CHAPTER 16

PAYMENTS UNDER A LIFE INSURANCE POLICY

Chapter Introduction

This chapter explains the concept of claim and how claims are ascertained. The chapter then explains the types of claims. In the end you will learn about the forms to be submitted for a death claim and the safeguards (indisputability clause and Protection of Policyholders Interests Regulations) in place to protect beneficiary from claim rejection by the insurer, provided no material information has been suppressed by the insured.

Learning Outcomes

A. Types of claims and claims procedure

A. Types of claims and claims procedure

1. Concept of claims

The real test of an insurance company and an insurance policy comes when a policy results into a claim. The true value of life insurance is judged by the way a claim is settled and benefits are paid.

Definition

A claim is a demand that the insurer should make good the promise specified in the contract.

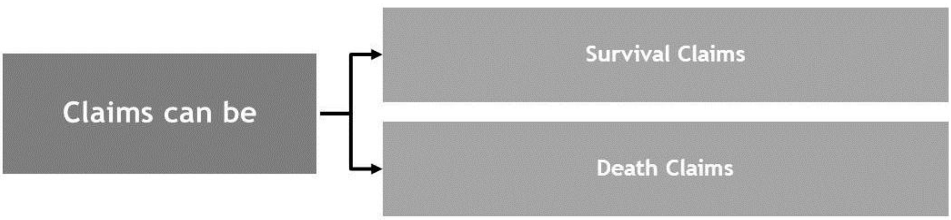
A claim under a life insurance contract is triggered by the happening of one or more of the events covered under the insurance contract. While in some claims, the contract continues, in others, the contract is terminated.

Diagram 1: Risk event and claim

Claims can be of two types:

- **i.** survival claims payable even when the life assured is alive and
- **ii.** death claim

Diagram 2: Types of claims



While a **death claim** arises only upon the death of the life assured, **survival claims** can be caused by one or more events.

Example

Examples of events triggering survival claims are:

i. Maturity of the policy;
ii. An instalment payable upon reaching the milestone under a money-back policy;
iii. Critical illnesses covered under the policy as a rider benefit;
iv. Surrender of the policy either by the policyholder or assignee;

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2. Ascertaining whether a claim event has occurred

i. For payment of a **survival claim**, the insurer has to ascertain that the event has occurred as per the conditions stipulated in the policy.

ii. Maturity claims and money-back instalment claims are easily established as they are based on dates which are determined at the beginning of the contract itself.

For instance, the date of maturity and the dates when the instalments of survival benefits may be paid under a money back policy are clearly laid out at the time of preparing the contract.

iii. Surrender value payments are different from other claim payments. Unlike other claims, here the event is triggered by the decision of the policy holder or assignee to cancel the contract and withdraw what is due to him or her under the contract. Surrender payments would typically involve a penalty for premature withdrawal and hence would be less than what would have been due if the full claim were to be paid.

iv. Critical illness claims are ascertained based on the medical and other records provided by the policyholder in support of his claim.

The complexity arises in case of a policy that has a critical illness claim rider and such policy has been assigned. The purpose of a critical illness benefit is to enable a policy holder to defray his expenses in the event of such an illness. If this policy where to be assigned, all benefits would be payable to the assignee. Although this is legally correct, it may not meet the intended purpose. In order to avoid such a situation, it is important to educate policyholders about the extent of benefits that they may assign, by way of a **conditional assignment**.

A **maturity or death claim** or a surrender leads to termination of the insurance cover under the contract and no further insurance cover is available. This is irrespective of whether the claim is actually paid or not. Non-payment of a claim does not assure the continuity of insurance cover under the contract.

3. Types of claims

The following payments may occur during the policy term:

a) Survival Benefit Payments

Periodical payments are made by the insurer to the insured at specified times during the term of the policy. The policy bond is returned to the policyholder bearing an endorsement of payments made after each survival benefit instalment.

b) Surrender of Policy

The policyholder opts for a premature closure of his policy. This is a voluntary termination of the policy contract. A policy can be surrendered only if it has acquired paid-up value. The amount payable to the insured is the **surrender value** which is usually a percentage of the premiums paid. There is also a minimum guaranteed surrender value (GSV), but the actual surrender value paid to the insured is more than the GSV.

c) Rider Benefit

A payment under a rider is made by an insurance company on the occurrence of a specified event according to the terms and conditions.

Under a **critical illness rider**, in the event of diagnosis of a critical illness, a specified amount is paid as per terms. The illness should have been covered in the list of critical illnesses specified by the insurance company.

Under **hospital care rider**, the insurer pays the treatment costs in the event of hospitalisation of the insured, subject to terms and conditions.

The policy contract continues even after the rider payments are made.

The following claim payments are made at the end of the policy term specified in the insurance contract.

d) Maturity Claim

In such claims, the insurer promises to pay the insured a specified amount at the end of the term, if the insured survives the plan's entire term. This is known as a **maturity claim.**

i. **Participating Plan:** The amount payable under a maturity claim, if participating, is the sum assured plus accumulated bonuses less dues such as outstanding premium and policy loans and interests thereon.

ii. **Return of Premium (ROP) Plan:** In some cases premiums paid over the term period are returned when the policy matures.

iii. **Unit Linked Insurance Plan (ULIP):** In case of ULIPs, the insurer pays the fund value as the maturity claim.

iv. **Money-back Plan:** In case of money-back policy, the insurer pays the maturity claim minus the survival benefits received during the term of the policy.

The insurance contact terminates after the claim is paid.

e) Death Claim

If the insured expires during the term of his / her policy, accidentally or otherwise, the insurer pays the sum assured plus accumulated bonuses, if participating, less dues like outstanding policy loan and premia plus interest there on respectively. This is the **death claim**, which is paid to the nominee or assignee or legal whatever the situation may be. A death claim marks the end of the contract as a result of death.

A death claim may be:

- ✓ Early (less than three years policy duration) or
- ✓ Non-early (more than three years)

The nominee or assignee or legal heir has to intimate the insurer of the cause, date and place of death.

i. Forms to be submitted for death claim

Claim
Document

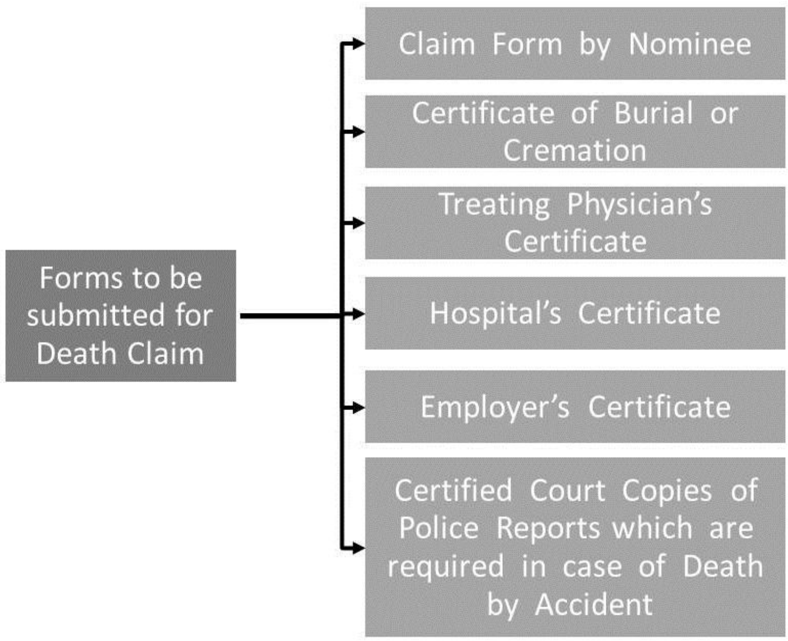
The following forms are to be submitted by the beneficiary with the insurer to facilitate processing of the claim:

- ✓ Claim form by nominee

- ✓ Certificate of burial or cremation

- ✓ Treating physician's certificate
- ✓ Hospital's certificate
- ✓ Employer's certificate
- ✓ Certified court copies of police reports like First Information Report (FIR), Inquest Report, Post-Mortem Report, Final Report which are required in case of death by accident.
- ✓ Death certificate issued by municipal authorities etc as proof of death

Diagram 3: Forms to be submitted for Death Claim



ii. Repudiation of death claim

The death claim may be paid or repudiated. While processing the claim, if it is detected by the insurer that the proposer had made any incorrect statements or had suppressed material facts relevant to the policy, the contract becomes void. All benefits under the policy are forfeited.

iii. Section 45: Indisputability Clause

However this penalty is subject to **Section 45** of the Insurance Act, 1938.

Important

Section 45 states:

No policy of life insurance shall be called in question on any ground whatsoever after the expiry of three years from the date of the policy, i.e from the date of issuance of the policy or the date of commencement of risk or the date of revival of the policy or the date of the rider to the policy, whichever is later.

iv. Presumption of Death

Sometimes a person is reported missing without any information about his whereabouts. The Indian Evidence Act provides for presumption of death in such cases, if he has not been heard of for seven years. If the nominee or heirs claim that the life insured is missing and must be presumed to be dead, insurers insist on a decree from a competent court. It is necessary that premiums should be paid till the court decrees presumption of death. Insurers may, as a matter of concession, waive the premiums during the seven year period.

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4. Claim Procedure for Life Insurance Policy

The IRDAI (Protection of Policyholders Interests) Regulations, 2002 provides as follows:

Regulation 8: 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 piece-meal 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 (iv), 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.

5. Role of an agent

An agent shall render all possible service to the nominee/legal heir or the beneficiary in filling up of claim forms accurately and assisting in submission of these at the insurer's office.

Apart from discharging obligations, goodwill is generated from such a situation whereby there exists ample opportunity for the agent to procure business or referrals in future from the family of the deceased.

Test Yourself 1

Which of the below statement best describes the concept of claim? Choose the most appropriate option.

I. A claim is a request that the insurer should make good the promise specified in the contract
II. A claim is a demand that the insurer should make good the promise specified in the contract
III. A claim is a demand that the insured should make good the commitment specified in the agreement
IV. A claim is a request that the insured should make good the promise specified in the agreement

Summary

- A claim is a demand that the insurer should make good the promise specified in the contract.

- A claim can be survival claim or death claim. While a death claim arises only upon the death of the life assured, survival claims can be caused by one or more events

- For payment of a survival claim, the insurer has to ascertain that the event has occurred as per the conditions stipulated in the policy.

- The following payments may occur during the policy term:

  - ✓ Survival Benefit Payments
  - ✓ Surrender of Policy
  - ✓ Rider Benefit
  - ✓ Maturity Claim
  - ✓ Death Claim

- Section 45 (Indisputability Clause) of the Insurance Act offers protection against rejection of claim by the insurer on flimsy grounds provided and sets a time limit of 3 years for the Insurer for calling a policy into question.

- Under the IRDAI (Protection of Policyholders Interests) Regulations, 2002, the IRDAI has laid down regulations to safeguard / protect the insured or beneficiary in case of claims.