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CLAIM SETTLEMENT IN LIFE INSURANCE: A STUDY

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ABSTRACT

Life insurance is an important service industry in India. The main objective of Life Insurance is 'financial protection'. Similarly, it is bought as investment as well as to meet emergencies such as accidents, sicknesses etc. The insurers are required to settle the claims either on death or on maturity or surrender. And the beneficiaries of the policy must get the claim without difficulty and within a short period. Customer delight in life insurance industry mainly depends up on the speed of claim settlement. Other things being equal, the claim settlement process decides whether the customers are satisfied or not. The present paper is an attempt to assess the claim settlement activity of the life insurance industry in India. The author has considered individual claim settlement performance, Gross Benefits paid by the insurers and the surrenders to assess the performance of life insurance industry in claim settlement. The paper concluded that the performance of Life Insurance Corporation of India is better than the Private Insurers in claims settlement segment.

KEYWORDS : Life Insurance, Claims, Repudiation, Individual Claims, Surrender,

INTRODUCTION

Life insurance is a prominent service industry in India. Insurance is a mechanism that spreads risk of a person over a large number of people against different types of contingencies such as death of a person due to accident or sickness, loss to the property due to fire, theft, accident, flood, riot, strike, explosion etc. There are main three types of insurance viz. Life Insurance, Fire Insurance and Marine Insurance. Again, there are miscellaneous insurance contracts such as fidelity insurance, accident and burglary insurance, liability insurance, motor car insurance, crop and cattle insurance, unemployment insurance, medical



insurance, health insurance, group insurance etc. Though, the kinds of miscellaneous insurance seem different, they fall under either life or general insurance category.

LIFE INSURANCE:

Death may occur at any time or even disability of the earner may disturb the earnings and financial stability of the family. Disability of a breadwinner is as good as economic death that increases additional and unexpected financial burden of the family. Life insurance is the source, through which this financial problem can be solved up to some extent with planned investment.

Along with providing financial protection to the people, life insurance provides multidimensional services. Life insurance is a cooperative device wherein the insured undertakes to pay financial compensation in the event of

death or disability of the insured, against the payment of monetary consideration. Life Insurance Company collects the contribution i.e. premium from a large number of people having common interest, out of the premiums so collected it provides financial assistance to the beneficiary at a predetermined rate on the happening of a certain event related to the life of policyholder or on the expiry of a period mentioned in the contract. In other words Life insurance is a mechanism of financial risk transfer related to human life.

Life Insurance policies are bought by the people with the main objectives of 'financial protection'. Similarly, many people buy life insurance products with varied objectives such as investment, tax exemption, provision for old age, children education, children marriage, to meet emergencies such as accidents and sicknesses etc.

Therefore, the beneficiaries of the life policy must get the claim without difficulty and within a short period. Customer delight in life insurance industry mainly depends up on the speed of claim settlement. Other things being equal, the claim settlement process decides whether the customers are satisfied or not.

Settlement of claim by the insurer leads to termination of the insurance contract between the insured and insurer. Claim settlement is the process through which the insurer i.e. the insurance company makes the payment of the sum assured or amount claimed by the beneficiary either on the death of the policyholder or on the maturity of the policy whichever is applicable.

In life insurance the claims may be of two types:

1. Death Claims: Death claims are the claims admitted by the beneficiary on the death of insured before maturity of the policy period under the Endowment and Term Policies. These claims are payable to the nominees of the policyholder.
2. Maturity Claims: Maturity claims are the claims admitted on the maturity of the term of the policy in case of Endowment Policies if the policyholder survives till maturity.
3. Other Claims: Other claims include the payment of Surrender Value, in case the policyholder surrenders the policy and waives the benefits of the policy before maturity.

OBJECTIVES OF THE STUDY:

The study was undertaken to assess the claim settlement activity of the life insurance industry in India.

COLLECTION OF DATA:

Secondary data has been used for the study. Annual Reports of IRDA and Handbook published by IRDA are the major sources of collection of secondary data. Along with Annual Reports of IRDA reference books, magazines, journals and web sites have also been used to collect the data.

METHODOLOGY:

Percentage is the major statistical tool used for presentation, analysis and interpretation of the data. MS Excel has been brought in use for tabulation and analysis of data.

Presentation, Analysis and Interpretation of Data:

The author has made an effort to assess the claim settlement activity of the life insurance industry in India. For this purpose the data related to individual death claim settlement, claim settlement of Surrender of life policies and Unit Linked Policies has been shown in the following tables.

Table 1
Payments against Surrender & Withdrawals

(Rs. Crore)

| Year | Industry Total | LIC | | Private Insurers | |
|----------|-------------------------|-------------------------|-------------------|-------------------------|-------------------|
| | Surrender & Withdrawals | Surrender & Withdrawals | ULIP Surrender | Surrender & Withdrawals | ULIP Surrender |
| 2013 -14 | 106982 | 59627 (55.73)* | 38968 (65.35)# | 47356 (44.26)* | 44752 (94.50)# |
| 2012-13 | 105822 | 56012 (52.93)* | 41042 (73.42)# | 49810 (47.06)* | 47826 (96.02)# |
| 2011-12 | 71208 | 41531 (58.32)* | 28197 (67.89)# | 29677 (41.67)* | 28690 (96.85)# |
| 2010-11 | 76712 | 49774 (64.88)* | 40761 (82%)# | 26938 (35.11)* | 26207 (97)# |
| 2009-10 | 36244 | 22395 (61.78)* | 11125 (50%)# | 13849 (38.21)* | 12959 (94)# |
| 2008-09 | 13869 | 9723 (70.10)* | NA | 4146 (29.89)* | NA |

Source: Annual Reports of IRDA for respective years.

Note:

#Figures in the bracket indicate percentage of ULIP Surrenders of LIC and Private Insurers to their respective total Surrenders and Withdrawals.

• Figures in the bracket indicate percentage of Surrenders and Withdrawals to Total Surrender and Withdrawals of the life insurance industry.

NA= Data not available

Table number one shows the Surrenders and Withdrawals in life insurance industry from 2008-09 to 2013-14.

It can be seen that the amount of total surrenders i.e. the life insurance industry have increased unflinching from Rs. 13869 crores in the year 2008-09 to Rs. 106982 crores in the year 2013 -14. It is observed that the percentage of surrenders and withdrawals in LIC are lesser as compared to the private insurance companies throughout the study period. It is further observed that the stake of LIC in surrenders and withdrawals have decreased consistently over the study period except the last year. The share of LIC in total Surrenders and Withdrawals of life insurance industry reduced from 70.10% in the first year of study period i.e. 2008-09 to 55.73% in the last year of study period. Share of ULIP Surrenders in LIC's Surrender and Withdrawals was noticed to be more than 50% over the study period except 2008-09. In the year 2010-11, the share of ULIPs in the Surrender and Withdrawals of LIC was 82%. The share of private life insurers in Surrenders and Withdrawals in the Surrenders and Withdrawals of life insurance industry is below 50%. The first year i.e. 2008-09 showed only 29.89% share of private insurers in total Surrenders and Withdrawals. On the other hand the share of ULIP Withdrawals of private life insurers in their Surrenders and Withdrawals is above 94% throughout the study period.

Table 2
Percentage of Gross Benefits Paid to Gross Premium Underwritten

| Year | Industry | LIC | Private Insurers |
|----------|----------|-------|------------------|
| 2013 -14 | 69.07 | 66.72 | 76.28 |
| 2012-13 | 67.02 | 64.62 | 73.43 |
| 2011-12 | 53.34 | 57.91 | 42.33 |
| 2010-11 | 48.88 | 54.69 | 35.46 |
| 2009-10 | 36.10 | 42.54 | 21 |
| 2008-09 | 26.39 | 33.38 | 9.34 |

Source: Annual Reports of IRDA for respective years.

Table number two shows the Percentage of Gross Benefits Paid to Gross Premium Underwritten by the life insurance industry, LIC of India and the Private Insurance Companies. It is observed that the proportion of the of Gross Benefits Paid to Gross Premium Underwritten by the life insurance industry LIC of India and the Private Insurance Companies over the period of 2008-09 to 2013-14 has increased continuously. The percentage from 26.39 in the year 2008-09 increased to 69.07 in the year 2013-14 for the life insurance industry in India. In case of LIC of India, it increased from 33.38% in the year 2008-09 to 66.72% in the year 2013-14. For Private Insurers it increased from 9.34% to 76.28%. The table does not show any ups and downs in this regard.

Individual Death Claims:

Individual death claims are the claims settled by the life insurers on policies issued to the individuals. Study of individual claim settlement has been done after taking into account actual claims paid, claims repudiated and claims pending at the end of year by LIC and Private Life Insurance Companies.

Table 3
Individual Death Claims
(Figures in percent of policies)

| Year | Claims Paid | | Claims Repudiated | | Claims Pending at End of Year | |
|---------|-------------|-------|-------------------|------|-------------------------------|------|
| | LIC | PVT | LIC | PVT | LIC | PVT |
| 2013-14 | 98.14 | 88.31 | 1.10 | 8.03 | 0.52 | 3.63 |
| 2012-13 | 97.73 | 88.65 | 1.12 | 7.85 | 1.04 | 3.47 |
| 2011-12 | 97.42 | 89.34 | 1.30 | 7.82 | 1.21 | 2.82 |
| 2010-11 | 97.03 | 86.04 | 1.0 | 8.9 | 1.46 | 5.01 |
| 2009-10 | 96.54 | 84.88 | 1.21 | 7.60 | 1.41 | 7.48 |
| 2008-09 | 95.48 | 82.26 | 1.33 | 9.97 | 2.21 | 7.75 |

Source: Annual Reports of IRDA for respective years.

Note: LIC- Life Insurance Corporation of India

PVT- Private Life Insurance Companies

Table number three shows the Individual Death Claims settled as percent of policies by the LIC of India and the Private Insurance Companies during 2008-09 to 2013-14. It is seen that LIC of India has settled claims on 95.45% policies/claim proposals in the year 2008-09 and the same was 82.26% in case of Private Insurers. LIC has settled 98.14% claims in the year last year i.e. 2013-14 while Private Insurers settled 88.31% claims in the same year. It is observed that LIC has settled more than 95% claims throughout the study period. On the other hand the Private Insurers settled less than 90% claims during the study period. Thus, it can be stated that claim settlement activity of LIC is far better than the Private Insurers throughout the study period. Similarly, the proportion of Claims Repudiated, Claims Pending at the end of the year at LIC are also very low as compared to the Private Insurers.

CONCLUSION:

The performance of Life Insurance Corporation of India is better than the private Insurers in claims settlement segment. Time-lags in claims settlement or repudiations increase the dissatisfaction of the policyholders. Therefore, careful evaluation of risks for the purpose of prompt settlement of claims is the key for the insurers. An efficient, speedy and customer friendly claims processing mechanism is necessary for the better performance in claim settlement activity. Simplification in documentation and the cooperation from employees/agents of the insurance companies will definitely prove to be beneficial.

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