

**CHAPTER - 9**  
**CHALLENGES IN HEALTH INSURANCE INDUSTRY**

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**9.1 Introduction :**

The Indian health insurance industry no doubt is a second biggest contributor in the total premium of general insurance companies. It is growing at Compound Annual Growth Rate of 32<sup>1</sup>% from last 8-10 years. And this growth is expected to continue as population, medical inflation and graph of lifestyle disease are increasing day by day. But if we talk about overall coverage of health insurance then there is less than 15% of Indian population who has some form of health insurance. Here it has been tried to find out the responsible factors for lower penetration of health insurance in India.

**9.2 Challenges/Restraints of Indian Health Insurance Industry :**

**(A) Challenges related to social and cultural conditions of policy holder :**

**Lack of Education on the concept of Health Insurance** – A lots of people have confusion about concept of health insurance whether it is a tax saving tool, medical expenses management tool, or investment tool. Yet several programs are being organized by IRDA and general insurance companies to educate the people but still there is a lot to do. Several factors are there which are out of control and improve gradually like level of basic education which is an important factor to understand the concept of health insurance.

**Low levels of awareness** – A report<sup>2</sup> stated that Approx 81% of Indian saves money even laborer household who is in debt also saves money, but only 12% like to invest their money in financial instrument, while 23% invest their saving into real state and 65% keep their savings in liquid assets. All this is just because of lack of financial literacy & awareness. People are not able to understand role of financial instruments like life insurance, health insurance etc. to provide financial security and relief at various stage of life.

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<sup>1</sup> <http://www.dnaindia.com/health/report-health-insurance-in-india-still-remains-an-untapped-market-1891509>

<sup>2</sup> How India Earns, Spends and Saves - A Max New York Life-NCAER Study Highlights the Need for Financial Literacy, Report Released by Shri Montek Singh Ahluwalia, New Delhi, India, Thursday, February 07, 2008 -- (Business Wire India)

<http://www.ncaer.org/downloads/mediaclips/press/pressreleasemaxnewyork.pdf>

**Wrong mentality of people and policyholders** – Generally younger population think that they are not so vulnerable to fall in to any disease, so they do not feel need of health insurance. People in India start to think about health insurance policy when they fall in any serious disease. The people who take health insurance policy always want to take extra benefit from the policy like to covert outpatient treatment in to inpatient treatment in greed of taking claim.

**(B) Challenges in front of Insurers :**

**Problem in Product Innovation due to lack of Data and Information** – In India there is no proper data available regarding Indian customers for health insurance, disease pattern and related information. Hence health insurance companies feel it difficult to design wide range of products and most of the time products are under priced hence results in to loss for the companies.

**Lack of Standardization Norms** - There is no standardized norms for health care cost, guidelines for treatment, standard billing procedures and standardization of list of non- medical expenses. All this leads to frauds at different level or higher claim amount which company have to pay. Non standardization of processes also results in under pricing of product, hence company's loss ratio increase.

**Significant Underwriting Losses/ High Claim Ratio** - Health Insurance is a big drain of underwriting losses. Though the Indian health insurance industry is being growing up at Compound Annual Growth Rate (CAGR) of 32<sup>1</sup>% from past few years, but the same industry is a big drain of underwriting losses, as the table (9.1) is showing:

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<sup>1</sup> <http://www.dnaindia.com/health/report-health-insurance-in-india-still-r-mains-an-untapped-market-1891509>

**Table 9.1**  
**Incurred Claim ratio for Health Insurance Industry**

Public sector		Private Sector		Total	
2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
100.28%	103.21%	77.93%	79.8%	94%	96.43%

**Data Source :** Handbook on Indian Insurance Statistics 2012-13 – Table No. 53, page No. 182

As we can see in the table (9.1) average claim ratio for the industry is 96.43%, and public sector insurers are the main contributor in this big loss as their incurred claim ratio is above 100%. Such huge loss make fail or postpones the developmental plans of insurance companies and shows weaker underwriting norms of the insurance company.

**Efficient Services Delivery** - This is a big issue in front of the insurance companies as there are several point of time when customer expect quick response/services/options, and if company fails to full fill these expectation with in time frame then customer loose his trust over the company. Where the company sell its product through direct marketing there company itself responsible for services delivery but where company sell it's products through other distribution channels like bancassurance, agent, corporate agent etc. then company has to depend/trust upon these distribution intermediaries for positioning the product and service delivery. In such situation any wrong step taken by these intermediaries may be troublous for insurance company.

**Under prize the product** - Before de- tariffication of insurance industry, price of insurance product was uniform but after de-tariffication insurers are free to finalize the price for their products and start to sell their products at extremely low prices which results into increasing loss ratio and pushed back quality of services provided in respect of products. Tendency of insurance companies to under price their products generates artificially excessive competition in health insurance market.

**Challenges related to Insurance Policies** – Almost all the insurers selling their product at lower prices and finally not able to earn even operational cost. There is no capping on room rent hence insured whether he has coverage of ₹1 Lakh or ₹5 Lakh want a deluxe room during hospitalization. In exclusion disease are mentioned in its scientific name, and customer come to know about it when claim arises regarding these disease.

**Absence of branches of insurers in Tire II/ Tire III cities and Rural Area** – It can be seen that there are rare or no branches of insurance companies in rural or tire II, III cities, so here companies have to depend upon the agents or local tie up banks for business and also for services delivery because only local organization can understand the social and cultural norms and put the product after understanding the need of local public.

**Cost controlling is a big challenge** – Today almost every health insurer company in India is loss making. It is mainly because of product distribution. Efficient cost management is strongly related to effective distribution. A big part of premium comes to the insurers from agents, brokers, banks etc., in return insurers has to give commission to these distribution channels. Where one side insurer has to bear this huge commission expenses, other side it has to bear higher claims. It is hard for the insurers to match the cost.

**Simplification and Explanation of the product** – Many time it can be seen that customer who had purchased a health insurance policy don't know exactly the terms/limitations/wordings etc. includes in the policy, even company's personnel are also not trained enough to explain the customer about terms and conditions, it results into customers dissatisfaction. It all happens because of ambiguous meaning of wording or terms of the policy which are predicted by the customer in different sense, even information available on websites and brochure of the company are not complete and sufficient. Main problem arises at the time of claim because such ambiguous meaning give birth to dispute between company and customers.

**Problems with Distribution Channels** - Insurance companies use several types of distribution channels like agents, corporate agents, bancassurance, broker, NGO's etc, to reach to the customers belongs to different age and income group. All these channels can be fruitful to the insurer only if they give business in bulk and work as trusted business associates, they would have exact knowledge about the products and capability to understand need of customer and to give pre and post policy services to the customers on behalf of the company, and they would work in direction to build faith about the company in the mind of the people. But in almost cases all this does not happen simultaneously which results into higher cost and loss of premium and creditability of the company.

**Fraudulent Claim** – Fraudulent claim is a big reason for high loss ratio in the health insurance industry. When insured customers go to hospital for hospitalization than hospitals charge inflated rates on for treatment. Even sometimes insured after consulting with hospital files fraud and dishonest claim to the insurance company. Such claim increase financial loss of insurer. As per survey done by “Star Health and Allied Health Insurance Company”, the health insurance industry in India lost approx. ₹5 billion to ₹6 billion per annum due to dishonest claims.

**(C) Challenges related to TPA :**

**Problems with TPA** – Insurers use services of TPA to deal with customer after selling its health policy to him. Since TPA works as intermediary there are lots of inefficiencies in its working like lack of sense responsibility, improper management of data, lack of motivation to control claim, normal not strict scrutiny of claim, inflate claim value with help of tying hospitals etc. Such mull practice contributes in loss of the insurers. If behavior of TPA is rude/irresponsible to customers then it can result into loss of customer also.

**Problem faced by TPA** – Cost management is a big issue for TPAs as there is no control over the rate charged by hospitals for their services, that is the reason that to choose a appropriate service provider become a tough task to TPA. Different terminologies used by hospitals regarding similar treatment and disease also create confusion. Lengthy documentation process between

hospital and TPA and policyholder and TPA takes place results into delay/longer time in claim settlement.

**Challenge related with Hospitals :**

Healthcare providers charges extra for insured person and give unnecessary treatment or increase their days of stay at hospital to manipulate the bill amount or to extract maximum permissible claim. Hospitals tell to customer to have several unrelated test to find out exact reason for illness, which increase healthcare cost to customer. Different tariff rates used by hospitals for similar treatment put the customers in confusions.

**(D) Challenges related to Government Policies and Regulatory Changes :**

**Regulatory reforms** – Quick and frequent regulatory reforms disrupt the market of insurer as insurers has to apply these changes in between, they have no time frame to adjust their current policies with these changes.

**Lower Government spending** – For growth of health insurance industry, development of healthcare industry in all the reason of India is a prerequisite but government spending on Health care in India is vary low (about 4.1% of GDP). In the country like France where healthcare facility are properly developed and owned by government, are equally available to all citizens. In India health care facilities and infrastructure are scarce specifically in tire II/III cities and in rural areas as well as most of the healthcare facilities are provided by private sector hospitals which are mainly situated in big cities and charge at a higher rate results in to higher out of pocket expenditure.

**Inadequate Healthcare Infrastructure** - The population of India is expected to touch 1326.1<sup>1</sup> Million people by 2020. This would put a lot of stress on the existing healthcare infrastructure of country because it is already scarce, growing slow as compare to population of India. As we can see in the table (9.2) below:

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<sup>1</sup> ISI Analytics (2010), <https://www.pwc.in/assets/pdfs/pharma/PwC-CII-pharma-Summit-Report-22Nov.pdf>

**Table 9.2**  
**Healthcare Statistics (per 10000 Population, 2012)**

	<b>No. of Physicians</b>	<b>No. of Dentistry Personnel</b>	<b>No. of Nursing Personnel</b>	<b>No. of Hospital Beds</b>
India	6	0.7	13	9
Brazil	17	12	65	24
China	14	0.4	14	41
Russia	43	3	85	97

Source: World Health Statistics 2011, WHO

Based upon the data given in the table (9.2) above we can say that India is so far lagged behind in development and availability of healthcare infrastructure which is a prerequisite for development of health insurance industry.

**Limited Access to Health Care facility especially in rural areas** - <sup>1</sup>In urban area the infrastructure and delivery of healthcare facility is better but in rural area situation is worse where 68.84% (Census 2011) Indian population reside, while 60% hospitals, 75% dispensaries, and 74% of doctors are available in urban areas. In terms of healthcare infrastructure doctor patient ratio is 6 times lower and availability of hospital bed ratio is 15 time lower then urban areas. Similarly per capita expenditure on health is 7 times lower in rural areas results in huge demand supply gap for healthcare facility hence healthcare is 1.5 time costlier there.

**Lower penetration of Health Insurance in semi-urban and rural areas** – As per a report<sup>2</sup> “Healthcare Unwired - Health Insurance and Healthcare Access” came in March 2011 from Price Waterhouse Cooper, less than 15% of Indian population has some form of health insurance including government health insurance scheme. Only 2.2% of population is insured under some private health insurance scheme, penetration of that in rural India is only 10%. Health insurance penetration is also lower in tier-II/III cities due to poor awareness and less or no availability of healthcare facilities and most of the medical expenses are still funded by individuals and households by their own.

<sup>1</sup> Project from - ReMeDi - Enabling Access to Rural Healthcare Bangalore, India, August 27, 2012  
<http://www.changemakers.com/project/remedi-enabling-access-rural-healthcare>

<sup>2</sup> [https://www.pwc.in/assets/pdfs/financial-service/Health\\_Insurance\\_Report\\_FV.pdf](https://www.pwc.in/assets/pdfs/financial-service/Health_Insurance_Report_FV.pdf)