

Chapter 4

Claims Settlement and Grievance Redressal Procedures

4.1 Introduction

Insurance is a contract in which an individual or entity receives financial protection or reimbursement (indemnity) against losses from an insurance company. Thus, an insurer settles claims against policies issued by him. The efficiency of the claims management and settlement process has a direct impact on a company's ability to retain customers and to minimise grievances.

4.2 Audit objectives

The performance audit, carried out at 32 regional offices, 160 divisional offices and 128 branch offices of the four public sector companies, aimed to assess the quality of service rendered to the insured by reviewing:

- the claim settlement procedures and the servicing of policies;
- the role of loss assessors/surveyors and service rendered by them; and
- the procedures in place for attending to and redressing grievances/complaints.

While undertaking the review of selected cases and files, the companies' own procedures were studied, apart from assessing the level of adherence to IRDA Regulations in regard to claims settlement (Box 4.1) and disposal of grievances.

Box 4.1

IRDA (Protection of Policyholders' Interest) Regulations, 2002: Regulation 9

On receipt of claim intimation:

- the insurer shall respond immediately and direct the insured on the procedures to be followed.
- Surveyor to be appointed within 72 hours.
- Surveyor shall communicate his findings to the insurer within 30 days of his appointment.
- In special circumstances, due to special and complicated nature of claim, surveyor shall seek extension of time for submission of his report, in no case shall a surveyor take more than six months from the date of his appointment to furnish his report.
- The insurer to seek additional information, if any, required from the surveyor within 15 days of the receipt of original survey report
- The surveyor shall furnish the additional report within three weeks from the date of receipt of communication from insurer.
- Offer of settlement or rejection of a claim to be issued by the insurer within 30 days, on receipt of survey report or the additional survey report as the case may be.
- On acceptance of the offer of settlement by the insured, payment shall be made within seven days. For any delay in payment, interest at a rate which is two *per cent* above the bank rate shall be payable by insurer.

It should be noted that Motor Third Party claims are, however, governed by the procedures and time-schedules of the Motor Accident Claims Tribunals.

4.3 Outstanding claims

The details of claims reported, paid and outstanding with respect to the four companies for the five year period ending 2006-07 are given in Tables 4.1 to 4.4. These figures also include claims relating to Motor Third Party claims. The information was extracted from the Annual Reports of the companies.

Table 4.1: Claims intimated, settled and outstanding-NIA

Year	Number of claims				Value of outstanding amount (Rs. in crore)	No. of claims outstanding for more than six months
	Out-standing opening balance	Intimated during the year	Settled during the year	Out-standing-closing balance		
2002-03	355551	1271986	1267423	360114	3929	230384
2003-04	360114	1405705	1378480	387339	4380	247059
2004-05	387339	1450229	1455845	381723	4845	242475
2005-06	381723	1192640	1190122	384241	5505	234968
2006-07	384241	942598	930590	396249	5759	247777

Table 4.2: Claims intimated, settled and outstanding-NIC

Year	Number of claims				Value of outstanding amount (Rs. in crore)	No. of claims outstanding for more than six months
	Out-standing opening balance	Intimated during the year	Settled during the year	Out-standing-closing balance		
2002-03	299951	746894	708085	338760	2253	206560
2003-04	338760	870690	822671	386779	2642	253794
2004-05	386779	844195	860515	416258**	2809	282437
2005-06	416258	813143	780424	448977*	3381	319248
2006-07	439798*	622210	648769	413239	3359	304323

* 9179 duplicate cases deleted

** figure as per Annual Report of the Company. Opening balance of claims outstanding plus claims intimated during the year less claims settled during the year works out to 370459

Table 4.3: Claims intimated, settled and outstanding-UIIC

Year	Number of claims				Value of outstanding amount (Rs. in crore)	No. of claims outstanding for more than six months
	Out-standing opening balance	Intimated during the year	Settled during the year	Out-standing-closing balance		
2002-03	417557	765132	747712	434977	3244	302482
2003-04	434977	772372	773349	434000	3444	306167
2004-05	434000	767345	775398	425947	3673	315411
2005-06	425947	676766	684789	417924	3754	314443
2006-07	417924	627772	677228	368468	3753	281127

Table 4.4: Claims intimated, settled and outstanding-OIC

Year	Number of claims				Value of outstanding amount (Rs. in crore)	No. of claims outstanding for more than six months
	Out-standing opening balance	Intimated during the year	Settled during the year	Out-standing-closing balance		
2002-03	312264	618780	619013	312031*	2490	219349
2003-04	330906*	612342	570673	372575	2293	233922
2004-05	372575	539835	594499	317911	2859	231400
2005-06	317911	564123	575440	306594	2949	215550
2006-07	306594	557861	555302	309153	3287	216960

**difference in printed annual reports*

Taking 2002-03 as the base year, it is seen that the total number of claims intimated to all four companies in 2006-07 had declined. Similarly, the number of claims settled by them in 2006-07 had also decreased. However, there was no significant progress in settling outstanding claims. Total outstanding claims (Table 4.1 to Table 4.4) increased in 2003-04 and remained comparatively static, over the years up to 2006-07. Progress in settling outstanding claims was, however, registered by UIIC and OIC.

Total claims outstanding for more than six months constituted 70.62 *per cent* of total claims outstanding in 2006-07. The ratio was lowest in case of NIC (62.53 *per cent*) followed by OIC (70.18 *per cent*) NIC (73.64 *per cent*) and UIIC (76.30 *per cent*).

Steps need to be taken to address the issue of outstanding claims. This becomes imperative in the context of the current competitive environment.

The companies stated that they were actively monitoring settlement of claims and had appropriately instructed their operating offices. In respect of non-suit claims*, settlement ratios were generally higher. However, as mentioned earlier, efforts need to be focussed on the settlement of claims outstanding for more than six months.

4.4 Appointment of surveyors

The IRDA Regulations require insurers to appoint surveyors to assess the loss within 72 hours of receipt of the claims. In the divisional offices/branches audited it was noticed that there were delays in appointment of surveyors in 4026 out of 13819 cases in NIA, 3676 out of 26657 cases in NIC, 5115 out of 18365 cases in UIIC and 430 out of 40775 cases in OIC.

4.5 Delay in receipt of survey reports from surveyors

Surveyors are required to submit their reports within 30 days of appointment. It was noticed in the divisional offices/branches audited that this timeframe was not adhered to in 4550 of 13819 cases in NIA, 2595 of 26657 cases in NIC, 14435 of 18365 cases in UIIC and 1161 of 40775 cases in OIC during the period 2004-2007.

4.5.1 Evaluation of survey work

Surveyors and loss assessors are critical to the claims settlement process. The IRDA Insurance Surveyors and Loss Assessors (Licensing, Professional Requirements and Code of Conduct) Regulations, 2000 spell out their duties and responsibilities in considerable detail. Surveyors are required to investigate, manage, quantify and validate losses that may arise from various contingencies and are to carry out their work with competence, objectivity and professional integrity.

Surveyors and their reports play a significant role in the settlement of claims. However, the companies had not prescribed any formal procedure that would facilitate a periodic, thorough and objective assessment of the work of surveyors. It is in the companies' interest to introduce an appropriate evaluation process, since inadequate or qualitatively poor survey work adversely impacts claims settlement and financial outflow. Information regarding the disqualification of surveyors by any company should be shared with the other companies.

* *claims which are not under any litigation*

4.6 Non-utilisation of in-house surveyors

The Insurance Act, 1938 stipulates that a licensed surveyor is mandatory where the estimated amount of claim is Rs.20,000 and above. Claims below this limit can be surveyed by the companies' in-house surveyors.

A review of records of selected divisional and branch offices of the four companies, in the Northern region revealed that the licensed surveyors were appointed even in cases where in-house surveyors could have been utilised. This resulted in avoidable payment of survey fee of Rs.1.46 crore as detailed in Table 4.5.

Table 4.5: Details of avoidable payment of survey fees

(Rs. in lakh)

Year	OIC-RO, Ambala		NIC-RO, Dehradun		UIIC-RO, Lucknow		NIA-RO, Kanpur	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2004-05	2754	28.82	734	5.59	590	2.95	1639	19.17
2005-06	2357	24.19	620	4.48	456	2.28	1366	16.53
2006-07	1822	20.43	830	6.12	535	2.67	1026	12.53
Total	6933	73.44	2184	16.19	1581	7.90	4031	48.23

Non-utilisation of in-house surveyors was also noticed in 459 instances in OIC, Chennai and Bengaluru regions, resulting in avoidable payment of Rs.3.54 lakh.

4.7 Delay in settlement of claims

IRDA Regulations require that the claimant be offered a settlement within 30 days of receipt of the survey reports. However, in selected divisional offices/branches there were delays beyond this period in 3005 cases in NIA, 4637 cases in NIC, 4103 cases in UIIC and 1021 cases in OIC during the period 2004-2005 to 2006-2007 out of 99616 cases reviewed in audit.

4.8 Incorrect extension of 'No Claim Bonus'

In Motor policies covering Own Damages (OD), insurance companies extend 'No Claim Bonus' (NCB). An insured is entitled to NCB only when the policy is to be renewed, after the expiry of the full duration of 12 months. NCB is given as a discount on OD premium and ranges from 20 to 50 *per cent*, depending upon the claim-free policy years at the time of renewal.

A review, in the selected divisions of the four companies in the Southern region revealed that they incorrectly extended NCB. Though claims had been filed earlier in the same divisions, NCB was extended to the policy-holders while renewing the policies. There is, evidently, a need to strengthen internal controls in this area. Details are in Table 4.6

Table 4.6: Details of avoidable 'no claim bonus' extended

Company	Region	2004-05		2005-06		2006-07		Total	
		No.	Rs.	No.	Rs.	No.	Rs.	No.	Rs.
NIA	Chennai	9	10316	6	8130	6	1121	21	19567
	Bengaluru	35	62831	25	45269	25	38127	85	146227
NIC	Coimbatore	40	106528	16	43026	19	23106	75	172660
	Hyderabad	13	34778	12	27558	10	23093	35	85429
UIIC	Coimbatore	31	68705	19	54451	14	24256	64	147412
	Hyderabad	16	34565	16	16132	7	15723	39	66420
OIC	Chennai	34	75639	19	44357	11	28704	64	148700
	Bengaluru	43	73867	29	38895	28	33184	100	145946
Total		221	467229	142	277818	120	187314	483	932361

NIC and UIIC stated that efforts were being made to streamline the system of allowing NCB.

4.9 Non-issue of renewal notices

Issue of renewal notices in time is a measure of customer service. The GENISYS system used by NIC, NIA and UIIC as well as INLIAS system used by OIC have inbuilt programmes to facilitate timely issue of renewal notices in the operating offices. However, test-check in the Northern region revealed that certain divisional offices failed to issue renewal notices as detailed in Table 4.7. This is indicative of deficiency in service.

Table 4.7: Details of renewal notices not issued

Company	R.O	No. of policies test-checked			Renewal notices not issued		
		2004-05	2005-06	2006-07	2004-05	2005-06	2006-07
OIC	Ambala	2057	2026	1781	2057	2026	1781
NIC	Delhi RO I	6000	3998	3961	149	235	185
UIIC	Lucknow	21596	21920	23698	18450	19230	17211

NIC stated that CORE Insurance Solutions would address the issue. OIC stated that instructions had been issued to the operating offices to ensure timely issue of renewal notices.

4.10 Non-retention of old policies

It was also noticed, in the Northern region, that a number of policies were not retained, during the three year period 2004-05 to 2006-07, resulting in a loss of business to the tune of Rs.51.46 crore (Table 4.8).

Table 4.8: Details of loss of business

(Rs. in crore)			
Company	Regional Office	No. of policies	Premium amount not retained
OIC	Ambala (Five DOs and four BOs)	51053	16.93
UIIC	Delhi RO-II (Five DOs)	99977	34.53
Total		151030	51.46

The non-retention of policies in these divisional and branch offices would require appropriate review and action by the companies concerned in order to retain both business and market share. Such review, if conducted on a company-wide basis, will assist in addressing the issue of non-retention of policies on a strategic basis.

4.11 Grievance redressal procedure

Regulation 5 of the IRDA (Protection of Policyholders' Interest) Regulations 2002 stipulates that every insurer shall have in place proper procedures and effective mechanism to address complaints and grievances of policyholders efficiently and with speed and the same, along with the information in respect of Insurance Ombudsman, shall be communicated to the policyholder with the policy document as may be found necessary.

The settlement of claims is governed by the internal operating procedures and financial authority set up by individual companies. The companies have all instituted grievance settlement procedures. The IRDA also monitors settlement of grievances by the insurance companies. In addition, the IRDA has a cell for grievance redressal to look into complaints of policy holders.

UIIC stated that effective measures at various levels, from Branch to Head Office, to sort out grievances were being taken. NIC stated that steps were being taken to develop a Customer Satisfaction Index (CSI) which would be assessed at regular intervals.

4.12 Grievance settlement

The details of grievances received and settled by the companies, during the period 2004-05 to 2006-07, in respect of the offices reviewed by audit are given in Table 4.9

Table 4.9: Details of grievances received, disposed of and remained outstanding

Company	No. of Complaints			
	Outstanding at the beginning	Received during 2003-04 to 2006-07	Disposed of during 2003-04 to 2006-07	Outstanding as at 31 March 2007
NIA	8	659	380	287
NIC	8	237	93	152
UIIC	17	1093	474	636
OIC	4	627	588	43
Total	37	2616	1535	1118

Of 2653 complaints, only 1535 were attended to, during the three years ending 2006-07. One thousand one hundred eighteen complaints, which constituted 42.14 *per cent* of the total complaints during the period, were pending disposal as on 31 March 2007. Steps require to be taken by the managements of NIA, NIC and UIIC, where the number of complaints pending clearance was comparatively higher.

The details of grievances settled through Ombudsman, Consumer Forum, Arbitration and Civil Courts during the last three years ending 2006-07 in respect of selected regional offices of the four companies are as in Table No.4.10.

Table 4.10: No. of cases settled through alternate fora

Company	No. of cases settled through		
	Ombudsmen	Consumer Forum	Arbitration/Courts
NIA	8	231	2
NIC	11	188	0
UIIC	54	204	0
OIC	40	297	1
Total	113	920	3

UIIC stated that, over the years, the grievance disposal had steadily improved and that during the period under reference the disposal rate was 88.5 *per cent*, with reference to the overall number of grievances received by the company. OIC stated that it had started to implement a revised mechanism to make grievance redressal more effective and time bound. NIC has identified a number of issues relating to customer relations management and settlement of grievances, which are expected to be addressed through their Business Process Reengineering exercise.

4.13 Grievances reported to Ombudsmen

The Insurance Council has appointed 12 Ombudsmen across the country. All insurers are required to honour the awards passed by an Ombudsman, within a period of three

months. The Ombudsman can decide on claims up to a value of Rs.20 lakh. All customers, including those whose cases do not fall under the purview of the Ombudsman, can approach the District/State and National Consumer Dispute Redressal Forums. Besides all these, insurance policies and claims fall within the jurisdiction of Civil Courts of appropriate jurisdiction.

The details of the grievances settled through the mechanism of the Ombudsman for the four year period ending 2005-06 are in Table 4.11:

Table 4.11: Details of cases settled through Ombudsman

Year	Total no. of complaints (OB + Received during the year)	Total complaints disposed	Duration wise outstanding complaints			
			< 1 month	1 to 3 months	> 3 months	Total
2002-03	3898	2497	253	461	687	1401
2003-04	5707	3528	661	1175	343	2179
2004-05	6714	5173	606	923	12	1541
2005-06	5635	4290	458	722	165	1345

(Annual Reports of IRDA)

4.14 Claims repudiated by companies

There were a number of instances where claims repudiated by the companies were subsequently settled in favour of the insured by Ombudsman/Consumer Forum. This resulted in additional payment of interest/penalty amounting to Rs.49.84 lakh, as detailed in Table 4.12

Table 4.12: Particulars of additional payment of penalty/interest

(Rs. in lakh)

Company	Region	No. of cases	Additional interest / penalty
NIA	Jaipur	152	23.15
	Pune	4	0.38
	Ahmedabad	1	2.13
	Mumbai RO-IV	2	2.40
NIC	Dehradun	80	11.75
UIIC	Lucknow	16	1.73
	Mumbai RO-I	1	7.00
OIC	Ahmedabad	1	1.30
Total		257	49.84

These cases illustrate the need for the companies to exercise due care before repudiating claims, since cases could be finally decided against the companies if adequate prior examination was not undertaken.

NIA and OIC stated that operating offices had been instructed to exercise more vigilance, in future, before repudiation of claims.

Recommendation No.3

The companies should:

- (i) address the issues relating to the appointment of surveyors and timely submission of their reports so as to ensure adherence to the requirement of IRDA (Protection of Policy Holders' Interest) Regulations, 2002.***
- (ii) introduce a formal, periodic and well-documented process, on a company-wide basis, to evaluate the work of surveyors.***
- (iii) take appropriate measures to enable expeditious settlement of claims, specifically targeting the claims that are outstanding for more than six months.***
- (iv) issue suitable instructions to their operating offices on the need to ensure adequate examination before the repudiation of claims. This would obviate the possibility of the claims being subsequently allowed by Ombudsmen or Consumer Fora and will also assist in mitigating grievances/complaints.***