

# Current Scenario of Health Insurance in India: A Study Comprising Various Challenges and Measures For It

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## **Abstract**

Ensuring healthy lives and promoting the wellbeing at all stages is necessary for making the process of sustainable development into reality. However, Poor accessibility to healthcare services especially in developing countries acts as a barrier towards this. Every year, Insufficient Government expenditure on healthcare services resulting heavy out of pocket healthcare expenses push people into vulnerable situation. In such a situation, the role of health insurance becomes very significant. Considering all these factors, in country like India, a well organised health insurance market has been gradually evolved over the years. But it is not sufficient because many people are still left untreated and even approximately 25% people are pushed below poverty line by catastrophic impact of out of pocket healthcare expenditure every year. Factors like lack of awareness, policy loopholes, poor infrastructure etc. are mainly responsible for the poor performance of the health insurance market in India. Through this paper, it is tried throw light on all these phenomena comprehensively along with some measures to correct the lacunas.

**Keywords:** *Health insurance, Challenges, Measures, India*

## **Introduction**

Choices about financing healthcare services have become primary concern to health policy makers so as to achieve health policy goals. Dominance of out of pocket healthcare expenditure in most low income countries indicates that access to healthcare services is primarily a function of individual's ability to pay which cannot be of equal in any case. Only 30% of total health expenditure is spent by Government of India is not at all sufficient to cover almost 1.21 billion populations.<sup>1</sup> Healthcare expenditure in India in 2014 constitutes almost 4.7% of GDP, but contribution of Government is only 1.4% of GDP.<sup>2</sup> Majority (62.4%) of total healthcare expenditure constitutes out-of-pocket payment at the time of service utilization.<sup>3</sup> Based on 2015 estimates, only 288 million approximately, less than one-fifth of India's population, were covered by health insurance in India.<sup>4</sup> In treating the in-patients, private institutions dominated both the rural (58%) and urban areas (68%) respectively.<sup>3</sup> High value diagnostics and drugs make healthcare cost rapidly rising and in most of the cases it forces people to opt for borrowings, sale of physical assets in order to support their expenses on healthcare. Especially

24.9% of rural and 18.2% of urban households depend primarily on borrowings for meeting their healthcare expenditures.<sup>5</sup> The 52<sup>nd</sup> report of NSS shows that 24% and 21% of untreated ailments in both rural and urban areas respectively was mainly due to lack of monetary resources.<sup>5</sup> Again, among those who get hospitalized, approximately 25% are pushed below poverty line by catastrophic impact of out-of-pocket healthcare expenditure.<sup>6</sup> Dual disease burden of communicable and Non-communicable diseases and coupled with spiraling health costs and poor healthcare delivery due to inadequate public spending on health along with lack of insurance coverage results in excessive financial burden on the poor and erosion in their incomes. In such a situation, health insurance can really work as a protective shield against any health related emergency. Purchase of health insurance not only brings peace of mind but also one can avail tax benefits under section 80D of the Income Tax Act, 1961.<sup>7</sup>

In response to growing demand for health insurance, this paper tries to make an overview of Health Insurance business in India along with various challenges faced by it.

**Theoretical Framework:****Health Insurance**

Health insurance is a kind of insurance coverage against uncertain health risks to an individual. It is a type of contract in between an insurer and an individual or group in which insurer agrees to provide specified health insurance cover at a particular "Premium".<sup>8</sup>

The rationale for Health Insurance is based on "Laws of large numbers" which explains that the average behavior of a group of individuals is more predictable than that of a single individual.<sup>9</sup>

**Demands for Health Insurance:**

The conventional models of demand for health insurance assumes that under conditions of rationality and risk averseness, decisions to purchase insurance is based on the expected utility gain.<sup>(10,11)</sup>

Again according to contingent theory, demand for health insurance is derived from the demand for an uncertain payoff in the ill state rather than demand for certainty or risk averseness.<sup>(12,13,14)</sup>

Feldstein (1973), states that the price of healthcare or healthcare expenditure also has a relation with demand for insurance.<sup>15</sup>

Increased income and education also have link to the demand for insurance. Higher income decreases the opportunity cost associated with the purchase of health insurance.<sup>16, 17</sup>

**Adverse Selection**

It is a situation where people having different health risks are not charged premium equal to their expected marginal cost of their insurance. Thus, the customer base of the insurer consists mainly of high risk people.<sup>18</sup>

**Moral Hazard**

This is the incentive to increase risky behavior because the adverse outcomes of that behavior are covered by insurance. Informational asymmetry is mentioned as the source of moral hazard. It is a tendency of the insured people to increase their consumption of healthcare.<sup>19</sup>

**Forms of Health Insurance:**

Health Insurance is mainly categorized into four forms- Mandatory/social, voluntary, Employer provided and community based and further classified as public and private. Two mandatory Government run health insurance schemes are- Employee State Insurance Scheme (ESIS) and Central Government Health Scheme (CGHS). Government of India launched some voluntary social health insurance schemes like Rastriya Swasthya Bima Yojna . Again, in 2018 Central Government launched Ayushman Bharat- Pradhan Mantri Jan Arogya Yojna, largest health insurance scheme in the world.<sup>20</sup> Medilaim, voluntary health insurance policy is offered by both Public and Private sector General Insurance companies. Again, Community health insurance schemes are there to serve the needs of the poor and are mainly offered by NGO's, Trusts and hospitals etc.

**Objectives**

To provide an overview of health insurance in terms of its current performance, challenges faced by it and also to provide suggestions towards the development of health insurance sector in India.

**XV.****Methodology:**

This study is mainly based on secondary sources comprising of Annual reports and Handbook of Insurance Regulatory Development Authority (IRDA), reports of National Sample Survey, various articles and research papers etc.

**Overview of Health Insurance in India:**

Performance of Health Insurance in India:

Initially, Government was enjoying the monopoly over health insurance market but, with the liberalization of Indian economy and enactment of Insurance Regulatory Development Act in 1999; private and foreign players were allowed to enter into the health insurance business.<sup>21</sup> Health Insurance business has been growing in India. During 2015-16, the gross health insurance premium collected by general & health insurance companies was Rupees 24,448 crore and achieved a growth rate of 21.7 percent in gross premium which was the highest reported in the past five years.<sup>22</sup>

**Table 1: Health Insurance Premium over the last Five years (Rs.Crore)**

Sectors	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Public Sector General Insurers	8015 (61%)	9580 (62%)	10841 (62%)	12882 (64%)	15591 (64%)	19227 (63%)
Private Sector General Insurers	3445 (27%)	4205 (27%)	4482 (26%)	4386 (22%)	4911 (20%)	5632 (19%)
Stand Alone Health Insurers	1609 (12%)	1668 (11%)	2172 (12%)	2828 (14%)	3946 (16%)	5532 (18%)
Industry Total	13,069	15,453	17,495	20,096	24,448	30392

Source: Annual Report of IRDAI 2015-16 and 2016-17.<sup>(10,21)</sup> Note: Figures in the bracket of the table indicate the market-share in total HI premium.

From, the above Table 1, it is seen that the four public sector general insurance companies continued to contribute a major share at 63 percent of total health premium in 2016-17. Standalone health insurers have also contributed 18 percent of total health insurance premium in 2016-17, registering an increase of 2 percent over the previous year 2015-16 . But, there is a drop in the share of private general insurers, whose share has come down from 20% in 2015-16 to 19% in 2016-17. The increasing share of both the Public sector

General Insurers and Standalone health insurers over the past six years might be because of offering the health insurance product at a subsidized price. The health insurance industry in terms of total premium growth has been on a rapid progress and the reasons behind this can be termed as Medical inflation. The private sector insurance companies have also raised the premium per insured to compensate for the high medical bills and also it is the effect of asymmetric information on the part of the insurer where the companies raise the price of the policies.<sup>1</sup>

**Table 2: Categorization of Health Insurance Premium (Rs. Crore)**

Class of Business	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Government Sponsored Schemes including RSBY	2225 (17%)	2348 (15%)	2082 (12%)	2474 (12%)	2425 (10%)	3090 (10%)
Group Business ( other than Government business)	6948 (46%)	7186 (47%)	8058 (46%)	8899 (44%)	11621 (48%)	14718 (48%)

**Cont... Table 2: Categorization of Health Insurance Premium (Rs. Crore)**

Individual Business	4896 (37%)	5919 (38%)	7355 (42%)	8772 (44%)	10353 (42%)	12584 (42%)
Grand Total	13,069	15,453	17,495	20,096	24,448	30392

Source: Annual Report of IRDAI 2015-16, 2016-17.<sup>(10,21)</sup> Note: Figures in bracket indicate the share of each class of business in total health insurance premium

The above table 2 shows that the Government sponsored health insurance business remains the lowest with 10% share in insurance premium. Most of the Government schemes do not require premium payment and again those which require is of very negligible. But, there has been a massive declining trend in Government health insurance premium which may be due to fierce competition between the insurance companies. Again, problems like information asymmetry and lack of awareness aggravates the matter.<sup>2</sup>

**Table3: Percentage distribution of person by coverage of health expenditure support**

	Not covered	Government funded insurance schemes	empl. (not Govt.) supported health protection	Arranged By household with insurance company	Others	All
Rural	85.9	13.1	0.6	0.3	0.1	100
Urban	82.0	12.0	2.4	3.5	0.2	100

Source: NSSO 71<sup>st</sup>roundreport

It is seen that, around 86% of rural households and 82% of urban households of India were still not covered under any scheme public or private, to support health expenditure. Lack of awareness, refusal of treatment by empanelled hospitals to BPL in many cases etc. are the main reasons behind poor coverage. Mostly in rural areas, the problem tends to be more prominent.

**Table 4: Coverage of Persons under Health Insurance (Rs. Lakh)**

Class of Business	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Government Sponsored Schemes including RSBY	1612 (76%)	1494 (72%)	1553 (72%)	2143 (74%)	2733 (76%)	3350 (77%)
Group (other than GOVT. Business)	300 (14%)	343 (17%)	337 (15%)	483 (17%)	570 (16%)	705 (16%)
Individual Business	206 (10%)	236 (11%)	272 (13%)	254 (9%)	287 (8%)	320 (7%)
Grand Total	2118	2073	2162	2880	3590	4375

Source: Annual Report of IRDAI 2015-16, 2016-17.<sup>(10,21)</sup> Note: Figures in bracket of the table indicate the share of each class of business in total number of persons covered

The Table 4 shows that, the percentage of coverage of person under Government sponsored health insurance

schemes is more than that of private insurance schemes. Adverse selection, moral hazard and lack of awareness are the major reasons for the private individual business still in the grim of poor scenario.<sup>6</sup>

**Table 5: Net Incurred Claims Ratio of Health Insurers (in percent)**

Class of business	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Government sponsored schemes including RSBY	90%	87%	93%	108%	109%	122%
Groups (other than Govt. Business)	100%	104%	110%	116%	120%	125%
Individual Business	85%	83%	83%	81%	77%	76%
Grand total	94%	94%	97%	101%	102%	106%

Source: Annual Report of IRDAI 2015-16 and 2016-17.<sup>(10,21)</sup>

From the above table, it is observed that there has been an increase in the net ICR from 94% in 2011-12 to 106% in 2016-17. The main factor responsible for this is adverse selection or poor risk identification. It is also seen that, in most of the cases members converting outpatient procedures as inpatient, resulting in Healthcare spending of population with insurance is thrice that of the population without insurance.<sup>11</sup>

### Challenges:

During 2015-16, the General and other health insurance companies have issued around 1.18 crore health insurance policies covering 35.90 crore persons, which is less than one-fifth of India's population and the underlying reason behind this poor coverage is due to lack of awareness or poor insurance literacy.<sup>2</sup> Moreover, Lack of proper health infrastructure, sufficient regulation on providers and inefficient TPAs, poverty, importance, lack of product variety etc are mainly responsible for the backwardness of this sector.

### Suggestions

Rising premium resulting from High medical costs can be dealt with some measures like Hospital bills to be controlled through Health Management Organisation (HMO) and transparency to be initiated with the help of developed IT infrastructure which will help in increasing efficiency to reduce operating cost. Government must develop efficiency with respect to various publicly sponsored schemes so as to face the competition from the various new and innovative private individual and group insurance schemes. Rural population face greater risk of being in unhealthy condition due to lower access to sanitation and pure drinking water and inside house pollution arising out of the smoke from coal or wood used as fuel. Moreover, they also face the financial hardship to cure any illness etc. Facilitating and enhancing Micro Insurance for the disadvantaged people in rural and backward areas is really important. Creating more awareness regarding health insurance and making all insurance providers proper responsible in delivering their services should be the prime focus of both the insurers and Government of the country. Again, to increase the

health insurance penetration, Agents and private players must target new markets in rural and semi-urban areas. Moreover, Introduction of new product portfolios is also the need of the hour. TPAs in Insurance have to be more effective, so that the whole system of insurance can be made clear and efficient while dealing with the problem like information asymmetry.

Since, Insurance acts as a protection to high unexpected healthcare costs so initiatives must be taken so as to facilitate Public-Private Partnership in a competitive environment.

### Conclusion

In the backdrop of escalating population, the Health Insurance as a tool of advanced healthcare financing play an indispensable role. Although, India has the highest potential for Health Insurance, the penetration still remains lowest when compared to western economies. Challenges remains are like the prevalence of high informal sector, adverse selection, moral hazard, lack of awareness and so on. The health insurance premium is in the increasing growth path which is mainly the result of high cost healthcare services. Poor coverage in health insurance mainly in rural areas shows the problem of lack of awareness regarding health insurance advantages. Again, high incurred claim ratios mainly in case of group business really hint to the matter of rising adverse selection and fraudulent cases in this industry. In such a situation Regulations and managed insurance market can play an effective role in moving health financing towards greater equity. Enhancement of Health Insurance industry with the help of Mass Marketing strategies like- Micro health insurance for the poor people, promotion of group insurance will be greatly helpful. All the stakeholders" like- healthcare providers, TPAs, Insurance agents, Insurance companies, Government and consumers must play a cohesive role towards increasing the health insurance penetration and density in India.

**Ethical Clearance** - Not applicable

**Source of Funding** - Self

**Conflict of Interest** - Nil

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