

ANALYSIS OF FACTORS AFFECTING OUTSTANDING CLAIM PROVISION OF NON -LIFE INSURANCE FIRMS IN INDIA

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Abstract

This paper aims at investigating the possible factors affecting the outstanding claim provision General insurance firms in India. The data type used for this analysis is panel data which included non-life insurer's outstanding claim provision, incurred claims and size of firm as well as macroeconomic variables such as inflation, investment rate and GDP for four private and four public non-life insurance firms covering the period 2007-2017. Fixed effect regression model is fitted in this study to overcome the simultaneity bias and give consistent estimates.

It is clear from the results that incurred claim is negatively related to reported outstanding claim provision where in some odd cases it can be positively related as well i.e. in the case of private companies. Whereas the size and the real GDP growth rate were found to be positively related with reported outstanding claim provision in the Indian non-life insurance industry.

Another factor lag outstanding claim provision should also be considered in future estimation of provision as its better to take lesson from past experience and also there can be monitoring done by regulatory bodies for checking the data of insurer. All this happens because there is an observed positive relation between previous year's outstanding claim provision and current outstanding claim provision. The study based on the findings recommends that regression modelling may be applied in estimating outstanding claim provision in India.

Keywords: *Outstanding claim, Solvency, Asset under management, Non-life insurance, Underwriting premium, Paid claims, Panel data, Fixed effect model*