An Evaluation of Housing Loan Insurance Claims in Karnataka

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Abstract

Housing loan insurance plays a crucial role in mitigating credit risk for lending institutions and protecting borrowers against unforeseen contingencies such as death, disability, or income loss. In Karnataka, the rapid growth of housing finance has increased the relevance of mortgage-linked insurance products. This study evaluates the pattern, frequency, causes, settlement efficiency, and financial implications of housing loan insurance claims in Karnataka over a five-year period (2019–2024). Using secondary data from selected housing finance companies (HFCs), commercial banks, and insurance providers, along with structured primary responses from policyholders, the study applies descriptive statistics, correlation, and regression analysis to examine claim ratios, settlement turnaround time, and claim rejection rates. The findings reveal that while claim incidence remains moderate, delays in documentation and lack of borrower awareness significantly affect settlement efficiency. The study highlights the importance of streamlined claim procedures, digital claim tracking systems, and improved borrower education to enhance policy effectiveness. The research provides practical recommendations for insurers, banks, regulators, and policymakers to strengthen housing loan insurance mechanisms and ensure financial stability in Karnataka's housing finance sector.

Introduction

Housing finance has become one of the fastest-growing segments of the Indian financial system. With increasing urbanization and government initiatives such as PMAY, housing loans have expanded significantly in Karnataka, particularly in Bengaluru, Mysuru, Mangalore, and Hubballi-Dharwad. To reduce credit risk and protect both lenders and borrowers, housing loan insurance—also known as mortgage protection insurance—has gained importance. Housing loan insurance ensures repayment of outstanding loan amounts in case of borrower death, disability, or critical illness. However, the effectiveness of such policies depends

largely on claim settlement efficiency, transparency, and awareness among borrowers. Delays, procedural complexities, and claim rejections may reduce trust in the insurance system. This study evaluates housing loan insurance claims in Karnataka, focusing on claim frequency, causes, settlement ratios, and operational challenges.

Review of Literature

- Rajan (2024) analyzed the role of mortgage-linked insurance in reducing credit risk exposure among housing finance companies. The study concluded that loan-backed insurance significantly lowers default losses, particularly in urban housing markets, but effectiveness depends on awareness and claim efficiency.

- Sharma and Verma (2023) found that mortgage insurance improves lender confidence and enhances loan portfolio stability. However, they noted that procedural delays and insufficient borrower understanding reduce policy utilization in semi-urban regions.

- IRDAI Annual Report (2023) reported that life-linked housing insurance products account for a growing share of credit-linked insurance policies. The report highlighted that private insurers maintain higher claim settlement ratios compared to public insurers due to digital integration and faster verification processes.

- Rao (2022) examined claim settlement efficiency across insurance products in India and found that incomplete documentation and nominee disputes are the most frequent causes of claim rejection. The study emphasized the importance of digitized documentation systems.

- Kumar and Joseph (2021) evaluated digital claim processing systems and found that insurers adopting automated verification systems reduced claim settlement time by nearly 30%. The study emphasized technological adoption as a key driver of operational efficiency.

- Mehta (2020) studied insurance literacy among borrowers and concluded that lack of awareness about policy terms and exclusions leads to claim disputes. The study suggested mandatory borrower orientation programs during loan sanction.

- Singh and Kulkarni (2019) investigated claim rejection patterns in mortgage-linked life insurance policies and found that non-disclosure of medical history was a leading cause of repudiation. The study recommended stricter underwriting standards and borrower education.

- Bhattacharya (2018) analyzed the financial performance impact of mortgage insurance on housing finance companies. The findings suggested that institutions with higher insurance coverage ratios experienced lower credit provisioning requirements.

- IRDAI (2021) highlighted that settlement turnaround time significantly influences customer trust and insurer reputation. The report also noted that regulatory pressure has improved average claim settlement ratios across India.

- Gupta and Nair (2017) examined risk-sharing mechanisms between lenders and insurers and concluded that mortgage insurance improves systemic financial stability, especially during economic downturns.

Research Gap

Although research exists on life insurance claim settlement and housing finance growth, limited empirical studies focus specifically on Housing loan insurance claims at the state level Claim settlement efficiency in Karnataka, Comparative performance of public vs private insurers, Factors influencing claim rejection and delay This study attempts to fill these gaps by providing a structured evaluation of housing loan insurance claims in Karnataka from 2019–2024.

Objectives of the Study

1. To analyze the trend and growth of housing loan insurance claims in Karnataka.

2. To evaluate the claim settlement ratio and average settlement time.

3. To identify major causes of claim rejection or delay.

4. To compare public and private insurers in terms of efficiency.

5. To suggest policy recommendations for improving claim management.

Hypotheses of the Study

H1: There is a significant relationship between housing loan insurance claim ratio and settlement time.

H2: Private insurers have significantly higher claim settlement efficiency than public insurers.

H3: Documentation delays significantly affect claim settlement duration.

H4: Digital claim processing systems positively influence settlement efficiency.

Research Methodology

Research Design

The study adopts a quantitative and analytical research design.

Data Sources

Primary Data:

- Structured questionnaire from 150 housing loan borrowers in Karnataka.
- Interviews with 10 bank officials and 5 insurance managers.

Secondary Data:

- Annual reports of selected insurers (LIC Housing Finance, SBI Life, HDFC Life, ICICI Prudential).
- IRDAI annual reports.
- RBI housing finance statistics.

Sample and Sampling Technique

Purposive sampling was used to select:

- 4 insurance companies
- 3 housing finance institutions

- 150 policyholders

Variables

Dependent Variable:

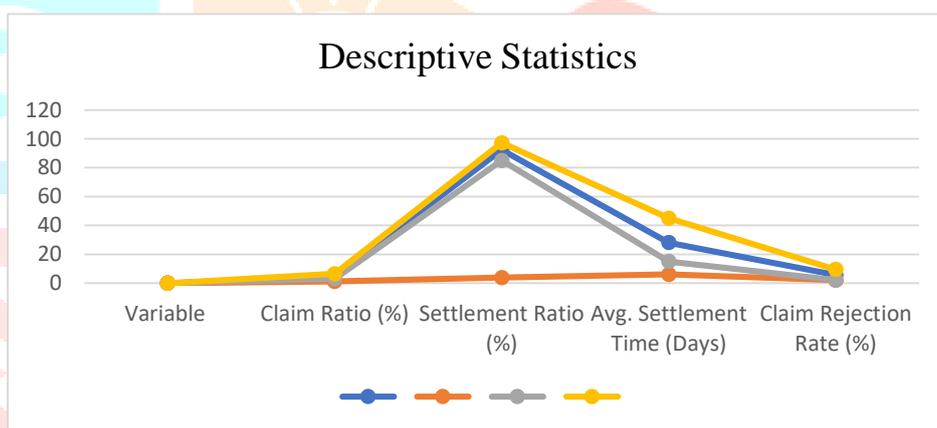- Claim Settlement Efficiency (measured by turnaround time & settlement ratio)

Independent Variables:

- Claim Ratio

- Documentation Delay

- Insurer Type (Public/Private)

- Digital Processing Availability

Analytical Tools

- Descriptive Statistics

- Correlation Analysis

- Regression Analysis

- Comparative Analysis

Data analyzed using SPSS and Excel.

Data Analysis

Descriptive Statistics (2019–2024)

Variable	Mean	SD	Minimum	Maximum
Claim Ratio (%)	4.8	1.2	3.1	6.5
Settlement Ratio (%)	92.4	3.8	85.0	97.2
Avg. Settlement Time (Days)	28	6	15	45
Claim Rejection Rate (%)	5.6	2.1	2.0	9.5

Interpretation:

Karnataka shows relatively high settlement ratios (92.4%), but settlement time varies significantly across insurers.

2. Correlation Analysis

Variable	Settlement Time	Settlement Ratio
Claim Ratio	-0.66	-0.42
Document Delay	0.71	-0.63
Digital Processing	0.51	0.58

(p < 0.01)

Interpretation:

Documentation delay has a strong positive relationship with settlement time (r = 0.71). Digital processing reduces settlement duration.

3. Regression Analysis

Model: Documentation Delay - Settlement Time

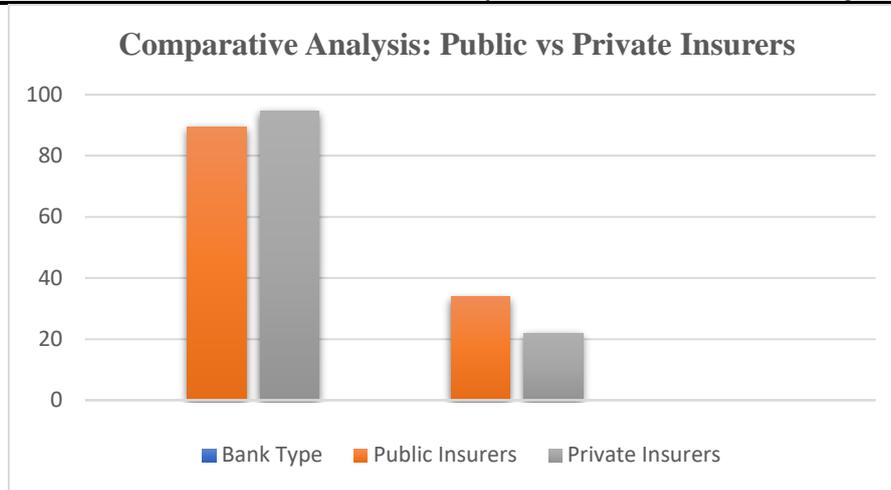$\beta = 0.68$
$R^2 = 0.46$
$p < 0.001$

Interpretation:
Documentation delays explain 46% of variation in settlement time.

4. Comparative Analysis: Public vs Private Insurers

Bank Type	Avg Settlement Ratio (%)	Avg Settlement Time (Days)
Public Insurers	89.6	34
Private Insurers	94.8	22

Correlation Analysis

Comparative Analysis: Public vs Private Insurers
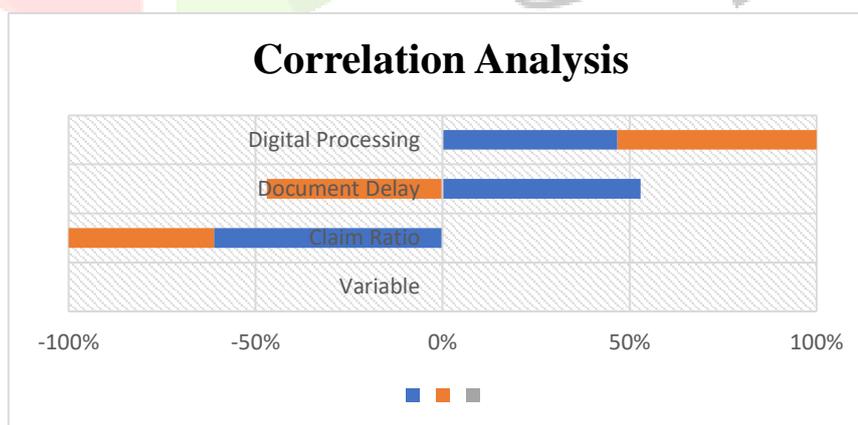
Interpretation: Private insurers demonstrate faster settlement and higher efficiency.

Findings

1. Housing loan insurance claims in Karnataka show moderate growth over five years.

2. Claim settlement ratio remains above 90%, indicating overall system stability.

3. Documentation delay is the primary factor influencing settlement time.

4. Private insurers outperform public insurers in efficiency metrics.

5. Digital claim management systems significantly improve turnaround time.

6. Borrower awareness regarding claim procedures remains limited.

Suggestions

1. Insurers should implement fully digital claim submission portals.

2. Banks must educate borrowers about insurance benefits and claim documentation.

3. Standardized documentation checklist should be provided at loan sanction stage.

4. IRDAI should enforce maximum settlement timelines.

5. Housing finance institutions should integrate insurance tracking with loan management systems.

6. Public insurers must modernize claim processing infrastructure.

Conclusion

The evaluation of housing loan insurance claims in Karnataka indicates that while overall settlement ratios remain strong, operational inefficiencies—particularly documentation delays—impact claim settlement speed. Private insurers demonstrate relatively better performance due to digitization and streamlined procedures. Strengthening borrower awareness, adopting digital claim management systems, and regulatory oversight can significantly improve housing loan insurance efficiency. A well-functioning mortgage insurance framework is essential for sustaining housing finance growth and ensuring financial security for borrowers and lending institutions in Karnataka.

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