

A Critical Analysis of Individual Death Claims and Benefit Amount Paid In Indian Insurance Industry

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Abstract: *In recent years, a no. of indicators are used to measure the operational efficiency of insurance industry. New Business Procured, No. of policies per branch and per agent, premium income per branch and agent, ratio of expenses to premium income etc., are calculated to measure the efficiency and productivity of insurance industry. More specifically the insurance authorities are using "Claims Settlement Ratio" as one of the important measure to attract and satisfy the people and policyholders. Claims management has become a part of the work-culture of the insurance industry. However, the recent research shows that the insurers have to innovate and adopt modern technology-based strategies to monitor the performance of the insurance industry. In India still traditional methodologies are adopted for achieving the high rate of customer-retention and to satisfy the policy holders. The developed countries around the globe are looking for web-based modules allowing their claims staff to remain connected to the core claims processing system in the field. They are trying to shorten the claims life cycle, improve the fraud detection techniques, reduce leakage and aiming at improving the service quality. There is a dire need for insurers in India to improve the claim settlement strategies and techniques, particularly for private insurers, for the improvement of operational efficiency. The present paper based on secondary data argues that besides looking at claims settlement ratio to decide an efficient insurer, people who are trying to buy a policy must look at "Benefit Amount Due Ratio" as an indicator for entering into the safety net of insurance for better risk management.*

Key Words: *Total Claims, Claims Settlement Ratio, Benefit Amount, Benefit Amount Ratio*

I. Introduction:

Generally experts say that the positive experience of insurance customers depends most importantly on two important operations of the insurance industry -- the first is the selection of a proposal for life insurance and the second is the efficient management of claims received, through which the policy benefits are passed on to the life assured/policy holder or a beneficiary in the event of death or survival of the term. The performance with reference to the settlement of claims received is considered as the litmus test of a life insurer's credibility. If an insurance company repudiates or delays payment of a claim, the policy holder/customer would be very unhappy and it negatively reflects on the admission of new policies, profitability and also on the reputation of the industry. Hence, not only in India but life insurers across the globe are attentive to achieve a better rate of claims settlement and are implementing a variety of strategies to attract the policy buyers. In this process they are also trying to reduce the cost and improve customer retention. Keeping in view the significance of "claims management" in insurance industry, it was argued that claims processing and payout should be one of the three core elements to ensure smooth operations of the insurance industry.

What is a Claim?

In India, insurance is not only just a risk management tool, but also the insurers act as mobilizes of contractual savings than as providers of risk management solutions. Insurance, in India, is a contract, an agreement wherein insurer agrees to pay a certain sum to the assured upon the happening of events specified in the policy and upon the assured paying the premium for the agreed term. In this context, a "Claim" on the policy "is a demand on the insurer to fulfill it as a part of the promise, committed to while writing the contract with the life assured". The claim obligations of the insurer varies depending upon the type of the policy like death claims, maturity claims, partial maturity claims, surrender value claims, policy loans and disability claims etc.,. Hence, claims made represent the actual application for benefits provided by an insurance company and the process of settlement of claims is essential for the efficient functioning of both large and small insurers. This claims handling process include developing strategies for cut costs and reduce fraud while keeping the

customers satisfied. Generally claims management process comprises three important aspects: settling claims, detecting fraud, lowering costs and avoiding litigation. According to Butler and Francis (2010) claims payment represents the largest single cost to insurers and 80.0 per cent of all premiums are spent on claims payment and associated handling charges. Hence, Redja (2008) opined that claims management includes all managerial decisions and processes concerning the settlement and payment of claims in accordance with the terms of insurance contract.

Objectives of the Study:

Keeping in view the necessity and significance of “Claims Management” in insurance industry, the present paper primarily deals with “claims settlement ratio” as well as “Benefit Amount Due Ratio” with special reference to individual death claims in India. Specifically the present paper makes a modest attempt to:

1. Review the trends in total individual death claims during the 8 years period i.e. from 2006-07 to 2013-14
2. Analyze the claims paid and claims settlement ratio of both LIC and Private insurers during this reference period, and
3. Estimate the “Benefit Amount Due Ratio” for the individual death claims to be paid by both LIC and Private insurers.

II. Methodology:

The present paper basically depends upon the related secondary data published in the annual reports of IRDA for 8 years of reference period i.e. from 2006-07 to 2-13-14. Besides the reports on India Insurance Statistics, World Insurance Report-2014 and the reports published by Capgemini on “Global Trends in Life Insurance: Claims were consulted. The research papers published in different journals are also consulted for strengthening the argument of this paper particularly the papers published in The Journal of Insurance Institute of India and the data published in IRDA Journals were made use of while presenting the analysis on claims management in insurance industry.

III. Discussion and Results:

As discussed above, claims settlement – the payment of a claims -- is the ultimate objective of the insurance company and the policy holder/nominee waits for the total maturity period of a policy in general and in some cases for the entire life time literally for the payment. It is the final obligation of the insurer in terms of the insurance contract, as the policy holder has already carried out his obligation of paying the premium according to the conditions mentioned in the policy document. Generally the claims in life insurance industry falls under three broad types: survival benefit claims, maturity benefit claims and death benefit claims. Particularly the death claims are the claims of the nominee in the case of life assured dies during the term of the policy. If the death has taken place within the first two years of the commencement of the policy, it is called as an early death claim and if the death takes place after two years, it is called as a non-early death claim.

Among the two types of death claims- individual death claims and group death claims- the present paper confines itself to the analysis of individual death claims and for the critical analysis of claims settlement ratio and benefit amount due ratio with reference to individual death claims.

Total Individual Death Claims:

The data published by IRDA in their annual reports reveals that the total claims under individual death claims represent two broad categories – claims pending at the start of a particular year and claims intimated/booked during that particular year. The reports publish the data on individual death claims for LIC, Private Insurers-company-wise- and for the total insurance industry. The present analysis deals with the above three aspects at macro-level and with a comparison at insurance industry. The analysis covers, as said in the methodology, covers a period of 8 years i.e from 2006-07 to 2-13-14.

The data published show that a total of 6.3 lakh policies were received during 2006-07 and this figure has increased to 8.9 lakh policies by the end of 2013-14. These statistics indicate that on an average around 7.6 lakh claims were received per year for settlement, which indicates an incremental percentage of 41.2 per cent in 2013-14 compared to 2006-07. Similarly, the benefit amount for these claims worked out to Rs. 4833.20 crore in 2006-07, which has increased to Rs. 11957.91 crore by the end of 2013-14. These figures reveal that there was an increase of 147.4 per cent of benefit amount in 2013-14 compared to 2006-07. It is evident that the increase in the benefit amount for the claims received was higher, during this period, than the no. of policies (claims) received for the settlement.

Total Individual Death Claims Settled:

An attempt is made to analyze the no. of claims paid during the reference period of 8 years by both LIC and Private Insurers. Table.1 presents these details.

Table 1. Total No. of Claims Settled during 2006-07 to 2013-14.

Reference Year	Total No. of Claims Paid			Proportion of Total No. of Claims Paid (%)		
	LIC	Private Insurers	Insurance Industry	LIC (2/4)	Private Insurers (3/4)	Insurance Industry
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2006-07	593250	10928	604178	98.2	1.8	100.0
2007-08	531653	21755	563408	94.4	5.6	100.0
2008-09	564389	40739	605128	93.3	6.7	100.0
2009-10	653909	72200	726109	90.1	9.9	100.0
2010-11	717529	96403	813932	88.2	11.8	100.0
2011-12	712501	109765	822266	86.7	13.3	100.0
2012-13	733545	113384	846929	86.6	13.4	100.0
2013-14	746212	110410	856622	87.1	12.9	100.0
Mean	656624	71948	729822	90.0	10.0	100.0

Source: IRDA- Annual Reports for the reference years.

The data presented in Table. 1 amply reveals three important observations. The first observation is that the total no. of claims paid by LIC were 5.9 lakhs in 2006-07 and recorded a significant increase accounting for 7.46 lakhs claims paid during 2013-14.

The second observations is that though the total no of claims paid by private insurers accounted for around 11 thousand in 2006-07, tremendously increased to 1.1 lakhs in 2013-14 and to 1.13 lakhs in 2012-13, which indicates an incremental percentage of 910.3 percent in 2013-14 compared to 2006-07 and it was 25. 8 per cent for LIC.

The third observation is that though the private insurers constituted a mean of 10.0 per cent of the total claims paid during the reference period, their share of total claims settled has significantly increased from 1.8 per cent in 2006-07 to a high of 13.4 per cent in 2012-13 and to 12.9 per cent in 2013-14. On the contrary, the proportion of claims settled by LIC of the total claims paid has continuously declined relatively from 98.2 per cent to 87.1 per cent. It is evident that though in absolute terms the no. of claims settled by LIC was high, as a proportion of total no. of claims paid has been decreasing in recent years due to better performance of the private insurers.

Claims Settlement Ratio:

Claims Settlement Ratio in the case of insurance refers to the no. of claims that the insurer has paid following the death of the policy holders with reference to the individual death claims. Thus, if a life insurer has a claims settlement ratio of 70.0 per cent , it means that the insurer has paid (settled) 70 out of every 100 claims filed when the death of the policy holders takes place. An insurance company with a high claims settlement ratio is always the better option, other things being constant, because that particular company has settled highest no. of claims received. It is true that insurance is a life protection tool and hence while choosing any insurer, assessment of the claims settlement ratio assumes much importance. Keeping the importance of Claims Settlement Ratio, an attempt is made to estimate the claims settlement ratio for LIC and the Private Insurers. Table. 2 present these details.

Table 2 Claims Settlement Ratio of the Insurance Industry

Reference Year	Claims Settlement Ratio (Per cent)		
	LIC	Private Insurers	Insurance Industry
2006-07	96.9	72.7	96.4
2007-08	96.7	78.9	97.6
2008-09	95.5	82.3	94.5
2009-10	96.5	84.9	95.2
2010-11	97.0	86.0	92.3
2011-12	97.4	89.3	96.3
2012-13	97.7	88.6	96.4
2013-14	98.1	88.3	96.8

Source: IRDA: Annual Reports for the reference years.

The data presented in Table. 2 show that LIC has high claims settlement ratio ranging from 95.5 per cent to 98.1 per cent when compared to the private insurers for which the claims settlement ratio ranges from 72.7 per cent to a maximum of 89.3 per cent. It is evident that the claims settlement ratio for LIC and Private Insurers has been improving year by year. However, if we look at the trend in the performance, the claims settlement ratio for the insurance industry has declined from 97.6 per cent in 2007-08 to 92.3 per cent in 2010-

11 and thereby slowly increased touching the rate of 96.8 per cent in 2013-14. Beyond doubt it is LIC, the dominant payer of the claims. Of course, the experts argue that the major reason for the comparatively low claims settlement ratio for private insurers was the age of these companies. They were very new compared to LIC.

Benefit Amount to be settled:

Every insurance company publishes its claims settlement ratio only with reference to no. of policies (claims) settled out of the total claims to be paid at the end of the each year, deliberately keeping aside the benefit amount to be settled for the claims to be settled (Total benefit amount to be paid for total claims – total benefit amount paid for the claims settled). Even the annual reports of IRDA is not dealing with the “Benefit Amount Due Ratio”. Generally the benefit amount to be paid for the total claims refers to the benefit amount to be paid for the claims pending at the start of a particular year and the benefit amount for the claims intimated during that particular year. The annual reports also publish the data on the benefit amount for the claims written back and repudiated and for the claims pending at end of a particular year which we can find only in the annexure statistical statements. The benefit amount to be paid for these three categories are not available in the main report and the reports only deal particularly with the benefit amount to be paid for the claims pending at end of a particular year, which represent total benefit amount for the total claims – benefit amount paid for the total claims settled + the benefit amount to be paid for the claims repudiated and written back.

The present paper defines the “**Benefit Amount Due Ratio**” as the benefit amount to be paid for the claims repudiated, written back and the claims pending at the end of a particular year and its proportion to the total benefit amount of the total claims in a particular year.

No doubt, the claims settlement ratio is one of the important parameter not only for the measurement of the productivity of the insurance industry (Neelam Gulati, 2014) but also a good indicator of efficiency for selection of a life insurance policy. However, the premium and other benefits or riders should be looked upon before buying an insurance policy. Particularly the benefit amount paid and the benefit amount due for the claims intimated due to repudiation and written back should also be given due consideration for selecting an insurance company to buy a policy. Any insurance company deliberately keeps aside the benefit amount due to the policy holders due to different reasons and emphasizes on claims settlement ratio. Hence, keeping in view the benefit amount due to the policy holders, an attempt is made in Table. 3 to analyze the “Benefit Amount Due Ratio”.

The data presented in Table. 3 amply indicate that LIC is the king for the benefit amount settlement in insurance industry, as the percentage of benefit amount due constitutes only 5.0 per cent to 6.5 per cent. On the contrary, the benefit amount due by the private insurers accounted for a minimum of 21.0 per cent (2012-13) to a maximum of 36.2 per cent (2006-07). It is to be noted from the data that on an average the benefit amount due accounts for 5.6 per cent and 27.5 per cent for the LIC and Private Insurers respectively during the reference period of 8 years. On an average the benefit amount due by the LIC is estimated at Rs. 316.08 crore (47.6 per cent) and for Rs.348.36 crore (52.4 per cent) by the Private Insurers and these two dues together accounted for 8.72 per cent of total benefit amount to be paid for the total claims intimated.

Table 3: Benefit Amount Due Ratio in Insurance Industry – 2008-07 to 2013-14

Reference Year	Benefit Amount Due for the Claims to be settled (Rs. Crore)			Percentage of Benefit Amount Due to the total benefit amount to be paid for total claims intimated		
	LIC	Private Insurers	Insurance Industry	LIC	Private Insurers	Insurance Industry
2006-07	300.14 (77.3)	88.32 (22.7)	388.46 (100.0)	6.54	36.23	8.04
2007-08	263.51 (67.4)	127.44 (32.6)	390.95 (100.0)	6.30	28.72	8.45
2008-09	279.07 (58.1)	201.43 (41.9)	480.50 (100.0)	6.28	24.14	9.10
2009-10	249.88 (42.9)	333.03 (57.1)	582.91 (100.0)	4.95	22.33	8.91
2010-11	334.27 (48.4)	356.89 (51.6)	691.16 (100.0)	5.20	19.20	8.34
2011-12	314.02 (41.9)	435.18 (58.1)	749.20 (100.0)	4.57	19.05	8.18
2012-13	357.97 (38.3)	577.30 (61.7)	935.27 (100.0)	4.72	21.19	9.08
2013-14	429.78 (39.2)	667.54 (60.8)	1097.32 (100.0)	4.83	21.87	9.18
Mean	316.08 (47.6)	348.36 (52.4)	664.44 (100.0)	5.56	27.46	8.72

Note: Figures in the brackets denote relative shares in the benefit amount due

Source: Calculated from the data published in Annual Reports of the IRDA for the reference years.

These statistics exhibit the truth that LIC has paid 94.4 percent and private insurers have paid only 72.5 per cent of the total benefits amount to be paid for the total claims intimated during the reference period. It is to be noted that though proportionately the benefit amount due ratio is low for LIC (5.6 per cent) and high for Private Insurers (27.5 per cent), the share of benefit amount due by LIC which was 77.3 per cent in 2006-07 has gradually declined to 39.2 per cent in 2013-14. On the contrary, the proportion of Private Insurers has continuously increased from 22.7 per cent in 2006-07 to a high of 61.7 per cent in 2012-13 and to 60.8 per cent in 2013-14.

The data amply proves that LIC has been taking suitable measures to clear the benefit amount due to the policy holders and whereas the Private Insurers have yet to catch the tempo of LIC.

IV. Conclusion:

The policy buyers must also go through the benefit amount due ratio of an insurance company and wisely use the 15-day free-look-period, besides looking at claims settlement ratio. It is to be noted here that a high claim settlement ratio is not 100.0 per cent. Hence, both the claims settlement ratio and the benefit amount due ratio are to be attached much importance while buying an insurance policy. Needless to mention that the primary benefits of implementing claims management solutions the cost reduction and improved customer service. Hence, life insurers are expected to increasingly implement advanced fraud detection technologies to reduce fraud-related costs, without depending upon the traditional manual processes, which results into poor detection rates and high occurrence of false-positive cases. They have to implement best practices in order to improve their claims management process for better customer retention and satisfaction.

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Notes:

1. Claims Settlement Ratio = Total No. of Claims Settled / Total No. of Claims Intimated
2. Benefit Amount Due = Total Benefit Amount to be paid for Claims repudiated + claims written back + claims pending at the end of a particular year.
3. Benefit Amount Due Ratio = Benefit Amount Due / Total Benefit Amount to be paid for the Total Claims Intimated.

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