**“Settlement of claims by LIC: a Key to Success”**

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***Abstract***

*The Key Success Factors (KSFs) are the factors on which the sustenance, growth and development of organizations depends upon. In the insurance sector, the KSFs are product benefits, competitive premiums, products/plans differentiation through promotion and claims settlement. Among these different KSFs, claims settlement is the major factor for the success of LIC as its claims settlement operations are transparent and fair. The corporation looks for reasons to settle claims rather than avoid making payments on claims. In short, LIC's ability to withstand competitive pressure in the market can largely is attributed to its positive and proactive claims settlement operations.*

*Life insurance is essentially an instrument for providing financial compensation in case of unexpected death of the person taking the insurance cover. It means claims settlement is very important for insurance companies. Claims can be classified into two types: Maturity claims & Death claims. The settlement of maturity claims is simple because the policyholder is alive and he or she can handle the problem, if any, directly. When it comes to settlement of death claims, it is somewhat complicated. This is because the policyholder may have a natural death or an unnatural death such as accident, murder, etc. In all these cases, required proof in terms of documents has to be submitted. If the insurer is satisfied with the proof, he will settle the claim or else he may further cross-check the information leading to delayed settlement of the claim.*

*The L1C settles claims with greater accuracy, promptitude and courtesy. Keeping in view the IRDA regulations, insurers have to settle all non-early death claims and maturity claims within 30 days. All the same, survival benefit claims are to be settled before the due date. In accordance with the guidelines, the LIC settles all claims within the stipulated time due to which it enjoys excellent corporate image in the insurance sector. Above all, the elaborate and extensive machinery set up by the corporation reveals about its involvement and commitment in the management and settlement of claims. It is no exaggeration to state that, the key success factor of the L1C is its positive and timely claim settlements.*

***Key Words*:** Key Success Factors, Claims Review Committees, IRDA, Ombudsman, Maturity Claims & Death Claims.

**INTRODUCTION:**

An industry's Key Success Factors (KSFs) are those competitive factors that most affect industry member's ability to prosper in the market place-the particular strategy elements, product attributes, resources, competencies, competitive capabilities and market achievements spell the difference between being a strong competitor and a weak competitor. KSFs by their very nature are so important to future competitive success that all firms in the industry must be competent at performing or achieving them. Hence, identification of KSFs should be the top priority of organizations to achieve sustainable competitive advantage1. In the insurance sector, the key success factors are product benefits (bonus or guaranteed additions, competitive premiums, efficient distribution, products/plans differentiation through promotion and claims settlement. Among these different KSFs, claims settlement is the major key success factor due to the fact that prompt and timely settlement of claims help in enhancing the confidence of policyholders in insurance companies; thereby, the business of the latter will increase manifold.

Life insurance is essentially an instrument for providing financial compensation in case of unexpected death of the person taking the insurance cover. It means claims settlement is very important for insurance companies. Unlike tangibles, where it is possible to examine the product prior to purchase, the real test of insurance is after purchase-at the time of claims settlement2. Claims can be classified into two types: Maturity claims & Death claims. The settlement of maturity claims is simple because the policyholder is alive and he or she can handle the problem, if any, directly. When it comes to settlement of death claims, it is somewhat complicated. This is because the policyholder may have a natural death or an unnatural death such as accident, murder, etc. In all these cases, required proof in terms of documents has to be submitted. If the insurer is satisfied with the proof, he will settle the claim or else he may further cross-check the information leading to delayed settlement of the claim.

One of the objectives of the nationalization of the life insurance industry is to provide service at the policyholder’s doorstep. Hence, the LIC of India has laid great emphasis on expeditious settlement of maturity as well as death claims. LIC settles 1.43 claims per every second3. The claims settlement operations of LIC are transparent and fair and it settles lakhs of claims every year. Only in case of suppression of material information, a claim is repudiated. However, the number of claims repudiated is very small due to the fact that the extent of moral hazard is relatively low in the insurance sector as compared to general insurance. However, in these cases, an opportunity is given to the claimant to make a representation for consideration by Claims Review Committees (CRCs) at the zonal offices and the central office.

**Claims Review COMMITTEES:**

LIC constituted CRCs at all the zonal offices and at the central office for considering appeals against repudiation of claims by divisional offices. The divisional offices while repudiating liability also inform the claimant that if he or she is not satisfied with the decision, then he/she may approach the CRC. The CRC at the zonal offices consists of a retired high court/district judge besides three senior officers from the zonal offices while the one at the central office consists of a retired high court judge and four officers in the rank of executive director. The intention of the corporation in inducting such retired judges is to ensure greater transparency in its operations. The zonal CRC will receive all the appeals irrespective of the claim amount and review them. But its decision up to a net claim amount of Rs. 2 lakh will be final. However, claimants with net claim amount exceeding Rs. 2lakh and not satisfied with the decision of the Zonal CRC may approach the central office one for review. In addition to this, the Central Government in exercise of powers conferred by Subsection 1 of Section 111 of the Insurance Act, 1938, framed the redressal of public grievance rules through which complaints are resolved relating to settlement of claims. During 2008-09, the number of cases reviewed by CRCs was 3,119 out of which 795 claims were paid or ex gratia given4.

**IRDA: Cell for Redressal of GRIEVANCES:**

The Insurance Regulatory Development Authority (IRDA) also set up a cell for settling the grievances of policyholders. The policyholders may approach the cell for settling their complaints including claims. The cell analyzes the complaints and accordingly advises the insurer to examine the same. However, if the insurer does not change his stand even after the direction given by the cell, the complainant is informed of the same. The IRDA does not carry out any adjudication. The complainant may approach the appropriate judicial channels in this regard.

**Insurance Ombudsman:**

The office of the insurance ombudsman was created by the Government of India in 1998 for arbitration between customers and the corporation. There are 12 insurance-ombudsmen in the country situated at Ahmadabad, Bhopal, Bhubaneswar, Chandigarh, Chennai, Delhi, Guwahati, Hyderabad, Kochi, Kolkata, Lucknow and Mumbai. There is no cost involved in taking the grievance to the ombudsman and generally the decisions are expeditious in comparison to Consumer Courts/Forums.

An insurance ombudsman basically performs two functions such as conciliation and award-making. He is empowered to consider complaints in respect of personal lines of insurance from any person who has any grievance against the insurer. The complaints with regard to claims may be related to partial or total repudiation of claims or delay in settlement of claims. But the ombudsman's powers are restricted to insurance contracts of value not exceeding Rs. 20 lakhs5. The insurance companies are required to honor the awards passed by an insurance ombudsman within three months and the LIC strictly adheres to the same.

In case the policyholder is not satisfied with the award of the ombudsman, he can approach other venues like consumer forums and courts of law for redressal of grievances. In the light of the above, an attempt is made to discuss the claims settlement of LIC as show in table-1 below.

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| **Table 1 : Claims Settlement Operations of LIC between 2000-01 and 2009-10** |
| **Claims Settled** | **Claims Outstanding** |
| **Year** | **Number of Policies****(in lakhs)** | **Sum Assured (in cr)** | **Number of Policies****(in lakhs)** | **Sum Assured (in cr)** |
| 2000-01 | 40.24 | 4,076.07 | 1.44 | 226.23 |
| 2001-02 | 41.67 | 4,532.22 | 1.67 | 288.70 |
| 2002-03 | 49.49 | 5,691.49 | 1.60 | 319.59 |
| 2003-04 | 56.52 | 6,677.04 | 1.59 | 315.62 |
| 2004-05 | 59.83 | 7,583.18 | 1.83 | 348.22 |
| 2005-06 | 66.42 | 9,211.30 | 1.60 | 403.17 |
| 2006-07 | 75.86 | 11,637.98 | 1.29 | 432.01 |
| 2007-08 | 87.67 | 14,519.25 | 0.61 | 273.34 |
| 2008-09 | 96.91 | 17,061.75 | 0.23 | 191.55 |
| 2009-10 | 103.53 | 19,607.20 | 0.16 | 173.91 |
| *Source : Compiled from the Annual Reports of LIC of India* |

The claims settlement operations of LIC from 2000-01 to 2009-10 is presented in Table 1. The claims settled in terms of number have increased continuously from 40.24 lakhs in 2000-01 to 103.53 lakhs in 2009-10. Similarly, the value of claims also has increased from Rs. 4,076 crores in 2000-01 to Rs. 19,607.20 crores in 2009-10. The claims outstanding in terms of number of policies have increased from 1.44lakhs in 2000-01 to 1.67lakhs in 2001-02. From the year 2001-02 onwards the number of claims outstanding has declined for two years and then stood at 1.59 lakhs in the year 2003-04. Since then, the claims outstanding in terms of policies have undergone fluctuations and finally stood at O.16 Iakhs. Contrary to this, the claims outstanding in terms of sum assured have shown fluctuations and, finally, stood at 173.91 crores. This shows that the claims settlement operation of LIC is good, given the huge volume and value of its business.

**Maturity Claims:**

The methods by which claims are handled can directly affect the climate for sales. Settlement of claims is a very important function for the present claims settlement will decide the future business of the corporation. Maturity claims are payable at the end of the selected term while death claims are payable in the event of death of the policyholder before maturity. Prompt settlement of maturity and death claims increase the credibility of the corporation6. The maturity claims performance of LIC is shown in Table 2. The maturity claims in terms of number have increased from 37.921akhs in 2000-01 to 98.731akhs in 2009-10. The annual growth rate of claims is the lowest at 5:22% in 2001-02 and it is the highest at 16.67% in 2002-03. The maturity claims in terms of value also has increased continuously from Rs. 3,422.88 cr in 2000-01 to Rs. 16,660.96 cr in 2009-10. The annual growth rate of maturity claims in terms of value varied between a low of 9.44% in 2001-02 and a high of 27.91% in 2006-07. It is pertinent to note that the annual growth rate of maturity claims in terms of value is more than that of the annual growth rate of maturity claims in terms of number of policies.

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| **Table 2 : Maturity Claims Performance between 2000-01 and 2009-10** |
| **Year** | **Maturity Claims****(in lakhs)** | **Annual Growth** **(%)** | **Amount** **(in cr)** | **Annual Growth** **(in cr)** |
| 2000-01 | 37.92 | - | 3,422.88  | - |
| 2001-02 | 39.90 | 5.22 | 3,745.91  | 9,44 |
| 2002-03 | 46.55 | 16.67 | 4,702.28  | 25.53 |
| 2003-04 | 53.52 | 14.97 | 5,507.90  | 17.13 |
| 2004-05 | 56.66 | 5.87 | 6,237.42  | 13.25 |
| 2005-06 | 61.84 | 9.14 | 7,628.55  | 22.30 |
| 2006-07 | 71.05 | 14.89 | 9,757.50  | 27.91 |
| 2007-08 | 82.12 | 15.58 | 12,214.92  | 25.18 |
| 2008-09 | 92.11 | 12.16 | 14,435.48  | 18.18 |
| 2009-10 | 98.73 | 7.19 | 16,660.96  | 15.42 |
| *Source : Compiled from the Annual Reports of LIC of India* |

**Death Claims:**

Prompt settlement of death claims earns goodwill for the insurers. Keeping this in view, an attempt is made to know the death claims performance of LIC, which settles a large number of death claims every year. The death claims are repudiated only in the case of suppression of material information. However, if the claimants approach the CRCs, the latter conducts a case-wise analysis, and depending upon the merits of each case, appropriate sanctions are made to the claimants7. The death claims performance of LIC is presented in Table 3.

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| **Table 3 : Death Claims Maturity Claims Performance between 2000-01 and 2009-10** |
| **Year** | **Maturity Claims****(in lakhs)** | **Annual Growth** **(%)** | **Amount** **(in cr)** | **Annual Growth** **(in cr)** |
| 2000-01 | 2.69 | - | 707.92 | - |
| 2001-02 | 2.00 | (-) 25.66 | 848.79 | 19.89 |
| 2002-03 | 2.87 | 43.52 | 1,020.10 | 20.18 |
| 2003-04 | 2.99 | 4.18 | 1,165.17 | 14.22 |
| 2004-05 | 3.41 | 14.05 | 1,378.36 | 18.30 |
| 2005-06 | 4.35 | 27.57 | 1,637.70 | 18.81 |
| 2006-07 | 4,49 | 3.22 | 1,909.32 | 16.59 |
| 2007-08 | 4.87 | 8.46 | 2,141.59 | 12.16 |
| 2008-09 | 4.42 | (-) 9.24 | 2,544.38 | 18.95 |
| 2009-10 | 4.80 | 8.59 | 2,946.24 | 15.79 |
| *Source : Compiled from the Annual Reports of LIC of India* |

The death claims in terms of number have declined from 2.69 lakhs in 2000-01 to 2 lakhs in 2001-02. Since then, the death claims have increased year after year and reached a high of 4.87lakhs in 2007-08. Though the death claims declined to 4.42lakhs in 2008-09, again they increased and stood at 4.8O lakhs in 2009-10. The annual growth rate of death claims in terms of policies varied from a low of (-) 25.66% in 2001-02 to a high of 43.52% in 2002-03. Contrary to the volume of death claims, the value of death claims has increased from Rs. 707.92 cr in 2000-01 to Rs. 2,946.24 cr in 2009-10, thereby, it registered a growth rate of 6 times. The annual growth rate of death claims in terms of value is positive throughout the study period and it varied between a low of 12.16% in 2007-08 and a high of20.18% in 2002-03.

**Conclusion:**

The L1C settles claims with greater accuracy, promptitude and courtesy. Keeping in view the IRDA regulations, insurers have to settle all non-early death claims and maturity claims within 30 days. All the same, survival benefit claims arc to be settled before the due date. In accordance with the guidelines, the LIC settles all claims within the stipulated time due to which it enjoys excellent corporate image in the insurance sector. Above all, the elaborate and extensive machinery set up by the corporation reveals about its involvement and commitment in the management and settlement of claims. It is no exaggeration to state that, the key success factor of the L1C is its positive and timely claim settlements.

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