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Comparative Study of Effectiveness of Claim Settlement Operations in Indian Life Insurance Companies

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Abstract: Claim management is vital area of the life insurance business. Life insurance business in India is flourishing fast; however, the success of the life insurance companies will largely depend upon the claim management. After liberalization, several private sector companies into life insurance space, to command confidence of the potential consumer it is essential for the newly formed private sector companies to compete with public sector giant Life Insurance Corporation on all fronts including claim management.

Therefore, this paper has attempted to compare the performance of the Indian life insurance companies with reference to the claim management system specially claims received and claims paid aspects.

The comparative analysis reveals that Higher percentage of the claim settlement indicates that the top six companies i.e. LIC (97.7%), ICICI PRU LIFE (96.3%), HDFC LIFE (95.8%), SBI LIFE (94.4%), MAX LIFE (94.3%), KOTAK LIFE (92%) have been more transparent in the management of the process of claim settlement and they adhere to the provisions of Protection of Policyholder's Interest Regulations 2002.

Keywords: Life Insurance, Claim, Risk, Yogkshena, Premium, Life Insurance Policy.

I. INTRODUCTION

Insurance is as old as the civilization. It was present in the form of mutual help. The ' *Yogakshena* ' has been the oldest term of insurance used in the *Rigveda* for insurance. Manu had emphasized that a special charge be made on goods carried from one town to another to ensure their safe carriage. *Manusmriti* says the trader should be made to pay taxes or duty taking into account the price of purchase, the price of sale, the length of the journey, incidental expenses and yogakshena i.e. **Risk and Safety**.

Insurance is co-operative devices of distributing losses, falling on an individual or his family over a large number of persons, each bearing a nominal expenditure and feeling secure against heavy loss. Life insurance contract may be defined as the contract, whereby the insurer in consideration of a premium undertaken to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period.

The most important service that an insurance company gives to its customers is the claim settlement to its policyholders. From the policy holder's point of view, settlement of his or her claim is the very important part of the insurance contract. Insurance company has to handle claims settlement in a proactive and positive manner. Secondly, the speed and promptness with which the claims are settled and paid within the frame work of stipulated rules and regulation of IRDA is an important.

Claims may arise because of survival up to the end of the policy term, which is the date of maturity i.e. maturity claims, Survival up to a specified period during the term i.e. survival benefits, Death of the life assured during the term i.e. Death

claims. Payment of maturity and survival claims is the easiest to manage. But death claim settlement naturally assumes very great importance in the total operations of the insurance company. The efficient management of claims settlement operations also depends upon the percentage of outstanding claims payable during the year to total claims payable.

1.1 CLAIM MANAGEMENT IN INSURANCE COMPANIES

Claim management is critical aspect of the life insurance business. Insurance is an investment options for common investor. The insured expects specific return from the policy over and above the sum assured. Therefore, the insured or the beneficiary named in the insurance policy desperately seeks settlement of their claims by the insurance company. The insurance company looks at the claim settlement from the different perspective by ensuring adequate return from the risk assumed. Thus, claim management may lead to confrontation between the policyholder and the insurance company.

A claim in the life insurance is of vital importance to the insured or his nominee. The claim arises when the uncertain event actually happens and the insured intimates the insurer of happening of such an event and claims compensation. The insurance company first determines the validity of the claim with reference to the contract entered into by the insurer and the insured.

Claim refers to a request made by the insured to the insurance company, in which he seeks compensation from the insurance company. Claim settlement process is governed by the terms and conditions of the insurance contract and the insured expects that the insurance company should abide by the promises made by it while selling the insurance policy.

Claim in life insurance may be classified into two categories, depending upon the nature of the claim and the circumstances in which the claim is lodged. The claims are either the death claims or maturity claims. In both circumstances, the settlement of the claim remains a point of conflict; therefore, settlement of the claim is important area on which every insurance company will have to concentrate. Growth of the market share of the individual insurance company to great extent depends upon the attention given by it to the claim settlement process and its proportion.

II. AN OVERVIEW OF THE LITERATURE

Review of literature is an important part in research work. From time to time, the researchers have devoted their time and energy to study the claim settlement procedures and performance of insurance companies.

Viswanadham P (2005) studied claims settlement operations of LIC of India with the objectives of evaluating performance in terms of both maturity and death claims before and after IRDA period. Claim settlement processing time expressed in speed ratios and adjudicatory measures of the corporation to redress the grievances of policyholders in settlement of claims. The study concluded that corporation should provide efficient service with courtesy in the matters of claim settlements. It should create highest trust in the minds of policyholders by establishing open and transparent grievance redressal procedure. As, satisfied customer will be a brand ambassador for the insurance company; claim settlement should be given more importance.

Kalani, Salunkhe and Ahirrao (2013) examined claim settlement ratio of LIC with other insurance companies in India. Study observed that there are cases of frauds in claim settlement that may happened but if the policyholder uses proper precautions he will prevent himself from fraud. LIC of India provides better corporate services for settling the customers claim. D-mat may improve transparency and efficiency of the claim settlement. Authors studied comparison of claim settlement ratio of LIC with other life insurance industry and survey of policyholders and opinion regarding claim settlement.

Yadav and Mohania (2013) the study entitled claim settlement of life insurance policies in insurance services with special reference of Life Insurance Corporation of India. Authors have focused on management framework of LIC for the settlement; impacts of claim settlement on the sale of life insurance policies by LIC of India, claim settlement process followed by LIC of India, awareness towards claim settlement among customers and analyze quality of service provided by LIC of India for claim settlement.

Nena Sonal (2013) worked on evaluation of performance of LIC of India. Objectives were to study importance of life insurance in human life, working of LIC, major attributes for the success of plans, operating efficiency, performance evaluation, growth of LIC. Overall study suggests that LIC should try to introduce new plans with facilities. LIC should strengthen their working, and should control operating cost.

III. RESEARCH METHODOLOGY

In this study is an attempt to compare the performance of claim settlement operations of LIC of India as a public sector insurance company and 23 private insurance players in India. The present study observes the changing efficiency levels of the claim management in view of the changing scenario of insurance sector.

3.1 Collection of data

The study is based on the secondary data collected from books, journals and website information. Data relating to claim settlement operations of LIC of India as a public sector insurance company and other twenty-three private sector insurance companies has been collected. Data includes subjects like name of companies, date of registration, its foreign partners, total claims received, total claims paid, collected for analysis and drawing fruitful inferences. Data is collected for the year 2012-13.

3.2 Selection of Sample

Insurance sector is important service sector in India. There are twenty-four life insurance companies from public and private sectors operating in India. Following companies have been selected for reviewing performance with LIC of India. AEGON Religare, Aviva, Bajaj Allianz, Bharati Axa, Birla Sunlife, Canara HSBC, DLF Primerica, Edelweiss Tokyo, Future Generali, HDFC life, ICICI Prudential life, IDBI Federal, India First life, ING Vysya, Kotak life, LIC, Max life, Met life, Reliance life, Sahara life, SBI life, Shriram life, Star Union Dai-ichi, Tata AIA. Thus, researcher has studied entire population that covers public and private sector insurance companies.

3.3 Tools employed

An attempt is being made to analyze claim management process used by the life insurance companies operating in India. For this purpose, simple percentage is calculated. Data is arranged into rows and columns. Total claims received will be a factor reflecting size of the market share enjoyed by individual insurance company.

3.4 Objectives of the Study

The major objective of the present study is to examine the claim settlement performance of life insurance business in India and to make a comparative study of public and private life insurance companies in regard to the following:

3.4.1 To study life insurance claims received and claims paid by Indian companies through a comparative analysis

Privatization of the Indian insurance sector has provided Indian consumers with more options. Liberalization process has encouraged competition in the insurance sector. Efficiency of claim settlement mechanism adopted by the insurance companies will depend upon the number of claims received by the companies. It will also provide a hint about the market shares enjoyed by the companies. Therefore, number of claims received shall be the base of the entire analysis.

IV. LIFE INSURANCE COMPANY REGISTERED IN INDIA

Life insurance business in India was the monopoly of the government since inception of the Life Insurance Corporation in the year 1956. The private sector companies are of recent origin and established post-liberalization of the Indian economy. LIC is leader of the market with a vast network of the branches and the number of the insurance agents. However, with the liberalization of the Indian economy, several private sector companies and some foreign insurance companies entered into the insurance business. Following table shows the changed landscape of the insurance business in India.

TABLE NO: 1
LIFE INSURANCE COMPANIES IN INDIA

NAME OF COMPANY	DATE OF REGISTRATION	FOREIGN PARTNER
1. Life insurance corporation of India	01-09-1956	Not Applicable
2.HDFC Standard life	23-10-2000	Standard life Assurance, UK
3. Max New York	15-10-2000	New York Life, USA
4. ICICI Prudential life insurance co.ltd	24-11-2000	Prudential Plc, UK
5. Kotak Mahindra Old Mutual life ins. Ltd	10-01-2001	Old mutual, South Africa
6. Birla Sun life insurance companies ltd	31-01-2001	Sun life, Canada
7.TATA AIA life insurance pvt ltd	12-02-2001	American Inter Assur co USA
8.SBI life insurance co ltd	29-03-2001	BNP Paribas Assur SA, France
9.ING Vysya	02-08-2001	ING Ins inter. B.V Netherlands
10.Bajaj Allianz life insur. Co.ltd	03-08-2001	Allianz, Germany
11. Met life India	06-08-2001	Metlife Inter Holdings ltd, USA
12.Reliance Life insurance co.ltd	03-01-2002	Not Applicable
13. AVIVA life insurance co India pvt ltd	14-05-2002	Aviva Inter Holding ltd, UK
14.Sahara India life ins co. ltd.	06-02-2004	Not Applicable
15.Shriram life insur co ltd	17-11-2005	Sanlam, South Africa
16.Bharti AXA life insur pvt ltd	14-07-2006	AXA holdings, France
17.Future Generali India life ins co ltd	04-09-2007	Generali, Italy
18.IDBI Federal life ins co ltd	19-12-2007	Ageas, Europe
19.Canara, HSBC Oriental Bank of Comm.	08-05-2008	HSBC, UK
20.Aegon Religare life insur co ltd	26-06-2008	Aegon, Netherlands
21.DHFL Pramerica life insur co ltd	27-06-2008	Prudential of America, USA
22.Star Union Dai-ichi life insurance	26-12-2008	Dai-ichi Mutual life ins,Japan
23.India First life insur co ltd	05-11-2009	Legal & General Middle East UK
24. Edelweiss Tokio life insur co ltd	10-05-2011	Tokiyo Marine Holdings,Japan

Source : Data collected from website information and IRDA Annual Reports

Above-mentioned are Life Insurance Companies registered in India. From the table it is clear that the LIC is the first company that explored the market for the life insurance business in India. There are in all 24 companies registered as on the date. Opening of the life insurance sector for the Foreign Direct Investment, attracted foreign insurance companies and they entered into collaboration with the domestic insurance companies. Privatization of the insurance business encouraged private business houses to create their footprint in the insurance business. Because of all these initiatives, the number of the insurance companies grew to 24 from merely one.

As many as 23 private sector companies having diversified background have entered into the insurance business. Reputed companies from the banking sector as HDFC, State Bank of India is pointing towards development of the concept of Bankassurance. Twenty foreign insurance companies have collaborated with the domestic companies, which indicate that the Indian market is large and entry of the foreign companies will increase the percolation in the market.

TABLE NO. 2
STATEMENT SHOWING CLAIM RECEIVED AND CLAIM PAID BY LIFE INSURANCE COMPANIES

SR. NO	NAME OF INSURANCE COMPANY	TOTAL CLAIMS RECEIVED	CLAIM PAID	%	SR. NO	NAME OF INSURANCE COMPANY	TOTAL CLAIM RECEIVED	CLAIM PAID	%
1	LIC	750576	733545	97.7	13	SAHARA LIFE	955	809	84.7
2	ICICI PRU LIFE	14948	14393	96.3	14	TATA AIA	4884	4125	84.5
3	HDFC LIFE	6253	5988	95.8	15	ING VYSYA	3312	2780	83.9
4	SBI LIFE	13426	12676	94.4	16	PNB METLIFE	2405	2017	83.9
5	MAX LIFE	9051	8531	94.3	17	BIRLA SUNLIFE	9871	8149	82.6
6	KOTAK LIFE	3089	2843	92.0	18	IDBI FEDERAL	687	550	80.1
7	STAR UNION DAI-ICHI	738	662	89.7	19	INDIA FIRST	916	654	71.4
8	BHARTI AXA	1046	936	89.5	20	FUTURE GENERALI	1941	1369	70.5
9	BAJAJ ALLIANZ	27282	24192	88.7	21	SHRIRAM LIFE	1602	1079	67.4
10	CANARA HSBC	597	528	88.4	22	AEGON RELIGARE	422	282	66.8
11	AVIVA	2433	2134	87.7	23	EDELWEISS TOKIO	22	10	45.5
12	RELIANCE LIFE	21412	18511	86.5	24	DLF PRAMERICA	614	166	27.0

Source : Data collected from WWW.irda.gov.in and percentage calculated by the researcher.

V. RESULTS AND DISCUSSION

Claim settlement is important area of the insurance business. The growth of the business of the individual insurance companies largely depends upon the claim settlement. Competition in the market forces individual insurance companies to maintain high percentage of the claim settlement. The comparison between the LIC and private insurance companies in terms of the claims received and claims settlement will reveal the extent to which the private sector companies are competing with the public sector giant.

1. The insured takes the insurance protection to cushion itself from the uncertainties. The process of compensating the insured begins from the claim launched. The insured expects the insuring company to settle the claim upto 100%. However, the insurer bears financial burden in the repayment of the claim amount. Therefore, the settlement of the claim is the cause of disagreement for the insured and the insurer. The insured looks forward to the claim settlement as his right and the insurance company looks at the claim settlement from the socio-commercial angle. **Claim settlement is of substantial importance when it comes to determining of degree to which the insurer has assumed its social responsibility.**
2. LIC is the leader of the market as far as life insurance goes and therefore it had received highest number of claims compared to the other players in the industry. LIC still enjoys fruits of being monopoly institution in the past. However, it must be noted that the private sector organizations are equally keen on the settlement of the claims. LIC has paid 733545 claims out of 750576 claims received (97.7%). The private sector organizations as ICICI PRUDENTIAL LIFE has settled 14393 claims out of 14948 claims received (96.3%). HDFC LIFE for instance has settled 5988 claims out of 6253 claims (95.8%). SBI LIFE has paid 12676 claims out of 13426(94.4%) claims received. MAX LIFE has maintained 94.3% of the claim settlement as it had received 9051 claims and paid 8531 of it. KOTAK LIFE entertained 2843 claims out of 3089 claims (92%). This comparison clearly indicates that the private sector insurance companies are trying to create place for themselves in the market that was dictated LIC. **Higher percentage of the claim settlement is maintained to attract consumers of LIC and to increase their market share. However, it can be concluded that not every private insurance company is keen on the claim settlement and therefore in the end only bigger companies will survive in the market. Higher percentage of the claim settlement also indicates that the top six companies have been more transparent in the management of the process of claim settlement and they adhere to the provisions of Protection of Policyholder's Interest Regulations 2002.**
3. It is evident from the table that several new companies from the private sector have entered the business; however, LIC still enjoys public confidence. Total claims received by LIC outnumber the claims received by the private insurance companies. From the private sector insurance companies ICICI PRUDENTIAL, SBI LIFE, BAJAJ ALLIANZ, and RELIANCE LIFE are the companies belonging to large corporate houses and they have good market reputation in their original businesses. **Therefore, it seems that people intending to purchase insurance policies prefer established corporate names when it comes to private sector insurance companies.**
4. The percentage of the claims paid is highest in case of the LIC (97.7%) followed by the private sector Life Insurance Companies like ICICI Prudential (96.3%), HDFC Life (95.8%) . **Higher percentage of the claim settlement and importance given to it indicates that the insurance is not seen purely as financial instrument but also social security measure.**
5. In case of the companies, having smallest market share, have inclination towards rejection of the claim made by the insured. The biggest competitors like HDFC LIFE and ICICI PRULIFE have maintained higher percentage of Claim settlement to successfully compete with LIC. However, smaller companies like Shriram Life (67.4%) and

EDELWEISS TOKIYO (45.5%) are not using percentage of claim settlement as the selling point. **The lower percentage of the claim settlement might be financially burdensome for the smaller insurance companies and therefore the smaller companies are showing lower percentage of the claim settlement.**

6. The private companies like ICICI PRU LIFE, HDFC LIFE, SBI LIFE are owned by the business houses known for Banking therefore it seems that after LIC companies originating from banking business are preferred by the people. **The concept of BANCASSURANCE has emerged due to the privatization of the insurance business. However, it must be noted that insurance business involves longer gestation period. Therefore, after initial euphoria, the insurance business will go into consolidation.**
7. Companies having lowest percentage of the claim settlement include INDIA FIRST 71.4%, FUTURE GENERALI (70.5%), SHRIRAM LIFE (67.4%), AEGON RELIGARE (66.8%), and EDELWEISS TOKIO (45.5%). These companies include companies that are collaboration arrangements between the Indian companies and foreign companies. **Possible reasons for the low percentage of the claims paid may be that these companies are following stricter norms for the settlement of claims or maintaining low transparency in the process of the claim settlement. Therefore, the insured suffers from lack of knowledge of the procedures and formalities and more claims remain unpaid due to absence of better co-operation to the policyholders. However, considering the number of the claims, it be presumed that the market share enjoyed by these companies might be significantly low compared to top six companies and does not impact client sentiment towards the industry significantly.**

VI. CONCLUSION

The most important service that an insurance company gives to its customers is the claim settlement to its policyholders. The speed and promptness with which the claims are settled and paid within the frame work of stipulated rules and regulation of IRDA is an important. It is clear that the LIC is the first company that explored the market for the life insurance business in India. There are in all 24 companies registered as on the date. The study concluded that LIC has maintained higher percentage of claim settlement ratio and hence increased its market share. Every private insurance company is keen on the claim settlement and only bigger companies will survive in the insurance market. Higher percentage of the claim settlement also indicates that the top six companies have been more transparent in the claim management and they adhere to the provisions of Protection of Policyholder's Interest Regulations 2002. The concept of BANCASSURANCE has emerged because ICICI, HDFC, SBI entered into insurance business.

Life Insurance Corporation of India is the leader of the market; however, the private companies must try to increase their market share by surpassing claim settlement percentage maintained by Life Insurance Corporation of India. Increase in the claim settlement percentage will also increase reliability of the private insurance companies. The LIC enjoys backing of the Central Government and therefore the insured feels that it is more dependable compared to private life insurance companies.

With introduction of the FDI in insurance and liberalization of the sector, many private entities have entered insurance business. It is necessary for the private sector insurance companies to develop consumer oriented business philosophy and cut processing period required for the settlement of the claims.

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