

Cumulative Bonus

What is Cumulative Bonus in Insurance?

In insurance, a **Cumulative Bonus (CB)** is a **reward given by the insurer for claim-free years**, which increases the **sum insured** or benefits of the policy without additional premium.

It is commonly seen in **health insurance policies**. For every year the policyholder does not make a claim, the insurer adds a **bonus percentage** to the sum insured for the following year.

Simple Example:

Rahul has a health insurance policy with a **sum insured of ₹5 lakh**.

- Year 1: No claims → insurer adds **5% cumulative bonus** → sum insured becomes ₹5.25 lakh.
- Year 2: No claims → another 5% bonus → sum insured becomes ₹5.51 lakh.
- Year 3: Claims hospitalization → bonus for Year 3 may be reset depending on policy terms.

This **encourages policyholders to maintain claim discipline** while increasing coverage over time.

Why is Cumulative Bonus Important?

- 1. Increases Coverage**
 - a. Rewards claim-free years with additional sum insured.
- 2. Financial Incentive**
 - a. Encourages policyholders to avoid unnecessary claims.
- 3. Enhances Policy Value**
 - a. Policy becomes more beneficial over time without increasing premiums.
- 4. Protection Against Inflation**
 - a. Helps the sum insured grow gradually, compensating for rising healthcare costs.

How Does Cumulative Bonus Work?

- Policyholder does not make any **claims during a policy year**.
- Insurer adds a **predefined percentage (commonly 5–10%)** to the sum insured for the next year.
- Maximum cumulative bonus is **capped**, usually **50–100% of original sum insured**.
- If a **claim is made**, the cumulative bonus may be **reduced or reset** as per policy terms.
- Some policies **allow partial bonus retention** even after a claim.

Types of Cumulative Bonus

- 1. No-Claim Bonus (NCB) on Sum Insured**
 - a. Sum insured increases by a fixed percentage for each claim-free year.
- 2. Renewal Cumulative Bonus**
 - a. Bonus is credited at the time of policy renewal for maintaining claim-free status.
- 3. Health Insurance CB**
 - a. Specifically for hospitalization or daycare claims in health insurance policies.
- 4. Life Insurance CB (Optional Riders)**
 - a. Certain policies offer bonus accumulation for survival benefits in endowment or whole life plans.

Key Features of Cumulative Bonus

- **Claim-Free Incentive:** Only awarded if no claims are made in a policy year.
- **Percentage Increase:** Typically 5% of sum insured per year.
- **Maximum Limit:** Insurers cap cumulative bonus at a fixed percentage (50–100%).
- **Policy Renewal Required:** CB is credited at renewal; lapse in renewal may forfeit bonus.
- **Claim Impact:** Making a claim may reduce or reset the cumulative bonus, depending on policy rules.

Cumulative Bonus vs Regular Premium Increase

Feature	Cumulative Bonus	Premium Increase
Purpose	Rewards claim-free years	Covers inflation and rising costs
Impact	Increases sum insured without extra premium	Policyholder pays more for higher coverage
Limit	Capped at a maximum %	No fixed limit, depends on insurer
Claim-Free Requirement	Mandatory	Not applicable
Type of Benefit	Sum insured increment	Higher coverage or enhanced benefits

Common Uses of Cumulative Bonus

1. Health Insurance

- a. Encourages disciplined claims, adds extra coverage for hospitalization.

2. Motor Insurance (Optional in Some Policies)

- a. No-claim bonus reduces premiums for claim-free years.

3. Life Insurance Endowment Plans

- a. Bonus may be credited as part of maturity benefits for survival without claims.

4. Family Floater Policies

- a. Claim-free members increase overall sum insured for the family.

Legal/Policy Aspects

- Governed by **IRDAI regulations** for health and motor insurance in India.
- Clearly mentioned in the **policy schedule and terms**.
- Insurer must communicate **bonus accumulation and capping limits**.
- Policyholder must ensure **timely renewal** to retain cumulative bonus.
- Claim settlement rules define whether **CB is retained, partially retained, or reset** after a claim.

Common Mistakes to Avoid

- Assuming cumulative bonus applies automatically to all policies—check policy type.
- Ignoring maximum cap on cumulative bonus.
- Missing policy renewal and losing accumulated bonus.
- Making unnecessary claims without understanding CB impact.
- Confusing cumulative bonus with cashless benefit or premium waiver.

Final Word

Cumulative bonus is a **valuable reward mechanism** in insurance, helping policyholders increase their coverage without additional cost.

By understanding how CB accumulates, its limits, and claim impact, policyholders can **maximize insurance benefits**, maintain claim discipline, and enjoy **enhanced protection over the years**.