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CLAIM MANAGEMENT WITH REFERENCE TO PUBLIC AND PRIVATE INSURANCE – A COMPARITIVE STUDY

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ABSTRACT

The growth of the insurance companies depends on the many parameters and one of the vital point is claims management. In modern economy, the claims management will be tough to for the insurance companies. Therefore, the present study examines the claims management of public and private sector insurance companies. The study has considered the LIC and SBI from Public sector and ICICI and HDFC through the private sector insurance companies. The financial data has been considered from 2014 to 2020 of both sector companies. The study framed the data into panel in e-views of key ratios relating to claims management of public and private sector companies. The study applied the VECM to know the relationship and result indicates that claims management ratios having long run relation with the financial performance. The study applied the claims management ratios impact on the financial performance with the ordinary least square method and the result stated that they have negatively influenced. The claims settlement ratios are having the positive impact on the growth of the both public and private sector insurance companies.,

INTRODUCTION

Indian economic scenario has changed over last couple of decades in general and in post liberalization period in particular. Changes are even likely to get intensified in years to come owing to ongoing economic crisis. With changes already in hand and the changes that are likely to occur, industries would be constrained to go for newer means of business, newer methods, new investments and may be a complete restructuring of the business involving different nature and extent of risk complexion. Further in order to insure a sustained industrial growth, a sound general insurance mechanism, providing insurance coverage to the business and industry will be of great importance. The growth and financial soundness of general insurance business in itself will lead to growth, financial soundness and strength of the industry as a whole. Moreover, being in the business of covering risks, the general insurance players have to understand.

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Indian insurance industry moved into a higher growth trajectory owing to recent reforms. Currently there are 24 new players in the two sectors of general insurance. 3 The initiatives taken by the private players are very competitive and have given immense competition to the public sector. After the entry of the foreign players, the industry is seeing a lot of competition and improvement of the customer service in the industry. Computerisation of operations, innovative products and updating of technology has become imperative in the current scenario. Private players are bringing in international best practices in service through the use of latest technologies.

REVIEW OF LITERATURE

Ang and Lai (1987) have developed an equilibrium model of insurance pricing integrating both the insurance and capital asset markets from the insurers' viewpoint. In contrast to the capital assets based models, it emphasizes the importance of the insurance market, i.e. the claim payments by all insurers as a whole, in pricing insurance premiums. The study established that premium for insurance is a function of both systematic insurance market risk and systematic capital market risk

According to **Agarwal (2008)** fraud is not always restricted to the cause of loss. In many cases it arises out of an over stated claim, a claim for assets which did not exist, false documentation and altered invoices. It also holds that an exaggerated or overstated claim is not necessarily a fraudulent claim. The study emphasizes on the need for looking into the intensions of the insured for proper quantification of claims thus leading to minimizing the claims overheads.

Ashturkar(2015): The study observed that, in the category of settlement of the claims within 30 days, private sector companies like ICICI PRUDENTIAL, HDFC LIFE and SBI LIFE are more competent compared to LIC. Hence, Private companies are more competitive and consumer oriented compared to LIC. This Research provides valuable insight into the time consumed by the individual insurance company to complete the settlement process and pay claims to the policyholders. Time-bound approach is important because the policyholder expects the insurer to compensate him at the earliest and the rules also enforce that the insurer must pay under the settlement of the claim or reject the claim within 30 days of receiving all documents necessary for the settlement of the claim. This paper examines the claim settlement period of Indian public and private life insurance companies in view of the LPG in insurance sector.

Matias Söderlund (2018): The purpose of this thesis is to shed some light on claim management and identify cause of change claims, specifically in the context of EPC-projects. A case study was conducted within an organisation that executes complex plant EPC-projects, where several parties are involved. This thesis has applied tools of root cause analysis in order to identify the causes of change claims, and conducted focus groups and semi-structured interviews to better understand problems associated with claim management and how the relationship between two parties affects claims. The thesis concludes that the most common root causes to sub-contractor change claims are related to design where not enough information for design input has been provided, or related to installation where sub-contractors issue change claims in order to fix conflicts caused by themselves.

Alli Noah (2018): This study is an empirical investigation of insurance claims management among selected insurance companies in Nigeria. For this purpose, the researchers have been able to review critically the significant contribution of the claims processing in the management of insurance firms' claims. The findings from study confirm the significance of the various claims handling processing in claims management of insurance companies in Nigeria. It therefore recommends that claims manager should put forward strategic plans to ensuring that insurance claims complaint files are properly kept, monitored and handled for needs that may warrant its usefulness in the future. Also, state-of-the-art training mechanism should be put in place to enhance and improve the working pattern of a claim officer which invariably might affect the organizational efficiency of insurance companies and lastly,

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Government should harmonize their resources and technical knowhow with the Nigerian insurance industry in ensuring that insurance claims are well designed to curtail fraudulent claims experienced in the past.

Chan Jun Yuan (2019): This article proposes the methodology for SocSo to achieve their goal and the BPMN model demonstrate how the system will act for every customer's claim. And this article does analysis on the whole process of SocSo information system, and redesign the business process base on the risks and defects found during the process redesigning part. In conclusion, this paper shows the problem of the existing information system and the proposed possible solutions.

OBJECTIVES OF THE STUDY

1. To examine the relationship of claim management with the financial performance of select public and private insurance company
2. To know the effect of Loss ratio, Net claims and Expense ratio impact on the financial performance of select Public and Private insurance.
3. To understand the effect of Claim settlement ratio on the financial performance of public and private select insurance.

HYPOTHESES OF THE STUDY

H_{01}

Null hypothesis: There is no significant relationship between the claim management and financial performance.

Alternative Hypothesis: There is a significant relationship between the claim management and financial performance.

H_{02}

Null hypothesis: Loss ratio, Net claims and Expense ratio has no effect on financial performance of select insurance company

Alternative hypothesis: Loss ratio, Net claims and Expense ratio has effect on financial performance of select insurance company

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H_{03}

Null hypothesis: Claim settlement ratio has no effect on the financial performance of select insurance company.

Alternative hypothesis: Claim settlement ratio has effect on the financial performance of select insurance company.

RESEARCH METHODOLOGY

This research is a descriptive study that seeks to explain the impact of claims management on financial performance. The study had select the companies engaged in the non-bank financial institution sectors listed on the IRDA. On the basis of IRDA's official website, 23 insurance companies are listed on IRDA, the leading insurance company based on market capitalization, namely Life Insurance Corporation of India, State Bank of India and HDFC, ICICI Life Insurance Co.ltd. The data collection techniques used were non-participating observations, namely by collecting, recording and reviewing secondary data in the form of financial statements of insurance companies. The data generated from the financial statements of these companies are Return on Assets (ROA), Loss Ratio (LR), Net Claims (NC), Expense Ratio (ER) and Claim Ratio.

Where

Return on Asset (ROA) = Net Income before taxes/Total Assets,

Loss Ratio (LR) = Total Net Claims/Earned Premium,

Net Claims (NC) = Total claims paid in the year,

Expense Ratio (ER) = Total Underwriting expenses/Earned Premium,

Claim Settlement Ratio = Total number of claims paid during the time period/Total claims received

FINDINGS OF THE STUDY

1. The study examines the relationship of claims management relationship with the financial performance with the statistical method of VECM. The result reveals that Private sector claims management ratios are having the long run relationship with the financial performance.
2. The study found that Public sector insurance companies i.e. LIC and SBI claims management ratios are having the long run relationship with the financial performance.

3. The study examined the impact of claims management ratios on the financial performance with the ordinary least square. The coefficient values (Earnings ratio -0.311195, Liquidity Ratio (-0.492645) of HDFC and ICICI bank are having the negative impact on the Return on Assets (i.e. financial performance).
4. The public sector Insurance companies i.e. LIC and SBI claims management impact on the financial performance indicated that Earnings ratio (-0.064003) and Non-Claiming ratio (4.620105) are influencing the positively to the financial performance indicator.
5. The study examined the claims settlement ratio impact of Public sector insurance co. on RAO and result stated with the coefficient 0.957035 indicated the positive effect.
6. The study results reveals that private sector insurance companies Claims settlement ratio (0.182743) observed to be having the positive impact on the RAO.

SUGGESTIONS OF THE STUDY

1. The study suggests the public sector insurance companies to strengthen the Liquidity ratio, so that it will have a positive impact on the financial performance i.e. Return on Assets.
2. The study suggests the private insurance companies need to focus on the claims settlement ratios. The CRS having the slight lower effect on the financial performance. Therefore, they need to focus more on the claims ratios, so that business growth will have the positive effect on the financial performance
3. The study observed that majority of the customers are opting the public sector insurance companies due to brand loyalty. Therefore, it has been suggested to focus on the brand loyalty to attract the customers base.

CONCLUSION OF THE STUDY

The present study has focused on the claims management of Public and private sector insurance companies of India. The study has considered the LIC and SBI from public sector and HDFC and ICICI from private sector were considered. The study considered the 6 years data i.e. 2014-15 to 2019-20 along with the 3 key claims management ratios of public and private sector were taken into considered. The study applied the VECM statistical method for the examination of relationship of key ratios with the financial performance indicator i.e. RAO and results reveals that both public and private insurance companies are having the long-run relationship of claims management ratios with the financial performance. The study examined the impact of the claims management ratio on the RAO with the ordinary least square method and the result stated that public sector Claims ratios are having the positive impact on the growth of the performance and private sector claims ratios are having the negative impact. The Claims settlement ratios are having the positive impact on the financial performance. Thus, there is a need to do further research in this area by considering the policy holders perception on the claims management.

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