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## ***Insurance Ombudsman in India - A Commentary***

*The insurance industry in India has instituted a dispute resolution mechanism called the Offices of the Insurance Ombudsman. This mechanism, facilitated by the insurance industry is functioning for the past two decades receiving and disposing disputes relating to personal insurance contracts. This article examines the framework, scope and performance of this institution.*

*Key Words : Insurance Ombudsman, Alternate Grievance Redressal Mechanism*

### **Introduction**

Insurance Ombudsman is a forum for Alternative Dispute Resolution instituted to resolve disputes relating to insurance contracts. Established in 2000, under the then Redressal of Public Grievance Rules, 1998, this Forum has served as a simple, no-cost dispute resolution mechanism for the insurance customers. This article examines the role, scope and effectiveness of this forum and offers suggestions for a more effective role in resolving insurance disputes.

The institution of Insurance Ombudsman was initially created by the Redressal of Public Grievances Rules, 1998, notified by the Central Government in exercise of its powers under Section 114(1) of the Insurance Act. These Rules were later superseded by the Insurance Ombudsman Rules in 2017, with some amendments in 2018 and 2021.

The present Rules apply to insurers, agents and intermediaries, including brokers, in respect of complaints on:

- a) Personal Lines of Insurance, or
- b) Group Insurance Policies
- c) Policies Issued to Individuals, Sole Proprietorship Firms and Micro Enterprises.

The functioning of Insurance Ombudsman is facilitated by the Council for Insurance

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Ombudsman. The Council is an insurance industry body comprising members representing the Life, General and Health insurance sectors of the insurance industry and includes a representative of IRDAI.

The Council appoints the Insurance Ombudsman on the recommendations of the Selection Committee which includes representatives from IRDAI, Central Government and Consumer interests. The term of office of the Ombudsman is for a period of three years. Presently there are 17 Offices of Ombudsman, spread across the country, with their jurisdiction covering all the States and Union Territories of India.

### **Scope of Authority**

The Insurance Ombudsman receives and considers complaints alleging deficiency in performance required of an insurer its agents and intermediaries and brokers on grounds such as delay in settlement of claims, rejection of claims and disputes on insurance contracts. Only those complaints which were initially raised with the respective insurers shall be brought to the Ombudsman.

Unlike other fora, such as the Consumer Courts, the Ombudsman Rules do not stipulate the pecuniary jurisdiction. Clause 17(3) of the Rules does state that the Ombudsman cannot award compensation exceeding Rs. 30 Lakhs. This amount compares well with the Banking Ombudsman's limit of Rs. 20 lakhs. However, the Banking Ombudsman's Scheme clarifies, under Clause 12(5), that the compensation that can be awarded by the Banking Ombudsman shall be exclusive of the amount involved in the dispute. In the absence of such an express provision in the Insurance Ombudsman Rules, there is lack of clarity on whether the Ombudsman could entertain disputes exceeding Rs. 30 lakhs, while limiting the awards to Rs. 30 lakhs, or only entertain those disputes within this limit.

### **Resolution Process**

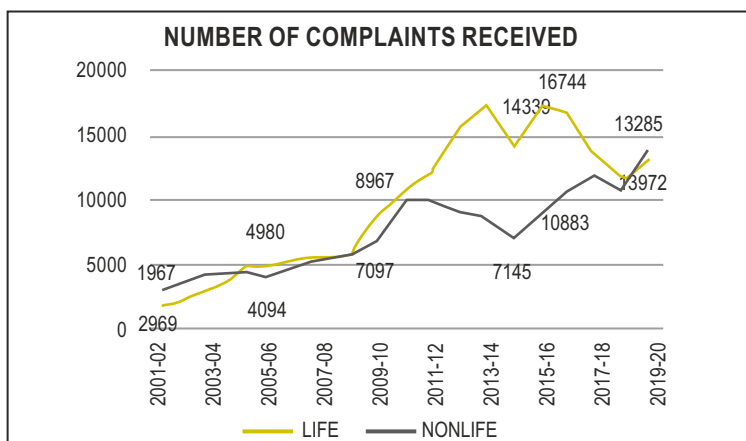
Resolution of a Complaint could be through mediation or through an award. A mediation could commence only if both the parties to the dispute consent to it. After the mediation, the Ombudsman would send its recommendation to the Complainant. Such recommendation, upon acceptance by the Complainant, becomes binding on the insurer.

If a Complaint could not thus be settled by mediation, the Ombudsman shall finalize its findings and pass an award, after providing the parties to the dispute a reasonable opportunity of being heard. Such an award is binding on the insurer.

## Operations

An analysis of the number of Complaints brought to the Ombudsman during the past two decades from Life and Non Life industries show a progressive upward trend, as could be seen in Chart 1.

**Chart 1**



However, these complaints, when measured in relation to the number of policies serviced, show a decline on the rate of complaints per lakh policies. In recent years, there also appears to be a convergence between these two industries on the number of complaints per lakh policies, with a rate of 4 complaints per lakh policies in Life and 6 per lakh in Non Life insurance policies, as observed from Table 1.

**Table 1**

Year	Life			Non Life		
	No. of Policies in Force	No. of Complaints Received	Complaints Per Lakh	No. of Policies in Force	No. of Complaints Received	Complaints Per Lakh
2005-06	1936	4980	3	511	4094	8
2006-07	4520	5433	1	467	4755	10
2007-08	2579	5565	2	573	5300	9
2008-09	2916	5763	2	671	5640	8
2009-10	3189	8967	3	675	7097	11
2010-11	3292	11017	3	793	10048	13
2011-12	3353	12353	4	857	9987	12

2012-13	3361	15711	5	1070	9071	8
2013-14	3348	17512	5	1048	8803	8
2014-15	3263	14339	4	1202	7145	6
2015-16	3271	17257	5	1258	8920	7
2016-17	3284	16744	5	1543	10883	7
2017-18	3315	13419	4	1708	12059	7
2018-19	3333	11859	4	1912	10805	6
2019-20	3332	13285	4	2415	13972	6

*Number of Policies in Lakhs*

But if one looks at the number of grievances registered for the Life and Non Life industries and examine the number of grievances that ultimately become complaints with the Insurance Ombudsman, an interesting picture emerges, as could be seen from Table 2. While the % of conversion has increased from 4% to 8% in the Life insurance segment, it has increased from 11% to 27% in the Non Life segment. The higher percentage of Grievances turning to Complaints in Non Life industry should cause concern. The Non Life insurance industry should strengthen its internal grievance redressal processes to ensure that many of the grievances get resolved at the Company level, instead of having them escalated to the Ombudsman.

**Table 2**

Year	Life			Non Life		
	Grievances	Complaints	Complaints/ Grievances	Grievances	Complaints	Complaints/ Grievances
2011-12	309613	12353	4%	93155	9987	11%
2012-13	341012	15711	5%	78927	9071	11%
2013-14	374620	17512	5%	63335	8803	14%
2014-15	278992	14339	5%	60688	7145	12%
2015-16	204701	17257	8%	59083	8920	15%
2016-17	120847	16744	14%	52104	10883	21%
2017-18	154367	13419	9%	43995	12059	27%
2018-19	163264	11859	7%	43513	10805	25%
2019-20	165217	13285	8%	50870	13972	27%

## Performance

From an analysis of the disposal of complaints from the year 2015-16 to 2019-20, a few points emerge. These are discussed, with a few recommendations for better administration of the scheme.

- “ *57 per cent of the Complaints in Life and 46% in Non Life are rejected as Non-Entertainable.*

That such a significant number of Complainants approach the Ombudsman without complying with the limited requirements shows that awareness on the procedure for filing a Complaint has to be created among the insured public. The websites of the Insurers and that of the Council for Insurance Ombudsman could publish Check Lists, Dos and Don'ts and provide brief videos in vernacular which facilitate the Complaint process.

- “ *20 per cent of the Disposal is through settlement by mediation or withdrawal of the complaint.*

The onus is on the insurers to increase the number of settlements or withdrawals by reviewing their decisions, and by providing relief to the Complainant where possible. This should be done without any loss of time so as to provide immediate remedy to the insured public.

- “ *Of the awards made, 68 per cent are in favour of the Insured and 32 per cent in favour of the Insurer.*

Insurers should have a sound internal review mechanism that examines Grievances, Complaints to the Ombudsman and to other Consumer Fora. The Companies should evaluate the efficacy of their decisions against the decisions of the Ombudsman and make corrections in their approach, where necessary.

- “ *32 per cent of the Complaints admitted are resolved within three months, 48 per cent in three to twelve months and 20 per cent after one year.*

Details of disposal should furnish data on settlements within three to six months, six to nine months and nine to twelve months, instead of clubbing all these three bands into a wide span of three months to twelve months.

- “ *Number of Outstanding Complaints has increased from 2693 in 2015-16 to 8722 in 2019-20.*

- “ *Proportion of Complaints which are outstanding for more than one year has increased from 1 per cent of the total outstanding Complaints in 2015-16 to 34 per cent in 2019-20.*

The one obstacle for quicker resolution of Complaints is the provision in Rule 15(4) which says:

“The Ombudsman shall dispose of a complaint after giving the parties to the dispute a reasonable opportunity of being heard.”

This well-intentioned provision severely limits the bandwidth of the Ombudsman in admitting, handling and disposing of complaints. In view of this provision’s centrality to the functioning of the entire Ombudsman machinery, it is being discussed subsequently.

- *Complaints in Life Insurance relate mostly to Rejection of Claims (21%), Disputes over Premium (22%) and Misrepresentation of Policy terms (42%)*
- *Complaints in Non Life relate predominantly to rejection of Claims (90%); Health Claims account for 79% of the Non Life claims*

Possibly, the amendment to Section 45 could have helped reduce the number of complaints relating to Life Insurance claims. The share of Claim rejection in the total complaints in Life insurance has come down from 37 per cent in 2015-16 to 21 per cent in 2019-20.

Similarly, it is hoped that the various consumer-friendly measures in Health Regulations by standardizing the definitions and exclusions could bring more clarity on coverage and thus reduce the number of Health complaints.

### **Accessibility and Disposal**

Presently, access to the Ombudsman is limited to personal lines of business from individuals, sole proprietorship firms and micro enterprises. Several other smaller entities such as NGOs, Societies, Trusts, Partnership Firms and Associations could not have their disputes brought to the Ombudsman. Possibly, the framers of the Policy would have been concerned to not choke the bandwidth of the Ombudsman with complaints of other entities and thereby deprive the neediest group - individuals and sole proprietorship firms - of speedy resolution. This limited bandwidth is again a creation of the Policy which mandates, under Rule 15(4), that the Ombudsman provide the parties a reasonable opportunity of being heard. The complexity of the insurance product does warrant that the complainant be given an opportunity to present his case. Such an opportunity could enable the Ombudsman too to better understand the grounds of the complaint.

However, this Rule could impose a limitation on the number of complaints that could be resolved by the Ombudsman as hearing every case personally entails time. A balance has to be brought between the conflicting needs of equity and expediency. If the need for hearing is dispensed with, at least in cases involving amounts lesser than a stipulated sum, it would significantly improve the accessibility and also speed up the disposal.

The Banking Ombudsman framework illustrates how both accessibility and disposal could be improved by dispensing with the need for a personal hearing. The Banking Ombudsman Scheme does not mandate a personal hearing. However, the Scheme does provide for appeal before an Appellate Authority, where providing an opportunity to be heard is mandatory. Interestingly, though 296201 complaints have been disposed by the Banking Ombudsman, only 63 appeals were filed.

The Insurance Ombudsman Rules should also provide for such power to decide cases without a personal hearing, at least in disputes within a stipulated monetary limit. It could lead to dramatic improvement in disposal of complaints. Besides, the amendment to the Insurance Ombudsman Rules made in 2021 thankfully provides for hearing through video conference which too could facilitate faster disposal.

### Conclusion

The Insurance Ombudsman mechanism has provided a simple, cost effective resolution forum for disputes. The Offices of the Ombudsman have discharged this responsibility to the extent possible. This Forum could be better utilized by improving awareness, expanding accessibility and simplifying processes.

### Data Sources

- **IRDAI Handbook of Statistics:** Published every year, provides data on the number of Grievances received by the insurance companies, number of complaints received by the Ombudsman and the nature of awards, as well as details of the number of policies issued by Life and Non Life industries.
- **Annual Reports of the Insurance Ombudsman:** Available at the website of the Council for Insurance Ombudsman (<http://ecoi.co.in/>) provide much needed transparency to this institution with all the vital information, such as the Rules, FAQs, Synopsis of Awards and Forms being made available. Also data on the functioning of the Ombudsman, including Annual Accounts, Complaints received and disposed, nature of disposal and duration wise details of complaints disposed and outstanding. Information on complaints received from each insurer at each centre, is also available. The Annual Reports also incorporate the suggestions of the various Ombudsman on the causes of grievances.
- **Annual Report published by the Consumer Education and Protection Department, Reserve Bank of India:** Published every year and provides data on disposal of complaints for Banking Ombudsman.

### Bibliography

1. Insurance Ombudsman Rules, 2017 and subsequent amendments.

