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L.L.B Part- 2nd

Subject- Insurance Act

Paper- 8th

Date- 25/12/2020

Topic- Define Loading and its types? What are the reason for Loading in premium? What is Exclusion in Insurance?

Loading

Insurance, both life or health (mediclaim), is an investment made by many individuals for unfortunate emergencies that may occur. While insurance covers our unforeseen circumstances, they can become an expensive affair with time in the name of "loading".

Most of us are unaware of the "loading" concept followed by these insurance companies.

Consider an example where you are a healthy individual paying your insurance premiums on time, and due to an unfortunate event you get hospitalized, say for heart attack and the insurance company readily covers your expenses up to the limit promised. However, your insurance company will give you another shock at a later stage when you pay your premium, as you will see that it will now be revised to a higher amount. This is what they call "loading".

However, when Ajit went to renew his car insurance policy, he was surprised to see the premium prices up by a substantial margin. If you have been in a similar situation with not only car insurance but several other types of insurance policies as well, it is time to understand what loading is.

The chances are high that you would have never heard of what loading is and what is its correlation with your insurance premium. Thus, the most obvious question would be, what is loading? In simple terms, loading is a buffer, or an amount added to a policy to cover up for losses which were higher than what the insurer was anticipating. This comes into the picture if an insured is prone to a certain type of risk or opts for claims regularly.

Loading and its consequences were brought into effect to ensure insurance companies are well protected against high risk individuals. Though the coverage provided to all insurers for a product would more or less be similar, the claims differ a lot. Someone whose occupation requires to take risks on a daily basis is more like to see loading. Or someone who has a lot of medical history is likely to see loading with their health insurance plan.

The concept of loading is applicable to life insurance products as well as health insurance products. As far as general insurance products are concerned, one would come across claims based loading and underwriting based loading. Post the introduction of regulations for Health Insurance in 2013, the claims-based loading concept is now obsolete.

Types of Loading

Loading affects both life and health insurance. In a life insurance, the main factors that would determine your premium to be paid are the term of the insurance, type of policy and most importantly your age.

This is because the possibility of mortality is higher for an older person, so a 50-year-old will be charged higher than a 20-year-old for the same policy.

But you need not worry about the increase in insurance premium for the first 3 years, as the company cannot change it during that period, irrespective of the number of claims made.

Sometimes the premium could be higher irrespective of your age. If a person is a habitual smoker, obese, diabetic or has an occupation that is life-threatening, the insurance loading will be higher than that of a healthy individual with an office job. This is because they hold a higher risk of dying younger or falling sick.

Also, if an individual lives in a country with political unrest, he/she will be burdened with residential insurance.

The basic idea behind loading is that higher the risk of you making a claim, the higher will be the premium charged.

Reason for loading in premiums

An insurance business anticipates a certain amount that might be claimed through insurance for a certain period. Till you were healthy, you proved to be at a lower risk of claiming your insurance. When diagnosed with certain health complexities that could reoccur (like a heart-attack), you are a greater risk to the company.

So to cover itself of losses that could occur from uncertainties of a customer's health, the insurance company charges a higher premium than it would before. The loading is based on your medical history, nature of the job (whether or not dangerous) or hazardous habits.

Exclusion in Insurance

Some insurance policies have "exclusion" in them instead of "loading." This means that the person insured can continue paying the same premium, but will not be covered by insurance in certain conditions. For example, if your insurance excludes cancer, you cannot claim insurance for cancer-related treatment or suppose your life insurance does not include death by performing adventurous activities like bungee jumping, your family will not be able to claim any amount in those circumstances.

The End