

Health Insurance: An Emerging Trend in India

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Abstract

Healthcare improves health of citizens, lowers mortality rates, reduces poverty and thus boosts economic growth. Financing healthcare is a major concern for any nation. In many countries of the western world it is the Government that plays the major role either through tax financing or social insurance. Unfortunately, in India the public funding is low, so the economic burden of medical expenditure falls on private households. A well-managed health insurance system can provide hope for seeking quality healthcare to a large number of persons. Although India has a limited experience in this sector but liberalization of this sector and passing of the IRDA Act, 2000 has brought to the fore huge potential of growth for this sector. It appears to be the future of the HealthCare sector in India. An attempt has been made in this paper to analyse the pattern and trace the trends in growth of Health Insurance sector in India.

Keywords: Health Insurance (HI), Out of Pocket (OOP) expenditure, Health expenditure, catastrophic financial burden

1. INTRODUCTION

The relationship between health and economic development has achieved significant importance in recent economic literature. Good health is seen as one of the crucial indicators of development. On individual level it improves quality of life and from society point of view it enhances labor productivity. Good health is a source of utility and also a means to achieve higher income and wealth over lifetime (Grossman). Health care can act as an input for higher productivity and catapult the country to greater heights.

In almost half of OECD countries the range of health expenditure lied between 8% and 10% of GDP in 2013. The United States spent 16.4% of GDP on health, the group of high-income countries which include the Netherlands, Switzerland, Sweden, Germany and France spent 11%. In the same year Brazil spent 9.1% and South Africa spent 8.9%, which was close to the OECD average and China spent 5.6%. India's health expenditure was only 4.0% of its GDP which was amongst the lowest for other emerging economies. (OECD Health Statistics, 2015)

Analysis of global health expenditure reveals that around three-quarters of the health care spending was publicly financed in 2013. In Denmark, Sweden and the United Kingdom, the government financed more than 80% of all health spending. In the Czech Republic, France, Luxembourg, Japan and Germany, social health insurance financed 70% or more of all health expenditure. Only in Chile and the United States, the share of public spending on health was below 50%. In India, out of total health expenditure, three quarters was done by the private sector and only one fourth by Government. The public health expenditure as a percentage of GDP was around 1% and is among the bottom five countries with lowest public health spending globally.

India also faces other health challenges, as 30% of the population is below poverty line; Infant Mortality Rate stands at 9 per thousand. Evidence suggests that cardio vascular (24%), chronic respiratory diseases (11%) cancer (6%) and diabetes (2%) are leading causes of mortality amongst adults. Life expectancy on the other hand has increased to 68.7 years in 2017, which implied that Indian population is ageing and becoming vulnerable to old age problems and increasing healthcare costs. With advancement in medical technologies, the health care cost has become almost unaffordable and has given rise to serious equity issues (Gumber and Arora, 2006). About 3.5% of the population fall below the poverty line and 5% households suffer catastrophic health expenditure due to unaffordable health cost (Shahrawat and Rao, 2011).

Health insurance protects individuals against catastrophic financial burden resulting from unexpected illness, by pooling of resources to cover risks. Marcinko (2006) defined health insurance as "coverage that provides for the payment of benefits as a result of sickness or injury". It can be referred to a mechanism where an individual or group purchases in advance health coverage by paying a fee called "premium". It can be also defined broadly by including all financing arrangements where consumers can avoid or reduce their expenditure at time of use of services (Mavalankar and Bhat, 2000).

Health insurance is now emerging as a tool to manage financial needs of people to seek health service. In 1952 Employees' State Insurance Scheme (ESIS) was launched by the Government which provided HI coverage to employees who earn below Rs. 15,000 per month, and their dependents in organizations with more than 10 employees in 'notified areas'. In 1954 the Central Government Health Scheme (CGHS) was

established. The CGHS (3 million) and ESIS (55.5 million) put together currently cover an estimated 58.5 beneficiaries, roughly about 5% of India's population. The HI sector got a kick start by a Mediciam policy launched by a handful of government-owned companies in 1986 but it found the new track of success and growth in the year 1999, when reforms in the Indian insurance sector was initiated with passing of IRDA Bill in Parliament.

Literature Review

Randall, P Ellis, Moneer Alam and Indrani Gupta (2000) reviewed a variety of health insurance systems in India, their limitations and the role of the General Insurance Corporation as an important insurer agency. They focused on the fact that due to high out of pocket expenditure and poor public healthcare facilities, the low income groups in unorganized sector suffered a lot. They stressed on the need for improved health insurance facilities.

- A study by United Nations Development Programme (2007) found that 950 million (90%) people in India were not covered by insurance which constituted a great potential of about US\$2 billion business. In India the insurance penetration (ratio of premium to GDP) was only 4.7% and insurance density (ratio of premium to population) 46.6, as compared to world average of 7.5 percent and USD 607.7 respectively.
- J. Anita (2008) in her article stated that several factors like rising income levels and health consciousness along with healthcare financing by private sector has increased the scope of HI. She held the opinion that the role of IRDA was very crucial to ensure that privatization of health insurance should not have adverse consequences. She stressed on evolving a regulatory mechanism.

Federation of Indian Chamber of Commerce and Industry (2009) found that the demand for health insurance covers had seen a healthy increase. During the last five years, the premium from health insurance products in non-life companies has grew from Rs 675 crores in 2001-02 to Rs 3200 crores in 2006-07, almost 5 times its level 5 years back.

Forgia and Nagpal (2012) in their study stated that over the last five years, government-sponsored schemes have contributed to a significant increase in the population covered by health insurance in the country. More than 25 percent of India's population, gained access to some form of health insurance by 2010. More than 180 million of these were people below the poverty line.

Joshi, R. and Tak, S. (2013) opined that health insurance has witnessed a significant increase in terms of both premiums and numbers over the past few years. Health insurance premium has risen to Rs 8,300 crores in 2009-10 from Rs 2,200 crores in 2005-06. It is one of the most rapidly growing sectors in the Indian insurance industry with gross written premiums for health insurance which increased by 16 per cent from Rs 13,212 crores in 2011-12 to Rs 15,341 crores in 2012-13. It has registered a Compounded Annual Growth Rate (CAGR) of 32 per cent for the past eight financial years.

II. RESEARCH OBJECTIVES

- 1- To analyse the pattern of Health Insurance Coverage in India
- 2- To analyse the trends in growth of Health Insurance premiums of public sector and private sector companies in India

Research Methodology: For first objective, descriptive approach was followed and is based on secondary data. For second objective, CAGR was calculated for all private and public companies and sector as a

whole using Semi log model in which only one variable (gross premium) appears in the logarithmic form and testing of trend is done. Following hypothesis is tested.

H₀: There is no trend.

Let Y_t denote gross premium at time t and Y_0 the initial value of gross premium in the year 2002-03. The CAGR was calculated by the formula

$$Y_t = Y_0 (1 + r)^t$$

where r is the compound (over time) rate of growth of Y . Taking the natural logarithm of Y , we can write

$$\ln Y_t = \ln Y_0 + t \ln (1 + r)$$

$$\beta_1 = \ln Y_0 \quad \beta_2 = \ln (1 + r)$$

So now $\ln Y_t = \beta_1 + \beta_2 t$. Adding the disturbance term to the equation, we obtain

$$\ln Y_t = \beta_1 + \beta_2 t + u_t$$

In this model the slope coefficient measures the relative change in Y for a given absolute change in the value of the regressor (in this case the variable t), that is, β_2 = relative change in regress and absolute change in regressor. The coefficient of the trend variable in the growth model β_2 , gives the instantaneous (at a point in time) rate of growth and not the compound (over a period of time) rate of growth. But the latter can be calculated by taking the antilog of the estimated β_2 and subtracting 1 from it and multiplying the difference by 100 (Gujrati, D, 2005).

III. HEALTH INSURANCE ECOSYSTEM IN INDIA

Government or State-based systems—There are three Central Government health insurance schemes run by two ministries (CGHS by the Ministry of Health and Family Welfare) and (ESIS and RSBY administered by the Ministry of Employment and Labour).

Market-based systems (private and voluntary) Medici claim was the only health insurance policy sold by the -National Insurance co, New India Insurance co, Oriental Insurance Co and United Insurance Co. After liberalization of the insurance sector, private HI companies like Bajaj Alliance, Royal Sundaram, Birla Sun Life, HDFC Standard Life, ICICI Prudential Life Insurance, Om Kotak Mahindra, Tata AIG general Insurance Company, entered the Indian health insurance market. Several foreign insurance giants also entered the Indian scene thereby making the number of total private players at 30.

Community based Health Insurance Schemes – The (CBHI) models catered to the poor and informal communities. The scheme were led by various community-based organisations (SEWA, Karuna Trust), although their reach, scalability and sustainability is limited at present.

Table no 1: Population Coverage under Health Insurance (in millions)

Scheme	2003-04	2009-10	2015*
Central government			
Employees' State Insurance Scheme (ESIS)	31	56	72
Central Government Health Scheme (CGHS)	4.3	3	3
RSBY	n.a	70	300
State government			
Andhra Pradesh, AP (Aarogyasri)	n.a	70	75
Tamil Nadu, TN (Kalaigarnar)	n.a.	1.4	33
KA (Yeshasvini)	1.6	3	3.4

Total government-sponsored	37.2	243	528.4
Commercial insurers	15	55	90
Grand total (includes others not listed above)c **	55	300	630

Source: Forgia and Nagpal(2012) elaboration based on scheme data.

*estimated**Includes other health protection and health insurance schemes.

Table no: 2 Health Insurance Premium (in crores)

Time Period	Private	Public	Standalone	Total
2001-02	n.a.	n.a.	n.a.	675
2002-03	n.a.	77	n.a.	1160
2003-04	n.a.	148	n.a.	1370
2004-05	304	1366	n.a.	1670
2005-06	539	1683	n.a.	2222
2006-07	1224	1974	11	3209
2007-08	1833	3136	156	5125
2008-09	2266	3824	535	6625
2009-10	2350	4883	1072	8305
2010-11	3031	6913	1536	11480
2011-12	3411	8021	1660	13092
2012-13	4199	9586	1668	15453
2013-14	4482	10841	2172	17495
2014-15	4386	12882	2828	20096
2015-16	4911	15591	3946	24448

Source: IRDA annual reports

Figure 1: Health Insurance Premium

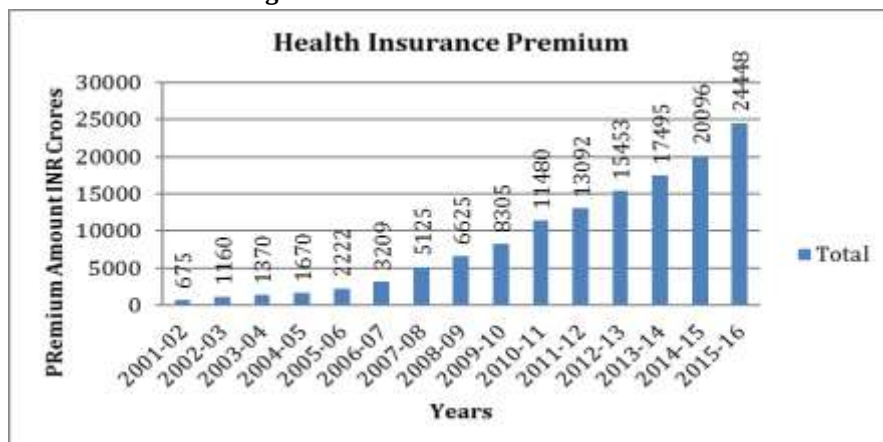


Table no 3: Company wise Health Insurance Premiums (INR Crores)

Company	2002-03	2004-05	2006-07	2008-09	2010-11	2012-13	2015-16
Public Sector Companies							
New India Insurance	255.65	479.7	765.29	1355.9	1993.96	2757.71	4857.85
Oriental Insurance	230.05	273.47	443.55	713.45	1330.82	1491.94	2595.7
National Insurance	202.64	318.56	333.12	854.02	1572.39	2372.22	3992.49
United India	252.17	293.91	434.6	900.72	1681.64	2642.81	4122.99
Public sector Total	940.51	1365.64	1976.56	3824.09	6578.81	9264.68	15569.03
Private Sector Companies							
Royal Sundaram	9.53	29.66	97.45	114.46	155.98	209.23	198.01
Tata AIG	13.56	26.64	45.35	78.95	110.72	181.87	269.19
Reliance	5.18	7.98	67.69	310.83	254.28	295.53	537.09
IFFCO-TOKYO	9.89	28.37	71.89	140.99	176.88	210.79	432.47
ICICI Lombard	13.42	118.78	735.85	1031.7	1341.94	1665.17	1480.63
Bajaj Alliance	9	70.55	158.26	332.02	339.49	594.84	838.78
HDFC-CHUBB	N.A.	1.98	10.18	45.5	328.73	521.5	632.89
Cholamandalam	1.09	20.12	38.6	165.89	148.07	287	207.14
Star Health & Applied Insurance	N.A.	N.A.	11.05	490.73	1232.47	843.8	1955.16
Apollo DKV	N.A.	N.A.	N.A.	44.45	270.82	598.75	955
Private Sector Total	61.67	304.08	1236.32	2755.52	4359.38	5408.48	7506.36
Grand Total	1002.18	1669.72	3212.88	6579.61	10938.19	14673.16	23075.39

Source: IRDA Annual reports

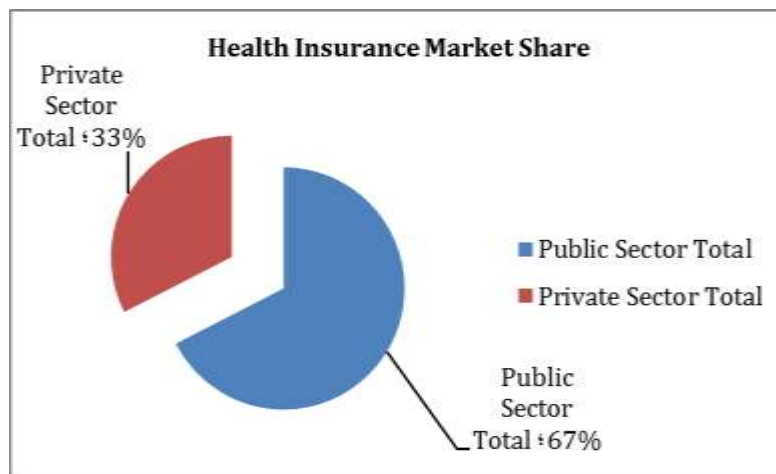
Table no 4: CAGR Values

Company	Slop Coefficient	CAG R	P Value
New India Insurance	0.226	25.388	0.000
Oriental Insurance	0.208	23.065	0.000
National Insurance	0.259	29.522	0.000
United India Insurance	0.251	28.469	0.000
Public Sector Total	0.236	26.587	0.000
Private Sector Companies			

Royal Sundaram	0.243	27.537	0.000
Tata AIG	0.242	27.358	0.000
Reliance	0.413	51.073	0.008
IFFCO-TOKYO	0.278	32.026	0.000
ICICI Lombard	0.341	40.667	0.000
BajajAlliance	0.313	36.718	0.000
HDFC-CHUBB	0.441	55.436	0.197
Cholamandalam	0.431	53.836	0.137
Star Health&Applied Insurance	0.254	28.881	0.001
Apollo DKV	0.71	103.357	0.279
Private Sector Total	0.388	47.0407	0.000
Grand Total	0.27	30.973	0.000

All Public sector companies grew at a consistent CAGR in the range of 23% to 30% in a period of ten years. The private sector grew at 47% with Apollo Munich, the highest CAGR of 103% but this company was a late comer in this industry. It is largely due to impressive marketing, innovative schemes, cashless claims and introduction of TPAs for coordination amongst various stakeholders. The overall growth of the health insurance sector stood at 30.973%. The CAGR was highly significant (p value < .05) in all cases except HDFC, Apollo, and Cholamandalam companies. Hence a significant growth trend was observed in HI premiums at 5% level of significance.

Figure 2: Market share of Public and Private Companies in Health Insurance Sector [2015-16]



Recent Trends in Health Insurance Sector in India

a) Insurance penetration of India i.e. Premium collected by Indian insurers is 3.44% of GDP in FY 2015-16. Per capita premium underwritten i.e. insurance density in India during FY 2015-16 is US\$ 54.7.

- b) Health insurance has become one of the fastest growing segments in the non-life insurance industry. The market share of health segment in total nonlife insurance business is 28.49 percent.
- c) Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. are registered to underwrite policies exclusively in Health and Personal Accident insurance segments. The Standalone health insurers have contributed 16 percent of total health insurance premium during 2015-16. It can be observed that over the past five years, the share of private sector general insurers has declined from 27 percent in 2011-12 to 20 percent in 2015-16 while the share of standalone health insurers has moved up from 12 percent to 16 percent.
- d) Among the three classes of business, Government Sponsored Health Insurance, Group Health Insurance (Other than Government Sponsored) and Individual Health Insurance, it is the individual health insurance business which has reported noticeable increase in its share in total health insurance premium over the past five years. It has increased from 37 percent in 2011-12 to 42 percent in 2015-16.
- e) During 2015-16, the general and health insurance companies have registered a growth of 24.65 percent in the number of persons covered over the previous year. Three fourth of the persons were covered under government sponsored health insurance schemes and the balance one-fourth were covered by group and individual policies issued by general and health insurers.
- f) There is skewed distribution of health insurance business across various States & Union territories of India. While five states namely Maharashtra, Tamil Nadu, Karnataka, Delhi UT and Gujarat contributed 69 percent of the total health insurance premium, the rest 31 States/UTs contributed 31 percent of the total Health insurance premium. The state of Maharashtra alone contributed 32 percent of total health insurance premium.
- g) Recent detariffing of the general insurance business forced the insurance companies to focus on health insurance. Availability of products for senior citizens and children, inclusion of parents/in laws in family floater schemes also helped in popularizing health insurance among the upper middle class families. Insurance Laws (Amendment) Act, 2015 provides for enhancement of the Foreign Investment Cap in an Indian Insurance Company from 26% to an Explicitly Composite Limit of 49% with the safeguard of Indian Ownership and Control.

Factors responsible for growth in demand for Insurances in India

- a) Private and public sector companies are battling it out for more market share by offering newer product variants, higher inclusion of family members, lower processing fees, etc.
- b) Consumers are being made aware of the need for insurance today. The health awareness among the public too is rising with a lot of people taking to organic food, regular visits to the Gyms as well as adopting Yoga, walking and jogging as hobbies. The rising health expenditures during medical adversities compel people to purchase Health Insurance.

c) Biggest leap taken by the Indian government in recent years is the privatization of this sector in 2000. The latest Insurance Act 2015 has recognized the Health Insurance as a standalone pillar of the industry and made the entry of the Foreign Players easy with 49% FDI possible.

d) New procedure and tests are very expensive (medical inflation). They are beyond the reach of common man and patients with fixed salaries.

e) Non-communicable diseases (NCDs) are emerging as major contributors to high morbidity and mortality in the country. Risk factors including tobacco and alcohol use, lack of physical activity, unhealthy diet, obesity, stress and environmental factors contribute to high disease burden of NCDs. These along with Cardiovascular Diseases account for 52% of mortality, followed by Chronic Obstructive Pulmonary Disease, Cancer, Diabetes and Injuries. More than 20% of the population is suffering from at least one chronic disease and more than 10% have more than one. Chronic diseases are widespread particularly among individuals who are younger than 45 years and also in case of poor people. Costs borne by the affected individuals and families may be catastrophic as treatment is long term and expensive. (MoHFW, GOI, 2011)

IV.CONCLUSION

The emergence of Health insurance as a tool to provide healthcare to all has attracted sufficient attention of policymakers and stakeholders. The recent growth of health insurance sector in India in terms of premiums, number of policies and number of persons covered, has marked the beginning of a new trend of healthcare financing. The recent trends in HI coverage indicate a definite step to achieve the objective of universal health coverage. Currently one-fourth of the Indian population is roughly covered under it. The liberalization of insurance sector in terms of reducing barriers to entry for private partners and raising the FDI limit from 26% to 49% in this sector has made this trend irreversible. There seems to be no looking back for different stakeholders in the demand side chain and the supply side chain.

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