

Deductible

What is Deductible in Insurance?

In insurance, a **Deductible** is the **fixed amount that the policyholder must pay out of pocket before the insurer starts covering the remaining expenses.**

It is a cost-sharing mechanism used to:

- Reduce small or frequent claims
- Lower the insurer's risk
- Control premium costs

Deductibles are commonly found in **health insurance, motor insurance, and property insurance.**

Simple Example:

Rohit has a health insurance policy with a **deductible of ₹10,000.**

- Total hospital bill: ₹1,00,000
- Rohit pays: ₹10,000 (deductible)
- Insurer pays: ₹90,000

Why is Deductible Important?

Reduces Premium Cost

Higher deductible often results in lower premium.

Encourages Responsible Usage

Discourages minor or unnecessary claims.

Shares Risk

Policyholder and insurer both bear part of the cost.

Improves Policy Efficiency

Helps insurers manage claims better.

How Does Deductible Work?

- Deductible amount is defined in the policy.
- When a claim arises:
 - Policyholder pays the deductible first
- Insurer pays:
 - Remaining eligible amount after deductible
- Deductibles may apply:
 - Per claim
 - Per policy year (aggregate basis)

Types of Deductibles

Fixed Deductible

A specific amount paid for each claim.

Percentage Deductible

A percentage of the claim amount paid by the policyholder.

Aggregate Deductible

Total deductible applicable over a policy year.

Compulsory Deductible

Mandatory deductible set by the insurer.

Voluntary Deductible

Optional deductible chosen by the policyholder for lower premium.

Key Features of Deductible

- **Upfront Payment:** Paid before insurer contributes
- **Reduces Premium:** Higher deductible lowers premium
- **Applies to Claims:** Not applicable if no claim is made
- **Varies by Policy:** Different for health, motor, and property insurance
- **Cost-Sharing Tool:** Splits financial responsibility
- **Clearly Defined:** Mentioned in policy document

Deductible vs Co-payment

Feature	Deductible	Co-payment
Meaning	Fixed initial amount	Percentage of claim
Timing	Paid before insurer pays	Shared after claim amount
Nature	One-time (per claim/year)	Ongoing share
Example	₹10,000 upfront	20% of total bill

Common Uses of Deductible

Health Insurance

Common in top-up and super top-up plans.

Motor Insurance

Applied to vehicle repair claims.

Property Insurance

Used in claims related to damage or loss.

Legal/Policy Aspects

- Deductible terms must be clearly stated in the policy document.
- Governed by regulations of the Insurance Regulatory and Development Authority of India.
- Policyholders must understand deductible before purchase.
- Deductibles directly impact claim payout and affordability.
- Insurers must disclose whether deductible is compulsory or optional.

Common Mistakes to Avoid

- Choosing high deductible without financial preparedness.
- Not understanding when deductible applies.
- Confusing deductible with co-payment.
- Ignoring deductible in top-up policies.
- Assuming full claim coverage without checking deductible.

Final Word

Deductible is a key component of insurance that determines how costs are shared between the policyholder and insurer. While it helps reduce premiums, it also increases out-of-pocket expenses during claims.

Understanding deductibles allows policyholders to balance premium savings with financial readiness, ensuring better decision-making and effective risk management.