

Study of Claims Settlement Operations by LIC

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Abstract

In modern times, Life Insurance is widely recognized as one of the basic needs to every earning member to cover life risk and to provide economic security to the dependent members of the family. Apart from covering life risk, life insurance provides several benefits, such as savings, old, age protection, loan facility, income-tax relief, children's education, marriage etc. The Life Insurance companies are also playing an important role in mobilizing the individual savings on a large scale for the socio-economic development of the society. In India life insurance service is provided by Life Insurance Corporation of India (LIC) in public sector and by various other companies in Private Sector including Bajaj Allianz Life Insurance Company Limited.

Key Words: Life Insurance, Risk, LIC, Claims Settlement

Introduction

A study of policy and procedures regarding claims settlement shows that insurance business is a risk management against the contingent losses may take place with the insured persons. The complicated part of the insurance business is the actuarial science of price setting of policies on the basis of statistical calculation of risk coverage.[1] The fundamental theory of income and expenditure is similar to that of Banks whether insurance companies also start investing the premium amounts collected through the policies and earn interest on them so that on demand the payment could be made to the insured persons with all eligible benefits.

Claim settlement is one of the most important services provided by the company to their customers so it require to adopt policies and procedures in such a way that the claims could be settled in a customer friendly environment. Claims such as maturity claims, Death claims, Double Accidents Benefit claims Disability Benefit claims related to LIC are settled on the basis of documents produced by the insured party as per requirement and criteria fixed by the IRDA. Similarly claims such as Health Guard Insurance, Personal Accident, Hospital cash, Life Insurance Death are settled by Bajaj Allianz on the basis of documents required as per the situation and nature of claims. Here also the norms prescribed by IRDA is also followed keeping in mind the minimum level harassment to the customers. As far as the documents are concerned, more or less the same documents are required by both the companies for the settlement of claims.

Comparative Structure of Claims Settlement Operations

From the policy holders' angle, settlement of their claim is the very epitome on which the insurance contract rests. Being a function of such vital importance, claims settlement has to be handled by the insurance companies in a proactive and positive manner, which sometimes calls for delicate handling. There are two parameters with which efficient function of an insurance company can be measured. One is its internal growth measured in terms of new business performance, premiums collected and returned earned on their investments portfolios. Second is the speed and promptness with which the claims are settled and paid within the framework of stipulated rules and regulation of insurance companies as well as the direction given by the regulatory body i.e. Insurance Regulatory Development Authority to both the public sector company as well as to the private sector companies. In India, LIC is the public sector company working as purely Life Insurance works and Bajaj Allianz Insurance Company working as a private sector for Life Insurance works. Here, in this chapter we will try to present the real picture concerning claims settlement operations done by both LIC as well as Bajaj Allianz. For this the rules and regulations and other directions given by IRDA will be analysed and the rules and regulations adopted by both the companies will also be dealt with.

Steps taken by IRDA regarding claims settlement

After giving instructions and guidelines to the life insurance companies regarding claims settlement operations, IRDA has taken other steps also time to time regarding prompt action for claims settlement activities. These steps can be expressed in the following way :-

Under section 14 of IRDA act, 1999 which lays down the duties, powers and functions of IRDA, it is mentioned that steps should be taken by the life insurance companies for protection of the interest of the policyholder in matters concerning settlement of insurance claims with other necessary formalities.[2] The LIC of India has been directed by the IRDA to settle insurance claims within the stipulated time frame. Following a complaint against LIC regarding partial settlement of a death claim, the insurance regulator carried out an inspection on May 31st, 2010. Although the regulator found that there was no violation of rules in respect of the complaints, it noticed that LIC had taken more than 6 months to reject 24 group insurance death claims. In addition, IRDA also find out that during 2009-10, LIC took more than 6 months to complete its investigation on 263 individual claims. Also a number of maturity claims were settled beyond 6 months. After scrutinizing the documents submitted by LIC in reply, the regulator (IRDA) observed that as on March 31st, 2010, there were 300 cases where investigations were pending beyond 6 months. Also during 2009-10, 1424 maturity claims were pending for more than 6 months. Keeping in mind the interest of the policyholders, IRDA asked LIC to expedite their claims settlement process and advised to put in place effective systems to ensure prompt settlement of all claims.[3]

Claims Settlement Operations by Lic :

Pre-Regulatory Period: LIC was established in the year 1956 and has been showing better performance in terms of new products, wide coverage of individuals and organizations, innovating new covers for weaker section of society, investment in social sector, creating infrastructure at grass-roots level and settlement of claims. During 1956-1999, LIC had monopoly in India. However, liberalization and consequent opening up of economy has accelerated the pace of reforms in many sectors of our economy including insurance sector. A rigorous reformatory process was initiated with the setting up of the Malhotra Committee which brought a supreme regulatory structures into existence called the Insurance Regulatory and Development Authority (IRDA) of India in 1999 with an objective to safeguard the interest of policyholder as well as to regulate, promote and orderly growth of the insurance industry. [4]

Post-Regulatory Period :

The quality of insurance services may primarily be evaluated in terms of expeditious settlement of claims.[5] The quality of service offered by LIC of India has been studied with regard to claims settlement operations by comparing its position in pre and post liberalization periods. Claims settlement operations during Post Regulatory Period are discussed by examining the figures from the view point of maturity and death claims settlements. The analysis of figures is done for the period of 2005-06 to 2011-12.

Maturity and death claims settlement operations Claims may arise because of survival up to the end of the policy terms which is the death of maturity (maturity claims), survival up to a specified period during the terms (survival benefits), death of the life assured during the terms (death claims). Payment of maturity and survival claims is the easiest to manage. However, death claims settlement naturally assumes very great importance in the total operations of the corporations. The enormity of the operations of settlement of maturity and death claims can be visualized by noting the number of such payments. The LIC of India makes every year settlement of several claims which is under the study. The analysis of the point is presented in Annexure along with their compound growth rate for the respective periods in different tables given as under.

Analysis of settlement of claims An analysis of percentage share of numbers of Death and Maturity claims to total claims (Table:1) shows that maturity claims occupy the maximum percentage in total claims. From 2005-06 to 2011-12 the maturity claim's share represents almost 95.0 to 96.0 percent to the total claims whereas the death claims share vary between 4.0 to 5.0 percent only in the total claims during the same period. (Table 1)

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Table : 1 Percentage Share of Numbers of Death and Maturity Claims to Total Claims

Year/ Nature of claims	Death Claims		Maturity Claims		Total Claims	
	(In Lakhs)	% to total	(In Lakhs)	% to total	(In Lakhs)	Total %
2005-06	5.27	4.4	115.58	95.6	120.85	100.0
2006-07	6.02	4.4	129.29	95.6	135.31	100.0
2007-08	6.73	4.8	134.22	95.2	140.95	100.0
2008-09	5.65	3.8	144.26	96.2	149.91	100.0
2009-10	8.79	4.1	206.88	95.9	215.67	100.0
2010-11	9.54	5.0	180.02	95.0	189.56	100.0
2011-12	10.10	4.9	195.65	95.1	205.75	100.0

Table : 2 Percentage Share of Amount of Death and Maturity Claims to Total Claims

Year/ Nature of claims	Death Claims		Maturity Claims		Total Claims	
	Amount (In crores)	% to total	Amount (In crores)	% to total	Amount (In crores)	Total %
2005-06	3748.40	13.2	24724.58	86.8	28472.98	100.0
2006-07	4383.99	12.0	32101.92	88.0	36485.91	100.0
2007-08	5138.12	13.9	31873.35	86.1	37011.47	100.0
2008-09	4484.38	11.8	33377.85	88.2	37862.23	100.0
2009-10	6808.62	12.7	46727.20	87.3	53535.82	100.0
2010-11	8077.66	14.0	49412.63	86.0	57490.29	100.0
2011-12	9250.75	13.6	58725.65	86.4	67976.40	100.0

A study of percentage share of amount of Death and Maturity claims to total claim amount shows that Maturity claims occupy the major share in total claim amount in comparison to death claims (Table : 2). It is clear from the figures that from the year 2005-06 to 2011-12, Maturity claims are settled in major portion of total claims. It occupy 86.0 percent to 88.0 percent in total amount in comparison to death claim which share only 12.0 to 14.0 percent in total claims (Table : 2). The analysis shows that maturity of policy on the basis of time bound agreement claims the major share where as untimely death cases claims the minor share in total claims.

Table : 3 Year-wise Percentage Variation in No. of Claims

Year/ Nature of claims	Death Claims		Maturity Claims		Total Claims	
	No. of claims (in lakhs)	Percentage variation	No. of claims (in lakhs)	Percentage variation	No. of claims (in lakhs)	Percentage variation
2005-06	5.27	1.0	115.58	5.2	120.85	5.6
2006-07	6.02	14.2	129.29	11.9	135.31	12.0
2007-08	6.73	11.8	134.22	3.8	140.95	4.2
2008-09	5.65	-16.0	144.26	7.5	149.91	6.4
2009-10	8.79	55.6	206.88	43.4	215.67	43.9
2010-11	9.54	8.5	180.02	-13.0	189.56	-12.1
2011-12	10.10	5.9	195.65	8.7	205.75	8.5

An analysis of year wise percentage variation in number of claims shows that although the figure of claims increases every year constantly from the year 2005-06 to 2011-12 but percentage wise, there is mixed reaction. The number of claims increases from 5.27 lakhs in 2005-06 to 10.10 lakhs in 2011-12 but percentage wise the figure varies from 1.0 percent to 55.6 percent. There is much increase and decrease in number of death claims representing a wide range of variation year on year. In 2005-06 the share was only 1.0 percent while in 2006-07 the figure jumped to 14.2 percent with a minor decrease in 2007-08 but again in 2008-09 it rose to -16.0 percent with handsomely rising to 55.6 percent in 2009-10 and further decreasing to 5.9 percent by 2011-12 (Table-3).

Similarly the number of maturity claims also shows the same trend which varies from 3.8 percent at low side to 43.4 percent in high side year on year (Table-3). The study shows that although the number of claims increases every year but not in a particular trend in percentage wise except in the year 2010-11 which reported a sharp decrease in number of claims due to which the percent shows in minus (Table-3).

Table : 4 Year-wise Percentage Variation in Claims settlement Amount

Year/ Nature of claims	Death Claims		Maturity Claims		Total Claims	
	Amount (in crores)	variation in percent	Amount (in crores)	variation in percent	Amount (in crores)	variation in percent
2005-06	3748.40	14.0	24724.58	21.5	28472.98	20.4
2006-07	4383.99	17.0	32101.92	29.8	36485.91	28.1
2007-08	5138.12	17.2	31873.35	-0.7	37011.47	14.4
2008-09	4484.38	-12.7	33377.85	4.7	37862.23	2.3
2009-10	6808.62	51.8	46727.20	40.0	53535.82	41.4
2010-11	8077.66	18.6	49412.63	5.7	57490.29	7.4
2011-12	9250.75	14.5	58725.65	18.8	67976.40	18.2

A study of year wise percentage variation in claim settlement amount shows that the volume of death claims amount has increased although from Rs. 3748.40 crore in 2005-06 to Rs. 9250.75 crore in 2011-12 but in percent wise the figure represents a mixed variation of increase and decrease year on year basis. The percentage share in 2005-06 was 14.0 which increased to 17.0 in 2006-07 and maintained upto 2007-08. But in 2008-09 it sharply came down to -12.7 percent and again surprisingly jumped to 51.8 percent. Strangely the percentage slipped to 18.6 percent in 2010- 11 and 14.5 percent in 2011-12. So the figure of claim settlement amount of death claim shows a mixed variation in percentage (Table-4)

Further the value of maturity claims amount has also shown a continuous increase. In the year 2005-06 the amount was Rs. 24724.58 crores which continuously rises to Rs. 58725.65 crores in the year 2011-12. On the whole, the amount shows more than two time increase in 7 years but percent wise the maturity claims amount shows a mixed variation as it was witnessed in death claims amount also. The percentage of maturity claims amount variation was 21.5 in 2005-06. The percentage rises again to almost 30.0 in 2006-07 but surprisingly slipped to -0.7 in 2007-08 showing a minor positive fluctuation of 4.7 in 2008-09 and further jumped to 40.0 percent in 2009-10 and again nosedived to almost 6.0 percent in 2010-11 by making a correction of 18.8 percent in 2011-12.

Conclusion:

Claims settlement operations under comparative structure shows that claims settlement occupies an important place in total 85 MAGADH UNIVERSITY operations of an insurance company. It requires careful handling of the settlement procedure. There are two parameters to measure efficiency of the insurance company. (i) Its internal growth on the basis of business performance, premium collected and investments made and (ii) The promptness with which claims are settled. A discussion on settlement operations by both the companies shows that both are adopting the regulations made by IRDA concerning number of days to be taken for the settlement and proper investigation to be made before payment. Due benefits should also be given to the insured such as interest if there is abnormal delay in settlement of

the claims. IRDA has also taken several steps regarding prompt action for claims settlement activities. In few cases the IRDA has given instructions to the LIC for delays in settlement procedures and had advised also for effective and prompt settlement of claims. Claims settlement operations of LIC shows that there is great change between pre and post regulatory period regarding procedures adopted for the claims settlement. After 1999 safeguard of the interest of policy holders has become primary object for the company. It is clearer by going through the settlement operations of maturity and death claims. Between the two, the maturity claims are easy to handle in comparison to death claims which requires several formalities to be completed by the insured persons. Since maturity claims occupy 95.0 to 96.0 percent in total claims, the formalities also becomes easy for the company to settle the claims on time. No doubt year on year number of claims are increasing and also amount of claims but the company has taken steps for the easy and timely settlement except in few cases.

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