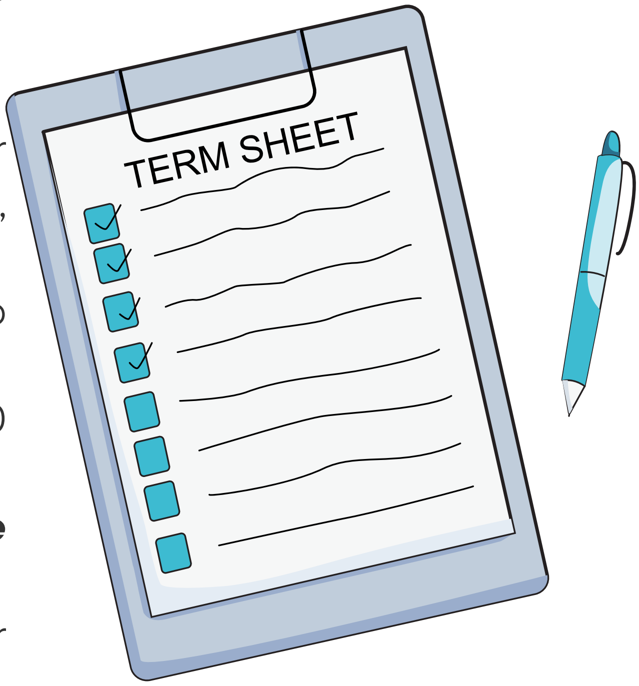
👉 In life insurance, it's the amount your family gets if you pass away.

👉 In health insurance, it's the maximum hospital expenses they will cover.

(d) Claim

A formal request you make to the insurer asking them to pay for the loss covered in the policy.

Example: Submitting hospital bills to claim medical expenses.



(e) Deductible

The portion of the claim you agree to pay before insurance kicks in.

👉 Example: If you have a health policy with ₹10,000 deductible and hospital bills of ₹80,000, you pay ₹10,000 and insurer pays ₹70,000.

👉 This is common in motor and travel insurance to reduce premiums.

(f) Rider (Add-on Cover)

An additional benefit you can buy with your base insurance for extra protection.

Examples:

- Accidental Death Rider: Extra payout if death is due to accident.
- Critical Illness Rider: Lump sum if diagnosed with diseases like cancer or heart attack.
- 👉 Riders make your policy more personalized.

(g) Exclusions

Things your policy will not cover.

Example: A health policy may exclude cosmetic surgery or pre-existing diseases for first 2–4 years.

(h) Claim Settlement Ratio (CSR)

Percentage of claims an insurer has paid out versus claims received. Higher CSR means higher trust.

1.5 How Insurance Actually Works

The foundation of insurance lies in risk pooling.

🔹 ***Step-by-Step Process:***

1. Thousands of people pay premiums to the insurance company.
2. The insurer creates a large pool of money from these premiums.
3. Only a small percentage of policyholders will face actual losses (accident, hospitalisation, death, fire, etc.).
4. The insurer uses the pool to pay their claims.
5. The rest of the money is used for running costs + reserves for future claims.

👉 The idea is simple: many contribute small amounts → few get large compensation.

Example of Risk Pooling:

- 1,000 people buy health insurance with premium ₹10,000 each.
- The company collects ₹1 crore in premiums.
- Out of 1,000, only 50 need hospitalization, costing ₹80 lakh in total.
- The company pays their claims from the ₹1 crore collected.
- The remaining ₹20 lakh covers admin costs & profits.

This is why insurers can pay huge claims while charging relatively small premiums.

🔹 Advanced Point:

Insurers use actuarial science to calculate risks, i.e., statistical models that predict how many claims will occur in a year. That's why younger, healthier people get cheaper premiums (lower risk).

1.6 Difference Between Savings, Investments, and Insurance

Feature	Savings	Investments	Insurance
Main Purpose	Security & liquidity	Wealth Creation	Risk Protection
Returns	Low (3–7%)	Moderate–High (10–15% or more)	Not primary focus
Risk	Very Low	Medium to High	Risk transfer (not investment)
Liquidity	High	Medium	Only in maturity policies
Example	FD, RD	Mutual Funds, Stocks	Term Plan, Health Insurance

Insurance may seem complex at first glance, but once you understand the foundation, what it is, the key terms, how risk pooling works, and how it differs from savings or investments, the picture becomes much clearer.

Think of insurance as a safety helmet for your financial life. Savings will help you with small needs, investments will grow your wealth, but insurance is what ensures that a sudden accident doesn't knock you off the road completely. It is the shield that protects everything else you build.

Now that you understand the "what" and "why" of insurance, the next important step is to explore the different types of insurance available. Not all insurance is the same, life insurance, health insurance, and general insurance all serve different purposes. Choosing the right one depends on your stage of life, responsibilities, and goals.

In the next chapter, we'll break down these types in detail, with simple examples, so that you'll know exactly which insurance you need, and when you need it.

👉 Let's move on to next topic: Types of Insurance, and discover the wide variety of covers that can protect you and your loved ones.

TYPES OF INSURANCE

2.1 What is Life Insurance?

Life insurance is a contract between you and an insurance company. You pay a regular amount (premium), and in return, the company promises to pay your family (nominee) a lump sum (sum assured) if you pass away during the policy term.

👉 In short: You insure your life, and your family gets money if something happens to you.

Life insurance ensures that your family does not face financial hardship in your absence. It's like leaving behind a financial safety net.

2.1.1 Types of Life Insurance

1. Term Insurance

This is the purest and simplest form of life insurance.

- You pay a small premium every year.
- If you pass away during the policy term, your family receives the full sum assured.
- If you survive the policy term, you don't get anything back.

👉 It's like car insurance: you pay to protect against risk, but you don't expect money back if no accident happens.

📌 Example:

- Rahul, 30 years old, buys a ₹1 crore term insurance for 30 years.
- He pays only about ₹8,000–₹10,000 per year (because he's young and healthy).
- If Rahul dies during the 30 years, his family will receive ₹1 crore.
- If he survives 30 years, he doesn't get any money back.

✅ Pros:

- Cheapest form of life insurance.
- Very high coverage (₹1 crore) for low premiums.
- Best for people with financial dependents (family, loans, children).

❌ Cons:

- No maturity benefit (you don't get money back if you survive).

2. Whole Life Insurance

This covers you for your entire life (usually up to 99 or 100 years of age).

- Premiums are higher than term insurance.
- Your nominee will definitely receive money (since everyone eventually passes away).
- Sometimes it also builds cash value (like savings).

📌 Example:

- Meena, 35, buys a Whole Life Policy with coverage of ₹50 lakh.
- She pays premiums until 60 years of age.
- Even if she lives beyond 60, the policy remains in force.
- When she dies (whether at 65, 80, or 95), her nominee will get ₹50 lakh.

✅ Pros:

- Lifetime protection.
- Guaranteed payout to family.
- May build cash value (some policies let you borrow against it).

❌ Cons:

- Premiums are much higher than term insurance for the same coverage.
- Complex structure, not as straightforward.

3. Endowment Plans

This type of insurance is a mix of protection + savings.

- If you die during the policy term → nominee gets sum assured.
- If you survive the term → you get money back (sum assured + bonuses).
- Works like insurance + forced savings plan.

📌 Example:

- Ajay, 28, buys an Endowment Plan of ₹10 lakh for 20 years.
- He pays a premium of ₹50,000 per year.
- If Ajay dies anytime during 20 years → his family gets ₹10 lakh.
- If he survives 20 years → he will get ₹10 lakh + bonus (maybe ₹15–16 lakh total).

✅ Pros:

- Insurance + maturity benefit (you get something even if you survive).
- Good for people who want disciplined savings.

❌ Cons:

- Returns are very low (5–6% per year only, similar to FD).
- Coverage amount is much lower compared to term insurance for the same premium.

👉 Example comparison: ₹20,000 premium → Term Plan = ₹1 crore cover, Endowment Plan = only ₹10–12 lakh cover.

4. ULIPs (Unit Linked Insurance Plans)

ULIP = Insurance + Investment.

- Your premium is split into two parts:
    a. Insurance cover (risk protection)
    b. Investment in funds (equity, debt, or a mix, like mutual funds)
- Returns depend on market performance.

📌 Example:

- Sneha, 30, invests ₹1 lakh per year in a ULIP for 20 years.
- ₹10,000 goes towards insurance, ₹90,000 gets invested in equity funds.
- If Sneha dies during the term → her nominee gets sum assured (say ₹20 lakh) + fund value.
- If she survives 20 years → she gets back her fund value (which could be ₹35–40 lakh depending on market performance).

✅ Pros:

- Dual benefit: life cover + investment.
- Market-linked returns (higher than endowment).
- Tax benefits (under 80C & maturity under 10(10D), subject to conditions).

❌ Cons:

- Higher charges (policy admin, fund management, mortality).
- Returns depend on market, not guaranteed.
- Lower insurance cover compared to term insurance.

2.2.1 What is Health Insurance?

Health insurance is a type of insurance that covers medical and hospitalization expenses. You pay a premium, and in return, the insurance company pays (partially or fully) for your hospital bills, surgeries, treatments, or medicines as per policy terms.

👉 Think of it as a financial backup for your health.
Without insurance → your savings pay the bill.
With insurance → the insurer pays most or all of it.

2.2 Types of Health Insurance?

1 Individual Health Insurance

This covers only one person under a single policy.

- The sum insured is dedicated only to that individual.
- Premium depends on age, health history, and coverage chosen.

📌 Example:

- Rohan buys an individual policy with coverage of ₹5 lakh.
- Premium: ₹8,000 per year.
- If Rohan is hospitalized with a bill of ₹4 lakh → Insurance pays ₹4 lakh.
- If he doesn't use it → coverage lapses at year-end.

✅ Pros:

- Entire coverage is dedicated to one person.
- Good for people with high health risks.

❌ Cons:

- More expensive if you buy separate policies for each family member.

2. Family Floater Health Insurance

This covers the entire family under one policy with a common sum insured.

- Sum insured can be used by any family member.
- Premium is lower compared to individual policies for each person.

📌 Example:

- Sharma family (husband, wife, 2 kids) buys a Family Floater of ₹10 lakh.
- Annual premium: ₹18,000.
- If the husband is hospitalized with a bill of ₹7 lakh → Insurance pays ₹7 lakh.
- The remaining ₹3 lakh can still be used by wife/kids in the same year.

✅ Pros:

- Cost-effective.
- Flexible — coverage available to whoever needs it.

❌ Cons:

- If one family member uses a large portion, less coverage left for others.
- Premium is calculated on the oldest member's age, so if parents are included, premium goes high.

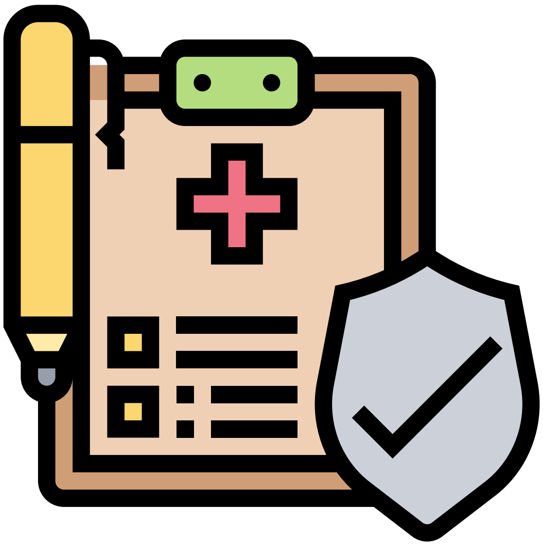
3. Critical Illness Insurance

This is a specialized policy that pays a lump sum amount if you are diagnosed with specific serious illnesses like cancer, heart attack, kidney failure, or stroke.

- Unlike regular health insurance, it doesn't reimburse hospital bills.
- Instead, it gives you a one-time cash payout (you can use it for treatment, income replacement, or anything else).

📌 Example:

- Neha, 32, buys a Critical Illness Policy with coverage of ₹20 lakh.
- Premium: ₹4,000 per year.
- After 3 years, she is diagnosed with cancer.
- Insurance company pays ₹20 lakh lump sum immediately (regardless of hospital bills).



✅ Pros:

- Provides big financial support for life-threatening diseases.
- Money can be used for treatment, home care, or even income replacement.

❌ Cons:

- Covers only listed diseases.
- One-time payout; policy ends after claim.

4. Top-Up & Super Top-Up Plans

These are add-on covers that increase your health coverage at a lower cost.

- They come with a deductible (the amount you must pay first before insurance kicks in).
- Best for people who already have a base health policy or employer-provided cover.

📌 Example:

- Raj has an employer health insurance of ₹3 lakh.
- He buys a Super Top-Up Plan of ₹7 lakh with a deductible of ₹3 lakh.
- If hospital bill = ₹8 lakh:
    - Employer cover pays ₹3 lakh.
    - Super Top-Up pays ₹5 lakh.
- Effectively, Raj gets ₹8 lakh coverage at a very low cost.

✅ Pros:

- Very cheap way to increase coverage.
- Useful against rising medical inflation.

❌ Cons:

- Deductible must be paid before claim.
- Best only when combined with an existing policy.

Health insurance is not a luxury anymore it's a necessity. With rising hospital bills, one medical emergency can drain years of savings. A proper health insurance plan ensures that you and your loved ones get quality treatment without financial stress.

Now that we've covered Life and Health Insurance, let's move to the next big area:

👉 General Insurance which includes Motor, Home, Travel, and other types of policies that protect your assets and day-to-day life.

2.3 General Insurance

General insurance covers everything other than life.

It provides protection against financial losses due to risks like accidents, theft, fire, natural disasters, travel issues, and damage to assets (like vehicles, home, or business).

👉 In short: General insurance protects the things you own and the situations you face in daily life.

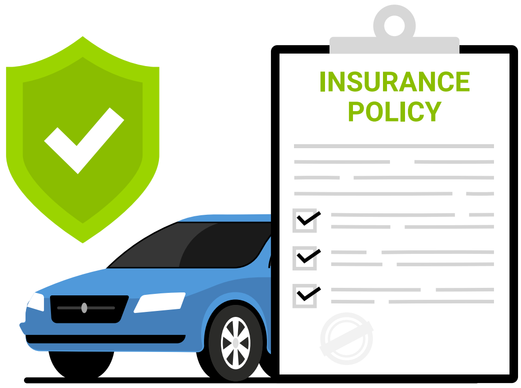
Unlike life insurance, which pays only on death, general insurance pays for losses that occur during the policy term.

2.3.1 Types of General Insurance

1. **Motor Insurance (Car & Two-Wheeler Insurance)**

This is the most common type of general insurance in India. In fact, it's mandatory by law to have at least third-party motor insurance for vehicles.

- Two types:
    a. Third-Party Insurance: Covers damage or injury caused to another person, vehicle, or property.
    b. Comprehensive Insurance: Covers both third-party liability and your own vehicle's damage.

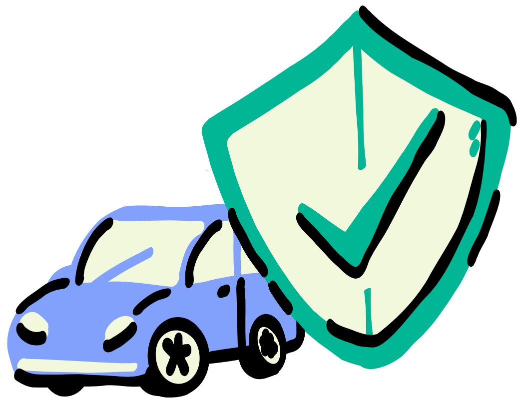


📌 Example:

- Rajesh has a car worth ₹8 lakh.
- He buys comprehensive car insurance with coverage of ₹7.5 lakh.
- He meets with an accident causing ₹1.5 lakh damage to his car and ₹50,000 damage to another person's bike.
- Insurance pays both (as per coverage), saving Rajesh from a ₹2 lakh expense.

✅ Pros:

- Mandatory by law (at least third-party).
- Financial protection against accidents, theft, natural calamities.



❌ Cons:

- Doesn't cover wear & tear, drunk driving, or illegal usage.

2. Home Insurance

Protects your home and household items against fire, theft, burglary, earthquake, flood, or other risks.

📌 Example:

- Meena buys a Home Insurance for her house worth ₹50 lakh and contents worth ₹10 lakh.
- Unfortunately, a short circuit causes fire, damaging property worth ₹15 lakh.
- Insurance pays for the repair/replacement cost, saving her from huge financial loss.

✅ Pros:

- Protects your biggest asset (home).
- Covers both structure and contents (furniture, electronics, valuables).

❌ Cons:

- Excludes damages due to wear & tear, poor maintenance, or war.

3. Travel Insurance

Covers unexpected expenses when you are traveling (domestic or international).

- Covers medical emergencies abroad, trip cancellation, lost baggage, flight delay, loss of passport, etc.

📌 Example:

- Anil travels to the US. His travel insurance has a sum insured of $50,000.
- He suffers appendicitis and surgery costs $20,000.
- Without insurance → He pays ₹16 lakh from pocket.
- With travel insurance → Entire cost is covered.

✅ Pros:

- Essential for international trips (medical costs abroad are huge).
- Peace of mind while traveling.

❌ Cons:

- Not all scenarios are covered (e.g., pre-existing illnesses often excluded).

4. Fire Insurance

Protects against losses due to fire, explosion, or related perils. Commonly used by shop owners, factories, and offices.

📌 Example:

- A garment shop worth ₹40 lakh catches fire, causing damages of ₹15 lakh.
- Fire insurance compensates for the loss, helping the shop owner restart.

✅ Pros:

- Protects businesses and homes from fire-related risks.
- Affordable premiums.

❌ Cons:

- Excludes damages from intentional fire or negligence.

5. Marine Insurance

Covers goods, ships, and cargo while being transported by sea, air, or land. Important for import-export businesses.

📌 Example:

- A company ships goods worth ₹1 crore overseas.
- Due to a storm, cargo worth ₹30 lakh is damaged.
- Marine insurance pays for the loss, protecting the business.

✅ Pros:

- Crucial for traders and exporters.
- Covers transit risks globally.

❌ Cons:

- Not needed for individuals unless in business.

Life insurance protects your family's future, health insurance safeguards against medical expenses, and general insurance protects your assets and day-to-day risks. Together, they form the three pillars of financial protection.

But buying insurance is not just about knowing the types. The real challenge is choosing the right policy:

- How much coverage do you need?
- Which policy is better: term or endowment, individual or floater?
- What mistakes should you avoid?

👉 That's exactly what we'll cover next in Chapter 3: How to Choose the Right Insurance A practical guide to selecting the best insurance plan for your needs.

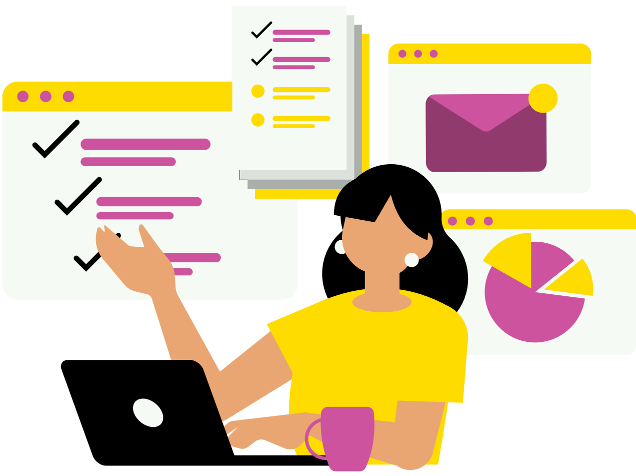
HOW TO CHOOSE THE RIGHT INSURANCE

3.1 Why Choosing the Right Insurance Matters

Having insurance is good.
Having the right insurance is life-changing.

- Too little → You remain exposed to risks.
- Too much → You waste money on unnecessary premiums.
- Wrong type → You think you are protected, but in reality, you're not.

👉 So let's learn a simple way to choose insurance wisely.



1. Assessing Your Needs

Before buying, ask yourself 4 key questions:

1. *What is my income?*
   - Your coverage should match your earning capacity.
   - Higher income = higher responsibilities = higher coverage needed.
2. *Do I have dependents?*
   - Parents, spouse, children, or siblings relying on your income?
   - If yes, you need life insurance (especially term insurance).
3. Do I have loans or liabilities?
   - Home loan, car loan, education loan.
   - Life insurance must cover outstanding debt so your family is not burdened.
4. *What is my lifestyle?*
   - Frequent traveler → Travel insurance.
   - Owns vehicle → Motor insurance (mandatory).
   - Own house → Home insurance.
   - Risky profession/business → Higher cover needed.

📌 Example:

- Ramesh, 32 years old. Income ₹10 lakh/year.
- Dependents: Wife + 1 child. Home loan ₹40 lakh.
- Needs:
  - Life cover: 10x income + loan = ₹1.4 crore.
  - Health cover: ₹15–20 lakh family floater.
  - Motor insurance (mandatory).

2. Factors to Consider When Choosing Insurance

When comparing policies, check these:

- Coverage (Sum Assured / Sum Insured):

Does it cover all risks you need protection for?

- Premium:

Affordable, but not the only deciding factor. Cheapest is not always best.

- Claim Settlement Ratio (CSR):

Percentage of claims settled by the insurer.

CSR above 95% is considered good.

- Exclusions:

Situations not covered.

Example: health insurance may exclude pre-existing illnesses for first 2–4 years.

- Add-ons / Riders:

Options like accidental death benefit, critical illness rider, maternity cover, etc.

3. Common Mistakes People Make While Buying Insurance

❌ Buying insurance just to save tax (Section 80C/80D).

👉 Result: Wrong product, low coverage.

❌ Mixing insurance with investment (endowment, money-back, ULIPs).

👉 Insurance should give protection, not returns. Investments should be separate.

❌ Underinsuring themselves.

👉 Many buy only ₹10–20 lakh term plan because premium is low — but real need may be ₹1 crore+.

❌ Not checking exclusions & waiting periods.

👉 Later, at claim time, people are shocked when insurer rejects.

❌ Delaying insurance purchase.

👉 Buying late = higher premiums, risk of rejection if health issues arise.

4. How Much Insurance is Enough?

🔹 ***For Life Insurance***

- Simple rule: 10–15 times your annual income + outstanding loans.

📌 Example:

- Annual income: ₹12 lakh.
- Loans: ₹30 lakh.
- Required cover = ₹1.5 crore approx.

🔹 ***For Health Insurance***

- For individuals: ₹5–10 lakh minimum.
- For family (floater): ₹15–25 lakh is safer, considering rising medical costs.
- In metro cities, medical inflation is high → higher cover recommended.

📌 Example:

- Family of 4 (husband, wife, 2 kids).
- Good cover: ₹20 lakh family floater.
- Plus top-up policy for higher emergencies.

Now you know how to choose the right insurance and avoid common mistakes.
But once you buy insurance, the next question is:
👉 How do you actually make a claim?
👉 What's the process, and why do claims sometimes get rejected?

3.2 Insurance Claim Process & Common Reasons for Rejection

Buying insurance is only half the job done.
The real test of an insurance policy is when a claim is made.
👉 If you don't know the process, you might face delays or even rejection.
👉 If you follow the right steps, claims get settled smoothly.

1. Life Insurance Claim Process

There are two types of claims:

1. Death Claim (in case of policyholder's death)
2. Maturity Claim (if policy reaches maturity period)

A) Death Claim (by nominee/beneficiary)

Steps:

1. Inform the insurer immediately about death.
2. Submit claim form along with:
    - Original policy document
    - Death certificate
    - Medical/hospital records (if applicable)
    - Identity/address proof of nominee
    - Bank details for payout
3. Insurer verifies documents & may investigate if early death (within 2 years of policy).
4. Claim is settled (usually within 30 days if documents are complete).

📌 Example:

- Ramesh had a ₹1 crore term plan. He dies in year 5 due to illness.
- His wife (nominee) submits claim form + death certificate.
- After verification, insurer pays ₹1 crore within 30 days.

B) Maturity Claim (by policyholder)

- Applies to endowment/ULIP/whole life (not term insurance).
- Steps:
    a. Policyholder receives notice before maturity date.
    b. Submit discharge form + policy bond + bank details.
    c. Insurer credits maturity amount to bank account.

2. Health Insurance Claim Process

Two ways to claim:

A) Cashless Claim

- Hospital must be in insurer's network.
- Steps:
    a. Show health card at hospital desk.
    b. Hospital sends pre-authorization request to insurer.
    c. Insurer approves estimated bill.
    d. Treatment happens.
    e. Hospital bills insurer directly.
    f. 👉 Patient pays only non-covered expenses.

📌 Example:

- Suresh's mother hospitalized for appendix surgery.
- Bill ₹2 lakh. Insurance approves ₹1.8 lakh.
- Suresh pays ₹20,000 (non-covered charges).

B) Reimbursement Claim

- If hospital is not in insurer's network.
- Steps:
    a. Pay hospital bills yourself.
    b. Collect all bills, discharge summary, prescriptions.
    c. Submit claim form with documents.
    d. Insurer reimburses amount after verification.

3. General Insurance Claim Process (Motor, Travel, Home, etc.)

A) Motor Insurance (Car/Bike)

1. Inform insurer immediately after accident/theft.
2. File FIR (if theft/major accident).
3. Surveyor inspects vehicle.
4. Repair at network garage → cashless settlement.
5. Or non-network → reimbursement.

📌 Example:

- Rajesh's car accident bill = ₹80,000.
- Network garage repairs, insurer pays directly ₹70,000.
- Rajesh pays ₹10,000 (deductibles + non-covered).

B) Travel Insurance

- Covers lost baggage, flight delay, medical emergencies abroad.
- Claim steps:
  - Keep boarding passes, bills, and airline proof of delay/loss.
  - Submit to insurer online/helpline.

C) Home Insurance

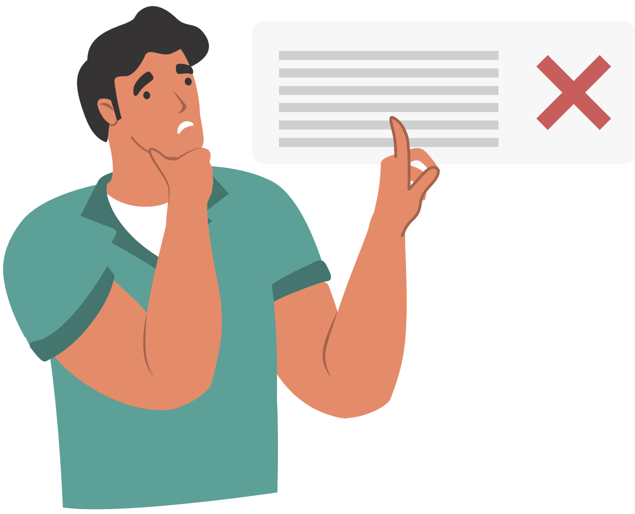
- Covers fire, burglary, natural disasters.
- Steps:
  - File FIR/Fire Department report.
  - Submit photos, damage estimate.
  - Insurer sends surveyor, then settles claim.

4. Common Reasons Why Claims Get Rejected

1. Non-disclosure of facts (hiding information):
   - Example: Hiding smoking habit/illness while buying life insurance.
2. Policy lapse (premium not paid on time):
   - If policy expired, no claim is valid.
3. Wrong information in proposal form:
   - Wrong age, fake documents, false income.
4. Exclusions not understood:
   - Example: Health insurance not covering pre-existing disease in waiting period.
5. Fraudulent or suspicious claims:
   - Example: Fake hospital bills, staged accidents.
6. Delay in intimation:
   - Not informing insurer within required time (usually 24–48 hours for hospitalization).

Common Mistakes People Make While Buying Insurance

1. Buying insurance only to save tax
    - Result: Wrong policy chosen, often with poor returns/coverage.
2. Taking very low coverage to keep premium cheap
    - Example: A family's monthly expenses are ₹50,000, but policy covers only ₹10 lakh (not enough even for 2 years).
3. Not disclosing health conditions or habits
    - Example: Hiding diabetes or smoking habit → Claim rejection later.
4. Mixing insurance with investment unnecessarily
    - Endowment/ULIP plans give low returns + low coverage.
    - Better: Keep insurance = protection, investment = separate (mutual funds, etc.)
5. Not reviewing policies regularly
    - Lifestyle changes (marriage, kids, loan) need more coverage, but people forget to update.



🔹 ***How Much Insurance is Enough?***

Life Insurance (Term Plan)

General thumb rules:

1. 10–15 times annual income
    - Example: If income = ₹8 lakh/year → Life cover = ₹80 lakh–₹1.2 crore.
2. Human Life Value (HLV) approach
    - Consider: current income + future goals + liabilities – existing assets.
    - Example:
        - Loans = ₹30 lakh
        - Kids' education = ₹20 lakh
        - Annual expenses = ₹6 lakh (×15 years = ₹90 lakh)
        - Assets already owned = ₹20 lakh
        - Total Life Cover needed = ₹30L + ₹20L + ₹90L – ₹20L = ₹1.2 crore

✅ So, ₹1–1.2 crore term insurance is suitable.

Health Insurance

1. Individual: Minimum ₹5 lakh cover.
2. Family of 4 (floater policy): At least ₹10–15 lakh.
3. Metro city residents: Prefer ₹15–25 lakh due to rising medical costs.
4. Add top-up or super top-up plans to increase cover at low premium.

📌 Example:

- Heart surgery in metro = ₹6–8 lakh.
- Cancer treatment = ₹10–20 lakh.
- 👉 That's why a ₹2–3 lakh policy is outdated today.

3.3 Understanding Insurance Premiums

When you buy insurance, you don't get it for free — you pay a certain amount called the premium.

But many people wonder: "Why do two people of the same age pay different premiums?" or "Why is life insurance cheaper when you're young but expensive later?"

🔹 How Premiums Are Calculated

Insurance companies calculate premiums using a process called underwriting — basically, they check how risky you are to insure.

Here are the main factors:

1. Age

- Younger = Lower premium.
- Older = Higher premium.

✅ Example:

- A 25-year-old non-smoker might pay ₹5,000/year for a ₹50 lakh term plan.
- A 45-year-old non-smoker for the same coverage may pay ₹18,000/year.

Why? Because younger people are statistically healthier and have a longer life expectancy.

2. Health Condition

- Insurers check your medical history, current illnesses, BMI, family history, etc.
- Pre-existing diseases (like diabetes, hypertension) → higher premiums.

✅ Example:

- Two 35-year-olds apply for health insurance.
    - Person A: Fit, no medical history → pays ₹12,000/year.
    - Person B: Diabetic → pays ₹22,000/year (higher risk).

3. Lifestyle Habits

- Smoking, alcohol, and high-risk activities (biking, mountaineering, adventure sports) increase risk → increase premium.

✅ Example:

- Smoker vs Non-smoker:
  - Smoker (35 yrs, ₹1 Cr term plan) → ₹25,000/year.
  - Non-smoker (same age, same plan) → ₹15,000/year.

4. Coverage Amount (Sum Assured)

- Higher coverage = Higher premium.
- But premium doesn't grow in exact proportion (it grows slower at higher amounts due to competition).

✅ Example:

- ₹50 lakh cover = ₹8,000/year.
- ₹1 crore cover = ₹13,000/year (not double, but slightly more).

5. Policy Tenure

- Longer tenure locks lower premium for entire period.
- Shorter tenure = lower premium initially but renewal may cost more later.

6. Gender & Occupation

- Women often get slightly lower premiums (longer life expectancy).
- Risky jobs (miners, pilots, construction workers) = higher premiums.

🔹 ***Types of Premium Payment Modes***

When you buy insurance, you don't always have to pay premiums the same way. There are three structures:

1. Single Premium
   - Pay once at the start, and you're covered for the full policy term.
   - No yearly payments, no renewal hassle.

✅ Example:
   - For a 20-year term insurance, instead of paying ₹10,000/year for 20 years (total ₹2,00,000),
   - You pay ₹1,50,000 upfront as a single premium.

Best for: People with surplus cash who don't want yearly commitments.

2. Regular Premium
   - Pay premiums every year (or monthly/quarterly) throughout the policy term.
   - Most common method.

✅ Example:
   - Policy term = 20 years.
   - Premium = ₹10,000/year for 20 years = ₹2,00,000 total.

Best for: Salaried individuals who prefer smaller, manageable payments.

3. Limited Premium
   - Pay premiums for a shorter period, but get cover for the full term.

✅ Example:
   - Policy term = 20 years.
   - Pay premium only for 10 years (say ₹18,000/year).
   - After 10 years, no payments, but you're still covered for 20 years.

Best for:
   - People who expect irregular income in future (businessmen, freelancers).
   - Those who want to finish paying early and stay worry-free.

The golden rule is: buy insurance early, buy enough coverage, and choose the premium payment option that fits your cash flow.

INSURANCE FOR DIFFERENT LIFE STAGES

Insurance isn't a one-size-fits-all solution. Your needs change as your life evolves when you start earning, when you marry, when you have kids, when you're caring for aging parents, or when you run a business. At every stage, the right insurance ensures you are not only protecting yourself but also those who depend on you.

Let's look at how insurance fits into different phases of life.

1. Young Professionals

When you get your first job, you may think insurance isn't important. After all, you're young, healthy, and may not have dependents. But this is exactly the best time to buy insurance.

✅ Why?

- Low premiums: The younger you are, the cheaper your term and health insurance premiums.
- Health advantage: Fewer medical issues mean easier approvals and wider options.
- Future-proofing: Locking in a policy early ensures you're covered before lifestyle diseases (like diabetes, hypertension) can increase costs.

📌 Ideal Covers

- Term Insurance: Even if you don't have dependents today, starting a basic term plan (₹50 lakh – ₹1 crore) is smart. It ensures you have long-term protection at low cost.
- Basic Health Insurance: Don't just depend on your employer's coverage. A ₹5–10 lakh individual health policy shields you from rising hospital costs.

🎯 Example

Ravi, 25, buys a ₹1 crore term insurance policy. His premium is just ₹500/month. If he waits till 35, the same cover could cost ₹1,500/month — almost 3x! By buying early, he saves lakhs over his lifetime.

2. Married Couples – Protecting Your Family

Marriage changes everything. Now, your financial decisions affect not just you, but your spouse and soon, maybe kids. Insurance becomes about family security.

✅ Why?

- Income protection: If something happens to you, your spouse (and children) should be financially secure.
- Health costs: Medical emergencies for the whole family can derail savings.

📌 Ideal Covers

- Life Insurance (Term Plan): Coverage should be 10–15 times your annual income. For example, if you earn ₹10 lakh annually, opt for ₹1–1.5 crore cover.
- Family Floater Health Insurance: Instead of buying separate health plans, cover your spouse and kids under a ₹10–20 lakh floater plan.

🎯 Example

Neha and Raj, newly married, take a ₹1.5 crore term insurance for Raj (primary earner) and a ₹15 lakh family floater health plan. This way, Raj ensures Neha won't face financial hardship if something happens, and both are covered against hospital bills.

3. Parents – Health & Retirement Protection

As parents, your responsibilities grow — children's education, home loans, and looking after your own health. Insurance here is about securing your dependents and preparing for retirement.

✅ Why?

- Children's future: Education and upbringing costs are rising sharply.
- Medical needs: With age, health insurance becomes more critical.
- Retirement planning: Insurance-backed savings plans can provide a safety net.

📌 Ideal Covers

- Term Insurance: If you haven't taken a sufficient cover yet, this is the last window to get one.
- Comprehensive Health Insurance: A ₹20–25 lakh plan with critical illness add-ons is vital.
- Retirement-focused Plans: Endowment or pension-linked insurance plans can provide stability along with mutual funds/other investments.

🎯 Example

Amit, 40, has two kids (ages 8 and 12). He upgrades his term plan to ₹2 crore, buys a ₹25 lakh health insurance with critical illness cover, and invests in a retirement-oriented ULIP to ensure regular income post-60.

4. Business Owners – Protecting Business & Family Together

For entrepreneurs, insurance is not just about personal safety — it's also about business continuity.

✅ Why?

- Dependents beyond family: Employees, partners, and clients depend on your stability.
- Business risks: Liabilities can fall on you if not insured.

📌 Ideal Covers

- Keyman Insurance: Protects the business if a key person (founder, top manager) dies. Payout goes to the company.
- Liability Insurance: Shields against legal claims (e.g., product defect, workplace accidents).
- Life & Health Insurance: Never ignore personal coverage while focusing on the company.

🎯 Example

Priya, 35, runs a startup with 50 employees. She takes a ₹3 crore Keyman Insurance on herself, a liability cover for the company, and a personal ₹1.5 crore term plan. This way, her family and her business are both protected.

FREQUENTLY ASKED QUESTION

1. What is insurance in simple words?

Insurance is like a safety net. You pay a small amount regularly (premium) to an insurance company, and in return, they promise to protect you financially if something unexpected happens.

👉 Example: If you buy health insurance and fall sick, the insurance company pays your hospital bills so you don't have to spend from your pocket.

2. What is the difference between sum assured and coverage amount?

- Sum Assured = Fixed amount the insurer promises to pay (e.g., ₹50 lakh life cover).
- Coverage Amount = Can include extra benefits like riders, hospitalization expenses, accidental coverage, etc.

👉 In simple words: Sum Assured is the guarantee; Coverage is the total protection you get.

3. What happens if I stop paying premiums midway?

If you stop paying:

- Term Insurance = Policy ends, no money is returned.
- Endowment/ULIP = Some plans give you "surrender value" (a part of your money back).

👉 Always pay premiums on time; else you lose protection.

4. Can I claim both employer-provided health insurance and my personal policy?

Yes ✅. You can use employer insurance first, and if the bill exceeds the limit, use your personal health insurance to cover the balance. This is called policy portability/coordination.

5. What is the difference between cashless and reimbursement claim?

- Cashless = You get treatment in a hospital tied up with your insurer, and bills are directly paid by the insurer.
- Reimbursement = You pay bills first, then claim money back later.

👉 Cashless = no headache. Reimbursement = keep bills safely.

6. How does the claim settlement ratio affect my choice of insurer?

Claim Settlement Ratio (CSR) = % of claims an insurer settles successfully.

- A CSR of 95%+ means the company is trustworthy.
- A low CSR means a higher chance of claim rejection.

👉 Always check CSR before buying a policy.

7. What is waiting period in health insurance?

It's the time after buying policy during which certain claims cannot be made.

- Usual waiting period: 30 days for normal diseases, 2–4 years for pre-existing conditions.

👉 Example: If you buy health insurance today and get diagnosed with diabetes next month, the insurer may not cover it until the waiting period is over

8. What is liability insurance and why is it important for business owners?

Liability insurance protects businesses against legal/financial claims if their product/service harms someone.

👉 Example: A restaurant buys liability insurance so if a customer gets food poisoning and sues, insurance covers the cost.

9. How does taxation work on insurance premiums and maturity proceeds?

- Life Insurance Premiums → Deduction under Sec 80C (up to ₹1.5 lakh).
- Health Insurance Premiums → Deduction under Sec 80D.
- Maturity Proceeds → Usually tax-free (subject to conditions like premium < 10% of sum assured).

10. What happens if the insurance company itself goes bankrupt — will my claim still be paid?

In India, insurers are tightly regulated by IRDAI, so bankruptcy is rare. Even if it happens, reinsurance + transfer of policies to another insurer ensures policyholders are protected.

11. Why is my premium higher than my friend's, even if we bought the same plan?

Premium depends on age, health, habits, lifestyle, coverage, riders.

- Example: A 25-year-old non-smoker pays ₹6,000 yearly for ₹50 lakh term cover. But a 35-year-old smoker for the same cover may pay ₹18,000+.
- 👉 Insurance is personalized — your risk profile = your premium.

12. If I have health insurance from my employer, do I still need a personal policy?

Employer health insurance ends when you switch jobs or retire. Also, the cover may be low (like ₹2–3 lakh), which is insufficient today.

- Example: A single hospitalization for heart surgery can cost ₹5–7 lakh. If your employer's policy only covers ₹3 lakh, the rest comes from your pocket.
- 👉 Personal health insurance = portable + customizable + lifelong cover.

13. Why are claims sometimes rejected even if I paid premiums on time?

Claims can be rejected due to non-disclosure of facts (smoking, pre-existing disease), policy exclusions, or lapsed policy.

- Example: If you hide that you're a smoker while buying life insurance, and later death occurs due to lung issues, the insurer can deny claim.
- 👉 Always be 100% transparent when filling proposal forms. Insurance is based on utmost good faith.

14. Is buying multiple insurance policies better than one big policy?

Multiple policies can be useful in some cases (like splitting term cover between two insurers for claim flexibility). But too many policies create confusion for your family at claim time.

- Example: Instead of buying 5 small policies of ₹10 lakh each, it's better to buy one single ₹50 lakh cover (lower premium + easier claim).
- 👉 Rule: Have adequate coverage, fewer policies, more clarity.

We’ve now reached the end of this eBook on Insurance.
Throughout this journey, you’ve learned:

- What insurance really is and why it matters in today’s life.
- The myths and misconceptions that often confuse people.
- How different types of insurance work from term plans to health, ULIPs, and more.
- How to choose the right cover at different life stages.
- The process of claims, premiums, and the factors that truly matter.
- The common mistakes to avoid, and the FAQs that bring clarity to the most confusing areas.

Insurance is not about fear of the future, but about confidence in the present. It’s the silent partner that protects your dreams, safeguards your family, and ensures that life’s uncertainties don’t become financial burdens.

Remember insurance is not a one-time purchase, but a long-term responsibility. Revisit your needs regularly, upgrade your cover when life changes, and most importantly, always disclose the truth while buying.

If this eBook has given you clarity, confidence, and courage to take the right decisions, then its purpose is fulfilled.

✨ The journey of financial well-being doesn’t stop here. Insurance is just the foundation the next steps are savings, investments, and wealth creation.

👉 Let’s move forward together into the world of wealth building and smart investing.

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