



Benefit Amount Settlement Ratio: A better indicator for Measuring the Productivity of Insurance Companies

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ABSTRACT:- Insurance industry, in these days of e-insurance, has been witnessing shifting trends in core functions of the insurance value chain and paying increased attention for better claim management strategies. The industry is striving for improving its customer experience and control their claims expenses and shifting better claim management solutions. They are increasingly implementing advanced technologies to reduce the claim-payment related costs. The claims staff is looking for a faster and more effective way to access and analyze data related to claims, as the claim settlement process has become a time-consuming and labor-intensive. On the other hand, the policy holders expect an immediate payment of their mature policies, particularly the nominees are looking at a speedy and complete payment of benefit amount without much disturbance. It is beyond doubt that cost reduction and improved customer service are the primary benefits of implementing claims management solutions. The present paper makes an attempt to explain "Benefit Amount Settlement Ratio" (BASR) as one of the efficiency measuring indicator for insurance companies, with special reference to private insurance companies. Hitherto a variety of indicators are used to know the best payer of policies, particularly analyzing the claim settlement ratio of an insurance company. Of late, experts are arguing that high claim settlement ratio does not guarantee 100% settlement of benefit amount and some innovative measures are to be worked out to analyze the performance of insurance industry. Keeping view these comments, the paper primarily based on secondary data makes a modest attempt to calculate the Benefit Amount Settlement Ratio, as one of the indicators to measure the efficiency of private insurance companies, in particular.

KEYWORDS:- Total Claims, Claim Settlement Ratio, Benefit Amount, Settlement of Benefit Amount, Efficiency in Settlement of Benefits.

I. INTRODUCTION

In our country, "Bharath" the wisdom of vedic rishis blesses the human community as "Shatamanam bhavathi shatayuH purushendriyaH aayuShyavedriya pratitiShiTati". This is normally used by priests and scholars to give blessings to people, which means "live for hundred years" as the words "Shata" (hundred and also many years) and "aayu" (longevity) exhibit their best wishes. However, the modern human life-culture is impacted by a variety of environments, which is driving the human beings to an unhealthy environment in which though "longevity" has improved according to the Human Development Reports, they are not happy with their state of well-being and level of happiness. The recently released World Happiness Report-2015 shows that of the total 158 countries in the world, India occupied 117th place, which shows that people in India are relatively unhappy even compared with our neighbors –Bhutan (79th rank), Pakistan (81st rank) and China (84th rank). The modern human life is surrounded by many types of risks-social, political, cultural, economical and sentimental. Today, human beings need, necessarily, risk-averting and risk-sharing mechanisms, so that their amount of happiness may be improved with no or less risk. Life Insurance, in the modern world, is the best risk-transferring mechanism, which makes the humans happier with less risk.

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Economically speaking, insurance can be defined as “a system for reducing financial risk by transferring that risk from a policy owner to an insurer” particularly with reference to the risk of death, which is unavoidable. Experts argue that a human life passes many values and among which economic values of a human life are the basis for the need for life insurance. The economic value of a human life is concerned with his earning capacity. It is also true that the economic value of an income earner tends to diminish with the passage of time. Hence, life insurance is designed as a tool for risk management, a process for dealing with the risk of loss of life. Life insurance is also based on the concept “risk pooling” as people exposed to death risk agree to share the loss on a group sharing of losses. They transfer the risk of loss to an insurance company. Insurance companies collect and pool the premiums of thousands of people, spreading the risk of losses across the entire pool. It is also true that insurance relies on “the law of large numbers” to minimize the speculative element and facilitates to reduce the financial risk.

Globally the share of life insurance business of India in total premium accounted for 79.6 per cent (52.17 US \$ billion) in 2013 (IRDA, 2014). Though India’s share in global life insurance market is 2.0 per cent during 2013, it is ranked 11th among the 88 countries for which the data is available with a premium income of Rs.3,14,283 crore during 2013. Insurance industry has been improving its performance by a good record of a fair claims settlement ratio, a measure used for measuring the efficiency of insurance industry. Claim Settlement is one of the most important services that an insurance company can provide to its customers. Claim settlement ratio refers to the settlement of claims that an insurance company pays out of 100 claim requests it received in a particular year. The IRDA publishes the claim settlement ratio for LIC, Private Insurance Companies and for the total insurance industry and no significance is attached to the Benefit Amount Settled to the policy holders. The data published show that the private insurance companies are receiving a lower number of claims and their claim settlement ratio is comparatively lower when compared with LIC for which the settlement ratio works out to more than 98.0 per cent. Being seen by this indicator of measuring efficiency, people, both policy holders and other people, feel that high claim settlement ratio is the perfect measure to assess the benefits that accrue from insurance and consequently they prefer an insurance company which has the highest claim settlement ratio. As a result, retention rate and no. of new policies increase in general and insurance business has been thriving.

II. BENEFIT AMOUNT SETTLEMENT RATIO

However, people before buying an insurance policy from the companies which have the high claim settlement ratio must once go through the indicator of “Benefit Amount Settlement Ratio” (BASR) also besides carefully watching the claim settlement ratio. Benefit Amount Settlement Ratio, for the present paper, is defined as “the percentage of benefit amount paid by an insurance company for the total claims paid”, setting aside deliberately the benefit amount to be paid for the claims repudiated, written back and pending at the end of a particular year. (Total Benefit Amount to be paid for the total claims – benefit amount paid for the total claims paid).

Viewed from this indicator of measuring efficiency, we can easily come to a conclusion, after going through the data published, that there is a significant difference between the claim settlement ratio and benefit amount settlement ratio, even for LIC, which is considered as the best insurance company.

III. OBJECTIVES OF THE PAPER

Keeping the above discussion in view, specifically the present paper makes a modest attempt:

1. To calculate and to compare the claim settlement ratio and benefit amount settlement ratios of the private insurers for the reference period i.e. from 2006-07 to 2013-14.
2. To bring out a comparison between the LIC and Private Insurers with reference to claims settlement and benefit settlement ratios for the above reference period, and
3. To identify the best private insurance companies, which have high Benefit Amount Settlement *Ratio*.

IV. RESEARCH METHODOLOGY

This paper primarily depends upon secondary data published by IRDA in its annual reports, particularly for individual death claims. Data have been collected and processed for 8 years period i.e. from 2006-07 to 2013-14 belonging to individual death claims both for LIC and private insurance companies and particularly for the year 2013-14 for 23 private insurance companies to identify the best private insurance companies in terms of benefit amount settlement ratio. A comparison is made between LIC and 23 Private Insurance companies to evaluate the performance with reference to benefit amount paid for the claims paid.

Analysis and Results:

This paper deals with individual death claims and benefit amount settled by private insurance companies in particular. If the life assured dies during the term of the policy, the death claim arises. If the death of the policy holder takes 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.

Settlement Ratios for the Private Insurance Companies:

The recent trends in both claim settlement ratio and benefit amount settlement ratio for the private insurers with reference to individual death claims is presented in Table.1

The data in Table. 1 reveals that the no. of claims filed and claims settled have been continuously increasing during the reference period of 8 years. Similarly the benefit amount settled for the claims paid also continuously increasing. The average no. of claims settled works out to 71, 948 per year of the total 83,126 claims received, indicating a claim settlement ratio of 86.6 per cent. Likewise, of the total benefit amount to be paid for the claims received works out to Rs. 3052.87 crore, of which Rs. 2385.33 was settled (paid) representing a Benefit Amount Settlement Ratio of 78.5 per cent for the reference period of 8 years.

Table -1: Settlement Ratios of the Private Insurance Companies- Individual Death Claims

Reference Period	Total No. of Claims		Total Benefit Amount (Rs.Crore)		Settlement Ratio (%)	
	No. of Policies #	No. of Policies Paid (Settled)	To be paid for all claims intimated/ booked	Paid for the total no. of claims settled @	Claim Settlement Ratio (3/4)	Benefit Amount Settlement Ratio (5/4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2006-07	15033	10928	243.78	155.46	72.7	63.8
2007-08	27561	21755	443.72	316.28	78.9	71.3
2008-09	49523	40739	834.85	633.12	82.3	75.8
2009-10	85061	72200	1491.61	1158.58	84.9	77.7
2010-11	112032	96403	1858.99	1502.10	86.0	80.8
2011-12	122864	109765	2284.41	1849.23	89.3	81.0
2012-13	127906	113384	2724.62	2147.32	88.6	78.8
2013-14	125027	110410	3052.87	2385.33	88.3	78.1
Mean	83126	71948	1616.86	1268.43	86.6	78.5

Note: # refers to the claims pending at the start of the year and claims intimated/booked during that year.

@ excludes benefit amount to be paid for the claims repudiated, written back and pending at the end of the year.

Source: Calculated based on the data published in the Annual Reports of IRDA for the relevant years.

It is concluded from the data presented in Table.1 that on an average 13.4 per cent of the total claims were not paid and 21.5 per cent of the total benefit amount to be paid was not settled (paid) to the policy holders by the private insurance companies during the reference period of 8 years. It is to be noted that though claim settlement ratio is high at 86.6 per cent on an average, and the benefit amount settled works out to 78.5 per cent of the total benefit amount to be paid for the policy holders (for 83126 policies). Therefore, preferring an insurance company looking at claim settlement ratio leads to erroneous decisions to buy an insurance policy, as the private insurance companies altogether did not pay 21.5 per cent of the total benefit amount to be paid for the policy holders due to various reasons, even though 86.6 per cent of the policies were honored for the payment of benefit amount.

Settlement Ratios of LIC and Private Insurers: A Comparison:

An attempt is made to evaluate the performance of LIC and Private Insurers with reference to Benefit Amount Settlement Ratios for the reference period of 8 years i.e. from 2006-07 to 2013-14. Table. 2 summarize these details.

Table. 2: Claims and Benefit Amount Settlement Ratios – A Comparison

Reference Period	Claim Settlement Ratio (%)		Benefit Amount Settlement Ratio (%)		Insurance Industry	
	LIC	Private Insurance Companies	LIC	Private Insurance Companies	Claim Settlement Ratio	Benefit Amount Settlement Ratio
2006-07	96.9	72.7	93.5	63.8	96.4	92.0
2007-08	96.7	78.9	93.7	71.3	97.6	91.5
2008-09	95.5	82.3	93.7	75.8	94.5	90.9
2009-10	96.5	84.9	95.1	77.7	95.2	91.9
2010-11	97.0	86.0	94.8	80.8	92.3	91.7
2011-12	97.4	89.3	95.4	81.0	96.3	91.8
2012-13	97.7	88.6	95.3	78.8	96.4	91.2
2013-14	98.1	88.3	95.2	78.1	96.8	90.8
Mean	97.1	86.6	94.7	78.5	96.1	91.3

Source: IRDA: Annual Reports for reference years.

The data presented in Table. 2 exhibit that there is a significant difference between claim settlement ratio and benefit amount settlement ratio both for LIC and private insurance companies. Though the average claim settlement ratio of 97.1 per cent for LIC is comparatively high during the 8 years of reference period, the benefit amount settlement ratio works out to 94.7 per cent. Likewise, the private insurance companies have claim settlement ratio of 86.6 per cent, the benefit amount settlement ratio works out to only 78.5 per cent. It means both for LIC and private insurers, the benefit amount settlement ratio was found lower to the claim settlement ratio. This implies that even the “King of Payments” – LIC could not pay 5.3 per cent of the total benefit amount to be paid for the policy holders in spite of a high claim settlement ratio (97.1 %) and the private insurers could not pay 21.5 per cent of the total benefit amount to be paid for total claims received. For the total insurance industry also the benefit amount settlement ratio (91.3%) is lower to the claims settlement ratio (96.1%).

Thus, the data presented in Table. 2 apply reveals the fact that benefit amount settlement ratio should be considered as one of the indicator for the measurement of efficiency of customer service and it is also true that high claim settlement ratio does not guarantee high benefit amount settled by insurance companies.

Best Private Insurance Companies in 2013-14:

Experts argue that looking at claim settlement ratio of an insurance company is one of the indicators to identify an insurance company for buying an insurance product. Hence, it is to be remembered that claim settlement ratio, as discussed above, is not a guarantee for a high benefit amount settlement. Keeping the importance of the benefit amount settlement ratio in view, an attempt is made to categorize the private insurance companies according to their benefit amount settlement ratio particularly during the year 2013-14, though evaluating the performance for a period of one year may not yield the best results, to identify the best private insurance company in terms of their benefit settlement behavior. The details of this categorization are presented in Table. 3. in descending order.

Table. 3 : Ranking the Private Insurance Companies with High Benefit Amount Settlement

RANK	Private Insurance Companies	Total No. of Claims		Benefit Amount (Rs. Crore)		Settlement Ratios	
		Received	Paid (Settled)	To be paid for Total Claims	Paid for the claims settled	Claim Settlement Ratio	Benefit Amount Settlement Ratio
1	SBI Life	14233	12960	288.54	255.28	91.1	88.5
2	Sahara	836	754	7.79	6.75	90.2	86.6
3	Max Life	9478	8896	250.01	214.60	93.9	85.8
4	HDFC Std.	7259	6824	254.32	216.94	94.0	85.3
5	Tata AIA	4711	4225	114.12	94.80	89.7	83.1
6	IDBI Federal	932	842	39.56	32.70	90.3	82.7
7	Bajaj Allianz	23724	21058	440.98	360.20	88.8	81.7
8	AEGON RELIGARE	400	324	32.27	26.34	81.0	81.6
9	Kotak Mahendra	2963	2687	88.81	71.09	90.7	80.0
10	ICICI Pru	13398	12608	353.47	278.60	94.1	78.8

11	Star Union	1022	949	25.01	20.30	92.9	77.9
12	Birla Sun Life	9197	8071	344.82	268.14	87.8	77.8
13	Exide Life	3741	3111	54.04	41.37	83.2	76.6
14	Canara HSBC	627	544	31.17	23.77	86.8	76.3
15	Met Life	2510	2265	108.17	82.40	90.2	76.2
16	AVIVA	2033	1708	119.83	85.84	84.0	71.6
17	Reliance Life	21033	17241	298.44	202.96	82.0	68.0
18	Future Generali	2229	1669	43.09	25.93	74.9	60.2
19	Bharti AXA	1078	950	33.79	20.14	88.1	59.6
20	India First	1258	920	37.73	20.90	73.1	55.4
21	Sriram	1427	966	38.77	20.3	67.7	52.4
22	EDELWEISS TOKIO	80	48	10.30	4.50	60.0	43.7
23	DLF PRAMERICA	858	190	27.85	6.30	22.1	22.6

Source: IRDA (2014) Annual Report – 2013-14, Statement-6

It is interesting to note that of the total 23 private insurance companies, none of them have achieved 90.0 per cent of the benefit amount settlement ratio. Viewed from this ratio, only 8 companies (34.8 per cent) have achieved the benefit amount settlement ratio ranging from 81.6 per cent to 88.5 per cent during the year 2013-14. For 10 companies (43.5 per cent) this ratio ranges from a minimum of 60.2 per cent to a maximum of 80.0 per cent. The remaining 5 companies have shown a dismal performance which has less than 60.0 per cent of benefit amount settlement ratio. Among the companies, SBI Life (88.5 per cent), Sahara (86.6 per cent), Max Life (85.8 per cent) and HDFC Std. (85.3 per cent) have high benefit amount settlement ratios. The claims settlement ratio for SBI Life was estimated at 91.1 per cent and at 90.2 per cent and 94.0 per cent respectively for other top four companies. It is interesting to note that though Bharti AXA had 88.1 per cent of claim settlement ratio, it has paid only 59.6 per cent of the total benefit amount to be paid to the policy holders. Similarly, in spite of the high claim settlement ratio of 73.1 per cent and 60.0 per cent for India First and Edelweiss Tokio companies, the benefit amount settlement ratio was found very low at 55.4 per cent and 43.7 per cent respectively. For DLF Pramerica both the ratios were found low (CSR=22.1% and BASR=22.6 per cent).

Quite often the experts argue that one of the reasons for lower claim settlement ratio of private insurance companies was the age of these companies, as they are very new as compared to LIC, In spite of it, if we correlate the date of establishment and the level of claim settlement ratio, Sahara (2004), Aegon Religare (2008), IDBI Federal (2007) have shown better performance with reference to the settlement of benefit amount for which this ratio was estimated as 86.6 per cent, 81.6 per cent and 82.7 per cent respectively. On the contrary, ICICI Pru (2000), Birla Sun Life (2001), Kotak Mahendra (2001) and Met Life (2001) were older than the above group of companies, but the benefit amount settlement ratio was comparatively lower. It seems the efficiency of marketing the products and the well-knit customer relationship might have impacted their benefit amount settlement ratios.

V. CONCLUSION

The foregoing discussion amply reveals the fact that high claim settlement ratio may not represent high settlement ratio of benefit amount to the policy holders. Though the claim settlement ratio serves as one of the efficiency measures for an insurance company, the buyers of an insurance product must also pay adequate attention to the benefit amount settlement ratio, which ensures a fair honor to the claim of the policy owner.

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