



## A Comparative Study of Claim Settlement Ratio of LIC and Private Insurers in India

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**Abstract :** *The objective of present study is to analyze the claim settlement ratio (specifically individual and group death claims) of LIC and private life insurers in India. The secondary data has been collected through published reports, journals, and websites for five years 2011-12 to 2015-16. The claim settlement ratio of LIC in individual and group policies appeared to be better than that of the private life insurers. The death claims repudiated/rejected by private insurers were much higher than LIC for individual policy. In case of group policy claims repudiated/rejected by LIC were almost negligible whereas private insurers claim repudiated/rejected were much higher than LIC. The claims pending at the end of the year were higher in private insurers than that of LIC for individual as well as group policies. Private insurers need to develop more customer centric approach and improve processing period required for the settlement of the claims.*

**Keywords:** *Individual Policy, Death Claim, Claim Settlement Ratio, Claims Repudiated, Claims Pending*

### Introduction

Life insurance is a contract between a policyholder and an insurer, where the insurer promises to pay a designated beneficiary a sum of money (the benefit) in exchange for a premium, upon the death of an insured person (often the policy holder). The life insurance policy is taken by the policy holders to compensate them in the happening of an unforeseen event. A claim is the actual benefits provided by a life insurance company. It is a way of protecting oneself against financial loss or other adverse and unavoidable circumstances. Individuals who purchase a life insurance policy must maintain regular payments called premiums. The premium may be paid, either regularly or as one lump sum.

Claims settlement is an integral part of the life insurance business. It is certain and unavoidable for the insurance company to protect and guard the interests of the policyholders. Claim Settlement is the payment of proceeds from an insurance policy to the insured under the terms of an insurance contract. It is a final payment under the policy as per the terms of the contract. Any insurer is under obligation to pay the amount on the due date.

### Claim Settlement in Life Insurance

Payment of claim is the ultimate objective of life insurance and the policyholder has waited for it for a quite long time 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 policyholder has already carried out his



obligation of paying the premium regularly as per the conditions mentioned in the schedule of the policy document. The policy document also mentions in the schedule the event or events on the happening of which the insurer shall be paying a predetermined amount of money. An insurance claim is the only way to officially apply for benefits under an insurance policy, but until the insurance company has assessed the situation it will remain only a claim, not a pay-out. Claim Settlement is the yard stick to judge the insurance company's efficiency and growth is depend upon the services provided to its customers.

### Types of Claims

There are mainly two types of claims in life insurance business namely; maturity claim and death claim.

#### ➤ Maturity Claims

If the insured survives during the term of insurance policy, he gets the maturity amount accrued under the policy.

#### ➤ Death Claims

If the insured dies during the term of the policy, the death claim arises and he gets the sum assured along with the bonus accrued under the policy if any.

### Review of Literature

**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.

**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.

**Yadav and Mohania** (2013) the study entitled claim settlement of life insurance policies in insurance services with special reference to Life Insurance Corporation of India (LIC). 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.

### Objectives

1. To compare the claim settlement ratio of LIC with private life insurers.
2. To compare the status of claims repudiation of LIC and private insurers.
2. To find the ratio of claims pending by LIC and private life insurers at the end of the year.

### Research Methodology

The present study is based on secondary data. The data was collected for five year i.e. from year 2011-12 to 2015-16. The claim settlement ratio, Claims Repudiated/Rejected and claims pending life insurance sector is analyzed.

### Analysis and discussion

#### Individual Death Claims of Life Insurers

##### Claims Settled

In the year 2011-12, the life insurance companies have settled 8.22 lakh claims on individual policies, with a total payout of Rs. 8,409 crore, in year 2012-13 settled 8.46 lakh claims with a total payout of Rs. 9,370.22 crore, in year 2013-14 settled 8.57 lakh claims with a total payout of Rs. 10,860.59 crore, in year 2014-15 settled 8.51 lakh claims with a total payout of Rs. 11, 788.67 crore and in year 2015-16 settled 8.54 lakh claims with a total payout of Rs, 12,636.66 crores.

##### Claim Settlement Ratio

The claim settlement ratio of LIC appeared to be better than that of the private life insurers. While LIC settled 97.42 % of claims intimated to them during the year 2011-12, the private life insurers settled 89.34 % of their claims during the year 2011-12. Settlement ratio of LIC increased by 97.73%, for private insurers the settlement ratio had gone down to 88.65% during the year 2012-13 compared to previous year.

There was again an increase in settlement ratio of LIC (98.14%) and decrease in private insurers claim settlement ratio (88.31%) during year 2013-14. There was continuous increase in the claim settlement ratio of LIC (98.19 % and 98.33%) in year 2014-15 and 2015-16. For private insurers, the claim settlement ratio had gone up by 1.09% at 89.40 % during the year 2014-15 and it continued to increase by 2.08% at 91.48 % during the financial year 2015-16.

##### Claims Repudiated/Rejected

The number of claims repudiated/rejected in year 2011-12 was 19,133 for an amount of Rs.451 crore, in year 2012-13 it was 18,485 claims for an amount of Rs.568.42 crore, in year 2013-14 it was 18,423 claims for an amount of Rs.624.43 crore, in year 2014-15 it was 18,231 claims for an amount of Rs.701.69 crore and in year 2015-16 it was 15, 157 claims repudiated/rejected for an amount of Rs.736.51 crore.

##### Percentage of Repudiation

The table shows that the percentage of repudiation for LIC was 1.33 % in the year 2011-12 as against 7.82 % for the private life insurers; it was 1.12 % for LIC and 7.85 % for private insurers in year 2012-13. In year 2013-14 and 2014-15 the percentage of repudiation for LIC



was 1.10 % and 1.15% respectively as against 8.03 % and 7.78 % respectively for private insurers. The percentage of repudiations of LIC has come down to 0.98 % as against 6.67 % for private insurers in year 2015-16.

**Table1: Individual Death Claim of Life Insurers 2011-12 to 2015-16**  
 (Figure in percent of policies)

Year	Life Insurer	Total Claims	Claims Paid	Claims repudiated	Claims written Back	Claims pending at the end of the year	Break up of claims Pending duration wise (policies)			
							<3 mths	3- < 6 mths	6- <1 Yr	>1 Yr
2011-12	Private LIC	100.00	89.34	7.82	0.03	2.82	81.85	8.27	4.45	5.43
	LIC	100.00	97.42	1.30	0.06	1.21	37.36	23.57	22.10	16.97
	Total	100.00	96.26	2.24	0.06	1.44	49.86	19.27	17.14	13.73
2012-13	Private LIC	100.00	88.65	7.85	0.03	3.47	82.74	7.68	5.27	4.30
	LIC	100.00	97.73	1.12	0.10	1.04	40.06	15.47	21.08	23.40
	Total	100.00	96.41	2.10	0.09	1.40	55.50	12.65	15.36	16.49
2013-14	Private LIC	100.00	88.31	8.03	0.04	3.63	74.64	09.79	06.06	09.50
	LIC	100.00	98.14	1.10	0.23	0.52	17.19	14.16	32.56	36.09
	Total	100.00	96.75	2.08	0.21	0.96	47.85	11.83	18.42	21.90
2014-15	Private LIC	100.00	89.40	7.78	0.02	2.80	76.42	7.89	4.28	11.41
	LIC	100.00	98.19	1.15	0.17	0.48	18.59	19.80	31.52	30.09
	Total	100.00	96.97	2.08	0.15	0.80	46.51	14.05	18.37	21.07
2015-16	Private LIC	100.00	91.48	6.67	0.00	1.85	76.24	10.20	3.87	9.68
	LIC	100.00	98.33	0.98	0.17	0.51	17.71	20.34	36.82	25.14
	Total	100.00	97.43	1.73	0.15	0.69	38.25	16.78	25.25	19.71

### Claims Pending

The number of claims pending at the year-end 2011-12 was 12,316 (1.21 % of LIC and 2.82 % of private insurers) with a total amount of Rs. 293 crore, of these claims 1691 claims were pending for more than one year and 10,625 claims were pending for less than and upto one year. At the year-end 2012-13, 12,267 claims (1.04 % of LIC and 3.47 % of private insurers) were pending with a total amount of Rs.318.24 crore, of these claims 1691 claims were pending for more than one year and 10,625 claims were pending for less than and upto one year.

At the year-end 2013-14, 8,497 claims (0.52 % of LIC and 3.63 % of private

insurers) were pending with a total amount of Rs.450.41 crore, of these claims 1861 claims were pending for more than one year and 6,636 claims were pending for less than and upto one year. At the year-end 2014-15, 7,061 claims (0.48 % of LIC and 2.80 % of private insurers) were pending with a total amount of Rs.453.15 crore, of these claims 1488 claims were pending for more than one year and 5,573 claims were pending for less than and upto one year.

The number of claims pending at the year-end 2015-16 was 6,031 (0.51 % of LIC and 1.85 % of private insurers) with a total amount of Rs. 444.23 crore, of these claims 1,189 claims were pending for more than one year and 4,842 claims



were pending for less than and upto one year.

### Group Death Claims of Life Insurers Claims Handled and Settled

During year 2011-12, the life insurance companies handled a total of 3,89,088 on group policies as death claims including 1,647 claims were pending at the end of the previous year. The life insurance companies settled 98.96 % of all claims received which comprises 99.64 % of LIC and 97.83 % of private insurers.

In year 2012-13, 2013-14 and 2014-15 the total intimated claims were 3,51,797, and 4,11,647 and 4,52,625 while 13,640, and

14,331 and 14,158 claims were pending at the beginning of the year. The life insurance companies settled a total of 95.69 % claims (99.54 % of LIC and 87.79 % of private insurers), 96.22 % claims (99.65 % of LIC and 90.45 % of private insurers) and 96.15 % claims (99.64 % of LIC and 91.20 % of private insurers) respectively for the year 2012-13, 2013-14 and 2014-15.

In year 2015-16 the total intimated claim was 5, 45,337 while 14388 claims were pending at the beginning of the year. The life insurance companies settled a total of 96.94 % of all claims received which comprises 99.69 % of LIC and 94.65 % of private insurers.

**Table 2: Group Death Claim of Life Insurers 2011-12 to 2015-16**

(Figure in

percent of policies)

Year	Life Insurer	Total Claims	Claims Paid	Claims repudiated	Claims written Back	Claims Pending at the end of the year	Break up of claims Pending duration wise (policies)			
							<3 mths	3-<6 mths	6-<1 Yr	>1 Yr
2011-12	Private	100.00	97.83	1.92	0.02	0.24	84.55	7.00	4.37	04.08
	LIC	100.00	99.64	0.00	0.00	0.36	24.74	37.34	21.99	15.92
	Total	100.00	98.96	0.72	0.01	0.31	41.61	28.78	17.02	12.58
2012-13	Private	100.00	87.79	1.18	0.00	11.03	86.27	7.61	2.25	03.87
	LIC	100.00	99.54	0.01	0.00	0.45	24.75	44.38	8.68	22.19
	Total	100.00	95.69	0.39	0.00	3.92	50.74	28.85	5.96	14.45
2013-14	Private	100.00	90.45	1.21	0.00	8.34	5.25	0.43	0.18	94.13
	LIC	100.00	99.65	0.00	0.00	0.35	91.59	0.75	1.51	06.14
	Total	100.00	96.22	0.45	0.00	3.32	10.91	0.45	0.27	88.37
2014-15	Private	100.00	91.20	1.80	0.00	7.00	6.89	0.47	0.26	92.39
	LIC	100.00	99.64	0.04	0.00	0.32	67.34	24.63	1.13	06.89
	Total	100.00	96.15	0.76	0.00	3.08	10.61	1.95	0.31	87.13
2015-16	Private	100.00	94.65	0.93	0.00	4.42	4.10	0.69	0.36	94.85
	LIC	100.00	99.69	0.04	0.00	0.27	18.24	7.14	10.64	63.98
	Total	100.00	96.94	0.53	0.00	2.53	04.77	1.00	0.85	93.38





### Claims Repudiated and Written Back

During year 2011-12 the life insurance companies repudiated 0.72 % of claims (0.00 % of LIC and 1.92 % of private players), written back 0.01 % (0.00 % of LIC and 0.02 % of private players) of claims and the remaining 0.31 % of the claims (0.26 % of LIC and 0.24 % of private players) submitted were pending for settlement.

In year 2012-13, 2013-14, 2014-15 and 2015-16 the life insurance companies repudiated 0.39 of claims (0.01 % of LIC and 1.18 % of private insurers), 0.45 % of claims (0.00 % of LIC and 1.21 % of private insurers), 0.76 % of claims (0.04 % of LIC and 1.80 % of private insurers) and 0.53 % of claims (0.04 % of LIC and 0.93 % of private insurers) respectively, there were 0 % of the claims written back for all four years respectively.

The remaining 3.92 % of the claims (0.45 % of LIC and 11.3 % of private players), 3.32 % of the claims (0.35 % of LIC and 8.34 % of private players), 3.08 % of the claims (0.32 % of LIC and 7.00 % of private players) and 2.53 % of the claims (0.27 % of LIC and 4.42 % of private players) submitted were pending as at 31 March of each year i.e. for 2013, 2014, 2015 and 2016.

### Findings

- The claim settlement ratio of LIC in individual policy appeared to be better than that of the private life insurers.
- The number of death claims repudiated/rejected by private insurers were much higher than LIC for individual policy.

- The claims pending at the end of the year were higher in private insurers than that of LIC for individual policy.
- The claim settlement ratio of LIC in group policy appeared to be better than that of the private life insurers.
- The number of group death claims repudiated/rejected by LIC were almost negligible. For private insurers claims repudiated/rejected were much higher than LIC.
- The claims pending at the end of the year were higher in private insurers than that of LIC for group policy.

### Suggestions

Life Insurance Corporation of India is the leader of the insurance sector; however, the private insurers can increase their market share by surpassing claim settlement ratio maintained by Life Insurance Corporation of India. Reliability plays an important role in insurance business and claim settlement process is the only tool or service by which reliability can be increase. LIC has proved its reliability in insurance business. It is necessary for the private insurers to develop more customer centric approach and improve processing period required for the settlement of the claims.

Claims repudiation and claims pending at the end of the year are two crucial issues for private insurers. They should continuously concentrate on improving the claim repudiation and claim pending issues which can lead them to reliability then only they can give a tough competition to LIC.



## Conclusion

Claim settlement is the most important service that a life insurance company provides to its policyholders. The promptness and timeliness with which the claims are settled and paid is very important and increase the value of life insurers in front of policyholders. The Life Insurance Corporation of India is the first company that explored the market for the life insurance business in India. There are total 24 companies registered as on the date including LIC. The present study concluded that LIC has maintained higher percentage of claim settlement ratio which is a part of service of the industry. Every private insurance company is keen on the claim settlement as this is the only way to keep in this industry.

Higher claim settlement ratio indicates that the companies have been more transparent in the claim management process and they strictly follow the provisions of Protection of Policyholder's Interest Regulations 2002.

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