

Article Date	Headline / Summary	Publication
13 Sep 2024	Why you must be aware of claim settlement and solvency ratios of an insurer	Moneycontrol

[Why you must be aware of claim settlement and solvency ratios of an insurer](#)

Choosing an insurance provider involves more than just comparing premiums and coverage options. In a market flooded with numerous insurance companies, evaluating an insurer's ability to meet its commitments becomes crucial. Two critical metrics that provide deeper insights into an insurer's reliability and financial health are the Claim Settlement Ratio (CSR) and the Solvency Ratio (SR).

These ratios help ensure that your insurance provider will honour claims and remain financially stable over the long term. This article explains why these ratios are important, how they impact your insurance experience, and how to look for them.

What is a Claim Settlement ratio?

The CSR is the percentage of claims an insurance company settles out of the total claims received in a given period. For example, if an insurer receives 1,000 claims annually and settles 980 of them, its CSR is 98 percent.

- **Trustworthiness:** A high CSR indicates that the insurer is reliable and processes most claims efficiently. This builds trust among policyholders, assuring them that their claims will likely be honoured.
- **Customer satisfaction:** A higher CSR often correlates with better customer service and satisfaction. Insurers with high CSR are perceived as more customer-centric.
- **Swift settlements:** Insurers with a high CSR are more likely to process and pay claims promptly, which is critical during emergencies when policyholders need financial support on an urgent basis.

Importance of solvency ratio

The SR measures an insurer's financial stability and ability to meet its long-term financial obligations. In India, the Insurance Regulatory and Development Authority of India (IRDAI) mandates a minimum solvency ratio of 1.5.

Why solvency ratio is crucial

- **Financial health:** A high SR indicates that the insurer has a solid financial foundation and can handle large volumes of claims, even under adverse conditions.
- **Long-term stability:** Insurers with a high SR are more likely to remain solvent and continue operations in the long term, providing policyholders with sustained coverage.
- **Regulatory compliance:** Insurers must maintain a minimum SR as per IRDAI regulations. An SR above this minimum requirement reflects robust financial practices and regulatory compliance.

How to ascertain claim settlement and solvency ratios

To access these ratios, you can refer to several reliable sources. The IRDAI publishes an annual report that includes both CSR and SR of all insurance companies, available on its website. Many insurers also display their CSR on their official websites under sections like 'Performance' or 'Disclosures'. Additionally, financial news portals and insurance comparison websites often publish CSR data.

For SR, insurers are required to disclose this information in their annual financial statements, typically found under 'Investor Relations' or 'Financial Information' sections on their websites. Regulatory filings and periodic disclosures made to authorities, accessible through the IRDAI website or the insurer's disclosure documents, also provide solvency ratio details.

Use these ratios to make an informed choice

Understanding an insurance provider's CSR and SR is essential for making an informed decision. The CSR reflects the insurer's reliability and efficiency in settling claims, ensuring policyholders can trust that their claims will be honoured. The SR indicates the insurer's financial stability and long-term viability, ensuring that the company can meet its obligations even in challenging times.

By referring to the IRDAI annual report, insurer's websites, financial statements, and third-party portals, individuals can easily find these critical ratios. Making an informed choice based on CSR and SR can provide peace of mind, knowing that the insurance provider is both reliable and financially sound.

TA Ramalingam is the Chief Technical Officer at Bajaj Allianz General Insurance