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CLAIM SETTLEMENT MECHANISM OF HEALTH INSURERS IN INDIA: A CRITICAL ANALYSIS

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Abstract

Health insurance in India is a fastest growing segment in the insurance sector due to increase in the life style diseases, rising awareness about health insurance, increase in the average income level etc. Liberalisation paved the way for entering private players in the insurance market. Now there are four public sector insurance companies, eighteen private sector insurers, six stand-alone insurance companies and two specialised insurers providing health insurance coverage to the customers. It is seen that the growth rate as well as the AAGR of premium of public sector companies is higher in comparison with private sector companies.Incurred claim ratio of public general insurance companies is higher than that of private sector general insurers. Number of claims paid over the years seems to be greater than the number of claims repudiated and claims pending. The claims of higher values are either prone to repudiation and/or pending by the insurers. This has become a matter of serious concern amongst policyholders' losing confidence in the insurance claim management, leading to poor customer satisfaction and low retention and policy renewals. Hence; the insurance sector is required to expedite the handling and claims settlement mechanism proactively and promptly

Key Words
Health Insurance, Gross Direct Premium, Incurred Claim Ratio.

1. Introduction

For the last two decades there has been a remarkable surge in the acceleration of health care expenditure. This has compelled people to relook the monthly expenditure, spending pattern and simultaneously allocate appropriation of this income towards personal health care. Moreover health care sector in India is in a great transition due to increased income level and health consciousness among the general public, price liberalization, reduction in bureaucracy, and the introduction of private healthcare.From the introduction in1986, the health insurance segment has a consistent

growth. It was introduced in the form of medi-claim by public sector general insurance companies. After liberalisation several private sector insurers entered into the market with attractive and innovative packages. The entry of private players caused an end of monopoly of public sector companies and free competition started. During the first 12 months IRDA issued 6 licences to the private sector insurance companies to sell general insurance products. Standalone health insurers started working from 2006-07 onwards. Still there are 4 public sector insurance companies, 18 private sector insurers, 6 stand-alone insurance companies and 2 specialised insurers providing health insurance coverage to the customers. The private sector general insurers launched many innovative products like critical illness plan, family floater policies, top up policies etc., during the financial year 2017-18, general and health insurance companies registered a growth of 21.8 percent over the previous year 2016-17.

2. Research Problem

In India health care expenditure is extremely high and in an increasing trend. NSSO envisages that this escalating medical expense is the main reason for the indebtedness among the poor and middle class people (Economic Times 2018). Though during the last years health insurance sector has made a rapid growth, health insurance penetration in India is low comparing the other developing economies in the world and out of pocket health care expenses is high (Report WHO 2017). A large part of the population does not have any health insurance policy.The following

table shows the status of people covered under various health insurance plan.

Table 1: Persons Covered under Health Insurance under different Class (Figures in lakhs)

Class of Insurance	2012-13	2013-14	2014-15	2015-16	2016-17
Govt.sponsored schemes including RSBY	1494(72%)	1553(72%)	2143(74%)	2733(76%)	3350(77%)
Group Business (other than Govt.business)	343(17%)	337(15%)	483(17%)	570(16%)	705(16%)
Individual Business	236(11%)	272(13%)	254(9%)	287(8%)	320(7%)
Grand Total	2073(100%)	2162(100%)	2880(100%)	3590(100%)	4375(100)

Source: Annual Report of IRDAI, 2016-17

From table 1, it is clear that participation of people in government sponsored health insurance schemes is higher compared to private insurance policies taken. One

of the reasons why consumers shy away from Health Insurance is the perceived difficulty during claim settlement. Due to low acceptance of Health Insurance as the preferred mode of healthcare financing, there is very high incidence of Out of Pocket (OOP) expenses in India and isestimated to be 72% (Cognizant 20-20 Insights, February 2014. p.2) .In fact such high OOP expenses (Gupta &Trivedi 2006) pushes many poor people into debt trap as they seek loan from moneylenders and even sell off the little property they possess. In this scenario this study focussed to study the efficiency level of health insurance companies in India in settlement of claims

3. **Objectives**

i)To analyse the performance of health insurance business with reference to claim settlement mechanism

ii)To compare the performance of public and private sector health insurance providers in terms of gross direct premium and incurred claim ratio.

4. Review of literature

Speedy and equitable claim settlement is the best formof advertisement for insurance companies (Irukwu, 2000). A prudent claim administration strategy promotes customer loyalty which in turn will help the company to retain the existing customers and to attract new customers(Atkins ,2007; Brears ,2004; Banjo 1995; Butler & Francis ,2010) According to the Organization for Economic Co-operation and Development (2004), a good insurance claim management process should involve: claims reporting; receipt of claims by the company; claims files and procedures; fraud detection and prevention; claims assessment; timely claim process; complaints and dispute settlement; and supervision of claims-related services.

Claims make insurance tangible and deliver client value because they can reduce out-of-pocket expenses (Dalal et al., 2014).

When we take public and private players the claim settlement procedures followed by the public companies are better than private companies. But service like response to queries, speed of grievance settlement, online facilities and provision of information provided by the private companies are more better than public companies (Abdul Azees 2016).

5. Methodology

Data for the study is gathered from secondary sources such as annual report, various issues of hand books by IRDA and research papers. Four public sector general insurance companies such as National Insurance Company Ltd, New India Assurance Company Ltd, United India insurance company Ltd and Oriental Insurance Company Ltd and seven private sector general insurers namely ICICI Lombard, Bajaj Alliance, HDFC Ergo, SBI General, Reliance and IFFCO Tokio are selected for the study. Private sector companies are selected on the basis of their market share. The period of study was 2013-14 to 2017-18. The comparative performance has been examined by using the variables like gross direct premium and incurred claim ratio.

6. Results and Discussion

The Gross direct premium collected by major health insurance companies in India is given in tale 2. Gross Direct Premium means the total premium received before taking into account reinsurance ceded.

Table 2: Gross Direct Premium Collected By Private Sector Companies(in crore)

Company	2013-14	2014-15	2015-16	2016-17	2017-18	*Mean*	*SD*
ICICI Lombard	1683.79	1550.49	1662.84	2025.4	1937.58	*1772.0*	*200.24*
Bajaj Alliance	797.83	797.51	942.26	1241.33	1280.85	*1012.0*	*235.38*
HDFC Ergo	916.22	942.85	1092.88	921.53	974.21	*969.5*	*72.62*
SBI General	202.66	386.94	516.78	792.52	472.64	*474.3*	*214.76*
Reliance	499.62	519.7	564.57	380.89	723.27	*537.6*	*124.02*
IFFCO Tokio	315.82	390.39	481.78	569.02	667.37	*484.9*	*139.55*
Tata AIG	363.38	379.28	398.4	450.19	432.77	*404.8*	*36.23*
Mean	*682.76*	*709.59*	*808.50*	*911.55*	*926.96*	*807.9*	
*SD**	*511.61*	*432.13*	*456.11*	*573.80*	*533.59*	*491.34*	

Source: compiled from various hand books published by IRDA
*Standard Deviation

Table 3: Gross Direct Premium Collected By Public Sector Companies (in crore)

Company	2013-14	2014-15	2015-16	2016-17	2017-18	*Mean*	*SD*
National	3167.91	3895.97	4284.1	5053.92	5328.91	*4346.162*	*874.86*
New India	3484.74	4127.39	5058.64	6335.12	6995.89	*5200.356*	*1468.53*
Oriental	2038.5	2200.22	2778.15	3846.36	3578.7	*2888.386*	*806.58*
United	2868.47	3408.87	4378.28	5504.14	5605.98	*4353.148*	*1223.82*
Mean	*2889.91*	*3408.11*	*4124.79*	*5184.89*	*5377.37*	*4197.01*	
SD	*620.88*	*859.14*	*961.80*	*1038.23*	*1403.50*	*960.18*	

Source: compiled from various hand books published by IRDA

Table 6.1 and Table 6.2 shows the trend of gross direct premium collected by seven private sector and four public sector general insurance companies respectively from

health insurance business during the last five years 2013-14 to 2017-18. The average Gross direct premium collected by public sector general insurance companies from health insurance business was 4197.01crore . Whereas it was 807.9crore in case of private sector general insurers. The 't' test result shows that the difference in premium collected over the years between private and public insurance companies is statistically significant (t=-6.950, p=.000).

Table 4: Growth Rate in Premium - Private vs Public Insurance Companies

Year	Private Companies (%)	Public Companies (%)
2014-15	3.93	17.93
2015-16	13.94	21.03
2016-17	12.74	25.70
2017-18	1.69	3.71
Annual Average Growth Rate (AAGR)	8.08	17.09

It is clear from the table that the growth rate as well as the AAGR of premium public sector companies is higher in comparison with private sector companies.

In the initial stage the role of public sector companies was greater than that of private sector. But with the passage of time, number of private players is increasing and they are providing innovative products to the customers. So the public sector insurers should equipitself to meet the challenges from the private sector general insurance companies.

Incurred Claim Ratio

Incurred claim ratio is the proportion of claim that is paid out against the total amount of premium received by a general insurance company. It indicates the insurance company's ability to pay the claim. It is very much significant as it represents the risk performance. Generally, if it higher, it would be more better.While choosing a health insurance, customers look at two Ratios – Incurred Claim Ratio (ICR) and Claim Settlement Ratio (CSR). The former is the ratio of claims settled and the premium collected. This basically shows, whether the Insurance company is earning adequate premium for settling the claims. This may not the right ratio for a prospective customer

to decide whether to buy the Health Insurance from that company or not. ICR in Indian Health Insurance market has been rising over the years. As per the IRDAI, it has increased from 94% in 2012-13 to 106% in 2016-17 (IRDAI Annual Report. 2016-17. p.51). It is possible that the ICR is high because of high claim or a low premium collection, or both. Any ICR higher than 70% makes HICs business unsustainable.

Table 5: Incurred Claim Ratio of Private Sector Companies

Company	2013-14	2014-15	2015-16	2016-17	2017-18	*Mean*	*SD*
ICICI Lonbard	93.02	87.38	82.09	90.22	78	*86.142*	*6.09*
Bajaj Alliance	86.6	73.59	74.94	78.5	87	*80.126*	*6.35*
HDFC Ergo	92.91	56.48	51	50.76	67	*63.63*	*17.64*
SBI General	48.63	80.37	54.41	53.43	41	*55.568*	*14.84*
Reliance	97.78	107.49	95.87	98.49	114	*102.726*	*7.73*
IFFCO Tokio	87.17	92.41	104.25	104.3	89	*95.426*	*8.29*
Tata AIG	86.28	69.94	65.58	57.2	67	*69.2*	*10.66*
Mean	*84.63*	*81.09*	*75.45*	*76.13*	*77.57*	*78.974*	
SD	*16.44*	*16.59*	*20.12*	*22.42*	*22.76*	*17.16*	

Source: compiled from various hand books published by IRDA

Table 6: Incurred Claim Ratio of Public Sector Companies

Company	2013-14	2014-15	2015-16	2016-17	2017-18	Mean	SD
National	104.29	110.02	110.4	126.98	117	*113.738*	*8.66*
New India	96.85	98.78	114.64	102.94	104	*103.442*	*6.91*
Oriental	115.23	117.02	114.48	118.23	102	*113.392*	*6.54*
United	114.26	118.98	122.25	138.51	111	*121*	*10.70*
Mean	*107.66*	*111.20*	*115.44*	*121.67*	*108.50*	*112.89*	
SD	*8.74*	*9.13*	*4.94*	*14.99*	*6.86*	*7.21*	

Source: compiled from various hand books published by IRDA

Sector-wise analysis indicates that the incurred claim ratio of public general insurance companies was higher than that of private sector general insurers. The average incurred claim ratio of health insurance business of all public sector general insurance companies was 112.89 per cent than that of private general insurance companies was 78.974 per cent which shows that there is a big difference between public and private insurers incurred claim ratio.

The standard deviation values of public and private sector health insurers were 7.21 and 17.16 respectively and coefficient of variation of public and private sector general insurance companies were 6.39 and 21.73 respectively which indicates higher consistency of the public sector companies. Year wise analysis reveals that average incurred claim ratio of health insurance business of public sector health insurers was high i.e. 121.67 per cent during the year 2016-17 followed by 115.44 per cent in the year 2015-16. The high incurred claim ratio of private sector health insurers was 84.63 percent during the year 2013-14 followed by 81.09 per cent in the year 2014-15. This indicates that public sector general insurers are concentrating on the smooth running of the business.

Incurred Claims Ratio shows the ability of a company to make payments towards claims. If the ICR of a company is more than 100%, it indicates that the amount of money given away by the company as claim is more than the amount of money collected by the company as premium. In such cases, the company will find it hard to sustain itself, and as a result, will either resort to rejecting some borderline claims, raise the price to better manage claims, or change their product altogether.

The year wise analysis bring out the fact that the average incurred claim ratio and gross direct premium of public sector general insurance companies are greater than private sector. The values of standard deviation and coefficient of variation indicates that the public sector general insurance companies are more consistent than private sector general insurance companies

Claim Settlement Ratio (CSR)

This is the ratio of Number of claims settled and the Number of claims received. A higher Claim Settlement Ratio can build the confidence in the mind of the buyer that, there is a fairly good chance of his claim getting settled as well, in case there is a claim from his side. Though Claim Settlement Ratio is a better measure for making a decision, such data are not compiled or published by IRDAI. These data are available at the websites of respective Insurance companies. The CSR of some of the leading Insurance companies for the year ended 31st March 2018 is given in table

Table7 : Claim Settlement Ratio(CSR) of Health Insurance Companies as on 31st March 2018

Name of Insurer	CSR (%)
ICICI Lonbard	98.58
Bajaj Alliance	93.95
HDFC Ergo	82.99
SBI General	95.03
Reliance	97.71
IFFCO Tokio	92.88
Tata AIG	99.07
National	83.25
New India	79.58
Oriental	77.56
United	81.58

Source:Website of respective companies

If the claim is less than 50 per cent, it means that the company is either hardly giving out claims or it making relatively large profits.The value of claim between 75-90 percentwhich shows that the company is dependable. Hence from table 7, it can be inferred that all companies are dependable since the value of CSR in all cases is more than 75 per cent. It is observed that the CSR of Public sector health insurance company is lower compared to private sector health insurance companies. This may be due to the fact that the number of claims received by these companies is higher because of larger customer based in comparison to private sector companies. There are possibilities of filing wrong claims which are inadmissible.

There are examples where, insured have submitted claims without even getting hospitalized. This is a moral hazard in Health Insurance. There has not been any empirical study in India to find out the extent of this malaise, but some studies conducted in Iran (Khorasani, E. 2016) and Malaysia (Kafeli& Jones 2012) reveals that there are broadly two reasons for the malpractice– (1) Economic. (2) Moral-cultural. There are evidences to show that poor and uneducated people are more prone to indulge or yield to such supply side moral hazards.

Further, one should not only look at this percentage, but the volume of transactions behind this number. Higher the volume, higher is the confidence that that they will settle the claim. See table 8.

Table 8: Details on Year-wise Claim Settlement, Repudiation & Pending

(Rupees in Lakhs)

Particulars	2014-15		2015-16		2016-17		2017-18	
	No.of claims	Avg.claim size(Rs)	No.of claims	Avg.claim size(Rs)	No.of claims	Avg.claim size(Rs)	No.of claims	Avg.claim size(Rs)
Claims paid (A)	92,35,780	0.10	80,34,711	0.27	110,39074	0.25	145,44,736	0.21
Claims Repudiated(B)	867,194	0.38	10.39,349	0.42	1366978	0.31	1214616	0.44
Claims Pending(C)	649671	0.73	708,290	0.35	1033319	0.30	1344419	0.24
Claims not settled(C+D)	15,16,865	1.11	17,47,639	0.77	24,00,297	0.61	25,59,035.	0.68

Source: IRDA Reports 2018.

It is clear from table that the number of claims paid over the years seems to be greater than the number of claims repudiated and claims pending(B+C) taking together.

If these are looked in terms of monetary values, it shall be observed that the average value of claims repudiated and claims pending (Rs 1.11, Rs 0.77,Rs 0.61 and Rs 0.68)are more than the claims paid (Rs 0.10, Rs 0.27,Rs 0.25 and Rs 0.21)in all the subsequent years. This implies that claims of higher values are either prone to repudiation and/or pending in the health insurance industry.

This may result in policy holders losing confidence in the insurance claim management, leading to poor customer satisfaction and low retention and policy renewals.All these can be attributed to companies' poor underwriting practices or following stricter norms in the process of claim settlement. Low earnings, availability of insufficient claim reserves or maintenance of higher solvency margin with insurers can be a strong cause to this effect. However, the effort should be made to gear up the volume of claim settlement.

7. Conclusion

Claim settlement makes or breaks the relationship between the Insured and the Insurer. While the Insured wants the process to be prompt and hassle free, the Insurers are generally very conservative and careful. If they settle claims in haste, there is every chance of making mistakes and losing money. Therefore a kind of balance is needed both from the Insured and the Insurer. They both should act in a manner that is win-win. The Insurer should follow due diligence while enrolling people in their policy and

should also settle the claims fast so that the customer gets the service as promised by the Insurer. TPAs should act as the mediator to resolve any issue between the Insured and Insurer. At the end of the day, it is a matter of life for the Insured.

In conclusion, it can be inferred that there have been almost no significant change/improvements in the percentage of claims settled by the insurers over the years. Industry is tight-fisted when it comes to passing on the benefits to the claimants. The claims of higher values areeither prone to repudiation and/or pending by the insurers. Moreover, unwarranted delays in pay-outsby TPAs havecreated hassling experience for the individualthus, earning a bad name for the sector besides increasing the claim costs. This has become a matter of serious concern amongst policyholders'losing confidence in the insurance claim management, leading to poor customer satisfaction and low retention and policy renewals.Hence; the insurance sector is required to expedite the handling and claims settlement mechanism proactively and promptly

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