

IMPACT OF CLAIMS SETTLEMENT: A CASE STUDY OF LIC OF INDIA

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ABSTRACT

For life insurance services, claim settlement is one of the most important part. A person who possesses or is planning to buy insurance will always wants immediate claim settlement. For most of the insurance companies, the source of revenue is sales of insurance policies and if the claims are not settled properly, it will hamper the sale of insurance. This present study has been carried out on the basis of the data available in the annual reports published by IRDA and it can be seen that Life Corporation of India has promptly settled most of the claims generated, also collecting highest insurance premiums and secured top position in selling the most number of policies.

KEYWORDS: *Claim Settlement; Impact, Life Insurance; LIC of India.*

Introduction

Insurance is an agreement that provides protection against expected economical losses that may arise due to an unexpected event. To avail of the benefit of insurance coverage, settlement of claims plays a significant role. Growth of this sector is wholly based upon the people who acquire policies and the buyers of the service. The division of losses suffered by a small number of insured is shared with many exposed to some type of risks. Insurance contract involves two parties, one the insurer who agrees to protect the other party for any unseen event. Only when the other party called 'insured' promises to pay a premium to receive such services. Claim is the amount secured under the policy contract to be compensated by the insurer to the insured. Claim can either be settled on attaining the maturity of the policy where the benefits for a specified period are given to the insured, or death claims arise out of the death of the insured under the specific term. Firstly, policy holder or his/her nominee must contact the insurance company to file the insurance claim.

Most of the times, individuals are made to pay regular or annual premium charges for their insurance coverage. These premiums are utilized to settle other claims or invested in making assets for the company. The insurance company firstly assesses the circumstances under which the claim is made and after that the company decides to approve or disapprove the claim. For immediate settlement of claims both the parties must come in terms specified earlier in the policy. The procedure to settle any claim is tedious, but it wins confidence of the public. Insurance claim is a right given to the insured under the contract of insurance, where the insurer has already promised to provide and secure the insured or their nominees on happening of the event or risk under which the policy was taken. For most of the insurance companies, selling more and more policies will generate more and more profits and in turn more revenue is generated. Both the parties interpret the process of claim settlement in different ways. It is the responsibility of the insurance company to safeguard the interest of its policyholders. Any claim cropped up remains claim until the company has not assessed the situation. It becomes payout after the assessment. Since today business activities are interconnected, services related to claim settlement have impact on selling of life insurance policies to a greater limit.

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Life Insurance in India

Business of life insurance in India is started in the year 1818, with the establishment of the Oriental Life Insurance Company in Kolkata. Mr. Bipin Bihari Dasgupta established Oriental Life Insurance Company in 1818 in Kolkata. It was when Life Insurance established its first foot in Indian market. Europeans settled in India were their prime customers. At initial years the first native insurance provider was formed in 1870 named as 'Bombay Mutual Life Assurance Society'. There are a total of 23 life insurance companies in India till date. Prominent policy providers in India are ICICI Prudential Life Insurance Company, Bajaj Allianz Life Insurance company, Reliance Life Insurance Company, HDFC. In Life Insurance, two parties hold the most important position i.e. the policy holder (insured) and insurer (Insurance Company). Life insurance policy is a legal contract between the policy holder and the insurer, terms and conditions are mentioned in the contract. It is a legal document between the insured and insurer and the insurer is bound to pay the sum of money already mentioned on the death of the insured person, or if the whole term comes to maturity, the policy holder or their nominees receive the requisite amount after a proper assessment. In this context, the policy holder promises to pay fix amount of money called as premium either on regular or annual basis to the company. Life insurance is bought mostly for two objectives viz. firstly for the risk coverage and second for the investment and getting tax benefit.

- **Risk Coverage:** The whole amount insured is paid if a specific event is occurred.
- **Investment:** The investor invest the money with the expectation of getting a higher return.

Following are the types of the Life Insurance:

- Term Life Insurance
- Whole Life Insurance
- Endowment Life Insurance
- Money Back Life Insurance
- Unit Linked Insurance Policies

LIC of India

There can be number of risk which can be covered, for this reason LIC of India was established on 1st September, 1956 under Insurance Corporation Act which was earlier passed in the parliament of India on 19th June, 195. LIC of India is one of the leading financial institution offering total financial solutions that covers every aspect of life. Market share in terms of customer base is around 23 crores which is the maximum share of any company in insurance industry. LIC has established many divisional and zonal offices for rigorous training facilities for sales task force at all level. LIC provides solutions from corporate, commercial banking to stock broking, mutual funds, life insurance. LIC is known for catering needs from individual to corporate level. LIC was started with the objectives of providing insurance to the rural areas; to meet basic wants of the community and society aroused out of change in social and economic environment. The net worth of LIC is above 1800 crores.

Procedure followed by LIC to Settle the Claim:

LIC follows a well defined process for the settlement of claim. They lay emphasis on prompt settlement of death as well as maturity claims. Most claims are normally paid but if any fraudulent or fake doubts are assessed by the insurer then, the cases are referred to zonal and central offices. The process for settlement of maturity and death claims is as follows:

In case of **Maturity Claims:**

- In Endowment type of Policies, at least two months before the due date of payment, the branch which provide the service of intimating the policyholder about the date on which amount is payable. Post dated cheque is sent to the policy holder after receiving the documents
- Money Back Policies give periodical amount to its policyholders if premium due under the policies are paid up to the anniversary due to Survival Benefit. In any case where the amount is upto Rs. 60,000 the cheque is given without asking the discharge receipt or policy document. In cases where the amount is above the former discharge receipt is compulsory. The amount of death claim is payable in both conditions, when policy's premiums is paid up-to-date and also where the death occurred within the given days of grace. After receiving information regarding the said event, the company's branch office requires following things:
 - Claim form A This has claimant's statement stating details of the deceased and the claimant.
 - Death certificate from Death Registrar's Office.

- Documentary proof of age, if age is not mentioned.
- Proof of title of the deceased's estate if there is no nominee assignee issued under M.W.P.Act.
- Original Policy Document

There are also other following documents required if death occurs within 3 years from the date of risk or from date of revival:

- **Claim Form B:** Medical Attendant's Certificate to be completed by the Medical Attendant of the deceased during his/her last illness
- **Claim Form B1:** If any treatment was received by the life assured in any hospital
- **Claim form B2:** to be filled in by the medical attendant who treated the deceased life assured prior to his last illness.
- **Claim Form C:** A certificate of burial or cremation duly signed by a person of good character and responsibility.
- **Claim form E:** Certificate from employer if the insured was employed.
- If the cause of death was unnatural or accident; certified copy copies of FIR must be submitted, the post-mortem report or any other police investigation report are also to be attached to prove that the claim is genuine and not fake.

Claim Settlement Ratio of Different Insurers

Table 1: Shows Number of Claims Filed, Number of Claims Paid and Claim Settlement Ratio of Different Life Insurers.

S. No.	Insurer	No. of Claim Filed	No. of Claims Paid	Claim Settlement Ratio
1	LIC	10,47,000	10,43,126	99.63
2	ICICI Prudential	20,982	20,206	96.30
3	HDFC Standard	8,653	8,229	95.10
4	Max Life	12,421	11,707	94.25
5	SBI Life	19,029	17,895	94.04
6	Reliance	18,215	17,067	93.70

Source: IRDA Annual Report, 2016-17.

The claim settlements when compared with total life insurance premium earned shows the impact on sales. The ratio of claim settlement and premium earned can be assessed by comparing with the number of policies sold.. Most significant criteria is assessing the claim settlement ratio. To put simply, claim settlement is the ratio of the number of claims settled to the total number of claims filed in a particular fiscal year. The claim settlement ratio of LIC is better than that of the private life insurance players. Settlement ratio of LIC has increased to 99.63 during the year 2016-17 when compared to 99.55 percent during the previous year. LIC enjoys the trust of the major chunk because of their prompt and highest claim settlement ratio than its competitors. It is observed that major fund earned as premium by Life Insurance Company is deployed into claims settlements.

Comparison of Life Insurance Premium Earned

A major fraction of the premium earned by a life insurance company goes into the fund that is deployed to pay the insured when he/she files a claim. It becomes a measure of how financially sound an insurer is. Thus, the premium earned by an insurance company suggests that whether or not, the life insurance company be able to fulfill its obligation of making up for the loss of the insured in case of an eventuality.

Table 2

S. No.	Insurer	Total Premium Earned (in crores)
1	LIC	45,646.02
2	ICICI Prudential	13,383.42
3	HDFC Standard	11,232.86
4	SBI Life	10,045.30
5	Reliance	9,829.07

Source: IRDA Annual Report, 2016-17.

From Table 2, it is clear that LIC of India earned total premium of Rs. 45,646.02 crore followed by ICICI Prudential (Rs. 13,383.42 crore), HDFC Standard (Rs. 11,232.86 crore), SBI Life (Rs. 10,045.30 crore) and Reliance (Rs. 9,829.07 crore). Obviously, LIC is well ahead of other life insurance companies in earning premium amount.

Comparison of Policies Sold

Following table reflects the number of policies that a life insurance company issue in a fiscal year.

Table 3

S. No.	Insurer	Individual Policies (New Business)
1	LIC	2,01,03,000
2	ICICI Prudential	9,95,595
3	HDFC Standard	10,25,739
4	SBI Life	8,98,767
5	Reliance	7,92,315

Source: IRDA Annual Report, 2016-17.

As can be seen from Table 3, the undisputed market leader is LIC which issued 2,01,03,000 individual life insurance policies in 2016-17 which is higher than total policies issued by its competitors all together. From the above, it shows that LIC of India has better claim settlement ratio and predefine claim filing procedure, which ultimately boost the total life insurance premium earned, and number of policies sold by the company.

Conclusion

Claim settlement has always been the most important part of the life insurance service. For any insurance company sales of insurance policies is the biggest source of revenue and if claim are not properly settled then it will affect its sales. After the opening up of life insurance market, LIC of India holds major market because of prompt claim settlement, trust and adaptability to change with changing environment. The study shows that there is a positive relationship between Sales and Claim Settlement. Better Claim settlement leads to better sales figure and customer relation. LIC of India holds leading position in the life insurance market due to its better claim settlement process and ratio.

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