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Full Length Research Paper

Steady Growth of Health Insurance Business in India

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ABSTRACT

The Indian economy is growing, leading to improved medical facilities in tier two cities. However, medical costs are rising due to India's high Out-Of-Pocket-Expenditure (OOPE) for health. This makes it difficult for individuals with limited savings to afford healthcare, especially seniors. This has contributed to the growth of health insurance companies in India, as they face challenges in arranging funds for emergencies and advanced age-related illnesses.

Introduction

Indian economy is on the growth trajectory. As a result medical facilities in India are also improving. Super specialist medical treatment is now available in tier two cities which is a good development. However, the medical costs are rising year on year. Inflation in medical care is higher than inflation in food and other articles. Medical emergencies can come suddenly. Depending upon disease or type of treatment, healthcare cost can be between manageable to enormous, and if not admitted to a government hospital, and if all cost of private hospital borne by the individual. This is because India's Out-Of-Pocket-Expenditure (OOPE) for health is one of the highest in the world. For an individual whose savings are limited, arranging for funds at the eleventh hour can be a task. Particularly for seniors it is even more challenging as generally after 60 years their sources of income dries up if salaried. Pension amount is just sufficient to meet basis needs and on top of all this most ailments strike at an advanced age. The above reasons have contributed towards growth of health insurance companies in India. The objective of this study is to understand development of health insurance business in India.

Review of Literature

Binny, Dr. Meenu Gupta (2017), Health insurance in India- Opportunities and challenges. The paper thows light on the present trends of health insurance sector in India. Growth opportunities and challenges in the sector are presented by the authors. This study say that the health insurance is a growing sector in India. Companies are recommended to further develop their business by introduction of new business models with novel products. Further paper suggests need of a universal health insurance program to cover families below poverty line. Health insurance companies may also exploit Medical tourism which is a growing business in India. The sector is also advised to provide comparative industry information to customers in assessment of prices, quality and services provided by health insurance companies.

K Swathi and R Anuradha (2017), Health insurance in India- An overview. The paper mentions about the whole idea of health insurance and its advantages besides presenting a picture of the health insurance sector in India. This paper tells about number of persons covered under various government sponsored schemes, group insurance, family insurance, individual policies. This also tells about Sector wise health insurance policies along with number of persons covered by public, private and specialized insurers are depicted. It Suggests government to introduce new health insurance schemes for welfare of the common people. It further suggests IRDA (Insurance Regularity and Development Authority) to take initiatives for promoting competition in health insurers From time to time government is also advised to conduct awareness campaigns.

Suman Devi and Dr. Vazir Singh Nehra (2015), title of the study was The problems with health insurance sector in India. This study tells about new developments in health insurance sector like The study narrates some of the new inventions in the health insurance sector such as introduction of Rashtriya Swasthya Bima Yojna (RSBY), hybrid products and critical illness cover. The paper also mentioned about the problems and challenges with the health insurance and also suggested probable solutions. Few health insurance companies which have eliminated TPAs (third party administrators) for claim settlements. Now these companies do direct claim settlement, this point is also mentioned in the paper. Examples of Bajaj Allianz, Cholamandalam MS and Star Health. This study also mentions that as a new practice insurers have started visiting hospitals to meet with the patients who have group insurance cover. This is done to check about misuse by way of fake illness. If any such fake is found policy renewal is stopped. Further maximum claim for surgeries are decided and informed at the beginning of group insurance contract. Some more areas in which the study throws light are about claim pay-out ratio in public sector insurers which is found to be higher, many grievances has been observed due to non professional behaviour of TPAs, health insurance in rural areas is still largely ignored, customer many times select a wrong health insurance policy, and little or no awareness about health insurance policies is also cited in this paper.

Yadav, Sudhakar (2017) studied about personal factors which influence purchase decision of health insurance policies in India. Authors observed that a factor such as awareness, benefit in income tax, financial security and risk coverage has important influence on purchase decision of health insurance policy holders.

Chauhan (2019) studied medical underwriting and rating modalities in health insurance sector. The study revealed that at the time of underwriting a health insurance policy one has to keep in mind the various aspects of the insured customers including lifestyle, occupation, health condition and habits. Further it reveals that there has not been any work on performance of health insurance sector based on underwriting profit or loss. The sector is has higher claims and thus its bottom line is always under pressure. However in recent times, IRDA has taken decisive step by hiking the premium rate of health insurance products. This will be helpful for the companies of this sector. Foreign partners are bringing technological expertise and with support from IRDA the health insurance sector in India would around and start to earn profit.. However the COVID-19 pandemic brings challenge as well as opportunity. Challenge of increasing claim settlements and opportunity of making new customers. This paper also highlights that the commission rates and management expenses are higher due to cut-throat competition.

Satakshi Chatterjee, Dr. Arunangshu Giri, Dr. S.N. Bandyopadhyay (2018), Health insurance sector in India: A study. The study is about various health insurance products offered in India. It attempts to analyze the healthcare insurance models of selected other countries also. Health insurance is regarded as an unsaturated market in India and the middle income group i.e. the targeted population of this industry will definitely create a boom in health insurance in years to come. The health insurance sector is required to be made universal irrespective of the income level and background of individual and a family.

History of Indian Insurance Sector

In case of India the Health insurance service started relatively late in the mid-1980s with the introduction of "Medicclaim" policies (indemnity type), where the cover was limited to reimbursing the cost of treatment through hospitalization.

As mentioned in IRDAI reports, the history of India's insurance sector goes back around 200 years. In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The ancient scriptures talk in terms of pooling of resources. Such resources could then be re-distributed in times of calamities such as floods, epidemics, wars, fire and famine. This was probably a originator of modern day insurance. Ancient Indian history has preserved the earliest traces of insurance which was in the form of marine trade loans and carriers' contracts. Later during British Era, the Insurance in India has evolved formally by following Insurance practices from other countries.

The Life Insurance sector was born in India with the foundation of Oriental Life Insurance Company in 1818 in Calcutta. The next to come was Madras Equitable Company in 1829. They were followed by the Bombay Mutual in 1871, then came Oriental in 1874, and Empire of India in 1897. In 1956 Indian Life Insurance Companies were nationalized which led to the establishment of the Life Insurance Corporation of India in 1956, which acquired 254 life Companies operating at that time. On the other hand the General Insurance Sector began with Triton Insurance Company in 1850. The General Insurance Sector was nationalized in 1972. There were 107 companies which were merged under four companies, National Insurance Company, New India Assurance Company, Oriental Insurance Company, and United India Insurance Company. As a result, the General Insurance Corporation (GIC) was born in 1971.

These nationalized public sector insurance companies were running the general insurance business in oligopolistic manner till 1999-2000. After observing the weaknesses of the insurance sector, the Indian Government thought of the Liberalization of the insurance sector in India. The sector was liberalized and private companies were allowed to apply for license to enter into this business.

Government HealthCare Expenditure

Government healthcare expenditure shows the policies implemented by the government towards betterment of the nation's health which then further contributes towards productivity. Many developed countries like the countries of EU, the US, Australia, etc., have around 10% of GDP as expenditure on healthcare, as can be seen from the below chart. US has close to 16% of the GDP towards healthcare expense. Developing nations and south Asian countries, including India, Malaysia and South Asian countries

have expenditures of less than 4%. China is little better with more than 5% expenditure on countries healthcare. Any nation which has low government expenditure on health care, citizens there largely relies on the insurance sector to meet healthcare expenses by paying an insurance premium.

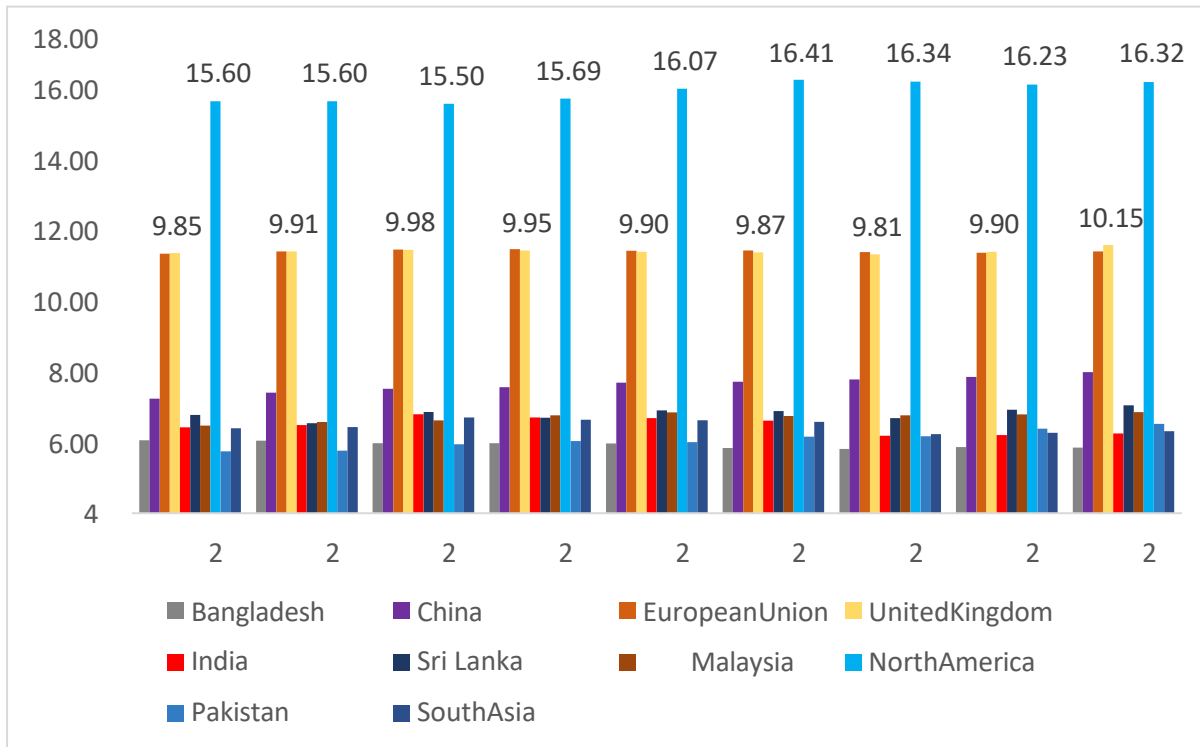


Fig. a Source: WorldBank

History of Health Insurance in India

Traditionally, health insurance in India started in 1986 when for the first time "Mediclaim" policies were introduced. It was introduced as an indemnity type cover. Indemnity insurance refers to an insurance policy that compensates an insured party for certain unexpected damages or losses up to a limit. The limit is usually the amount of the loss itself. Insurance companies provide coverage in exchange for premiums paid by the insured parties. Under Mediclaim the cost of cover is used to get reimbursed when the customers get hospitalized for treatment. Only non-life public sector insurance companies offered such products. It was in 1993-94, when LIC of India, the sole public sector life insurance company of that time, introduced for the first time benefit based cover where a sum assured was paid to customers on detection of certain critical illnesses. The product features were endowment type where the customer will be given the sum assured either at the time of contracting a disease or till the survival at the end of the policy term.

Post liberalization, there were few international standalone health insurance companies lined up for operation in India. Star Health was the first standalone health insurance provider in India to begin its operations in the year 2006.

Niti Aayog Report

According to the report by Niti Aayog published in October 2021 focusing on "Health Insurance for India's Missing Middle," below mentioned table on the spread of health insurance by the government sector, social health insurance scheme, private health insurance and the gap those who are not covered by any health insurance scheme.

Table 1: Number of individuals and families eligible or covered, by health insurance scheme type

| Insurance Scheme | Individuals Eligible or Covered (cr.) | Percentage of Population Eligible | Families Eligible or Covered (cr.) |
|---|---------------------------------------|-----------------------------------|------------------------------------|
| Government Subsidized Schemes | 69 | 51% | 15.3 |
| AB-PMJAY (w/o State Extension Schemes) | 49 | 36% | 10.9 |
| AB-PMJAY State Extension Schemes | 20 | 15% | 4.4 |
| Social Health Insurance Schemes | 14 | 10% | 3.6 |
| Employees' State Insurance Scheme (ESIS) | 13.6 | 10% | 3.5 |
| Central Government Health Scheme | 0.4 | 0.3% | 0.13 |
| Private Voluntary Health Insurance (PVHI) | 11.5 | 9% | 2.6 |
| Total Eligible or Covered (assuming no overlap) | 94.5 | 70% | 21.5 |
| Total Population / Families | 135 | | 30 |
| Uncovered Population / Families | 40.5 | 30% | 8.5 |

There are a few important statistics to look at from the above table.

Only 9% of the total population of 135 Cr is insured through private health sector insurance.

A massive 61% population is covered under Central and state government schemes and other social health schemes.

So it is evident that 70% of Indian population is covered under some kind of, while 30% population of around 41 Cr have no health benefits. Niti Aayog has mentioned this as a "Missing Middle."

However, the challenges are Despite the 61% population covered by government health insurance schemes, whether those covered are even aware of their coverage and how to take the benefits. Also are there sufficient physical infrastructure like the hospitals available for rural population to take the benefits of health insurance.

Reality Check on Health Insurance Market in India

The below table shows list of health insurance companies in India and their annual premium collection in INR (crores). This table is for the financial year 2021-22. The premium income is shown by individual health insurance, group business, government health insurance schemes and overseas medical insurance done by general insurance and standalone health insurance companies.

Gross Direct Premium of Health Insurers as per IRDAI annual report 2020-2021.A comparison between 2020-21 and 2021-22.

| S. No. | Insurer | Health | |
|--------------------------------------|---|------------------|------------------|
| | | 2020-21 | 2021-22 |
| Private Sector Insurers | | | |
| 1 | Acko General Insurance Ltd. | 122.98 | 407.12 |
| 2 | Bajaj Allianz General Insurance Co. Ltd. | 2,301.74 | 3,381.26 |
| 3 | Bharti AXA General Insurance Co. Ltd.* | 456.78 | - |
| 4 | Cholamandalam MS General Insurance Co. Ltd. | 662.55 | 691.17 |
| 5 | Edelweiss General Insurance Co. Ltd. | 88.92 | 126.40 |
| 6 | Future Generali India Insurance C. Ltd. | 528.50 | 669.58 |
| 7 | Go Digit General Insurance Ltd. | 214.04 | 675.94 |
| 8 | HDFC ERGO General Insurance Co. Ltd. | 4,281.60 | 4,940.65 |
| 9 | ICICI Lombard General Insurance Co. Ltd. | 3,021.35 | 4,006.91 |
| 10 | IFFCO Tokio General Insurance Co. Ltd. | 1,664.24 | 1,859.56 |
| 11 | Kotak Mahindra General Insurance Co. Ltd. | 207.71 | 275.53 |
| 12 | Liberty General Insurance Ltd. | 248.29 | 274.63 |
| 13 | Magma HDI General Insurance Co. Ltd. | 80.62 | 112.88 |
| 14 | Navi General Insurance Ltd. | 25.82 | 42.46 |
| 15 | Raheja QBE General Insurance Co. Ltd. | 22.76 | 5.06 |
| 16 | Reliance General Insurance Co. Ltd. | 955.05 | 1,120.93 |
| 17 | Royal Sundaram General Insurance Co. Ltd. | 395.53 | 425.72 |
| 18 | SBI General Insurance Co. Ltd. | 2,122.38 | 2,735.09 |
| 19 | Shriram General Insurance Co. Ltd. | 17.26 | 31.71 |
| 20 | Tata AIG General Insurance Co. Ltd. | 1,300.66 | 1,930.04 |
| 21 | Universal Sompo General Insurance Co. Ltd. | 376.30 | 548.15 |
| Private Sector Insurers Total | | 19,095.07 | 24,260.83 |

From 2020-21 to 2021-22, Private Sector Insurance total premium grew by 27.05%

In the financial year 2021-22, the total premium only for health insurance that was collected was Rs.80502 crores premium. Out of this, Rs. 20867 crores of premiums was collected by stand-alone health insurance companies which is 25.92% of total health insurance premium. Rs. 24,261 crores of premiums was collected by private sector general insurance companies which is 30.14% of the total health insurance premium. Rs. 35,374 was collected by public sector general insurance companies which is 43.94% of total health insurance premium.

The four public sector companies did 43.94% of the total health business, indicating that the rest 21 non-life companies 30.14% and 7 stand-alone health insurance companies did the balance 25.92% business. These data indicate that the public sector companies take the bulk of risks in the health sector domain.

| S. No. | Insurer | Health | |
|--|---|------------------|------------------|
| | | 2020-21 | 2021-22 |
| Public Sector Insurers | | | |
| 22 | National Insurance Co. Ltd. | 5,769.52 | 6,075.14 |
| 23 | The New India Assurance Co. Ltd. | 11,404.43 | 15,830.28 |
| 24 | The Oriental Insurance Co. Ltd. | 4,983.54 | 6,642.20 |
| 25 | United India Insurance Co. Ltd. | 6,745.22 | 6,826.65 |
| Public Sector Insurers Total | | 28,902.71 | 35,374.27 |
| Specialized Insurers | | | |
| 26 | Agriculture Insurance Co. of India Ltd. | NA | NA |
| 27 | ECCG Ltd. | NA | NA |
| Specialized Insurers Total | | NA | NA |
| Stand-alone Health Insurers | | | |
| 28 | Aditya Birla Health insurance Co. Ltd. | 1,300.64 | 1,726.67 |
| 29 | Care Health Insurance Ltd. | 2,559.75 | 3,880.91 |
| 30 | HDFC ERGO Health Insurance Co. Ltd.** | NA | NA |
| 31 | ManipalCigna Health Insurance Co. Ltd. | 755.49 | 986.18 |
| 32 | Niva Bupa Health Insurance Co. Ltd. | 1,750.78 | 2,809.97 |
| 33 | Reliance Health Insurance Ltd.*** | -0.01 | -0.02 |
| 34 | Star Health and Allied Insurance Co. Ltd. | 9,388.54 | 11,463.47 |
| Stand-alone Health Insurers Total | | 15,755.19 | 20,867.18 |
| Grand Total | | 63,752.97 | 80,502.27 |

From 2020-21 to 2021-22, Public Sector Insurance total premium grew by 22.39%

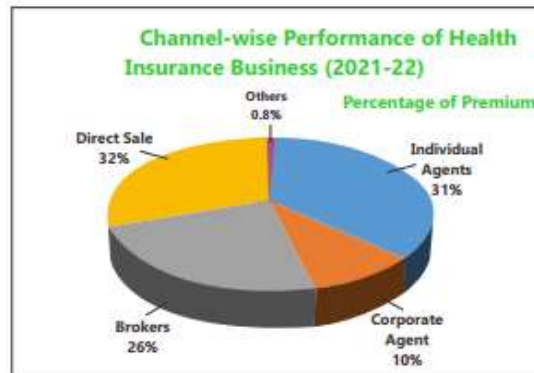
From 2020-21 to 2021-22, Stand-alone Sector Insurance total premium grew by 32.45%

Business Performance (Premium Collection) by Insurance Agents and Intermediaries in 2021-22

(Figure in % of Premium)

| S.No. | Distribution Channel | Government Business | Group Business | Individual Business | Total |
|-------|---------------------------|---------------------|----------------|---------------------|---------------|
| 1 | Individual Agents | - | 4.01 | 71.14 | 31.32 |
| 2 | Corporate Agents | | | | |
| | i. Banks | - | 10.01 | 6.85 | 7.88 |
| | ii. Others | - | 4.23 | 0.99 | 2.55 |
| 3 | Brokers | - | 45.69 | 6.77 | 25.86 |
| 4 | Direct Sale | | | | |
| | i. Online | - | 0.54 | 4.40 | 2.09 |
| | ii. Other than Online | 100.00 | 35.23 | 8.17 | 29.52 |
| 5 | Micro Insurance Agents | - | 0.14 | 0.00 | 0.07 |
| 6 | Common Service Centers | - | 0.00 | 0.02 | 0.01 |
| 7 | Web aggregators | - | 0.05 | 0.90 | 0.39 |
| 8 | Insurance Marketing Firms | - | 0.01 | 0.11 | 0.05 |
| 9 | Point of Sales | - | 0.00 | 0.66 | 0.27 |
| | Total | 100.00 | 100.00 | 100.00 | 100.00 |

From all the channels for distribution of health insurance policies, individual agents contributed a major share in total health insurance premium at 32 per cent. The share of this channel was high at 73 percent in individual health insurance premium. Direct sale is the second major channel for distribution of health insurance business. 100% of Government business is procured by insurers directly and their share in health insurance premium is 30 per cent of total. Another major distribution channel is brokers, who contributed 27 per cent of total health insurance premium. Brokers contribution is at 47 per cent in case of group health insurance business.



Conclusion

The study made use of secondary data published by IRDAI and reputed information sources available in public domain. It presents a situational analysis of health financing in India and the relevance of health insurance.

There are three broad health insurance systems available in India, namely; Government subsidized schemes, social health insurance schemes and private voluntary health insurance. Government subsidized schemes and Social health insurance (SHI) is regarded as one of the best systems of financing healthcare. However, India does not have the financial means and institutional capacity to offer state-based social health insurance to its entire population. Given the limitation of public healthcare systems, voluntary health insurance offers a potential alternative to insure against the cost of illness. Given the situation the Voluntary health insurance would be the next best option to reach targeted sections of the population.

Voluntary private health insurance (PHI) schemes in India are offered by both public and private sector insurance companies in the open market. Post liberalization of the insurance industry in 2000, government has been supporting private players to enter the health insurance market. With the enactment of the IRDA, the industry has a stronger regulatory framework to protect the interests of policy holders. However, there are miles to go for the private health insurance which is yet to achieve the desired penetration of health financing due to the majority of the population staying outside the formal sector.

In population terms, India has insured 70% of the population; the government health insurance schemes cover 61% of this population, but the premium contribution is low at 11%. Public sector general insurance companies are taking most of the health insurance load,

while stand alone health insurance companies are doing retail business. The bulk of the health insurance business, including group insurance and government health insurance schemes are catered by the Public sector general insurance companies in India. The individual health insurance premium is 20% of the total premium; out of this, 73% is contributed by standalone health insurance companies. The government expenditure towards healthcare is quite low at just 3% of GDP, which means the healthcare is financed in a big way through the insurance system.

A large part of Indian populations around 65% resides in rural areas. As per reports, currently less than 10% of people in rural India have life insurance coverage while less than 20% of the rural population have health insurance cover. Other than government schemes which has reach and caters to the rural demographics, the life insurance industry also issued 6.5 million policies in FY 2022 in the rural sector. General insurers and standalone health insurers collected a premium of Rs. 28300 crores and Rs. 3300 crores respectively in the rural sector in the same period. Regulatory mandates issued by the IRDAI to drive an inclusive agenda in the insurance sector is the primary driver for this.

Cost of distribution and service in comparison to the average revenue per capita is one of the key challenges faced by private sector insurance carriers operating in this market. However, the silver lining is reach of telecom sector in rural areas and exponential penetration of smart phone users and internet accessibility in rural areas. All this is well supported by good inroads of microfinance institutions in the rural markets is further expected to increase ease of accessibility to rural customer base and minimize cost of distribution. This would make rural segment further attractive for insurance players.

The pivotal role of government, both centrally and at the state level, cannot be ignored in the introduction and dissemination of insurance among the rural populace. The surge in rural insurance penetration owes much to a variety of government initiatives. Alongside localized media drives, the government has well supported the extensive reach of the internet-enabled common services center network, facilitating awareness and bridging rural-urban gaps across India.

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