CHAPTER 5
ACCOUNTING FOR CLAIMS

5.1 LIFE INSURANCE CONTRACT

Life insurance is a contract between an insurance policy holder and an insurer, where the insurer promises to pay a designated beneficiary, a sum of money (called “benefits”) upon the death of the insured person. Depending on the contract, other events such as terminal illness or critical illness may also be triggered for payment. The policy holder typically pays a premium, either regularly or as a lump sum. Other expenses (such as funeral expenses) are also sometimes included in the ‘benefits’.

Life insurance policies are legal contracts and the terms of the contract describe the limitations of the insured events. Specific exclusions are often written into the contract to limit the liability of the insurer; common examples are claims relating to suicide, fraud, war, riot and civil commotion. ¹

Life-based contracts tend to fall into two major categories:

(a) **Protection Policies**: These are the policies designed to provide a benefit in the period of specified event, typically a lump sum payment. A common form of this design is term insurance.

(b) **Investment Policies**: In these policies, the main objective is to facilitate the growth of capital by regular or single premiums. Common forms are whole life, universal life and variable life policies.

The beneficiary receives policy proceeds upon the insured person’s death. The owner designates the beneficiary, but the beneficiary is not a party to the policy. The owner can change the beneficiary unless the policy has an irrevocable beneficiary

designation. If a policy has an irrevocable beneficiary, any beneficiary changes, policy assignments, or cash value borrowing would require the agreement of the original beneficiary.\(^2\)

### 5.2 BASIC PRINCIPLES OF LIFE INSURANCE CONTRACT

#### 1. Insurable interest

In the life insurance contract, the policyholder (insured) must have the insurable interest, without which the life insurance contract will be void. At the time of entering into the life insurance contract, the insurable interest must be there but at the time of maturity of the life insurance contract, it is not necessary for the insured to have insurable interest.

Insurable interest exists in the following cases:\(^3\):

(a) A person has an unlimited insurable interest in his/her own life.

(b) A person has an insurable interest in the life of his/her spouse.

(c) A father has an insurable interest in the life of his son or daughter on whom he is dependent. Likewise a son may have insurable interest in life of his parents.

(d) A creditor has an insurable interest in the life of the debtor, to the extent of the debt.

(e) A servant employed for a specified period has insurable interest in the life of his employer.

#### 2. Utmost good faith

The life insurance contract should be based upon utmost good faith. The policyholder (insured) should not hide any matter of fact or any other useful

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information from the life insurance company while entering into the life insurance contract. Similarly Life Insurance Company should also disclose all the terms and conditions to the applicant. Insurer can cancel the life insurance contract if it is found that the insured has given any false statement or any misrepresentation. This principle is applicable to both life and general insurance.

3. **Not a contract of indemnity**

   The life insurance contract is not a contract of indemnity like other insurance contracts. Loss of life cannot be compensated by any life insurance company. On the happening of insured event, only a certain amount is given to the nominated person of the insured. The loss of life cannot be measured in terms of money. So it can be said that the life insurance contract is not a contract of indemnity.

### 5.3 MEANING AND PROCEDURE OF CLAIMS

When necessary for the life insurance company, claims are prepared according to the life-insurance contract.

Every life insurance policy has a value which is called the sum assured. This sum assured is determined by the life insurance company. The insurer decides all the terms and conditions of the life insurance contract and the insured person accept all the terms and conditions, then the life insurance contract come into force. First of all the cost of insurance is determined. It is calculated by the actuaries by using the mortality tables. These mortality tables are based on the statistics and mathematical calculations including probability analysis. Actuaries are those professional peoples who determine the cost of insurance by using the actuarial science and prepare the mortality table. Such estimates can be important in taxation regulation.

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The three main variables in a mortality table\(^5\) are commonly age, gender, and use of tobacco, but more recently, preferred class-specific tables have been introduced. The premium amount of the life insurance policy is decided on the basis of mortality tables. These mortality tables are based on the statistical and mathematical calculations.

Insurance claim is a formal request to an insurance company asking for a payment based on the terms of the insurance policy. Insurance claims are reviewed by the company for their validity and then paid out to the insured or requesting party (on behalf of the insured) once approved.

In many cases, claims are filed by third parties on behalf of the insured person, but usually only the person(s) listed on the policy is entitled to claims payment.\(^6\)

### 5.4 INVESTIGATION AND ASSESSMENT

On the happening of the insured event, the nominee of the insured has to produce the death certificate with a fill death claim form to the life insurance company for the claim. If the death of the insured is doubtful or if the life insurance company have any doubt on the circumstances of the insured event, than the life insurance company can do the investigation before made the claim to the nominee.

Investigation is necessary for life insurance company to avoid fake claims. The term ‘fake claims’ refers to insurance claims that are made fraudulently. These claims are made in an attempt for the policy holder to benefit financially from making claims that are false or exaggerated. While such practices are a fairly common occurrence, they are highly illegal.

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\(^{5}\)AAA/SOA Review of the Interim Mortality Tables Developed by Tillinghast and Proposed for Use by the ACLI from the Joint American Academy of Actuaries/Society of Actuaries Review Team\(^\text{a}\). August 29, 2006.

\(^{6}\)ICAI, Study material for post qualification programe on Insurance and Risk Management, ICAI, New Delhi, 2011.
Fake claims are often exaggerations of valid claims to an insurance policy. For example, a home-owner insurance policy holder may have been the victim of a breaking and entering where items were stolen. The number (and value) of the stolen items may be exaggerated on the claims report, indicating that more items were stolen than really were. This exaggeration could lead to the homeowner receiving a larger claim settlement than that to which he or she is truly entitled. Large claims are often investigate to mitigate such problems.\(^7\)

Insurance isn’t always as straightforward as other products. Insurers can deny coverage in many different instances\(^8\):

**Non-Renewal:** An insurance company is not obligated to renew an insurance policy for one of its policy holders. Should the policy holder have excessive claims or a change in circumstances that make him or her uninsurable, the company may choose not to renew. In other cases, they may simply add on additional premiums to reflect the increased risk.

**Denied Claims:** Even if insured person pays premiums regularly and on time, an insurance company may not pay out claims that he/she reports. First, the situation surrounding the claim may not be covered under the policy but could be one of the listed exclusions. One example of this is if homeowners have a flood and file a claim with their home insurance company. Because floods are not covered by home insurance, but by flood insurance, these claims will likely be denied. Second, the claim might be at the level of the deductible, which means that the insured is responsible for paying it. Finally, the insurance company may find the damage to have been caused by the insured which may allow them to deny the claim.

**Denied Policies:** If the policy holder(s) have one type of insurance with a carrier that offers multiple lines of coverage, they are under no guarantee to approve any applications submitted for additional coverage. They will underwrite and evaluate

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policy holder(s) application just as they would any other applicant and will either approve or decline the policy, based on the risks presented.

The life insurance can be called life assurance. In the life insurance contract, there is certainty in the amount of life insurance policy. The event for which the risk cover is required and policy is taken, is certain to be happen but the time of happening of such event is not certain in life insurance contract. Life of a human being (Insured or policy holder) is the subject matter of life insurance contract. Life insurance provides the risk cover to the insured. On the event of death of the insured, the life insurance provides protection against financial difficulties to the loved ones of the insured or the policy holder.

5.5 TYPES OF CLAIMS

1. Maturity Claim

At the time of maturity of the life insurance policy, the policy holder is required to submit the claim form with the original policy bond to the life insurance company to get the claim timely.

2. Death Claim (including Rider Claim)

In case of death claim, nominee of the insured has to follow the following procedure to file a claim:

(a) **Claim intimation**: The claimant must submit the written intimation as soon as possible to enable the insurance company to initiate the claim processing. The claim intimation should consist of basic information such as policy number, name of the insured, date of death, cause of death, place of death, name of the claimant. The claimant can also get a claim intimation/notification form from the nearest local branch office of the insurance company or their insurance advisor/agent. Alternatively, some insurance companies also provide the facility of downloading the
form from their website. The nominee of the insured must inform the life insurance company in written about the death of the insured. The written intimation must contain the name of the policy holder, policy number, date of death, place of death, cause of death etc. The nominee of the insured must fill the claim form of the life insurance company and submit the form with all the essential documents required for the settlement of the claim. In present scenario, important forms and procedure of claims are given on the websites of life insurance companies.

(b) **Necessary documents for claim processing:** The nominee of the insured will have to provide a nomination statement, original policy cover, death certificate, police’s ‘first information report’ (F.I.R.) and post mortem exam report (in case of accidental death), certificate and records of the doctor or the hospital (in case of death due to illness) and advance discharge form for claim processing.

(c) **Submission of required documents:** To get the death claim, the beneficiary should submit the entire required document to the life insurance company as soon as possible. The life insurance company can not made any claim until the documents are not submitted. After the submission of all essential documents, the life insurance company starts the further process to make claim.

(d) **Settlement of claim:** As per the regulation 8 of the IRDA (Policy holder’s Interest) Regulations, 2002, the insurer is required to settle a claim within 30 days of receipt of all documents including clarification sought by the insurer. However, the insurance company can set a practice of settling the claim even earlier. If the claim requires further investigation, the insurer has to complete its procedures within six months from receiving the written intimation of claim.⁹

### 5.6 CLAIM PROCESS

- **Claim Intimation**

⁹ [www.irdaindia.org](http://www.irdaindia.org)
In case, a claim arises the insurance policy holder should:

- Contact the respective life insurance branch office
- Contact your insurance advisor
- Call the respective Customer Helpline

➤ **Claim Requirements**

For Death Claim:

- Death Certificate
- Original Policy Bond
- Claim Forms issued by the insurer along with supporting documents

For Accidental Disability / Critical Illness Claim:

- Copies of Medical Records, Test Reports, Discharge Summary, Admission Records of hospitals and Laboratories
- Original Policy Bond
- Claim Forms along with supporting documents

For Maturity Claims:

- Original Policy Bond
- Maturity Claim Form

➤ **Filing a Life Insurance Claim**

Settlement of claim is the most essential service provided by the life insurance companies to its customers. Claims are made, after happening of the insured events. The nominee of the insured person has to fill a claim form and submit it with all the required documents, to the life insurance company to ask for the claim. In some cases, the life insurance company can ask for the additional documents for the death claim. After receiving all the essential documents, claims as made by cheque within 7 days. In present scenario, the amount of claims is directly transferred to the bank
account of the nominee person. If in case the life insurance company is not able to settle the claim, it will intimate the claimant in writing.

➢ **Settlement Options**

Companies usually pay the death benefit as a single lump sum, but there are other settlement options. Either you or your beneficiary chooses how the death benefit will be paid. Common settlement options include:

- **Interest Option**: The amount of the death benefit remains with the insurance company, and the company pays the interest to the beneficiary on a regular basis. The company will allow you to withdraw the principal under certain conditions.

- **Fixed Period**: The company pays the death benefit at regular intervals, with interest, over a chosen period of time.

- **Life Refund**: The insurance company pays a set monthly amount to the beneficiary for the remainder of his or her lifetime. Under this option, it’s possible for the beneficiary to receive more than the policy’s stated death benefit if he or she lives longer than expected.10

- **Joint and Survivor**: The company pays death benefits for two lives, rather than one. Joint and survivor settlement is a common option for married couples and business partners. When the first person dies, the surviving person receives a death benefit. When the second spouse dies, the beneficiary receives a death benefit. The amount of a joint and survivor payment is determined by the age and health factors of both spouses and partners.

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5.7 SETTLEMENT OF CLAIMS

Settlement of claim is the most important work of the life insurance companies. Claim settlement is a liability of the life insurance company.

A claim may arise:

(i) On death of Policyholder before the maturity date.
(ii) On maturity of the term of the policy

Certain features are common to all life insurance claims. These are:

1. Policy must be in force at the time of claims.
2. Insured must be covered by the policy.
3. At the time of the maturity nothing should be outstanding to the insurer.
4. Claim is covered by the policy.

Death Claims

Intimation of Death: The information of death of the insured should be given to the life insurance company in writing. This is to be done by the nominee of the insured or the policyholder. If there is no nomination assigned, than the relative of the insured or the life insurance agent has to inform the life insurance company.

The written intimation of death of the insured must include the following particulars:

(1) relationship with the deceased,
(2) name of the policyholder,
(3) number/s of the policy/policies,
(4) date of death,
(5) cause of death and
(6) sum assured etc.
If any of these particulars are missing the claimant can be asked to furnish the same to the insurer.

Claim Documents

In the case of death claim, after receiving the intimation of death by the nominee of the insured person, the life insurance company ensures that the life insurance company was in force at time of death of the insured. Life Insurance Company asks the nominee to submit all the essential documents for the claim settlement.

The following documents are required\textsuperscript{11}:

(i) Certificate of death.
(ii) Proof of age of the life assured (if not already given).
(iii) Deeds of assignment /reassignments.
(iv) Policy document.
(v) Form of discharge.

If the claim has accrued within three years from the beginning of the policy, the following additional requirements may be called for:

(i) Statement from the hospital if the deceased had been admitted to hospital.
(ii) Certificate of medical attendant of the deceased giving details of his/her last illness.
(iii) Certificate of cremation or burial to be given by a person of known character and responsibility present at the cremation or burial of the body of the deceased.
(iv) Certificate by employer if the deceased was an employee.

Proof of death and other documents to be submitted will depend upon the cause of death and circumstances of each case.

\textsuperscript{11}Medical Information Bureau (MIB) website
(1) If in case the death is cause of air crash, a certificate is required from the airline authority certifying that the insured was travelling from that flight. If in case the death is cause of ship accident, a certificate is required from the shipping company.

(2) If there is no dispute in the nomination of the life insurance policy and the amount of the policy is small, the insurance company can waive strict evidence for the claim.

(3) If in case the death is cause of suicide, road accident or other unknown causes, the policy investigation report, post mortem report etc would be required.

If in case the policy bond is lost by the policy holder, advertisement of the lost policy bond is to be given in the newspaper and if the original bond is not found, than the life insurance company issues duplicate life insurance bond to the insured.

5.8 ACCOUNTING FOR CLAIMS

The life insurance company calculates the amount of claim after receiving the essential documents. If in case any loan is taken under the life insurance policy, the loan department of the life insurance company is contacted to get the information about the outstanding amount of the loan, which is deducted from the gross amount of the claim. If there is any unpaid premium or any other outstanding expenses of the policy, than insurance company deduct these outstanding amount form the gross amount of the claim. After deducting the outstanding amount, the life insurance company finds out the net payable amount of the claim which is called payment voucher.

Maturity Claims

When the life insurance policy matures and the insured survives for the full term of the life insurance policy, then the sum assured is given to the insured as the
maturity value. The amount which is given to the insured at the time of maturity of the life insurance policy is called the maturity payment. The maturity payment amount includes the sum assured and bonus/loyalty addition (if any). The life insurance company intimates the insured about the maturity of the life insurance policy with the maturity form, which the insured has to fill to get the maturity payment. This maturity form is to be returned to the life insurance company along with:

- Original Policy cover
- Age proof if not submitted earlier
- Assignment/reassignment, if any.

Lawfully no claim is made in case of lapsed policy or the happening of the insured event within the first three years of the life insurance policy. However, some concessions are given and payment of claims is made:

- If the Life assured had paid at least 3 years’ premiums and thereafter if premiums have not been paid, the nominee will get proportionate paid up value.
- In the event of the death of the life assured within 3 years and the Policy is lapsed, nothing is payable.

5.8 PROCEDURE OF THE MATURITY CLAIMS

Settlement of the claim is a simple procedure. The nominee of the insured has to submit all the required documents with the duly filled claim form, to the life insurance company. After receiving all the essential documents, the life insurance company calculates the claim amount and releases an account payee cheque to the nominee or directly transfers the amount to the account of the nominee of the insured.

- If in case the insured is died after the maturity date of the policy but before the settlement of the maturity claim, the claim will be treated as
the maturity claim as the term of the insurance was over. In this case the claim is given to the nominee person and the death certificate of the insured and other evidence will be required.

- If in case the insured is unsound minded or mentally discharged, a certificate from the court under Indian Lunacy Act for appointing a person as guardian is required.

5.9 ADDITIONAL BENEFITS APART FROM REGULAR CLAIMS

**Double Accident Benefit:** For claiming the double accident benefit the nominee has to satisfy the life insurance company, that the accident is defined in the life insurance contract. Generally to claim the double accident benefit, Post-mortem report, copy of FIR is required.

In the case of disability benefit, it is to be proved to the life insurance company that the insured is totally and permanently disabled and not able to earn. The premiums of the policy waives in the case of disability benefit.

Presently in India, there are 12 centers where the Insurance Ombudsman has been appointed. These centers are part of insurance grievance redressal machinery. All the disputes related to the claims, premium etc, are considered by these centers.

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