

**AN EXAMINATION INTO CLAIM SETTLEMENT RATIOS OF PUBLIC AND PRIVATE LIFE INSURANCE COMPANIES IN INDIA****DR.P.B.ASHTURKAR****M.B.A.,M.Com.,M.Phil.,Ph.D.,G.D.C & A****Associate Professor & Head- Business Law****Research Guide in Commerce & Management Science****Department of Commerce****K.R.M. MAHILA MAHAVIDYALAYA, NANDED, M.S., INDIA****ABSTRACT:**

*The YOGAKSHENA i.e. Risk and Safety has been the oldest term of insurance used in the Rigveda for insurance. The claim settlement ratio indicates the number of claims that are paid out per hundred claims made by policyholders. Settlement of the claim is an important area in which every insurance company will have to concentrate. Claim settlement is the yardstick to judge the insurance company's efficiency. The present study examines the claim settlement performance of life insurance business in India and to make a comparative study of public and private life insurance companies. Data relating to claim settlement ratios of LIC of India as public sector insurance company and other twenty-two private sector insurance companies have been collected for study. The present analysis suggests that LIC has created Bench Mark for the insurance business. Private companies also trying to match the standards established by the public company. Most of the companies have been consistently improving the claim settlement ratio which indicates healthy competition among the insurance companies. However, steep reduction in the ratio of the claim settlement of some companies indicates that these companies are not able to cop up with the competition in the industry due to inconsistent performance. The companies wanting to stay in the insurance business for a long have tried to maintain the claim ratio above ninety per cent. The present study is useful to the potential investors in selection of the insurance companies that settle the claims at an earliest and minimize hardships for the insured.*

**Keywords:** *Life insurance, Claim Settlement Ratio, Yogakshena, Claim management, Risk & Safety, Policyholder's Interest.*

## 1. Introduction

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.

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.

An insurance claim is the actual application for benefits provided by an insurance company. The insurance company may or may not approve the claim, based on their own assessment of the circumstances. When claims are filed, the insured has to observe the settled rules and procedures and the insurer has also to reciprocate in a similar manner by undertaking appropriate steps for speedy disposal of claims. The claim settlement ratio indicates the number of claims that are paid out per 100 claims made by policyholders. It indicates the extent to which the holder of a policy can expect his nominees to receive the promised sum insured on his/her death.

Claims settlement is an integral part of the insurance business which is a service industry and its growth is depend upon the services provided to its customers. It is inevitable 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. 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.

### Types of claims

- Death Claims
- Maturity Claims
- Partial Maturity Claims
- Surrender Value Claims
- Policy Loans
- Disability Claims

## **2. Objectives of the Study**

### **To examine claim settlement ratios of life insurance companies for 2009-2013**

The major objectives of the present study are 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 this regard.

From the year 2009-13 was the era of economic turmoil that emerged from the global recession. However, it will be interesting to examine claim settlement ratio maintained by the insurance companies. The evaluation of performance of the insurance companies in this period will also facilitate comparison between private and public sector insurance companies in terms of claim settlement ratios.

## **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 changing efficiency levels of the claim management in view of the changing scenario of insurance sector.

## **4. 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 list insurance companies in India, claim settlement ratios for year 2009-2010, 2010-2011, 2011-2012, and 2012-2013 collected for analysis and drawing fruitful inferences.

## **5. 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.

## **6. 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 are further classified into claim paid, claims unpaid. Performance of the companies will be assessed in terms of the time taken for the claim settlement periods.

### 7. 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.

### 8. Hypothesis and Testing of Hypothesis

Hypothesis is the main part of the research study. The present research paper is based on the fact that

- 1) Private insurance sector is successful in claims settlement operations.
- 2) Private sector insurance companies will not be successful in insurance sector as LIC is big challenge to them.
- 3) Public sector insurance company is topper in insurance claim received and claim paid operations.
- 4) Private sector insurance companies show greater percentage of the claims unpaid compared to their public counterparts.

**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		Tokio Marine Holdings, Japan

*Source: Data collected from website information and IRDA annual report.*

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. (1 to 4)

**CLAIM SETTLEMENT RATIO OF LIFE INSURANCE COMPANIES OPERATING IN INDIA (FIGURES IN PERCENTAGE)**

Table No 1

Sr. No	Name of Insurance Company	2009-2010 (%)	2010-2011 (%)	2011-2012(%)	2012-2013(%)
1	LIC	97	97	97	98
2	ICICI PRU LIFE	90	95	97	96
3	HDFC LIFE	91	95	96	96
4	SBI LIFE	82	83	95	94
5	MAX LIFE	66	78	90	94

Charts 1

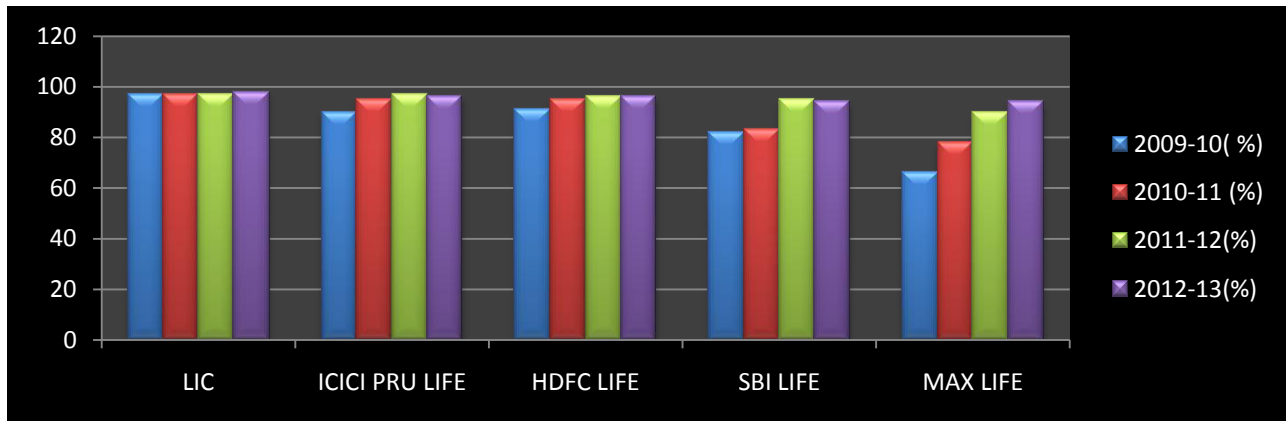


Table 2

Sr. No	Name of Insurance Company	2009-2010 (%)	2010-2011 (%)	2011-2012(%)	2012-2013(%)
6	KOTAK LIFE	87	89	92	92
7	STAR UNION DAI-ICHI	58	81	86	90
8	BAJAJ ALLIANZ	88	89	91	89
9	CANARA HSBC	39	71	81	88
10	AVIVA	87	84	90	88

Chart 2

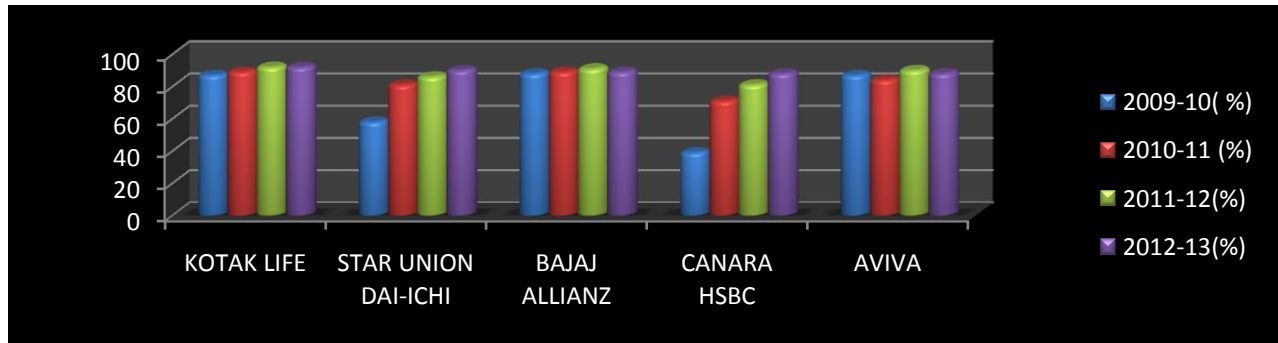


Table 3

Sr. No	Name of Insurance Company	2009-2010 (%)	2010-2011 (%)	2011-2012(%)	2012-2013(%)
11	Reliance Life	81	89	85	86
12	Sahara Life	53	63	78	85
13	Tata AIA	78	82	84	84
14	ING Vyasa	89	90	89	84
15	PNB Metlife	83	85	81	84
16	Birla Sunlife	89	95	91	83

Chart 3

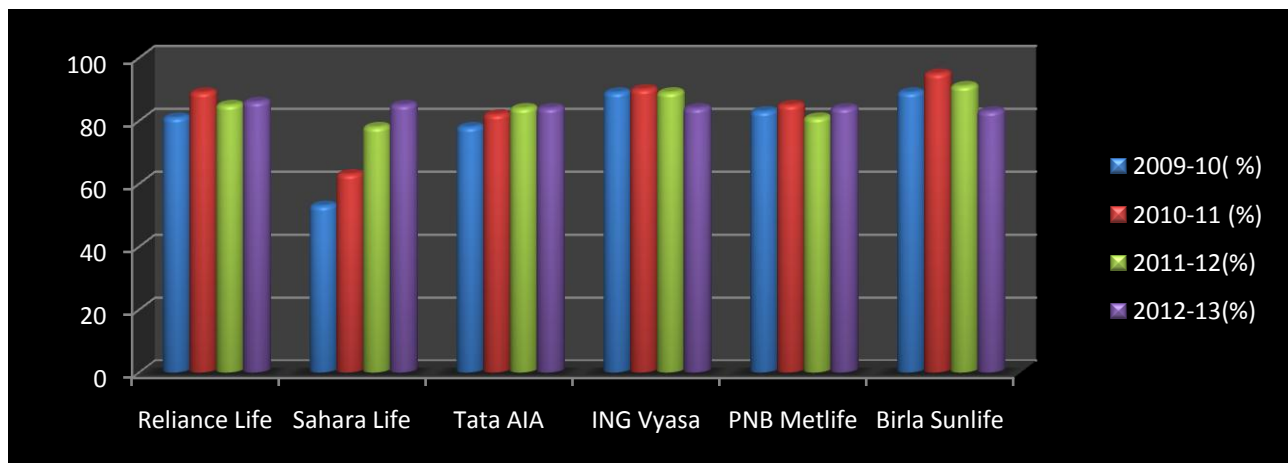
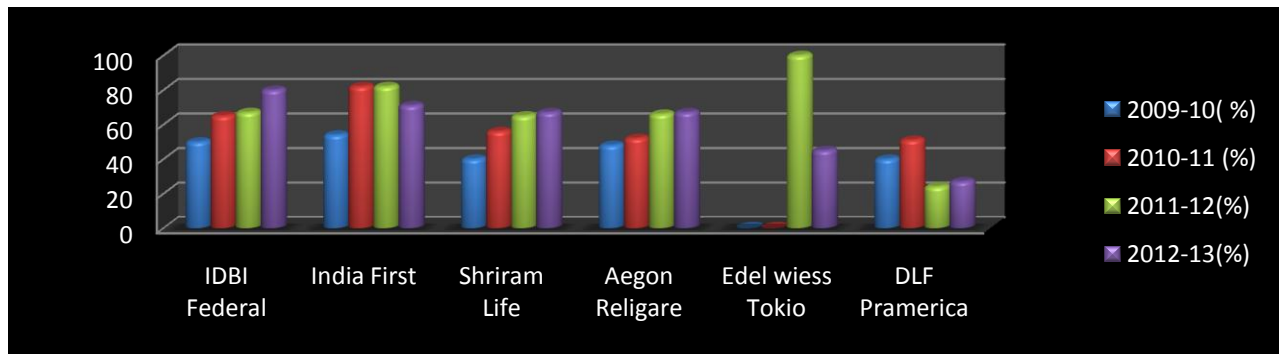


Table 4

Sr. No	Name of Insurance Company	2009-2010 (%)	2010-2011 (%)	2011-2012 (%)	2012-2013(%)
17	IDBI Federal	50	65	67	80
18	India First	54	82	82	71
19	Shriram Life	40	56	65	67
20	Aegon Religare	48	52	66	67
21	Edel wiess Tokio	NIL	NIL	100	45
22	DLF Pramerica	40	51	24	27

Chart 4



Source: Data collected from [www.irda.gov.in](http://www.irda.gov.in)

## 9. Results and Discussions

1. Claim settlement ratio refers to the proportion between the claims received by the insurer and the claims actually settled by the insurer. Claim settlement is actually the conclusive part of the insurance transaction and the policyholder evaluates the insurance company based on his experience of the claim settlement. Claim settlement involves two issues namely how much time insurance companies take for the settlement and second, the proportion of the claim settlement. **Therefore, analysis of the movement in the ratio/percentage of the claim settlement will help to know, which companies are designing client-friendly policies and which companies are lagging behind.**
2. Ratio of the claim percentage is highest at 98% in case of LIC. Private sector companies are not as popular as LIC is in the business of insurance. However, assuming 2009-10 as the base year, leading private sector insurers have attempted to improve claim settlement ratio to match it with that of LIC. ICICI PRUDENTIAL LIFEs ratio improved from 90% in the year 2009-10 to 96% in the year 2012-13. HDFC LIFE improvised from 90% in the year 2009-10 to 96% in the year 2012-13. SBI LIFE has raised the ratio from 82% to 94% in the year 2012-13. MAX LIFE has jumped to 94% claim settlement in the year 2012-13 from mere 66% of the year 2009-10. In case of KOTAK LIFE the ratio rose from 87% in the year 2009-10 to 92% in the year 2012-13. STAR UNION DIA\_ICHI has improved its performance from 58% IN THE YEAR 2009-10 TO 90% in the year 2012-13. **Above analysis suggests that LIC has created Bench Mark for the insurance business**



**and other companies have been following the same. Private companies like ICICI PRUDENTIAL and others are constantly trying to match the standards established by LIC to create place for them. All companies excluding DLF PRAMERICA have been consistently improving the claim settlement ratio, which indicates healthy competition among the insurance companies.**

3. If the averages of the claim settlement percentage for the four years are considered, consistency maintained by the companies may be observed for the period under review 9-10 to 12-13. LIC has given on an average of 97.25% of claim settlement. Averages of other companies are as follows HDFC 94.50%, ICICI PRUDENTIAL LIFE 94.50%, KOTAK LIFE 90%, BIRLA SUNLIFE 89.50%, BAJAJ ALLIANZ 89.25%, SBI 88.50%, ING VYSYA 88%, AVIVA 87.25%, BHARATI AXA 85.50%, RELIANCE LIFE 85.25%, MET LIFE 83.25%, TATA AIA 82%, MAX LIFE 82%, STAR UNION DIA\_ICHI 78.75%, EDELWEISS TOKIO 72.50%, INDIA FIRST 72.25%, CANARA HSBC 69.75%, SAHARA LIFE 69.75%, IDBI FEDERAL 65%, AEGON RELIGARE 58.25%, FUTURE 57.25%, SHRIRAM LIFE 57% DLF PRAMERICA 35.50%.
4. **From the above analysis, it can be concluded that LIC, ICICI PRUDENTIAL AND KOTAK LIFE have maintained the claim settlement ratio above 90% for a period under review. BIRLA SUNLIFE,BAJAJ ALLIANZ,SBI LIFE, ING VYSYA, AVIVA , BHARATI AXA, RELIANCE LIFE, MET LIFE , TATA AIA, MAX LIFE have given satisfactory performance. STAR UNION DIA\_ICHI, EDELWEISS TOKIO, INDIA FIRST, CANARA HSBC, SAHARA LIFE, IDBI FEDERAL, AEGON RELIGARE, FUTURE, SHRIRAM LIFE, DLF PRAMERICA have given lower performance with less than 80% claim settlement ratio.**
5. In case of companies like EDELWEISS TOKIO the ratio of claim settlement has fallen from 100% in the year 2011-12 to 45% in the year 2012-13 and in case of DLF PRAMERICA ratio of claim settlement has fallen from 51% in the year 2010-11 to 24% in the year 2011-12. **Steep reduction in the ratio of the claim settlement in case of these companies indicate that these companies are not able to cop up with the competition in the industry and they may not be able to grow at a faster rate due to such inconsistent performance.**

#### **10. Observations**

Analysis of the claim settlement ratios of public and private life insurance companies in India has given insights into the manner in which the insurance companies are conducting their business in India. Following observations may be noted in this regard.

- 1) Claim settlement ratio is the **Yard Stick** to judge the insurance company's efficiency and helps to know which company designing client-friendly policies and which companies are lagging behind.
- 2) Public Sector Company i.e. Life Insurance Corporation of India being the oldest player in the insurance market has settled highest claim i.e. 97.25 per cent during the study period and the Private Sector companies closely follow it.
- 3) It is observed from the study that LIC of India has created **Bench Mark** for the insurance business in India.

- 4) Private Sector Insurance Companies i.e. HDFC, ICICI PRUDENTIAL LIFE, KOTAK LIFE wanting to stay in the insurance business for a long have tried to maintain the claim settlement ratio above 90% of the claims received.
- 5) Private sector companies having lower percentage of claim settlement may fail to enhance their market share as the bigger companies may use claim settlement ratio as the selling point. Higher percentage of the claim settlement will attract potential consumers.
- 6) The 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.
- 7) Banks having financial background and enjoying public confidence have fared well while competing with the public sector insurance company compared to other private companies in the insurance business.
- 8) Steep reduction in the claim settlement ratio of some private insurance companies indicates that these companies are not able to cop up with the competition in the industry and not grow up faster due to their inconsistent performance.

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