How to ensure your nominees get that claim

DUE DILIGENCE

MAYANK BATHWAL

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In the business of insurance, the timely settlement of claims is a vital service. The claims settlement record of an insurer is, therefore, the touchstone of its performance and plays a very large role in the decision-making process of the customers.

While it is important for companies to bring in flexibility and enable efficiencies for claims management, it is also important for the customers to share true and complete information at the inception stage. In order to ensure that the insurer is in the position to promptly settle all its claims, it needs to do a careful evaluation of the risks that would arise out of the underwritten contracts and price their premiums accordingly. Thus, the claims settlement process typically begins deriving reference from the information shared by the policyholder at the policy issuance stage.

Uberrima fides is a Latin phrase that means "utmost good faith" and is the name of a legal doctrine which governs insurance contracts. This means that all parties to an insurance contract must deal in good faith, making a full declaration of all material facts in the insurance proposal. Similarly, section 45 of Insurance Act, 1938 stipulates that no life insurance policy can be called in question on ground of mis-statement of facts after two years from the commencement of policy unless the insurer shows that such statement was on material matter and that the policyholder knew at the time of making it that the statement was false or that it suppressed facts which were material to disclose. This act is the basis of any claims settlement process.

There are a number of ways in which a company gathers information from the customer during the policy issuance stage. Most of it is collected through customer interaction with sales personnel. Thus, sales personnel act as a vital link between the customers and the life insurance company as they are the first point of contact for the customers. Verification and further ratification of information is done through pre-issuance verification and welcome calls through the service stages.

In sftme cases, customers withhold material information on past medical/insurance history, chronic ailments, habits like drinking or smoking or occupation/income. Sometimes these facts are material to the risk assessment and consequently the claim is repudiated. If all relevant facts are stated at the time of buying the policy, the premium may get loaded but there will be the assurance that the beneficiaries would not suffer in the event of a claim. Of course, there is also a chance that the in-sured's request for protection is turned down on disclosure of one of the material facts, but at least all his/her premiums would not go waste in that case.

There could also be some adviser-related anomalies at the proposal stage. However, companies have been tirelessly educating customers on issues such as filling up the details of the proposal form on their own instead of leaving it to the advisors or exercising the freelook option in case they spot any irregularities in the policy document. If the customer notices that there is some medical condition that he/she may have and is not mentioned in the proposal form appended along with the policy document it is important that the customer notifies the insurance company immediately so that the condition is documented. Customer-friendly initiatives such as sharing a copy of the application form and medical reports are measures to mitigate these anomalies.

Claims settlement comes at the fag end of the life insurance value chain and it is important for the company to gather and for the policyholder to disclose the material facts during the issuance and service stages. During the claims intimation stage, the company refers to the historic information collected through the above mentioned exercise and in addition could also request information from sources like hospitals, legal authorities and doctors to make an informed claims settlement decision.

Another major cause of delay in claim settlement is the inability of beneficiaries to submit requisite documents in the manner prescribed by the insurance company. Insurance companies generally seek additional documentation for early claims. If the documentation is in order, the claim is processed without undue delays.

To be legally enforceable, all insurance contracts must be supported by an insurable interest or it may be termed a fraud. Again there is a very thin line to differentiate an intentional fraud from an innocent one since most of this is discovered at the time of claims. Life insurance contract is also a contract of indemnity and the beneficiary/nominee in the policy must have an insurable interest in the life to be insured. In the life insurance policy, persons having relationship by marriage (for example, husband and wife), blood (for example, father and son) or adoption (for example, adopted son and his mother) have been recognized as having insurable interest.

In short, the act of procuring insurance totally hinges on multiple interactions created along the whole value chain and one weak link has the propensity to destroy and distort the whole process. A balance between being too liberal at the inception stage and too rigid at the time of settling claims needs to be created. Frauds at all levels have to be handled with zero tolerance and bringing transparency in all processes and decisions is what will strengthen this.

Mayank Bathwal is chief financial officer and head (institutional sales), Birla Sun Life Insurance.