# CLAIMS AND SETTLEMENT


| **Role** | **Name** | **Affiliation** |
|---|---|---|
| Principal Investigator | Dr.Gyanendra Kumar sahu | Asst.Professor Utkal University |
| Content Reviewer | Dr.Gyanendra Kumar sahu | Asst.Professor Utkal University |


Description of Module

| **Items** | **Description of Module** |
|---|---|
| Subject Name | Law |
| Paper Name | Law of Insurance |
| Module Name /Title | Claims and settlement |
| Module No. | VI |

**Objective:** After reading this module, the learners will have a clear picture of :

The Insurance Policy is taken by the consumers to compensate them in the event of happening of an unforeseen event. It is a hedge against unavoidable circumstances.

**Learning Outcomes:** If the insured does not suffer any loss no claim is paid to him. The premium is charged on yearly basis and no accumulation takes place. However the scenario is different in case of life insurance. If the insured dies during the policy period he gets the sum assured along with the bonus accrued under the policy if any. If the insured survives the policy period he gets the maturity amount accrued under the policy. In this lesson we shall learn the various aspects in settlement of life insurance claim.

**Introduction**

The Insurance Policy is taken by the consumers to compensate them in the event of happening of an unforeseen event. It is a hedge against unavoidable circumstances. In general insurance the loss is payable only on happening of some specific event. If the insured does not suffer any loss no claim is paid to him. The premium is charged on yearly basis and no accumulation takes place. However the scenario is different in case of life insurance. If the insured dies during the policy period he gets the sum assured along with the bonus accrued under the policy if any. If the insured survives the policy period he gets the maturity amount accrued under the policy. In this lesson we shall learn the various aspects in settlement of life insurance claim.

CLAIM SETTLEMENT Payment of claim is the ultimate objective of life insurance and the policyholder has waited for it for a quite long time and in some cases for the entire life time literally for the payment. It is the final obligation of the insurer in terms of the insurance contract, as the policyholder has already carried out his obligation of paying the premium regularly as per the conditions mentioned in the schedule of the policy document. The policy document also mentions in the schedule the event or events on the happening of which the insurer shall be paying a predetermined amount of money (S.A.). There may be three types of claim in life insurance policies– 1. Survival Benefit Claim 2. Maturity Benfit Claim 3. Death Benefit Claim We shall discuss hereunder the details of each category of claims.

**Survival Benefit :** Survival benefit is not payable under all types of plans. It is payable in endowment or money back plans after a lapse of a fixed period say 4 or 5 years, provided firstly the policy is in force and secondly the policyholder is alive. As the insurer sends out premium notices to the policyholder for payment of due premium, so it sends out intimation also to the policyholder if and when a survival benefit falls due. The letter of intimation of survival benefit carries with it a discharge voucher mentioning the amount payable. The policyholder has merely to return the discharge voucher duly signed along with the policy document. The policy document is necessary for endorsement to the effect that the survival benefit which was due has been paid. The survival benefit can take different forms under different types of policies.

**Maturity Claim** It is a final payment under the policy as per the terms of the contract. Any insurer is under obligation to pay the amount on the due date. Therefore the intimation of maturity claim and discharge voucher are sent in advance with the instruction to return it immediately. If the life assured dies after the maturity date, but before receiving the claim, there arises a typical problem as to who is entitled to receive the money. As the policyholder was surviving till the date of maturity, the nominee is not entitled to receive the claim. The policy under such conditions is treated as a death claim where the policy does not have a nomination. The insurer in such a case shall ask for a will or a succession certificate, before it can get a valid discharge for payment of this maturity claim. In case the policy has been taken under Married Women's Property Act, the payment of maturity claim has to be made to the appointed trustees, as the policyholder has relinquished his right to all the benefits under the policy. It is for this relinquishment of right that the policy money enjoys a privileged status of being beyond the bounds of creditors etc. If the maturity claim is demanded within one year, before the maturity it is called a discounted maturity claim. This amount is much less than the maturity claim.

**Death Claim** If the life assured dies during the term of the policy, the death claim arises. If the death has taken place within the first two years of the commencement of the policy, it is called an early death claim and if the death has taken after 2 years, it is called a non early death claim.

**The documents required for payment of maturity claim :** (i) Age proof, if age is not admitted. (ii) Original policy document for cancellation. (iii) In case assignment is executed on a separate paper, that document has to be surrendered. (iv) Discharge form duly executed. (v) Indemnity bond in case the policy document is lost or destroyed, duly executed by the policyholder and a surety of sound financial standing.

**The documents required for payment of a death claim.** (i) An intimation of death by the nominee or a near relative. (ii) Proof of age if not already admitted. (iii) Proof of death. (iv) Doctor's certificate who attended the deceased during his last illness. (v) Identity certificate from a reputable person who saw the body of the deceased life assured. (vi) Certificate of cremation or burial from a reputable person who attended the funeral. (vii) An employer certificate if any, of the deceased. If the policy has been assigned validly or if there is a valid nomination in the policy document, no further proof of title to the policy money is necessary. In other cases, the satisfactory evidence of title to the estate of the deceased is required from competent court of law. e.g. (i) A probate of the will, if a will has been executed by the deceased life assured. (ii) A succession certificate if no will has been left. (iii) A certificate from the Administrator General, if the total amount of the estate left does not exceed Rs. 2,000/-. In case there is a rival claim court's prohibitory order may be required to prevent the insurer from making the payment to the nominee as mentioned in the policy document.

**In case the life assured has disappeared Under Indian Evidence Act,** 1872, Section 108, a person who has disappeared is presumed to be dead only if he has not been heard of for 7 years by those who would naturally have heard of him, if he had been alive. The claimant has to produce the decree of the court to the effect that the assured should be presumed to be dead. The legal heirs are required to keep on paying the premium payment till such court order is received failing which the policy will be treated as a paid up policy.

**In case the premature death claim** In case of a premature death claim, i.e. a death within two years of the commencement of the policy, the insurer asks from claimant documents in order to eliminate the possibility of any suppression of a material fact at the time of submitting the proposal. (i) Hospital treatment details where the assured was hospitalised. (ii) Certified copies of postmortem report (iii) The police investigation report if death is due to an accident or unnatural cause.

**PROCEDURE OF CLAIM SETTLEMENT** Maturity Benefit If the policyholder lives through the duration of the policy and becomes eligible to get the maturity value it is called the settlement of a maturity claim. As the policyholder is alive, the nomination is of no significance. Age is normally admitted at the stage of the proposal. If it has not been admitted for some reason, it is necessary to submit the age proof before the payment of the maturity value. Much before the date of maturity the insurer sends the claim discharge voucher which has to be returned duly signed and witnessed along with the policy document for payment of the maturity value.

**Death Claim** In case of the death of the policyholder at anytime during the duration of the policy, the claim amount becomes payable to the nominee mentioned in the policy document. The nominee or the nearest relative shall send an intimation of death of the policyholder to the insurer stating therein the fact of death, the date of death, cause of death and the place of death along with the policy number. Insurer deals with the death claim differently on the basis of the duration or the policy. If the policyholder has died within two years of the commencement of the policy, i.e., acceptance of risk which may be different from the date of commencement if the policy has been dated back it is treated as “early or premature claim” and if the death has occured after 2 yrs of the commencement, it is treated as normal death claim. In a normal death claim, that is if the life assured has died after two years of the commencement of risk, the insurer, on being intimated about the death of the policyholder, calls for the age proof, if not earlier admitted, the original policy document and proof of death. The proof of death can be a certificate from the municipal authorities under which cremation has taken place, or other local body like death registry. The claimant generally is required to fill in a form giving certain routine information about his title to the policy money and the information relating to death, which is normally called a claimant’s statement.

**Premature claim** It is a premature claim if the death has occurred within two years from the commencement of the policy or the date of last revival, or medical examination. The insurer takes certain precautions before making payment under such a premature claim. It wants to satisfy itself that it is a genuine case i.e., the correct policyholder has died and that the cause of death does not go back to a date prior to the commencement of the policy. The duration of last illness is of vital importance to eliminate any fraudulent intention. Last medical attendants’ certificate, hospital report, burial certificate, employees’ leave record, if he was an employee in a reputed firm etc, are the different records examined and normally a senior officer is deputed by the insurer to make on the spot investigation, through neighbours, colleagues or doctor of the locality.

As the revival of the policy is a de novo contract of insurance, the insurer would like to verify whether the statement contained in the declaration of good health given at the time of revival is correct. If such a statement is proved fraudulent relating to a material fact, the claim, may be rejected. Life insurance is a contract of utmost good faith and good faith has to be observed, not only at the time of the proposal, but also at the time of the revival of the policy whenever it is done. In case there is a rival claimant to the insurance money, the insurer can get a valid discharge by paying to the nominee. The rival claimant can approach a court of law which may order to stop the payment till the case is finally disposed of. However if there is no nomination under the policy, the insurer shall await a valid title through either a will or a probate as a letter of administration or a succession certificate. It may take quite sometime to get such certificate from the court and in the meantime the family may suffer. A good agent therefore shall ensure that there is a valid nomination or assignment. If there is an assignment, the policy money is paid to the assignee. If there is a reassignment of the policy, it is necessary that a fresh nomination is done, as assignment invalidates the existing nomination. However, if there is a nomination in favour of the insurer for taking any loan, the nomination is said to be unaffected subject to the claim of the insurer. If the premature death has been due to an accident, it is necessary to get a police inquiry report in lieu of the attending physician certificate. Suicide, if it has taken place within one year of the beginning of the risk, exempts the insurer from the liability of the payment of the claim. The propensity to commit suicide is a moral hazard and is not expected to continue beyond one year. If the policyholder disappears and he has not been heard of for 7 years by those who would naturally have heard of him, if he had been alive, he is presumed dead as per Sec 108 of the Indian–Evidence Act, 1872. However, it is necessary to keep the policy in force during this period by payment of the due premiums on the due dates.

**Claim concession** Normally, a death claim becomes payable so long as the policy is kept in force by payment of due premium. In other words if the payment of premium is stopped and the grace period expires and if the death occurs thereafter the policy is treated as lapsed or paid up depending upon whether the premium has been paid for less than 3 yrs or 3yrs & more. Under a lapsed policy no claim is payable. In case of a paid up policy, only the paid up value is payable. However, some companies provide certain concessions with regard to the claim payment, if the policy has run for 3 yrs or more: 1. If the premiums under a policy have been paid for a minimum period of three full years, and the life assured has died within 6 months from the date of the first unpaid premium insurer pays the full sum assured instead of the paid up value and only the unpaid premiums for the policy year are deducted from the claim amount. 2. This concession is extended to a period of twelve months and the full sum assured is paid if the life assured dies within one year from the due date of the first unpaid premium, provided the premiums have been paid for a minimum period of 5 years subject to deduction of the unpaid premiums for the policy year.

**Ex Gratia claim** When a policy has not acquired paid up value and claim concession rules are not applicable, nothing is payable in case of death. However some insurers relax the rules in favour of the claimant. If the premiums have been paid for more than 2 years and (a) the death occurs within three months from the first unpaid premium, full sum assured with bonus, if any, is payable ; (b) if the death occurs after 3 months, but within 6 months, half the sum assured is paid ; (c) if the death occurs within one year from first unpaid premium, notional paid up value is paid. Under the first condition, the unpaid premium with interest for the policy year of death will be deducted from the claim and no deduction is made in the other two conditions.

**CLAIM SETTLEMENT OPTIONS** Most claims are paid in single lump sum. In case of a small sum assured, this lump sum payment may become necessary for immediate needs. (However, where the sum assured is large the amount if paid in instalments would be a valuable aid to the family maintenance). It is surprising that adequate attention is not paid to this aspect of the settlement options either by the claimant, or by the agent or the insurer. The settlement options as available are not competitive in interest rates and therefore most claimants probably would not opt for it. Lump sum payments are most likely to be spent much faster leaving the family without the benefit of security. The family in the absence of the breadwinner may not have the foresight and the ability to look to the safety of the capital, rate of return, liquidity and ease of management of money. Many insurance companies world over are facilitating the management of the claim by offering a lot of options to the claimant. Life insurance can be described as the creation of capital and annuities as a method of distribution of capital. Life insurance companies therefore, can convert this capital into annuity payments as per the needs of the claimant. An agent would do well to advise the widow in this regard and help her to purchase a suitable annuity policy with this claim amount so that the family can look after itself smoothly for quite sometime. Annuities of various types are available, as has been discussed in the chapter on "Life Insurance Products". Lump sum payment, let it be remembered, does not offer protection against the creditors of the beneficiary, while the payment through annuity payment does. For beneficiaries, inexperienced in the art of money management receiving guaranteed payments in instalment may be more desirable.

**IRDA REGULATION ON POLICYHOLDERS PROTECTION** The Insurance Regulatory and Development Authority has issued the Protection of Policyholders' Interests Regulations, 2002. This regulation states the matters to be stated in the life insurance policy for the protection of policyholders interests. It also lays down the procedure to be adopted towards the settlement of claim under a life insurance policy.

**Claims procedure in respect of a life insurance policy** (i) A life insurance policy shall state the primary documents which are normally required to be submitted by a claimant in support of a claim. (ii) A life insurance company, upon receiving a claim, shall process the claim without delay. Any queries or requirement of additional documents, to the extent possible, shall be raised all at once and not in a piecemeal manner, within a period of 15 days of the receipt of the claim. (iii) A claim under a life policy shall be paid or be disputed giving all the relevant reasons, within 30 days from the date of receipt of all relevant papers and clarifications required. However, where the circumstances of a claim warrant an investigation in the opinion of the insurance company, it shall initiate and complete such investigation at the earliest. Where in the opinion of the insurance company the circumstances of a claim warrant an investigation, it shall initiate and complete such investigation at the earliest, in any case not later than 6 months from the time of lodging the claim. (iv) Subject to the provisions of Section 47 of the Act, where a claim is ready for payment but the payment cannot be made due to any reasons of a proper identification of the payee, the life insurer shall hold the amount for the benefit of the payee and such an amount shall earn interest at the rate applicable to a savings bank account with a scheduled bank (effective from 30 days following the submission of all papers and information). (v) Where there is a delay on the part of the insurer in processing a claim for a reason other than the one covered by sub-regulation (4), the life insurance company shall pay interest on the claim amount at a rate which is 2% above the bank rate prevalent at the beginning of the financial year in which the claim is reviewed by it.