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ENVIRONMENT

Unpaid claims for natural disasters at over ₹1,705 cr, says IRDA report

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By Jayashree Nandi, Hindustan Times, New Delhi

Insurance Regulatory and Development Authority of India's annual report — published in December last year — states that outstanding claims for natural disasters in 2020 and 2021 amounts to ₹1,705.52 crore . These include insurance claims for super cyclone, Amphan; severe cyclone, Nisarga; very severe cyclone Nivar; floods in Maharashtra, Telangana, Andhra Pradesh etc.

As per the report, total claims for natural disasters during the period were worth ₹2,559.10 crore, of which only 29.72% claims worth ₹760.68 crore have been settled.

“In respect of the majority of the cases, claims are outstanding due to reinstatement of property not having taken place. There are also some instances of the required documents not having been submitted by the insured due to lockdown. However, on account payments have been made in several instances,” the report stated.

The massive burden of insurance claims associated with natural disasters in India is significant because access to insurance is among key adaptation strategies to deal with severe impacts of climate crisis, the Intergovernmental Panel on Climate Change (IPCC) said in its Working Group II report, released last week.

“Planned adaptation practices include managing weather and market risks through insurance products, social safety nets for vulnerable populations, and providing the right mix of training and capacity building,” the IPCC report said.

The Ganga, Indus, Amu Darya and other river basins in Asia could face severe water scarcity by 2050 due to climate crisis and related impacts that act as stress multipliers, IPCC has warned. Mumbai is at high risk from floods and rising sea level, the regional Asia factsheet of the report had flagged while the summary for policy makers (SPM) of the report projected that globally displacement will increase with intensification of heavy precipitation and associated flooding, tropical cyclones, drought and, increasingly, sea level rise.

IPCC also said that between 2010-2020, human mortality from floods, droughts and storms increased 15 times in highly vulnerable regions, compared to the regions with low vulnerability, adding, that vulnerability at different spatial levels is exacerbated by inequity and marginalization linked to gender, ethnicity, low income or combinations thereof.

In comparison to the claims for natural disasters, total claims of individuals and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) due to Covid in 2020-21 was worth ₹1,617.45 crores. Out of those, claims worth ₹1,418.71 crores have been settled.

In 2021 also, cyclones Tauktae and Yaas caused property losses. As on June 30, 2021, claims amounting to ₹1,351 crore were reported by 18,194 claimants due to cyclones Tauktae and Yaas and out of this, claims amounting to only ₹38.40 crore were settled for 6,671 claimants. “During 2021-22 also, the authority had issued guidance to insurers to attend to the claims arising out of the above events promptly. Disposal of pending claims at various stages is being monitored by the authority regularly,” the report said.

“In case of a major calamity like Phani or Amphan, IRDAI issues special instructions to the insurers to expedite the processes for receiving, verifying and settling claims, and also to simplify documentation. Disposal is monitored on a daily basis by the head office of the insurers and on a weekly basis by IRDAI. The insurers are asked to appoint senior officers as nodal officers and work in close coordination with state governments. On account payments (quick partial payments) are encouraged where reinstatement of property is not complete. Whereas majority of claims get settled early, a few large claims that require completion of repair, rehabilitation and replacement remain pending as insurers have to wait for the process to be completed to assess the reimbursable claim amount,” said Subhash Chandra Khuntia, former chairperson of IRDAI. “There appears to be a general trend of increase in incidence of natural disasters due to climate change. This combined with increase in insurance coverage over time would result in increase in insurance claims arising due to natural disaster,” he added.

Khuntia said in the past five to six years there is a perceptible rise in claims associated with natural disasters like abnormally heavy rainfall or high winds.

“It is attributable to climate change. That is a global problem with global solution. One country cannot solve it. Most insurance companies are resorting to reinsurance to spread the risk burden among others. These reinsurance companies are multinationals. We had advised the government last year to have a natural disaster pool because this problem will be recurring,” added Khuntia, who said crop damages due to extreme weather are not accounted for in these cases. They are addressed by Pradhan Mantri Fasal Bima Yojana (PMFBY) and Restructured Weather Based Crop Insurance Scheme (RWBCIS).

“One of the major reasons for pending claims for natural disasters is verification of damages. Insurance companies continue to rely on verifying damage manually. They should rely on satellite information of change on ground instead. Change detection is possible. Public insurers should also charge appropriate premiums for natural disasters and settle claims expeditiously. Most of these claims are by commercial establishments that bear the brunt of cyclones and floods. Amphan and Nivar ports which saw large scale damage may have also filed claims,” said Pushpendra Johari, senior VP - Sustainability, RMSI Pvt. Ltd, a global disaster risk management company.

“We know that these natural disaster claims are only going to spike in the coming year, at least till 2050, or further, considering that global action on climate change has been slow. Even if total annual rain is normal or average annually, there will be extreme rain events leading to floods; inundation due to cyclones will also increase. Our projections show the west coast will be vulnerable, including states like Kerala. The insurers should be prepared for this. Government infrastructure like power plants and discoms need to be insured,” added Johari.

Last year a German multinational insurance company — Munich Re — estimated that major floods and landslides killed over 700 people and caused US\$ 11bn worth of damage in India over the course of 2018 and 2019. Insurers and their clients have little choice but to consider this in their risk management strategies, they said in a statement.

“The central part of the country is historically a dry area, but it has had consistently heavy rain for the last three years. The water holding capacity of the soil being low in this region, the crops in the area are destroyed year after year due to the rains and resultant inundation. We are seeing regular cyclonic hits, and quite a few of them. Unfortunately, with climate change, severe cyclones may become more likely, rather than the exception,” Ajeet Phatak, Munich Re's regional head of agriculture for India, Japan, South Korea and Southeast Asia had said.