CCS PROJECT: IMPROVING PENETRATION OF HEALTH INSURANCE IN INDIA

FINAL SUBMISSION

SUBMITTED TO

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INTRODUCTION

INSURANCE STATUS IN INDIA VIS-À-VIS WORLD[1]:

Well-developed health insurance mechanism and infrastructure are imperative for almost all countries, especially for countries like India where 21.3%[2] of the total populations classifies as extremely poor as per World Bank definitions. Health insurance becomes even more so important for households falling in the poor category because of their inability to finance medical expenses which are on an ever increasing trend. In the incidence of major illness, either they cannot afford the medication and the sufferer ultimately dies or they are forced to take loans at huge interest rates from local lenders putting their lifetime earnings and properties as collateral. Therefore, major illness for these people comes as a vicious cycle which renders them poorer and poorer with each such occurrence. When we compare health aspects of Human Development Indices (HDI) for India with other similar economies, life expectancy at birth in India at 68 years is much lower compared to China at 84, Sri Lanka at 74.9 years and even Bangladesh at 71.6 years[3]. Even w.r.t. factors like children mortality rate, India scores poorer than these countries. Considering all these factors, significant penetration of health insurance to almost all the sections of Indian society becomes one the most important concerns in days to come for the overall development of India on different parameters of Human Development. In subsequent paragraphs, we have compared different metrics related to health insurance infrastructure in India in a global context.

Both insurance penetration (ratio of premium in USD to GDP in USD) and insurance density (ratio of premium in USD to total population) which are used as measures for assessing the level of insurance in a country are really low for India even when compared to world average figures. The following graphs show the positioning of India in FY 2014-15 vis-à-vis some of the major economies and other comparable economies w.r.t. 'insurance penetration' and 'insurance density' in non-life insurance category:

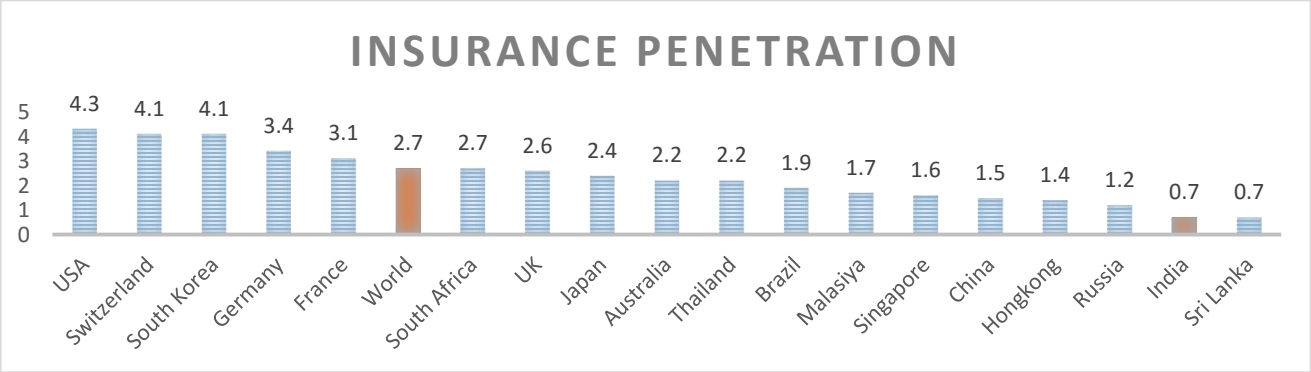


FIGURE 1: INSURANCE PENETRATION WORLDWIDE

[1] http://www.policyholder.gov.in/Annual_Reports.aspx
[2] http://povertydata.worldbank.org/poverty/country/IND
[3] http://hdr.undp.org/en/composite/HDI

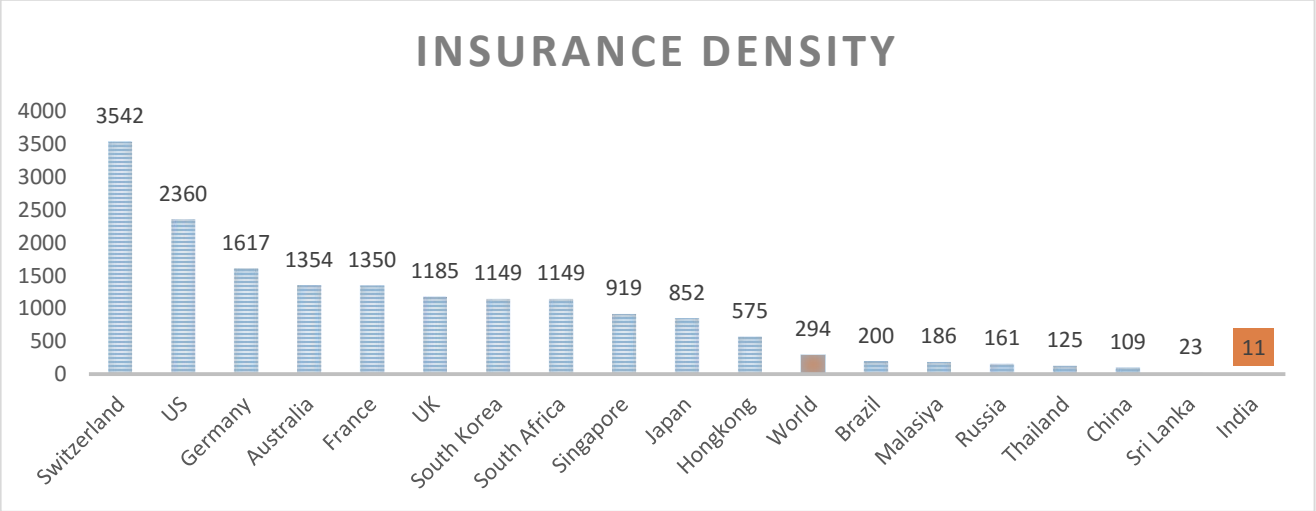


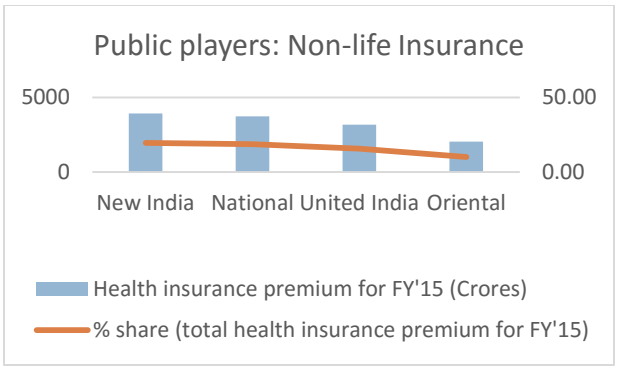
FIGURE 2: INSURANCE DENSITY WORLDWIDE

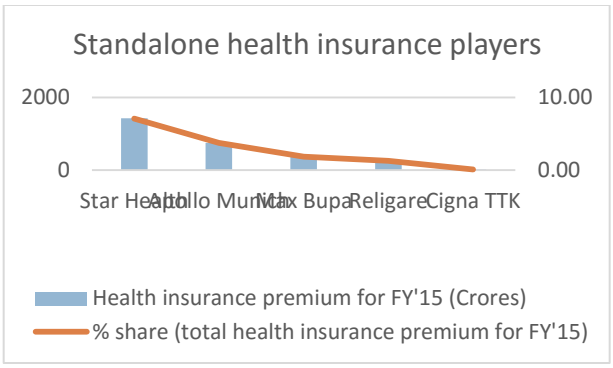
India ranks very poorly even when compared to similar economies like China and Brazil in non-life insurance sector which mainly includes health, vehicles, marine, etc. Insurance density of India in the non-life category is even worse than Sri Lanka as in 2014-15.

HEALTH INSURANCE INDUSTRY IN INDIA-TRENDS AND MAJOR PLAYERS:

Health insurance industry in India is currently catered by non-life insurance companies which include public sector insurers, private sector insurers, and standalone health insurance companies. The size of the industry as in FY 2014-15 was INR 22,636 Crores in terms of premium underwritten, 15.29% up from FY 2013-14. Y-o-Y growth in premium collection in the health sector in FY 2013-14, when compared to FY 2012-13, was again 12.08%. Therefore, the health insurance industry in India is experiencing double digit growth over last 3 FYs. The % contribution from health segment in the total premium collection of non-life insurance companies has also followed an upward trend with 27% share in FY 2014-15 compared to 25% share in 2013-14. As in 2014-15, there are 17 private sector insurers, 4 public sector insurers, and 5 standalone health insurers currently functional in health insurance sector in India. Public sector insurers have the largest share of the premium collection in health insurance category at 60.22%, followed by private sector insurers at 26.77% and standalone health insurers at 13%, based on FY 2014-15 data.

The following graph shows the major players in health insurance sector and their % share based on the premium collection in FY 2014-15.





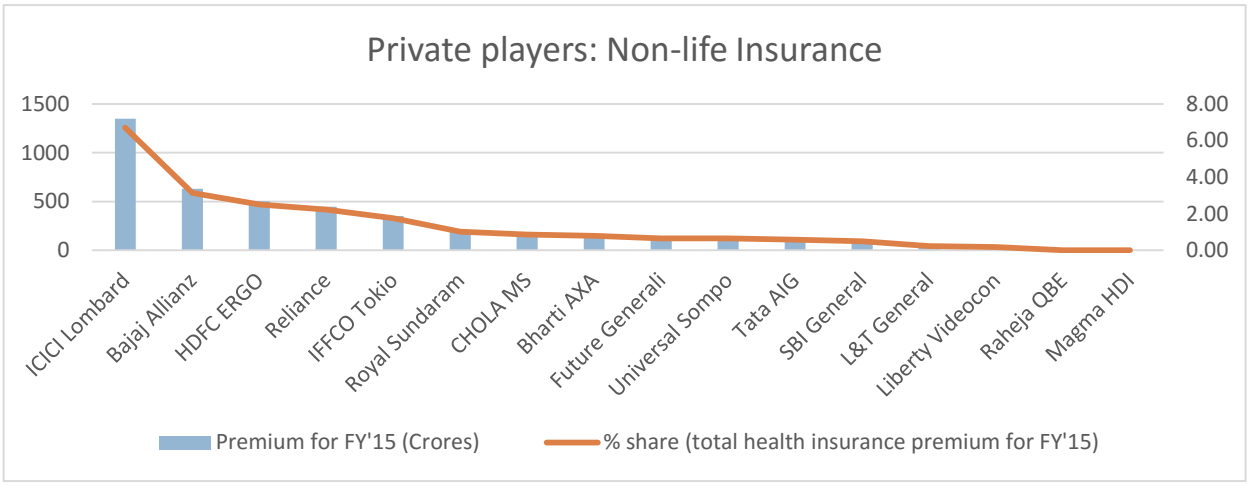


FIGURE 3: MARKET SHARE OF DIFFERENT PLAYERS IN INDIAN LANDSCAPE

The insurance industry in India is a highly regulated one. Insurance Regulatory and Development Authority (IRDA) is responsible for regulation and development of entire insurance industry in India. IRDA functions autonomously guided by different Insurance Acts and amendments.

The following tables give no. of policies sold under different types of health insurance companies with details of premium and individuals covered in FY'15:

Government Sponsored Schemes including Rashtriya Swasthya Beema Yojana (RSBY)			
No. of policies	No. of persons covered ('000)	Gross Premium (lakhs)	Avg premium per person (INR)
29952	214366	242539	113.142476

Group Insurance Schemes excluding Govt sponsored schemes			
No. of policies	No. of persons covered ('000)	Gross Premium (lakhs)	Avg premium per person (INR)
305996	48301	889843	1842.286909

Family/floater insurance excluding individual policies			
No. of policies	No. of persons covered ('000)	Gross Premium (lakhs)	Avg premium per person (INR)
4518135	12022	395213	3287.41474

Individual insurance excluding family/floater policies			
No. of policies	No. of persons covered ('000)	Gross Premium (lakhs)	Avg premium per person (INR)
6075122	13343	482026	3612.575882

We can observe that for Government sponsored schemes, premium per individual covered is exceptionally low at INR 113. For group insurance schemes, premium per individual covered is almost half of that in the case of family/floater insurance or individual insurances. However, if we look at the total premium collection, it is highest for group insurance schemes. This indicates the inclination of people towards such schemes for a developing country like India where 3/4th of the population cannot afford individual health insurance policy.

Going forward, we have conducted Porter's five force analysis for health insurance industry in India.

PORTER'S FIVE FORCE ANALYSIS OF HEALTH INSURANCE INDUSTRY[4]:

We have performed analysis of all the 5 forces viz. supplier power, buyer power, the threat of new entrants, intra-industry rivalry and threat of substitutes. Analysis has been performed based on the effect of different factors pertaining to these power on revenue and cost of the incumbent firms in health insurance business. If the factor causes revenue to decrease and/or cost to increase, it makes the corresponding power high and vice-versa.

SUPPLIER POWER

The suppliers in case of health insurance industry can be divided into 3 categories. The first set of suppliers are suppliers of marketing materials like plan brochures which are provided to the customer at the time of selling. These materials are mostly supplied by some printing companies. Healthcare service providers fall in the second set of suppliers. In case an insurance company is well established, different hospitals themselves seek out to have a tie-up with the insurance company. However, in the case of a new entrant in health insurance sector, these hospitals have to be solicited. The third category of the supplier is that of sales agents. An insurance company can recruit and maintain its own sales force of agents or can enter into an agreement with some marketing company for sales agents.

There are a number of suppliers in each of these categories in India. Hence, each of these would compete for greater business, thereby exercising little to no power. Overall, other than big hospital chains like Apollo Fortis, Narayana Health etc. in India, most of the suppliers have very little power in the 3 categories discussed above.

Sl. No	Parameter	Evidence	Revenue	Cost	Profit = Revenue-Cost	Resulting power
1	Number of Suppliers	There are a no. of printing companies, marketing companies, and hospitals to choose from for a health insurer	↑	↓	↑	Low
2	Differentiated Product from Suppliers	Little to no product differentiation and brand value.	↑	↓	↑	Low
3	Supplier Switching Cost	A Large number of Suppliers and low differentiation lead to low supplier switching cost.	↑	↓	↑	Low

[4] http://www.policyholder.gov.in/Annual_Reports.aspx

4	Substitute of Suppliers Product	There are substitutes of printing and agent aggregator, while there is no substitute for hospitals	↓	↑	↓	High
5	Threat of Forward Integration	The big hospital chains can very well forward integrate as health insurance provider	↓	↑	↓	High

BUYER POWER

The buyers for health insurance service are general public who buy these policies for themselves and corporates which buy these for their employees. The product in case of health insurance industry has little to no differentiation. Further, in the case of general public, per capita income of average Indian household is less than INR 4000[5] a month, which is lowest among the BRICS nations. Therefore, individual insurance buyers in India mostly compare policies on the basis of price and are more likely to go for a cheaper one. Big corporates, on the other hand, may go for a comprehensive policy. When we look at price sensitivity, it is high for both types of customers and customers will definitely go for a cheaper product.

When we factor in aspects related to the bargaining power, health insurance premium payments for customers are a very small fraction of their cost of business or total expenses and hence doesn't affect them much. Therefore, there are very little chances of any of these 2 categories of buyers to backward integrate into health insurance business. The number of buyers is generally very high. Therefore, other than big corporates, health insurance companies will not care about the loss of a particular buyer. Although buyers in most cases are well informed by different insurance companies' price and cost, buyer's bargaining power stands low.

We can say that overall, buyer's power is moderate.

The following table shows detailed analysis for buyer power:

Sl. No	Parameter	Evidence	Revenue	Cost	Profit=Revenue - Cost	Resulting Power
1	Buyer's price sensitivity	The importance of insurance premium as a proportion of total cost is less for buyers	↓	↑	↓	High

[5] http://www.business-standard.com/article/economy-policy/india-s-median-per-capita-income-lowest-among-brics-gallup-113121600968_1.html

		Products are less differentiated	↓	↑	↓	High
		Buyer's switching cost is high	↑	↓	↑	Low
2	Buyer's bargaining power	Buyers are well informed about the price and cost of different companies' products	↓	↑	↓	High
		Threat of backward integration by buyers is low	↑	↓	↑	Low
		No. of buyers is high	↓	↑	↑	Low

THREAT OF NEW ENTRANTS[6]

When we take the example of a standalone health insurance company, say, Apollo Munich, the share of fixed assets to the total application of funds is only 8.34%. However, for Apollo Munich, expenses on advertisement and publicity for FY 2015-16 is as high as 19.4% of total operating expenses. Therefore, an existing player can have economies of scale for advertisement, while for a new entrant it will be very difficult to achieve that.

Switching cost for customers is very high. Initial capital requirements are however low because of less overall fixed cost associated (despite high advertising and brand building cost). Existing players have the advantage of preferential access to distribution channels. Further, there are a number of Government rules and regulations which govern health insurance sector.

Hence, barriers to entry are high and the threat of new entrants is relatively low for health insurance business.

Sl. No	Parameter	Evidence	Revenue	Cost	Profit = Revenue-Cost	Resulting power
1	Supply-side economies of scale	Large spend on advertisements and publicity	↑	↓	↑	Low

[6] http://www.apollomunichinsurance.com/financials.aspx

3	Customer switching cost	High switching cost for customers	↑	↓	↑	Low
4	Capital Requirements	Low fixed assets to revenue percentage for incumbent firms	↓	↑	↓	High
5	Access to distribution channel	Existing players have relative advantage of greater access to distribution channels	↑	↓	↑	Low
6	Government Regulations	A no. of government laws and regulations	↑	↓	↑	Low

INTRA-INDUSTRY RIVALRY

As discussed earlier, there are more than 20 players already operational in health insurance sector. The size of public sector competitors is relatively more than the private sector and standalone competitors. Exit barriers are high given the investment companies make in advertisement and publicity. Product differentiation is low. All of these make intra-industry rivalry high. There are few parameters like high industry growth rate and low fixed cost v/s high marginal cost, which should have made intra-industry rivalry somewhat less.

But parameters in favor of high intra-industry rivalry are more in number. Therefore, the intra-industry rivalry remains high.

Sl. No	Parameter	Evidence	Revenue	Cost	Profit = Revenue-Cost	Resulting power
1	No of competitors and their size	High number of competitors. Public players are relatively large while others are small	↓	↑	↓	High
2	Industry growth	High overall growth rate	↑	↓	↑	Low
3	Exit barriers	High exit barriers	↓	↑	↓	High
4	Product differentiation	Low product differentiation	↓	↑	↓	High

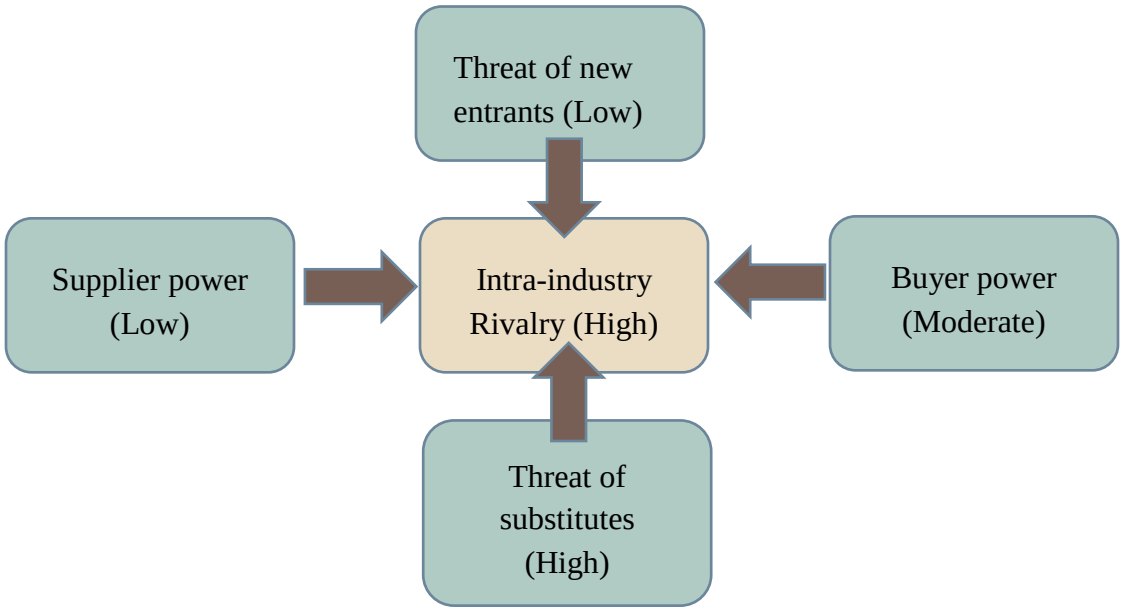
5	Fixed and marginal costs	Low fixed costs and high marginal costs	↑	↓	↑	Low

THREAT OF SUBSTITUTES

There are many substitutes to health insurance. People might go for investing their savings in life insurance, fixed deposits or other schemes assuring a fixed return. The inclination of people away from health insurance towards the substitutes depends on many factors like risk-appetite, income-level, family history of diseases, age, personal health, etc. Therefore, the threat of substitutes remains high in countries like India where people want a secure return on their investment.

CONCLUSION

The porter 5 force analysis suggests that the industry is unattractive, as following:



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CHALLENGES WITH HEALTH INSURANCE INDUSTRY:

We can divide the challenges facing health insurance industry in India into 3 categories, viz.

- Challenges faced by health insurance providers.
- Challenges faced by general public or customers.
- Challenges on the part of the Government or the regulatory bodies.

CHALLENGES FACED BY HEALTH INSURANCE PROVIDERS[7,8 & 9]

The existing players in the health insurance sector are facing many problems, some of which can be listed as follows:

1. **Very high incurred claims ratio:** The incurred claims ratio i.e. the ratio of total claims paid by health insurance companies to total premium collected is very high for health insurance sector of non-life insurers and standalone health insurers. In FY'15, public sector non-life insurers had incurred claims ratio as high as 109.97% for health insurance sector while the ratio was well within 80% for other sectors. Private sector non-life insurers and standalone health insurers had lesser incurred claims ratio of 79.77% and 73.77% respectively.
   High incurred claims ratio for health insurance shows that funds left for other operational expenses are less and hence profit margins are adversely affected. The main reason behind this could be a less premium amount per policy or small premium base.
2. **High advertisement and publicity cost:** Health insurance companies spend a huge portion of their operating expenses in advertisements. If we take the example of standalone health insurance companies, Star Health (the biggest player in terms share of premium collected in FY'15) spent 10.33% of its operating expenses in advertisement and publicity in FY'16 while Apollo Munich spent even higher 19.4% of its total operating expenses towards publicity in FY'16. Therefore, these huge expenses towards advertisement and brand building further erode profit margins of health insurance companies.
3. **Low premium through government sponsored schemes:** There have been several government programs to encourage and facilitate health insurance adoption among rural population but they have been largely fruitless for the insuring companies since either the premium ticket size is very low or it is easier for patients to fake claims (hand written receipts instead of computer generated).

CHALLENGES FACED BY GENERAL AUDIENCE:

- **No return on maturity model**: The general audience with less income per month finds it irrational to put a part of their savings into something that may or may not realize given the circumstances in coming future. On the other hand, putting savings into the conventional form of savings instruments do have a sure shot return when the deposits mature. It is very tough to convince the customers about the return on investments here.
- **Complex stipulations**: Most of the health insurance products come with rigid stipulation such as the list of diseases covered, out-patient coverage rules, dependent definition etc. These make the products non-lucrative to the customers.

[7] http://www.policyholder.gov.in/Annual_Reports.aspx
[8] http://www.apollomunichinsurance.com/financials.aspx
[9] http://www.starhealth.in/public-disclosure

- **Poor distribution/hospital network**: Most of the hospitals are still not listed as part of the covered hospitals which forces the patient to either pick up a hospital of his choice or spend a lot in going to a hospital as listed by the insuring firm.
- **Complex claim process**: The claim process is very complex even for highly literate audience let the general population of India.
- **Poor payment infrastructure**: Again banking is still a tedious task for many and they are discouraged with the inconvenience of the annual payment cycle. Further, one is not sure about his/her future income and cannot commit to such an insurance. In most of the cases, he might even default due to low income that year. For the major public, even an accumulated upfront fee might not be affordable either.

CHALLENGES DUE TO EXTERNAL FACTORS:

- Poor literacy and life consciousness
- Poor implementation of national and state-level health insurance programs
- Poor penetration of banking and organized hospital networks
- Poor technology penetration

HYPOTHESES ANALYSES:

It is imperative that we need to find solutions or recommendations for tackling the above challenges and issues. It cannot be just one particular area of challenge. Firms need to come up with better products, distribution networks, payment options, premium maturity models. On the other hand, there is a lot of work that needs to be done about the external factors and consumer apprehensions which have been highly deterrent to the growth of this industry.

Based on our industry analysis and study of different challenges faced by or on the part of different stakeholders, we have come up with the following hypotheses for low insurance penetration in India and we wish to verify the relevance of each through our primary and secondary research:

HYPOTHESIS 1: *Product design and process for premium payment might not be convenient*

Argument: The different modes of insurance premium payment say the formalities in the bank may not be very convenient for the lower section of society. Premium payment is in a big lump sum which might not be suitable for low-income group people and might drive them away from getting insured for health. Therefore, health insurance products designed in a way which doesn't come as a huge financial burden and is paid in intervals linked with some regular indispensable payment component say electricity bill or mobile recharge might work better for Indian households based in mostly small towns and villages with low/irregular monthly income. Health insurance products can also be designed as small recurring premium payments linked to credit card payments in order to cater to the segments holding credit cards in cities.

Investigation: We conducted a primary survey to substantiate the above argument. The survey included 15 people of different socio-economical background. The surveys were in-depth and qualitative. We also

explored available documentation of various health and medical insurance policies and sought out opinion and views of personnel working in insurance sector

Secondary: The current product offerings include individual health insurance policies, family floater plans, surgery and critical insurance plans, pre-existing disease cover, senior citizen cover, personal accident cover, and preventive healthcare[10]. Though the products have been designed to cater to a maximum possible number of segments, but they do not seem to cater to segments based on the socio-economic conditions of the person.

Moreover, the payment options are one time which may be too steep for the general middle class of India which forms the major population demographics. As per the official report of IRDA on perception and awareness of health Insurance among the people of India, a significant 56.1% found it too expensive while a staggering 14.4% reported problems such as accessibility, 11.4% reported problems with complex policies and another 11.7% reported difficult procedure as the main hindrance in buying such policies[11]. 29% believed that the limited range of products was one of the reasons of low adoption[8].

Primary: Out of the 15 interviewed, 6 who had taken and used any form of insurance complained about the claim process hassles and the huge amount of documentation and paperwork involved which adds to the troubles of the family which is already suffering through medical diagnosis procedure of a near and dear. Further, the current major policy does not cover the only accessible options viz. small and medium dispensary in there cashless network thus adding to the problems of the patient and his family.

On the supplier side that is the insurance provider, we had an in-depth interview with ICICI insurance division manager and we found out that there is a major information gap between what the customer wants and what value insurance providers are trying to sell. This is all due to lack of data on general health, diagnosis process, medication, insurance product used and final claim. Still, more than 90% of hospitals and clinics in India are not digitized and the information is still stored in archaic formats which are not accessible or usable by the insurance provider to analyze customer usage patterns and understand his/her behavior.

Another major concern raised by insurance providers is that insurance premium is included under services for which a service tax is levied. The service tax jacks of the premium which pretty much offsets the tax saving benefits it provides for an average consumer falling in the tax bracket.

Analysis: It is pretty evident that the current products available, though extensive, are not perceived as worthy of investment yet by the general Indian. This fact has contributed to the low penetration and density of health insurance in India. Due to lack of proper infrastructure, lack of digitization and standardization across all hospitals, clinics, health centers and dispensaries, there is very less record of

[10] https://www.policybazaar.com/health-insurance/health-insurance-india/

[11] https://www.irda.gov.in/ADMINCMS/cms/Uploadedfiles/INSURANCE_AWARENESS_insdie_report_final_for_mail.pdf

all data related to health care of a person. Further, the service tax levied on the premium makes the prices paid steeper and definitely discourages adoption by the general consumer of India.

Conclusion: The hypothesis that *Product design and process for premium payment might not be convenient* stands valid.

HYPOTHESIS 2: *Shifting focus away from individual to family or group insurance can increase penetration*

Argument: We have come up with another hypothesis on group insurance based on the inability of a major section of the low-income Indian population to invest in something like health insurance which doesn't come up with a guaranteed fixed return. Therefore, group insurance schemes where a large group can collectively invest in health insurance policies and hence premium payment gets distributed resulting in less premium per head, might seem attractive. However, such group insurance schemes come with caveats such as carefully distributing and managing probability of someone from the group falling sick.

Investigation: We conducted qualitative and in-depth interviews with a group of 15 people across 4 cities in India. We also consulted two group healthcare providing trusts: *Karuna and Yeshaswini,* based out of Bangalore, to understand the intricacies and challenges faced in providing group health care schemes to lower and uncertain income bracket of the society.

Secondary: As per the official IRDA report on general awareness of Insurance in India, a striking 62% of the uninsured households were unaware of the health insurance products in general. The level of awareness was paltry among the rural household where it was around 56%.[12] As per the IRDA report, even though 30% of households did believe that hospitalization of a family member would pose a major financial risk to the family, they were still uninsured. [13] As per WHO statistics, in 31% cases in urban India and in 47% cases in rural India, the hospitalization is financed through loans or sale of assets. Moreover, an astonishing 70% of Indians spent all their income on healthcare and another 3.2% person fall into the abyss of poverty line due to high medical bills.

We also explored documentation available with leading health insurance listings websites such as *policybazar* and *bankbazar* to infer the pricing, offerings and fine prints of various group health schemes. National Health Insurance which covers a family of 6, with the widest network of 6000 hospitals, has a claim incurred ratio of 110.2% while Reliance health insurance which also covers the entire family of 6, with a network of 4000 hospitals, has a claim incurred ratio of 107%. The pricing of the package depends on the current income, health status, past medical history and age of different family members. The coverage can range from 5 lacs to 10 lacs.[14]

[12] https://www.irda.gov.in/ADMINCMS/cms/Uploadedfiles/INSURANCE_AWARENESS_insdie_report_final_for_mail.pdf
[13] https://www.irda.gov.in/ADMINCMS/cms/Uploadedfiles/INSURANCE_AWARENESS_insdie_report_final_for_mail.pdf
[14] https://www.policybazaar.com/health-insurance/health-insurance-india/

This shows that the viability of group health insurance schemes worsens with even greater claim incurred ratio as the overall probability of anyone from the group/family falling sick increases. Therefore, unless the groups in the premium pool are such that few families have very low probability of illness to bring down overall claim incurred ratio, such schemes don't offer a valuable proposition to insurance companies.

Primary: Our primary research indicates that the majority of target sample was not aware of any group schemes such as family floaters plans. But they did show an inclination towards such a plan as that increases the chances of claim and availing/fulfillment of the investment made. About 10/15 people interviewed told that they spent 50K or above on medication and health of the whole family yearly and an insurance package providing that kind of combined coverage will be a welcome move. However, they were concerned about any caveats in such a policy such as partial coverage or fixed packet size coverage per head.

We also consulted two NGO/Trusts based out of Bangalore which is working towards providing health care coverage to lower income section of the society by acting as a Third party administrator. They aim to lower the costs of premium by offering group insurance administration to a large community, usually 200+ people. They combine hands with various National and private insurance providers to make things happen.

The major challenge in such a group insurance is tackling with low education, poor documentation in local clinics and moral hazards where people may file illegitimate claims through forging documents.

Analysis: The core problem appears to be how the health insurance structure is designed to make it aligned with the Indian conditions. The current offering and process of health insurances in no way incentivize improvement of the current healthcare systems in the country. The insurance companies try to lower their risks by distributing the premium over a group, the way NBFC companies operate to mitigate defaulting risks by distributing over to a section of people with group accountability. However, given the poor infrastructure and documentation process at local clinics, moral hazards creep in which directly affect the bottom-line of the insurance providers. For example, say a patient could have been treated in one go at a price of INR 50000. His diagnosis is prolonged due to lack of knowledge of Doctor, poor healthcare facilities and bad medication which result in longer medication process and a higher bill amount which has to be reimbursed by the insurance company if filed for a claim.

Conclusion: The hypothesis that '*shifting focus away from individual/family insurance to group insurance can increase penetration'* stands partially valid where the current information and health infrastructures in the country have to be improved to avoid any adverse selection, moral hazards, and operational issues.

HYPOTHESIS 3: *Making health insurance for all employees (both part-time and full-time) by their employers mandatory under regulation will help improve insured ratio*

Argument: As discussed earlier in different challenges faced by the general audience with regard to going for health insurance policy, in view of the upliftment of general health, Indian Government can pass a regulation to make it mandatory for all the employers to purchase health insurance policies for all

their employees (full-time as well as part-time) for the period they are employed with them. The regulation should also be towards assisting them in claim process and other formalities. This kind of regulation becomes even more critical with respect to contract workers employed in hazardous work environments. Even after such a regulation, many people who don't fall in the employed category at a particular time will be deprived of insurance. However, to start with, it might help in increasing health insurance penetration.

Investigation: We did both primary and secondary research to substantiate and validate the above argument.

Secondary: Around 6% of the population (out of 15% total insured) is covered under corporate schemes (state or private).[15] The arithmetic turns out to be 40% of all insured individuals in the country which is an impactful contribution to otherwise terribly low penetration in the country. But there are two caveats here. First, the coverage of plans provided to employees by firms is neither complete nor exhaustive. Moreover, they are considered as a part of their salary and the premium can be availed in cash with a trade-off of policy coverage. Further, given the rise in medical bills, they do not guarantee full coverage. Secondly, past few years have seen sprawling of a huge number of informal and formal startups in India which contribute significantly to the employment base of India. Unfortunately, most startups do not have a standard salary structure and most of the time insurance coverage is missing from them. As per the Economic Times survey of 2016, there are 19000 startups in the country[16] with a very high employee base exposed to non-insurance risks.

Primary: Our primary survey also depicts that 80%+ of total insured households were covered as per the default employment contract. That leaves the major portion of the sample on its own and thus uninsured. The sample believed that insurance coverage is not a major decision-making factor in choosing an employment as is the case in the western nations. Further, the lax attitude was prevalent in many who had just changed jobs to either join a startup or found one, thus leaving them without any insurance coverage. One of such cases was the husband of one of the students of IIMB who was diagnosed with Dengue infection where the bill ran into lakhs. The person had left his job 3 months ago to found a startup and did not care much about the coverage part. Unfortunately, he contracted Dengue and had to incur huge medical expenses without an insurance coverage.

Analysis: Thus it is very much clear that health insurance coverage by employer and contractors should be made mandatory by the government. The basis of this argument is the indifferent, unaware and lax nature of an average Indian when it comes to taking the pain of insuring himself. Though this still does expose the section of society who are either unemployed or self-employed.

However, for the bottom of pyramid or people below poverty lines who are employed as contract workers, providing good quality free health facilities instead of an insurance coverage seems more plausible. This

[15] http://in.one.un.org/task-teams/universal-health-coverage

[16] http://economictimes.indiatimes.com/small-biz/startups/economic-survey-2016-19000-startups-in-india-but-exit-options-remain-bleak/articleshow/51161562.cms

is because arranging for transport and other facilities to reach out to private hospitals empaneled in the policy itself costs huge sum for them and hence there is no alternative to free health facilities.

Conclusion: The hypothesis that *Making health insurance for all employees (both part-time and full-time) by their employers mandatory under regulation will help improve insured ratio* stands validated except for low-salary contract workers (bottom of the pyramid).

RECOMMENDATIONS:

ON CREATING AWARENESS[17]

About 20% of rural households and 16% of urban households are not even aware of the basic notion of any kind of insurance. In states such as Haryana, Jharkhand, Rajasthan and Bihar, this percentage is even higher. Amongst the households which consider any kind of insurance relevant to them, only 13.7% of the insured population and 12.8% of the uninsured population feel that insurance is relevant for tackling with a physical disability and chronic illness. The majority of them hold relevance of insurance to help them tackle accidents and death incidents. Further, only 51.2% of rural and 56.1% of urban households have even heard of health insurance. And out of total insured sample, only 44.7% go for insurance policies voluntarily.

As per the IRDA Reports, television, friends & family and local people (bazaar) in the given order act as the most effective sources of general information for both urban and rural population. However, when it comes to insurance policies, the major sources of information are agents and friends & relatives in decreasing order of relevance. In the case of states such as Haryana, Sikkim, West Bengal and Andhra Pradesh, almost 90% households are dependent on agents as their primary source of information about insurance.

In our primary survey, when we asked about the average amount per annum an uninsured household is willing to spend towards tackling economic risks arising due to health issues in the family, it came out to be almost equal to the average premium for Government health insurance of entire family. Therefore, if made aware of the different possible benefits, a large chunk of the uninsured population can be driven towards health insured category.

Some of the measures which can be helpful in increasing awareness of health insurance are as following:

- Incentivizing life insurance agents to sell and promote health insurance policies: The profit margin earned from selling health insurances is not lucrative enough at present which deters agents in health insurance categories. Therefore households which are solely dependent on agents for information pertaining to different insurance policies are devoid of information on health insurance schemes. Since life insurance products are a major hit in most of the urban and rural households in India, linking promotion of health insurance products to life insurance agents can

[17] https://www.irda.gov.in/ADMINCMS/cms/Uploadedfiles

help improve its awareness especially amongst semi-urban and rural households not so well-versed with internet and sites like *policybazaar*.

- Awareness about health insurance products through different municipalities and panchayat level services: A significant number of semi-urban and rural households are employed through different Panchayat level and municipality services. They can be easily educated about the importance and product variants of health insurance. They can be motivated to buy low premium health insurance products to start with (with low to medium coverage) at the time of enrollment in the job itself. Once this fraction of society is educated about health insurance, other self-employed and well-earning households in their vicinity will also become aware of the importance of health insurance.
- Television advertisements as part of Government initiative: Consolidation of information about different health insurance products as well as the health expenses households have to bear in the absence of such coverage and broadcasting that information on television through meaningful and attention-seeking advertisements (such as the one for *Swachh Bharat Abhiyan*) will help increase awareness. Once people are aware of the benefits, they will definitely be motivated to buy the product. Also, television ads if framed appropriately result have proved to result in good conversion in the Indian context.

ON INTRODUCING NEW PRODUCTS

- Digitization and a central database of socio-economic and health aspects of different individuals/households: Right now the insurance companies are not well aware of the requirements of people as well as the socio-economic and other aspects while launching a new product or recommending an existing insurance product. This information asymmetry is resulting into individuals/households not finding suitable products in markets. Insurance companies are also losing out through high claim incurred ratio because of selling products not matched to one's profile or by say putting individuals with high probability of disease incidence in the low premium pool. This task of data consolidation cannot be undertaken by single insurance firm since it is a high-cost affair. Therefore it should be the responsibility of the regulator (IRDA in Indian context) to collect the data and make it available to the different public and private insurance providers.

- Combo products such as health + livestock for rural households: Rural households in Indian villages consider livestock as part of their family. Therefore if insurance providers can come up with combo products which not only consider the health of their family members but take care of livestock health and welfare as well, it will receive greater acceptance from them. Given lower incidence and cost of treatment for livestock, such plans seem viable at slightly more premium than a family floater plan or a group insurance scheme. If such products are being designed on a community basis, care has to be taken to reduce overall probability of livestock and individual's disease incidence by avoiding inclusion of very risky sample in the group.

- New products targeting events such as maternity complication or child care: In order to cater to the requirements of the affluent upper middle class, specialized products covering important life events such as maternity and child care can be devised. Here the role of the insurance provider

would be limited to covering the incidence of any complication in the normal course of pregnancy or say if a child up to the age of 5 years is diagnosed with the major illness. The probability of major complication in pregnancy is lesser in the Indian context. Therefore, by avoiding adverse selection and containing moral hazard within limit by stipulating proper conditions, such products can very well be viable and profitable for insurance companies.

ON CONVENIENT DOCUMENTATION AND PAYMENT

- Staggering payment and linking it to say credit card payment: From our primary as well as secondary analysis, we observed that one of the major factors deterring households from buying health insurance products is the high lump-sum investment up front. For example, the premium payment for a family floater plan (for a family of 4) with 5 lakhs coverage for 1 year with some calculated statistics comes to around INR 20000. Paying INR 20000 up front was seen as huge cost by 11 out of 15 respondents in our primary survey. However when we asked them if they mind saying paying 2000 Rupees a month as a routine expense like their other monthly expenses say electricity bill, 9 of them were willing to opt for such a policy for complete healthcare protection of their family. Therefore, staggering the payment over periods and linking it to instruments such as credit cards will increase adoption rate by making it affordable for much more.

- Health insurance benefits as Direct Benefit Transfer (DBT): The different subsidies provided by Government at present such as LPG subsidy which is now transferred into beneficiary's account as direct benefit can be modified as payment of premium towards health insurance coverage of beneficiary's family. This kind of transfer will automatically take care of the family health care protection of the beneficiary and will also eliminate the chances of withdrawal and use of that fund for other non-productive activities. This should be a welcome move by most of the households unless they are highly dependent on that cash subsidy for their monthly affair or are highly cash-striped (i.e. lie in the lower socio-economic class). In such case, a small amount can be transferred as DBT to the accounts of identified low-income households to provide coverage up to a certain amount which can take care of their family against primary illness and health issues (Malaria, Typhoid, etc.).

- Insurance identity code linked to Adhaar or PAN: The current documentation process makes claim process highly inconvenient for the general public. Following from the above discussion on digitization, a single code associated to the person's UID can be used to automatically initiate the claim registration process with minimum paperwork. Further, if such a linkage is enabled, transfer of insurance coverage from one employer to the next will also become simpler.

- A Higher number of the cashless network: Currently, even the biggest health insurance providers have only around 4000 hospitals in its network which are mostly out of reach of the common man in India. This becomes worrisome for lower middle-class people. 8 out of 15 people we interviewed quoted searching for empaneled hospitals and arranging transport and stay one of the

major issues in case they have insurance coverage. The insurance providers with the help of State health care bodies should try to expand their network to smaller hospitals, clinics, and dispensary so that insurance claim becomes hassle free for the major population.

- E-Enrollment and E-filling: Taking inspiration of digitization of several process such as tax filing and claims, the insurance providers should strive towards developing an IT infrastructure for the same where enrollment, payments and claims are completely online with minimum hassles and search costs. This can also help customers onboard for other products as well as help monitor and track payments and claims. Payments can be done through e-wallets, mobile wallet, prepaid balance are a recommended addition to convenience.

ON IMPROVING HEALTHCARE INFRASTRUCTURE

As pointed out in our analysis, the current system of health insurance in India has no incentive for improving the healthcare infrastructure. Despite good doctors, the current facilities which are accessible by the middle and lower income demographics of India are inefficient or incomplete. The Government of India and Ministry of Health of various State Governments should make headways into improving the overall health infrastructure. For the lower income group, free or cheap healthcare system seems to be a better alternative than mass group insurance considering the cost economics and ROI factors. As suggested above, standardization of process, digitization, better access to equipment and medicines, strict hygiene and process compliance and a wider accessibility of hospitals and clinics across India is the need of the hour.

ON MAKING HEALTH INSURANCE TO EMPLOYEES MANDATORY

- Coverage plans mandatory for all employees: As discussed above, we strongly recommend making health insurance as part of employment contract compulsory for any firm or institution operational in India, both for employees and contracted vendors. The government of India and State Ministries shall take the initiative by making health insurance cover mandatory for all central and state employees respectively.
- Transferrable insurance policy like PF: As of now, the moment a person leaves a job he becomes uninsured until the next company initiates insurance coverage. We recently encountered a case in which a person was new to his present job and insurance coverage was not there yet, hence he ended up paying a hefty sum towards his illness. The insurance companies should provide for a transferable corporate policy when one employee switches from one firm to other. This will make both parties better off. The person will continue to be under the umbrella of insurance and does not need to apply fresh for an individual insurance. Moreover, the insurance provider does not lose out on a client as the transfer takes place from one firm to another. However, insurance providers and corporates need to come up with guidelines, procedures, infrastructure and formalities to make the process of transfer seamless and convenient.

ON MAKING PREMIUM CHEAPER

Under current circumstances, the premium paid on health insurance incurs service tax (~15%). After GST, the overall tax amount may go higher which can be highly deterring to a product which is already considered too steep to be affordable. The Government of India should consider the case of health insurance as a tool of general public good (preventing many from financial distress) and include health premium fee in the negative list of service tax exemption[18].

CONCLUSION:

The Health insurance penetration in India is currently very paltry and it is the need of the hour that the penetration is improved. Millions of lives are at risk and many more are at risk of going into financial distress due to huge medical bills. Even though insurance providing firms have come up with exhaustive plans, they are not able to achieve the scale of operation necessary for their profitability. In India, the claim incurred ratio is very high thus leading to very low margins or even losses for the health insurance firms.

After extensive primary & secondary research and analysis, we are suggesting a better healthcare system and infrastructure in India. We recommend free or cheap public healthcare for the lower income groups and better customer-focused insurance products for the middle and higher income groups.

With improving infrastructure, macroeconomic conditions, rising awareness about benefits of health insurance products, better accessibility, easier product description with no fine prints, trust on insurance as an investment through TPA, convenience of enrollment & claim process, the health insurance penetration should improve.

[18] http://www.aaptaxlaw.com/Service-Tax/Negative-List-under-Service-Tax-Law-Section-66D-Servicetax-Exempted-services.html

APPENDIX:

QUESTIONNAIRE FOR INDIVIDUALS/HOUSEHOLDS

1. Tell us something about yourself, name, age and where do you belong?
2. How many members are there in your family and how old are they?
3. What is the annual income of your family?
4. What is the source of income (kind of employment- regular or seasonal or business)?
5. What are the valuables in your house, do you own a television or a smartphone?
6. Do you have internet connection in your or any of your family member's smartphone?
7. Do you have good health facilities near your locality, if not how long do you have to travel for one?
8. Do you and your family members get treated in government or private hospitals, can you name the hospital you visit most?
9. When did you last face some major disease in your family and how much did you have to spend in that?
10. Did you pay all by yourself or you had health insurance coverage for that?

If the answer for the second part of Q10 is yes, Q11 TO Q15 are to be asked:

11. How much coverage did you have and how much did the insurance agency agree to pay?
12. Can you tell us about the policy you had and the insurance provider?
13. Was the policy taken on your own or was it a part of your employment contract?
14. Did you face any difficulty in the claim process or was it very smooth?
15. If the policy was taken yourself, what was the premium you had paid, do you consider it a good deal?
16. Do you currently have health insurance policies for all your family members?
17. If the answer for Q16 is yes, can you tell about what kind of health insurance policies (family/floater/government sponsored) you have and what premium did you pay for that?
18. How did you end up taking these policies (learned from the internet, approached by agents/government representatives)?

If the answer to Q16 is no, following questions are to be asked:

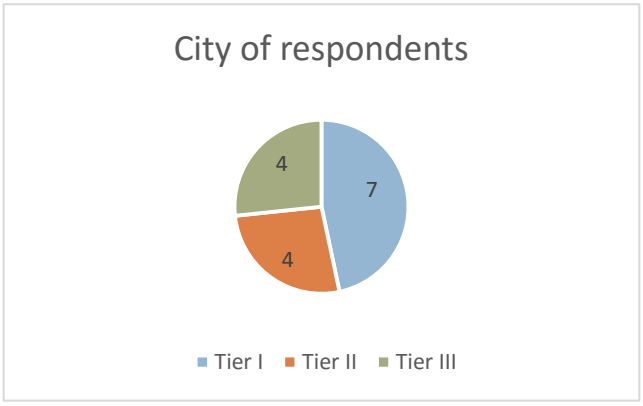
19. Do you own a vehicle say motorbike and did you get that insured?
20. How much savings do you make in a month and how do you invest that?
21. Do you have a life insurance policy?
22. How much do you spend towards health (Say small to large illness) of your family members in a year?
23. Why did you not take a health insurance policy, can you quote some reasons (Did know much, large premium, no guaranteed return, etc.)?
24. Are you aware of group health insurance schemes?
25. (Give a brief if they are not aware) Would you go for them?

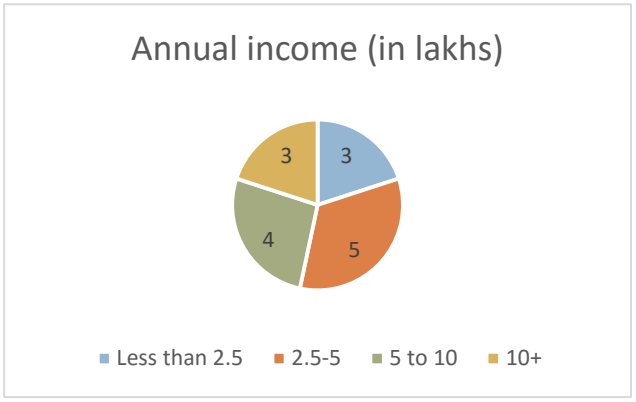
26. How much money would you not mind to be spent per month towards premium contribution if say it is linked to your mobile recharge, gas bill or electricity bill?
27. (If the person falls in extremely poor category) Were you informed about government sponsored schemes, are you willing to spend the minimal amount they charge?
28. (If the person falls in extremely poor category) Did you get insured when you signed a contract as a worker with your employer?

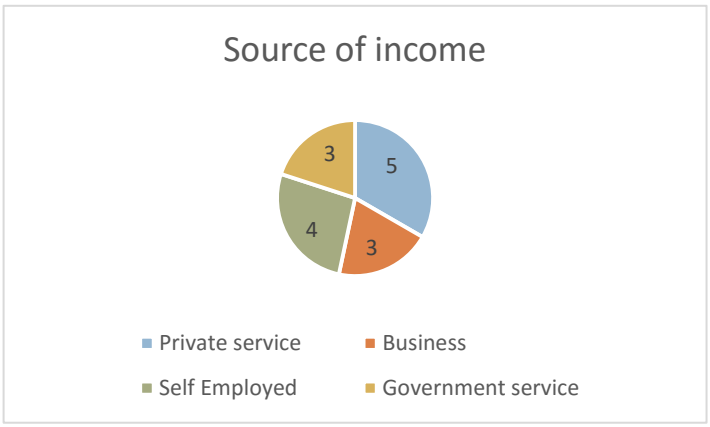
QUESTIONNAIRE FOR INSURANCE PROVIDERS

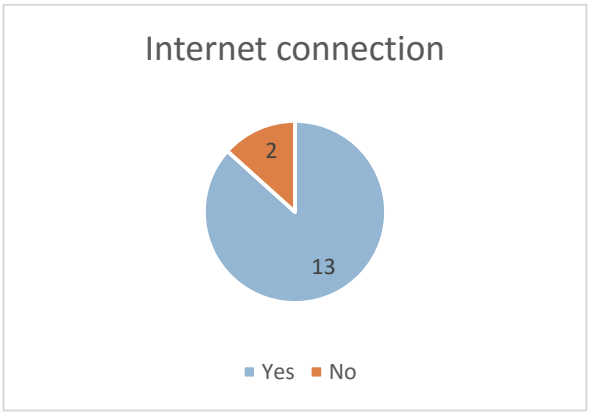
1. [Ice-breaker]Could you tell us something about yourself and your team/firm?
2. Could you tell us about the insurance business in an around you? How has it been going?
3. How has the industry changed in past years? Has it become more/less competitive?
4. Could you tell us the segment and area your team operates?
5. What are the major challenges in getting people on board? Why do you think India has so less insurance penetration?
6. What new offers/products you have come up recently to improve customer acquisitions and retentions?
7. Do you avail any support from Government or are part of any GOI sponsored program?
8. What are the advantages and disadvantages for the above?
9. Do you believe that regulatory changes such as making insurance mandatory be just and helpful to the general public?
10. Do you have corporate clients? Can you talk about the challenges and advantages of being part of such a partnership?
11. How has the advent of technology changed the way you operate and products you offer?
12. What do you think can be made better to facilitate your business as well as improve insurance buying by public?
13. Any other thing you will like to tell us?

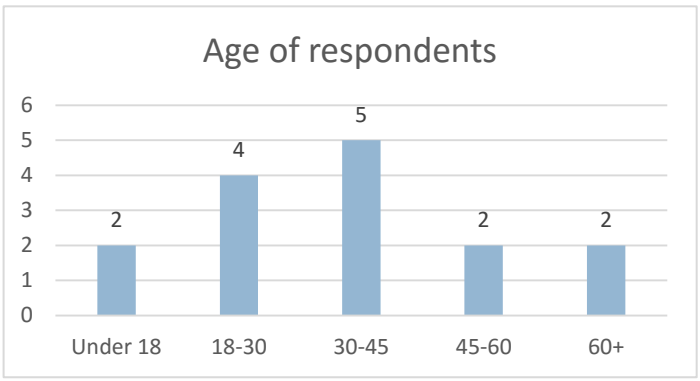
DEMOGRAPHICS OF RESPONDENTS IN PRIMARY SURVEY

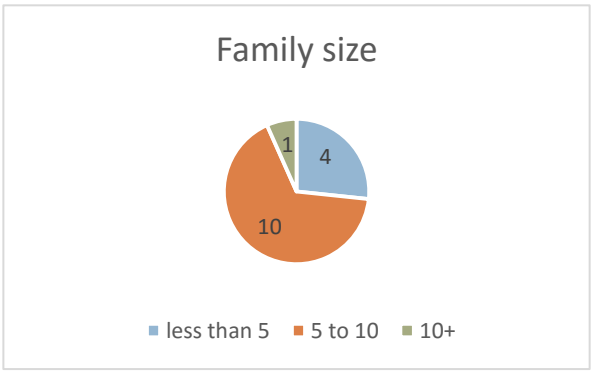


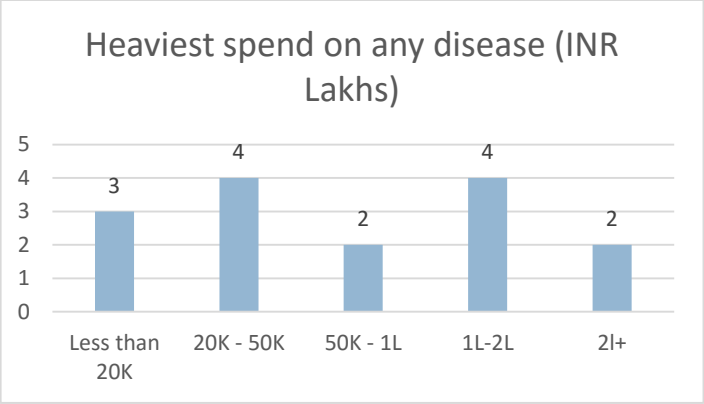


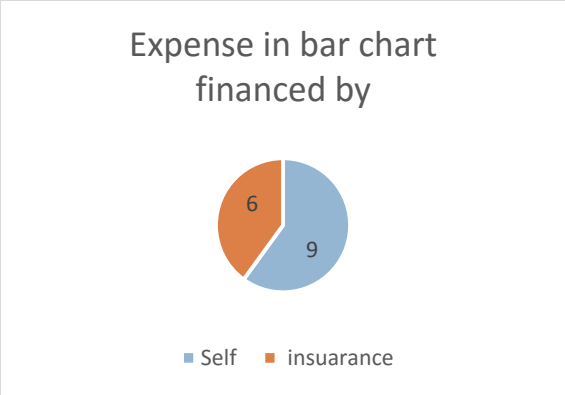


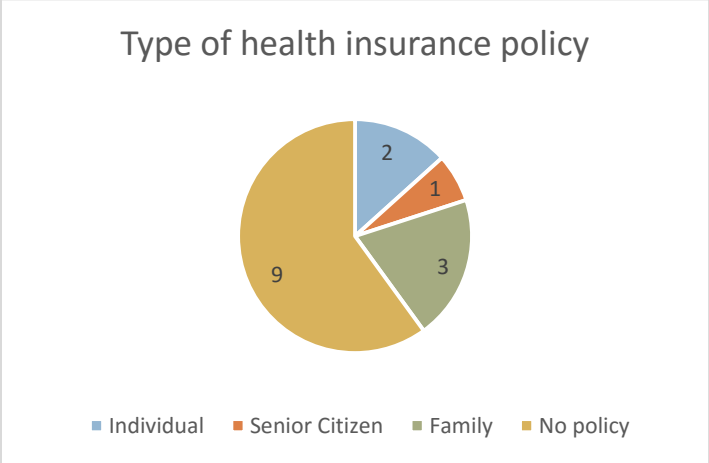







Heaviest spend on any disease (INR Lakhs)
5
4
3
2
1
0
3
4
2
4
2
Less than 20K
20K - 50K
50K - 1L
1L-2L
2l+


Expense in bar chart financed by
6
9
Self
insuarance


Type of health insurance policy
2
1
3
9
Individual
Senior Citizen
Family
No policy


Who bought the policy
1
5
Taken by self
Employee contract