



PERFORMANCE MEASUREMENT OF CLAIMS PAID AND UNPAID: COMPARATIVE STUDY OF LIFE INSURANCE COMPANIES IN INDIA

Dr. P. B. Ashturkar*

Abstract: *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. The efficient management of claims settlement operations also depends upon the percentage of outstanding claims payable during the year to total claims payable. The study tries to analyze the claims paid and claims unpaid by Indian life insurance companies. It is revealed from the analysis that LIC has been successful in maintaining low percentage of the unpaid claims. LIC has received maximum claims (750576). However, the percentage of the unpaid claims is 2.27% (17031) which is lowest in the Indian insurance industry. Private sector insurance companies received lesser claims compared to LIC; interestingly their proportion of the unpaid claims is higher. The present study is useful to insurance authorities in taking decisions and formulation of policies and also useful to common person in selecting insurance policies of correct insurance companies.*

Keywords: *Life Insurance, Claim paid, Risk and Safety, Yogkshena, Premium, claim management, claim unpaid*

*Associate Professor & Head- Business Law, Research Guide in Commerce & Management Science, Department of Commerce, K. R. M. Mahila Mahavidyalaya, Nanded, M.S., India



1. 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 policyholders 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.

1.1 Claim settlement operations

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.

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.

2. LITERATURE REVIEW

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. Some important studies reviewed in support of the present study are discussed herein with.

2.1 Ram Prasad Bagri, Saini M (2010) observed that life insurance companies should start pure risk plans with minimum guaranteed return to motivate investment. Emphasis on micro and rural insurance should be penetrated and insurance agents should stop sharing commission and start servicing clients. Insurance contract and other policy documents should be in easy language.

2.2 Piyali Chandra Khan and Mitra D(2014) analyzed that the overall position of LIC was found to be quite satisfactory as the profit after tax improved by 270% in the last 12 years. It had strong liquidity position. The company had sufficient current assets to meet the current



liabilities. This resembles that LIC is quite capable to earn superior return in this competitive environment.

2.3 M.Selva Kumar and J Vimal Priyan(2012)concluded that LIC continues to dominate insurance sector. Private sector insurance companies also tried to increase their market share. Life insurance has today become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. The study compared premium, policies and market shares of companies.

2.4 Ghosh Amlan (2011) inferred the relationship between life insurance sector reforms in India and the growth of life business in post reform period. It shows that the relationship between the insurance sector reforms and development of life insurance sector in India is bi-directional. It is due to huge potentiality of life insurance market.

3. 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 efficiency level of the claim management especially claims paid and unpaid in view of the changing scenario of insurance sector.

3.1 Objectives of the Study

The major objectives of the present study are to measure the claim settlement performance especially claims paid and unpaid of life insurance companies in India and to make a comparative study of public and private life insurance companies in this regard i.e. **To analyze claims paid and claims unpaid by Indian life insurance companies**

As the private sector has grown rapidly after liberalization of the insurance business, several new companies have entered into the business of insurance and many more companies are required considering the size and depth of the Indian markets. However, it is necessary to know the number of companies that are willing to stay in the insurance business for a long period. Percentage of the claims paid and the claims unpaid to the number of the claims received will speak about long-term strategy of individual companies. Therefore, analysis of the claims paid and claims unpaid will help to separate long-term players from the short-term players.



3.2 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 name of companies, date of registration, its foreign partners, claims received, claim unpaid by the insurance companies were collected for analysis and drawing fruitful inferences. Data is collected for the year 2012-13.

3.3 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 Pramerica, 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.

3.4 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. Claims received is analyzed with for claims unpaid by companies. Performance of the companies will be assessed in terms of higher and lower percentage the claims unpaid by the insurance companies.

3.5 Importance of the study

Claim management is an important managerial function of life insurance companies. The present study is useful to insurance companies in India. It will help to provide analytical information to the insurance authorities in taking decisions and formulation of policies. As the insurance sector is developing in India, the study is useful to common person in selecting insurance policies of correct insurance companies. The study would help the potential investors in selection of the insurance companies that settle the claims at the earliest and minimize hardships for the insured.



3.6 Hypothesis of the study

Hypothesis is the main part of the research study. The present research paper is based on the fact that Private sector insurance companies show greater percentage of the claims unpaid compared to their public counterparts. It is understood and true from the study that the percentage of the unpaid claims is 2.27% in LIC. Whereas private sector insurance companies are showing higher percentage of the unpaid claims. INDIA FIRST 28.60 % claims remained unpaid. FUTURE GENERALI 29.47% remained unpaid. SHRIRAM LIFE 32.65% remained unpaid. AGEON RELIGARE 33.18% remained unpaid. EDELWEISS TOKIO 54.55% claims remained unpaid and DLF PRAMERICA 72.96 % claims remained unpaid.

TABLE No.1 LIFE INSURANCE COMPANIES REGISTERED IN INDIA

NAME OF COMPANY	DATE OF REGISTRATION	FOREIGN PARTNER
1. Life insurance corporation of India	01-09-1956	
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	
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	
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 UNPAID BY LIFE INSURANCE COMPANIES (2012-13)

SR. NO	NAME OF INSURANCE COMPANY	TOTAL CLAIM RECEIVED	CLAIM UNPAID	%	SR. NO	NAME OF INSURANCE COMPANY	TOTAL CLAIM RECEIVED	CLAIM UNPAID	%
1	LIC	750576	17031	2.27	13	SAHARA LIFE	955	146	15.29
2	ICICI PRU LIFE	14948	555	3.71	14	TATA AIA	4884	759	15.54
3	HDFC LIFE	6253	265	4.24	15	ING VYSYA	3312	532	16.06
4	SBI LIFE	13426	750	5.59	16	PNB METLIFE	2405	388	16.13
5	MAX LIFE	9051	520	5.75	17	BIRLA SUNLIFE	9871	1712	17.45
6	KOTAK LIFE	3089	246	7.96	18	IDBI FEDERAL	687	137	19.94
7	STAR UNION DAI-ICHI	738	76	10.30	19	INDIA FIRST	916	262	28.60
8	BHARTI AXA	1046	110	10.52	20	FUTURE GENERALI	1941	572	29.47
9	BAJAJ ALLIANZ	27282	3090	11.33	21	SHRIRAM LIFE	1602	523	32.65
10	CANARA HSBC	597	69	11.56	22	AEGON RELIGARE	422	140	33.18
11	AVIVA	2433	299	12.29	23	EDELWEISS TOKIO	22	12	54.55
12	RELIANCE LIFE	21412	2901	13.55	24	DLF PRAMERICA	614	448	72.96

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

4. RESULTS AND DISCUSSIONS

4.1 A claim unpaid by the insurer refers to the rejection of the amount claimed as the compensation by the insured on happening of the event covered by the respective insurance policy. The insured presents his version of the compensation he or she is entitled



to and insurer makes the assessment that leads to the approval or rejection of the amount claimed as the compensation under the respective policy. It is the area of confrontation between the Insured and the insurer. **Lower percentage of the unpaid claims is seen as the consumer-oriented and healthy business practice whereas the high percentage of the unpaid claims is considered the unfair and non-transparent business practice. However, IRDA regulations do not specify particular standard for the paid and unpaid claims, it is obvious that the performance of the insurer is measured based on the percentage of the claim paid and unpaid.**

LIC is leader of the market and received maximum claims (750576). However, the percentage of the unpaid claims is 2.27% (17031) which is lowest in the Indian insurance industry. Private sector insurance companies received lesser claims compared to LIC; interestingly their proportion of the unpaid claims is higher. For instance, ICICI PRUDENTIAL LIFE received 14948 claims but 3.71% of the claims (555) are unpaid, HDFC LIFE received 6253 claims but 265 claims remained unpaid. SBI LIFE received 13426 claims of which 5.59% (750) remained unpaid. MAX LIFE processed 9051 claims and 5.75% or 520 claims were unpaid. KOTAK LIFE received 3089 claims of which 7.96% claims (246) remained unpaid.

From the figures, it appears that LIC has been successful in maintaining low percentage of the unpaid claims, In spite of the large number of the claims. However, LIC is old and established player in the insurance industry and the private insurance companies are new entrants in the business, therefore, LIC has standardized claim management system and can process claims through network of branches and agents more effectively. As the private companies are in the process of creating business networks, the process of claim settlement is not as efficient as that of LIC.

Companies less number of claims are showing higher percentage of the unpaid claims. INDIA FIRST received 916 claims of which 28.60 % or 262 claims remained unpaid. FUTURE GENERALI received 1941 claims of which 29.47% or 572 claims remained unpaid. SHRIRAM LIFE received 1602 claims but 523 claims (32.65% of the claims) remained unpaid. AGEON RELIGARE received 422 claims but 33.18% of the claims remained unpaid. EDELWEISS TOKIO received 22 claims but 54.55% of the claims remained unpaid. DLF PRAMERICA received 614 claims but 448 (72.96%) claims are unpaid. Compared to other private sector insurance companies above mentioned companies have received substantially less claims for the



settlement , however, the percentage of the unpaid claims is higher possibly for following reasons.

4.2.1 The companies are not providing adequate information to the policyholders about the formalities they need to complete for the purpose of the claim settlement. This leads to rejection of the claims by the insurance companies.

4.2.2 Due to limited number of claims, the companies are investigating the claims more stringently and hence many claims do not stand the test of stringent verification. Frauds committed in the settlement of the claims may also be the reason of the rejection of the claim.

4.2.3 Claim settlement involves financial burden for the insurance companies and if the claims are approved on the large scale that may affect financial position of the company. Financial burden may also be the reason of the unpaid claims.

5. OBSERVATIONS OF THE STUDY

Analysis of the claim management by 24 insurance companies has given insights into the manner in which the insurance companies are conducting their business in India. The overall observations may be noted in this regard as follows.

5.1The Life Insurance Corporation of India being the oldest player in the market has received maximum number of claims and the private sector companies closely follow it.

5.2The companies wanting to stay in the insurance business for a long have tried to maintain the claim settlement ration above 90% of the claims received. Private sector companies having lower percentage of claim settlement may fail to enhance their market share as the bigger companies may use claim settlement as the selling point. Higher percentage of the claim settlement will attract potential consumers towards companies maintaining higher percentage of the claim settlement.

5.3The corporate groups not known for the insurance business have tied up with the foreign insurance companies. However, performance of the joint ventures is not up to the mark.

5.4Banks having financial background and enjoying public confidence have fared well while competing with LIC compared to other private companies in the insurance business.

5.5Lower percentage of the unpaid claims is seen as the consumer-oriented and healthy business practice whereas the high percentage of the unpaid claims is considered the unfair and non-transparent business practice.



5.6 LIC has standardized claim management system and can process claims through network of branches and agents more effectively. Process of claim settlement of private insurance companies is not as efficient as that of LIC.

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