

# The Role of the Insurance Ombudsman in Enhancing Consumer Protection in India

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## Abstract

The Government of India established the Insurance Ombudsman to streamline and organize the process of addressing grievances from insurance policyholders, thereby facilitating out-of-court settlements. Its primary objective is to resolve issues arising during the settlement of insurance claims by providing a fair and impartial system, the ombudsman ensures that policyholders' grievances are addressed efficiently and justly. This paper examines the crucial role of the Insurance Ombudsman in India in strengthening consumer protection within the insurance sector. By assessing the historical development, operational procedures, and significant impacts using secondary sources, this study underscores the Ombudsman's contributions to transparency, accountability, and fairness. Case studies and literature reviews demonstrate the ombudsman's effectiveness in empowering consumers and efficiently resolving disputes. The paper also discusses recommendations for enhancing this institution, including increasing transparency, improving accountability, ensuring fairness, empowering consumers, resolving disputes efficiently, and boosting consumer trust and satisfaction in the insurance industry.

## INTRODUCTION

India's insurance sector has experienced significant growth, becoming a vital component of the national economy by offering financial security and risk management solutions to both individuals and businesses. Despite this progress, the sector is often characterized by complex policy terms and opaque practices, which can pose challenges for consumers seeking fair treatment. In response to these issues, the Insurance Ombudsman was established to provide a structured mechanism for addressing policyholder grievances and ensuring that insurance practices adhere to principles of fairness and transparency. The Insurance Ombudsman plays a crucial role in mediating disputes between policyholders and insurers, offering an alternative to lengthy and costly legal proceedings. By providing a forum for resolving complaints efficiently and impartially, the Ombudsman aims to enhance consumer protection and uphold the rights of policyholders. This research paper delves into the effectiveness of

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the Insurance Ombudsman in fortifying consumer protection within the Indian insurance sector. Through an examination of secondary sources, including historical developments, operational processes, and impact assessments, this paper seeks to shed light on how the Ombudsman contributes to a more equitable and transparent insurance landscape. The analysis includes a review of case studies and literature to evaluate the Ombudsman's role in addressing common grievances and its overall effectiveness in promoting consumer trust and satisfaction in the insurance industry.

The Insurance Ombudsman was established in 1998 through the Redressal of Public Grievances Rules, introduced by the Government of India. This initiative aimed to create a cost-effective, efficient, and neutral platform for resolving disputes between insurance policyholders and insurers. Functioning under the purview of the Insurance Regulatory and Development Authority of India (IRDAI), the Ombudsman adheres to regulatory guidelines that ensure its operations remain transparent and in compliance with established standards. Since its inception, the Ombudsman system has undergone significant evolution. Initially designed to address a limited range of issues, it has progressively broadened its scope and enhanced its procedures to better meet the increasing and diverse needs of policyholders. The expansion includes a growing network of regional offices and improved mechanisms for handling complaints, reflecting the system's commitment to adapting to the dynamic landscape of the insurance sector (Surya & Sudha, 2019). This evolution highlights the Ombudsman's role in addressing emerging challenges and ensuring that it continues to provide effective and fair resolutions for insurance-related grievances.

## **Operational Mechanisms of the Insurance Ombudsman**

The Government of India initiated the Insurance Ombudsman Scheme to provide individual policyholders with a way to address their complaints outside the court system. The scheme's goal is to resolve grievances in an impartial, efficient, and cost-effective manner. There are currently seventeen insurance Ombudsman offices across various

regions in the country. Individuals with complaints against insurance companies can file their grievances in writing to the insurance Ombudsman in their area, personally or through their legal representatives, heirs, nominees, or assignees. The jurisdiction of the Ombudsman covers the location of the insurer's branch or the complainant's residence.

The insurance Ombudsman operates through regional offices, each managed by an Ombudsman. Policyholders can bring their disputes to these offices, whether they involve claim denials, policy lapses, or deficiencies in service. The complaint process is designed to be user-friendly and straightforward, allowing policyholders to lodge complaints without needing legal representation. The procedure followed by the Ombudsman includes an initial review of the complaint, attempts at mediation between the parties, and if necessary, a formal hearing. While the decisions made by the Ombudsman are binding on the insurance companies, they are not binding on the complainants. If the complainant is not satisfied with the Ombudsman's decision, they still have the option to seek legal recourse through the courts.

## **Key Features of the Insurance Ombudsman**

The insurance Ombudsman offers a neutral forum for resolving disputes between policyholders and insurance companies. A streamlined complaint procedure, a focus on impartial and equitable outcomes, and free services for policyholders are some of the salient aspects.

### **Accessibility**

The insurance Ombudsman is readily available to all policyholders, regardless of the claim amount or their geographical location. Complaints can be filed online, through postal mail, or in person at designated offices, ensuring wide-reaching accessibility for all.

### **Cost-effectiveness**

Submitting a complaint to the insurance Ombudsman is free of charge, making it an attractive and feasible option for policyholders who might not have the financial means to pursue legal action.

### **Time-bound process**

The insurance Ombudsman follows a time-bound resolution process, with most cases being resolved within three months. This expedited process ensures that policyholders, who often face financial difficulties due to insurance issues, receive quick resolutions.

### **Informal and fair**

The insurance Ombudsman operates in an informal manner, avoiding the complexities associated with legal proceedings. This approach allows both parties to present their cases clearly and comprehensively, ensuring a fair, transparent, and equitable process.

With a cost-effective, fast, and equitable method of settling insurance disputes, these salient characteristics establish the Insurance Ombudsman as a useful and approachable resource for policyholders (Trivedi & Singh, 2021).

### **An individual can approach the ombudsman with a complaint if**

An individual, who has already contacted an insurance company with the complaint, and:

- They have rejected the complaint, or
- They have not resolved it to the satisfaction of the customer, or
- They have not responded to the complaint within 30 days.

### **Policyholder's Capacity and Claim Value**

The complaint relates to a policy an individual holds in individual capacity, and the total value of the claim, including any expenses claimed, does not exceed Rs 50 lakhs.

### **Types of Complaints that can bring to the Ombudsman**

When facing unresolved issues with the insurance provider, an individual has the option to bring certain types of complaints to the Insurance Ombudsman. The following table (Table 1) outlines the categories of complaints that can be addressed by the Ombudsman.

### **The ombudsman settlement process: mediation and award process**

#### **Mediation process**

In the initial step, the Ombudsman serves as a mediator to facilitate dispute resolution. The Ombudsman assesses the details of the dispute and formulates a fair recommendation if the insurer is agreed to the recommendation as the complete resolution of his/her complaint, the Ombudsman will inform the insurance company. The insurer must then adhere to the settlement terms within 15 days.

#### **Award process**

If a settlement cannot be reached through the recommendation, the Ombudsman will move on to the next step, i.e. *Passing an Award*. If a settlement cannot be reached through mediation, the Ombudsman will issue a formal decision, known as an award, within three months of receiving all necessary documents and information from the complainant. This decision is mandatory for the insurance company.

#### **Compliance with the award**

The insurance company must adhere to the terms of the award within 30 days of receiving it and must notify the Ombudsman of their compliance.

In summary, the settlement process involves mediation first, where a fair recommendation is made. If this recommendation is accepted, the insurance company must act on it within 15 days. If mediation fails, a binding award is issued within 3 months, which the insurer must comply with within 30 days.

### **Enhancing Consumer Protection**

A fundamental role of the Insurance Ombudsman is to ensure transparency and fairness in the insurance sector. By offering a neutral and unbiased platform for resolving disputes, the Ombudsman guarantees that policyholders' grievances are addressed in an impartial manner. This process not only aids in resolving individual conflicts but also establishes precedents that promote better practices within the industry. The presence of the Ombudsman has significantly increased accountability among

**Table 1:** Complaints to the Insurance Ombudsman

<i>Category</i>	<i>Description</i>
Delay in settlement	Complaints about delays in settling claims that exceed the time limits specified under the IRDAI Act, 1999
Claim repudiation	Issues with partial or total denial of claims by life, general, or health insurers.
Premium disputes	Disputes concerning the amount of premium paid or payable as per the insurance policy terms.
Misrepresentation	Instances of misrepresentation or incorrect information regarding policy terms and conditions at any point in the policy document or contract
Legal interpretation	Disputes related to the legal interpretation of insurance policies as they pertain to claims
Policy servicing grievances	Complaints about issues in policy servicing involving insurers, their agents, or intermediaries.
Policy issuance issues	Problems with the issuance of life, general, or health insurance policies that do not align with the proposal form submitted by the proposer
Non-issuance of policy	Issues where an insurance policy is not issued after the premium has been paid, applicable to life, general, and health insurance
Regulatory violations	Any other issues resulting from the violation of the Insurance Act, 1938, or any regulations, circulars, guidelines, or instructions issued by IRDAI.

insurers. Insurance companies, aware of the possibility of their actions being scrutinized and potentially overturned, are more likely to adhere to fair practices to avoid adverse decisions. This scrutiny compels insurers to maintain higher ethical standards and engage in fair treatment of policyholders (Talwar & Ali, 2016).

Research and industry studies have shown that the decisions made by the Ombudsman lead to improved adherence to fair practices by insurers. This not only benefits individual policyholders but also enhances overall consumer trust and confidence in the insurance system. By setting a standard for fairness and accountability, the Ombudsman plays a crucial role in fostering a more transparent, ethical, and consumer-friendly insurance industry.

## Impact on Policyholder Rights

The Insurance Ombudsman plays a vital role in empowering consumers by safeguarding their rights. Policyholders frequently encounter issues such as unjust claim denials, delays in claim settlements, and inadequate customer service. The Ombudsman addresses these problems effectively, ensuring that policyholders receive the benefits they are entitled to. Case studies have shown that the

Ombudsman has successfully resolved numerous high-profile disputes, providing significant relief to policyholders and reinforcing their trust in the insurance system. By offering a faster and more cost-effective platform for dispute resolution between insurance companies and policyholders, the Ombudsman enhances consumer protection. The Insurance Ombudsman empowers policyholders to seek redress for grievances related to various aspects of their insurance experience, including-

- Claim Settlements and Rejections
- Addressing issues where claims are unfairly denied or inadequately settled.
- Policy Issuance and Renewal Issues: Resolving problems related to the issuance or renewal of insurance policies.
- Misleading or false information: ensuring that policyholders are not misled by incorrect or deceptive information provided by the insurance company.
- Delays in Processing Claims or Payments: Handling complaints about undue delays in the processing of claims or payments.
- Unfair Terms and Conditions- Challenging and rectifying unfair terms and conditions within the policy.

- Misleading advertising and marketing: Addressing issues arising from misleading advertising and marketing practices of insurance products. By effectively dealing with these grievances, the Insurance Ombudsman ensures that policyholders are treated fairly and their rights are protected, thus fostering greater trust and confidence in the insurance system.

## **Challenges and limitations of the insurance ombudsman**

Despite the significant contributions of the Insurance Ombudsman to consumer protection and fair practices in the insurance sector, several challenges and limitations hinder its effectiveness. These issues impact the Ombudsman's ability to deliver timely and satisfactory resolutions to policyholders (Mathur, 2001). Below are the key challenges and limitations:

### ***Limited awareness***

A considerable number of policyholders are unaware of the existence and role of the Insurance Ombudsman, leading to underutilization of this dispute resolution mechanism. This lack of awareness results in many grievances remaining unresolved, as policyholders do not know they can seek redress through the Ombudsman, thereby missing out on a valuable resource for resolving their issues.

### ***Resource constraints***

Ombudsman offices frequently face resource constraints, including insufficient staffing and limited financial resources. These limitations can cause delays in processing and resolving complaints, reducing the Ombudsman's efficiency and effectiveness in delivering timely justice to policyholders.

### ***Jurisdictional limits***

The jurisdiction of the Ombudsman is restricted to certain types of complaints and specific monetary limits (e.g., claims up to Rs 50 lakhs). Policyholders with higher-value claims or disputes outside the Ombudsman's jurisdiction may have to seek redress through the more time-consuming and costly judicial system, which can be a significant barrier to justice.

## ***Enforcement of decisions***

Although the Ombudsman's decisions are binding on insurance companies, ensuring compliance can sometimes be problematic. Delays or failures in compliance by insurers can undermine the authority of the Ombudsman and erode policyholder confidence in the process, leading to further grievances.

## ***Procedural issues***

The procedures followed by the Ombudsman can sometimes be perceived as bureaucratic and complex. This complexity can deter policyholders from pursuing their complaints or cause misunderstandings about the process and its outcomes, resulting in dissatisfaction with the resolution process.

## ***Evolving nature of insurance products***

The rapid evolution and increasing complexity of insurance products and services present challenges for the Ombudsman in staying updated with industry practices and regulations. This can affect the Ombudsman's ability to effectively address grievances related to new or complex insurance products, potentially leaving policyholders without adequate redress.

## ***Limited scope for appeal***

While the Ombudsman's decisions are final and binding on insurance companies, policyholders can seek further legal recourse if dissatisfied. Although this provides an additional layer of protection for policyholders, it can also lead to prolonged disputes and increased costs if the policyholder chooses to pursue legal action, thus negating the benefits of a quick and cost-effective resolution.

## ***Variability in performance***

There is significant variability in the performance and efficiency of different Ombudsman offices across the country. This inconsistency can result in unequal levels of service and satisfaction for policyholders depending on their location, which undermines the overall effectiveness of the Ombudsman scheme.

The Insurance Ombudsman is vital for safeguarding consumer rights and promoting fair practices in the insurance industry. However, to improve its

effectiveness, it is essential to tackle the challenges and limitations it encounters (Rajpurohit & Nawal, 2016). This could involve increasing awareness among policyholders, providing more resources and training to Ombudsman offices, expanding the jurisdiction and scope of the Ombudsman, and ensuring better enforcement of decisions. By addressing these issues, the Insurance Ombudsman can continue to build trust and confidence in the insurance system and provide more effective consumer protection.

## **Policy Implications and Recommendations for the Insurance Ombudsman**

To strengthen the role of the insurance Ombudsman in protecting consumer rights and promoting fair practices in the insurance sector, it is important to consider various policy measures. Addressing existing challenges and limitations will improve the efficiency and reliability of the Ombudsman scheme, ultimately benefiting policyholders. Here are some detailed policy implications and recommendations.

### ***Increased awareness and accessibility***

By increasing awareness, more policyholders will be able to take advantage of the insurance ombudsman's services. This can be done through extensive awareness campaigns using a variety of media platforms to educate policyholders on the benefits, roles, and existence of the Ombudsman.

### ***Enhanced resource allocation***

In order to efficiently manage the increasing number of complaints, the offices of the Ombudsman should be provided with resources such as the necessary manpower and facilities, as well as budgetary resources. Hence, timeliness and effective resolution of complaints depend on enough personnel and financial support.

### ***Expanded jurisdiction***

Extending the jurisdiction of the Ombudsman to cover higher-value claims and a broader range of disputes will provide more comprehensive protection for policyholders. The amendment in regulations is necessary in terms of the increase in the

monetary limits and types of complaints that fall within the Ombudsman's jurisdiction. It will allow to handle a wider variety of insurance disputes.

### ***Improved enforcement mechanisms***

Prompt enforcement of the Ombudsman's decisions will enhance its authority and effectiveness. Hence, strengthening the enforcement mechanisms, like imposing penalties on insurers who do not comply with Ombudsman decisions within the stipulated time frame, is important.

### ***Simplified procedures***

Streamlining the complaint handling procedures will make the process more user-friendly and accessible for policyholders. The simplification and standardization of the procedures followed by the Ombudsman will reduce bureaucracy and complexity, making it easier for policyholders to lodge and track their complaints.

### ***Training and capacity building***

Continuous training and capacity building are vital for Ombudsman staff to stay updated with the evolving insurance landscape. The conduction of regular training programs and workshops for Ombudsman staff to enhance their skills and knowledge of the latest industry practices and regulatory changes. Continuous professional development programs for Ombudsman staff to keep them informed about new insurance products, industry trends, and regulatory updates is necessary. And also, a centralized monitoring system should be established to track the performance of all Ombudsman offices, ensuring they meet predefined service standards and address disparities in service delivery.

### ***Consistency in performance***

Ensuring consistent performance across all Ombudsman offices will provide uniform service quality to policyholders nationwide. The process should be initiated to establish performance benchmarks and conduct periodic reviews to ensure all Ombudsman offices maintain a high standard of service.

### ***Public awareness campaigns***

Nationwide campaigns should be launched using television, radio, print media, and digital platforms

to educate policyholders about the insurance Ombudsman and how to access its services.

### **Penalties for Non-compliance**

To comply with Ombudsman decisions within the specified time frame the introduction of stringent penalties for insurers who fail to timely support the client is necessary. It will ensure timely implementation of resolutions.

Implementing these policy implications and recommendations can significantly enhance the effectiveness of the insurance Ombudsman in resolving disputes and protecting policyholder rights. By addressing the current challenges and limitations, the Ombudsman scheme can provide more reliable, efficient, and equitable services, thereby fostering greater trust and confidence in the insurance system among consumers. This comprehensive approach will ensure that the Ombudsman continues to play a vital role in maintaining fairness and transparency within the insurance sector.

## **CONCLUSION**

The Insurance Ombudsman is a fundamental institution in India's insurance industry, playing a vital role in safeguarding consumer rights and promoting fair practices. By providing an impartial and accessible platform for dispute resolution, the Ombudsman addresses policyholders' grievances efficiently and equitably. This system not only resolves individual complaints but also establishes precedents that promote transparency and fairness across the industry. Despite its substantial contributions, the Insurance Ombudsman faces challenges such as limited awareness, resource constraints, and jurisdictional limitations. Overcoming these challenges through increased funding, better training, expanded jurisdiction, and stronger enforcement mechanisms will further enhance the Ombudsman's ability to safeguard consumer

Key policy measures, including public awareness campaigns, regulatory amendments, and performance monitoring, are essential to maximize the

Ombudsman's impact. Implementing these recommendations will lead to more reliable, efficient, and fair services, thereby boosting consumer trust and confidence in the insurance system. In conclusion, the Insurance Ombudsman is an essential entity in India's insurance landscape. Strengthening its framework and addressing its challenges will enhance its effectiveness, ultimately leading to better consumer protection and a more accountable insurance industry. With continuous efforts and robust policy support, the Ombudsman can maintain its pivotal role in safeguarding policyholder interests and promoting fair practices within the insurance sector.

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