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Impact of Covid-19 Pandemic on Health Insurance Sector

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ABSTRACT

The COVID-19 pandemic has triggered a massive spike in uncertainty over the economy, wealth as well as livelihood. Today uncertainties surround almost every aspect of business models mostly in Healthcare and Insurance industry. These include: The capacity of health care systems to meet an extraordinary challenge, The extent of pandemic induced shifts in consumer spending patterns, Insurer outlook towards health risks,

Dynamics involved in challenging outlook towards projected risk, Availability of sufficient and effective alternatives for primary care needs. The purpose of this paper is to assess the impact on Health Insurance sector and continuously changing claim patterns in Pre and post COVID time; for it is the need of the hour to explore forwards looking measures to mitigate the uncertainty and be ready for future impacts with digital changes.

KEYWORDS: Health, pandemic, COVID-19, Health Insurance, Insurance Industry

INTRODUCTION

The Covid-19 coronavirus outbreak that began in China towards the end of last year has now become a global pandemic. Although it now appears to be slowing in China, the spread of the disease is accelerating elsewhere, with the World Health Organization recently describing Europe as its current `epicentre'. Governments are reacting in ever more dramatic ways, closing borders, imposing lockdowns and travel restrictions, shutting schools and colleges, and banning mass gatherings such as sporting events.[1]

A crisis such as Covid-19 affects all business sectors - but it especially puts a spotlight on insurers who can expect to be inundated with general inquiries and claims across multiple different lines, whether that be for health, life or non-life cover. Balancing the need for responding to this influx of activity in the contact centres with a quickly shifting remote

[1] "Coronavirus disease (COVID-19) Pandemic" https://www.who.int/emergencies/diseases/novel-coronavirus2019?gclid=CjwKCAjwwMn1BRAUEiwAZ_jnEr6h9nJu5p46PNRKYB44GQrYctMGUY5IqftQmck16cE5O5Kvwz4kRoCREgQAvD_BwE

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workforce is an area that insurers are working to address. Of course, countries are at different stages of coronavirus activity.

At the heart of the crisis while we greatly appreciate the Government's efforts to contain the COVID-19 outbreaks, a sudden decline in footfall is a matter of great concern for the Healthcare industry. The industry is also suffering from reduced availability and elevated pricing observe for certain essential consumable items. Hospital across India are already experiencing a shortage of nurses and physicians and may have a harder time finding replacements. Clinics and hospitals are likely to face under staffing due to increased burden. Although it is difficult to estimate a specific range, the health sector certainly is likely to see lower cash flow compared to 2019 due to the rapid and unpredictable nature of the outbreak. Revenue will likely decline as there is a considerable reduction in the number of elective surgeries and other services including Diagnostic's, Consultations and Pharmacy.

Impact on the Health Insurance Industry

India has traditionally been an underinsured country, with health insurance schemes covering only 18% of the population in urban areas and a little over 14% in rural areas.[2] Although the gap has been bridged somewhat by Ayushman Bharat, which has attempted to insure the poor and vulnerable, most of India continues to be underinsured when it comes to health. Due to the widespread COVID-19 pandemic, health insurance companies are facing various challenges and are foreseeing an impact in the following areas.

1. Claim payout and liquidity

In order to dispel any general misconceptions about the applicability of health insurance policies to cases of COVID-19, the IRDAI has instructed insurers[3] to accept COVID-19 related claims under active health insurance policies. Since the risk of COVID-19 is not currently priced under active products, these claims may cause an additional burden on the books of insurers if treated outside Government hospitals.

• Community transfer in the future could lead to an afflicted population across social and economic classes and result in claims running up to a few crores. However, with a

[2] https://www.ibef.org/download/insurance-jan-2019.pdf
[3] Circular Ref. No.IRDAI/HLT/REG/CIR/054/03/2020

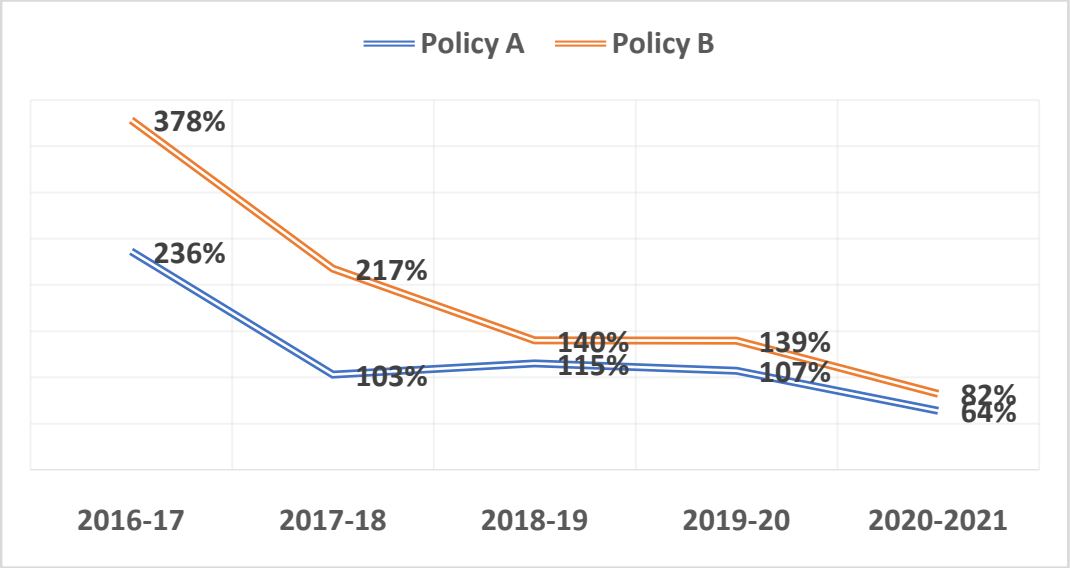
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premium base of INR 51,637 crore this financial year,[4] health insurance companies would see a marginal impact on their overall balance sheet.

• Moreover, only 14–16% of India has health insurance. (The hospital industry in India stood at INR 4 lakh crore (USD 61.79 billion) in FY17 and is expected to reach INR 8,60,000 crore (USD 132.84 billion) by FY22. Only approximately 80% of the premiums worth INR 51,637 crore are paid out by the insurance industry as claims.)[5]

• A nationwide pandemic can result in a significant increase in claims (both incurred but not reported [IBNR] and incurred but not enough reported [IBNER]) for health insurance companies beyond just COVID-19. Some studies have shown that COVID-19 affects those with co-morbidities such as diabetes, renal and other chronic diseases adversely,[6] and hence prolonging of such co-morbidities can result in a longer trail of non-Covid-19 chronic claims for an extended period beyond COVID-19.

• However, this can be partially or fully offset by delays or cancellation of non-emergency procedures which also tend to be large additional claims and hence, the overall effect on the claims ratios may not be significant in the short term, but can catch up once things return to normal. Please find below the claim pattern (incurred claim ratio) of the two policies of SBI Pensioners as on 31st August'2020 which shows that there is a sharp decline in in the incurred claim ration over the last year:



[4] Public disclosures of financial year results of insurance companies (www.gicouncil.com)
[5] https://www.ibef.org/industry/healthcare-presentation
[6] European Respiratory Journal. Retrieved from https://erj.ersjournals.com/content/early/2020/03/17/13993003.00547-2020 Source

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• Currently, health insurance companies have adequate capital available, which, coupled with reinsurance, would provide a sufficient cushion to the insurer to pay out claims arising from COVID-19. Overall, the impact on the health insurance companies would be dependent on the company's risk mitigation plan. If the pandemic continues for a prolonged period, it will fall under the severe natural catastrophe category, and unless proper risk transfers are worked out with equitable reinsurance schemes, it will be difficult for health insurers with limited capital to manage claims.

• A study by the Institute of Actuaries of India (IAI) has modelled the escalation of cases in India. The range of infected cases modelled as on June 30 from the lockdown cease case to the worst-case scenario is from 5,21,108 to 11,08,511. If this scenario pans out, it would put stress on hospitals as well as health insurance claims, both in terms of dispensation and amount.[7] In this case, the industry, which is at a base of INR 51,637 crore, would see an increase of 8–15 percentage points in its claims ratio, which can hurt the portfolios considerably without pandemic reinsurance cover.

• The Ayushman Bharat scheme may see a greater number of claims compared to private health insurance companies due to widespread coverage. This scheme may not have factored in the cost of setting up isolation wards. Given that isolation of hospitalised patients is crucial to prevent further community spread, this cost will create an additional burden which has to be borne by the Government. Many insurers are running the scheme with a PPP arrangement with the Government and they will have to recalibrate their financials.

In view of the country-wide business disruption owing to the pandemic, the IRDAI has advised insurance companies to extend the grace or delay period by 30 days in case of policy lapse or renewal.[8] This might pose some immediate liquidity challenges for insurance companies.

2. Product development

In the wake of the pandemic, there has been greater concern and awareness about health, and enquiries about health insurance policies have increased by 30–40%.[9] The pandemic

[7]IAI report. Retrieved from http://www.actuariesindia.org/downloads/Analysis%20by%20IAI%20Pandemic%20Research%20Group.pdf
[8]IRDAI press release dated 23-03-2020
[9] https://economictimes.indiatimes.com/industry/banking/finance/insure/coronavirus-impact-insurers-see-marked-jump-in-inquiries-for-health-policies/articleshow/74485296.cms?from=mdr

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also provides an opportunity for insurance companies to innovate and serve the evolving needs of a more informed population. Several insurance companies have launched COVID-19 insurance products in March 2020. Other companies may follow suit and introduce such products.These products tend to be short term and carry fixed benefits, covering a fixed amount in excess of the hospitalisation schemes. The IRDA Sandbox has been useful at this time as many companies had filed and obtained approvals for risk cover in special situations.

A few product considerations for health insurance companies are discussed below:

a) Since details around COVID-19 treatment and prognosis are still emerging, insurance companies do not have data related to patient profiles, morbidity rates, cost of treatment, etc. This data is required to underwrite the risk and determine the premium for products specifically targeting this disease. Companies are consequently at risk of under- or overpricing their products.

b) Based on the emerging experience of COVID-19 claims, insurance companies will need to test the hypothesis of state-wise or district-wise possibility of escalation of claims. Working with the healthcare system, the patterns can then be used to make sure customer service is effective and also perform future pricing analytics as insurers already resort to geo-based pricing in health insurance.

c) Based on clinical research and in conjunction with the healthcare and pharma industries, insurance companies should calculate the possibility of a long trail of chronic disease escalation which may require health insurers to reprice their existing hospitalisation products. As of now, insufficient data may hinder such research but collaboration between insurers and their actuaries and healthcare professionals and institutions can create models which had not been attempted until now.

d) There is a clear opportunity for insurance companies to partner with their corporate customers for employee benefits to be fortified with healthcare activities in order to increase the health quotient as well as improve the possibility of weathering the COVID-19 situation better. As a result, the value of policies will be increased, and claims will tend to go down with an increased level of awareness of the situation as well as chronic diseases and co-morbidities. Many corporate customers of employee health insurance are investing separately in such activities. Insurance companies can use this opportunity to increase client stickiness as well as improve their portfolio and retention ratios.

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Impact on Insurer

Business Model Transformation Insurers are responding to the widening COVID-19 outbreak on multiple fronts- as Risk Carrier, Employers, and Capital Managers. Each has its own challenges, not just for the insurance industry, but for the economy and society at large. The cost of treating COVID-19 is high due to the antivirals, ventilators, personal protective equipment kits (PPE), and requirement of isolation. A crisis such as COVID-19 affects all business sectors-but it especially puts a spotlight on insurers who can expect to be inundated with general inquiries and claims across multiple different lines, whether that be for Health, Life or Non-Life cover. The volatility and falling interest rates within the financial markets will likely impact general insurers from the earnings and solvency perspective.

Major Impact on Insurer: Change in risk outlook, increased uncertainty and reduction in investment income will change the interpretation of underwriter towards corporate health risk.

Delays in Initial Stage Findings: Lack of early detection and delay in intervention in COVID cases might result in higher hospitalization expenses, thus putting the pressure back on insurer on account of high frequency high -severity claims.

Difficulty in Projecting Claims: Irregular reporting of claims and delays in Elective/Non-Emergency /Planned surgeries along with no concrete projections for COVID-19 is poised to challenge forecasting claims for upcoming renewals. Higher Premium Rates: Hospitals mostly will re-look at rate revision because of the reasons stated above. Re-negotiation for GIPSA[10]/package rates with the insurer is expected. Any kind of upward revision will influence underwriting pricing.

Decline in Investment Comfort: Health insurance has always been reported as a negative or low margin business for insurers. With decline in investment returns, it is very likely that underwriters will be looking at each line of business with a lens of suitability.

Higher Uptake of Retail Insurance/Voluntary Health Plans: Awareness about the optimal sum insured posts COVID-19 is on the rise. Individuals will look at resetting the insurance coverages thus giving rise to retail or corporate voluntary insurance purchase.

[10] *GIPSA-General Insurance Public Sector Association, a group of four public sector general insurance companies, New India Assurance Company, United India Insurance Company, Oriental Insurance Company and National Insurance Company.

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Impact on Insurance Claim

A Seismic Shift For the most common ailments under any corporate program, there seems to be a sudden decline in hospitalization and average claim size. On analyzing approximately 2500 existing client's claims, It is observed that there is a significant decline in overall number of claims and out of the pocket expenses will increase due to increase in claims deductions.

COVID -19 Claims Impact: The claim amount for COVID-19 positive cases are in the range of INR 25,000-2,500,000 with an average claimed amount of INR 190,000-220,000 with an approx., 6-day stay. In the older population, the amounts are on the higher because of co-morbid conditions. In the absence of clarity from the insurer, the current disallowance is not much. However, with time and the inevitable detailed guidelines for COVID-19 cases expected from insurer/IRDA, a higher deduction is expected.

Shift in Ailment Patterns: Apart from treatments for Cancer, Dialysis and Maternity, all other treatments have seen a massive decline in numbers post-lockdown.

Future of Average Claimed Amount: Our findings indicate, owing to lack of resources, patients and hospitals may not have been able to report exact number of non-COVID -19 cases. Thus, the data will not give a true picture of the average claim cost. With hospitals making COVID-19 tests mandatory before surgery/hospitalization, an additional impact of INR 2,500-5,000 per claim can be foreseen. With the current industry average claim of INR 45,000, an additional impact of 5-10% is expected in overall clams, as hospitals are going to continue COVID-19 testing as a standard practice henceforth.

Out of Pocket Expenses: Mandatory COVID-19 testing and usage of sanitizers, gloves and masks will lead to higher claim deductions. Apart from a few cases, an increase in the deduction pattern by 12-15% can be observed in major treatments. Hence, an additional burden is expected on Sum Insured/ailment capping that was offered in the pre- COVID -19 times. Increase in the average claim cost is an obvious impact. Medical inflation compounded with COVID-19 will drive us to think how to place and replace our current benefits and costs.

PRACTICAL NEXT STEPS

1. Review and Update Your Existing Plans: It is imperative for employers to re-look at adequacy of the Sum Insured/sublimits/deductibles/corporate buffer offered under health insurance plans to mitigate the catastrophic severity of the pandemic.

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2. Redefined claim Process: With changing times, it is importance to re-work on the overall claim processes starting from acceptance of scanned document, increasing submission timelines, condoning delay in submission, claims settlement and recovery on scan documents.
3. Redundancy Planning: COVID-19 has put a lot of pressure on business earnings forcing cuts in staff or salary. During these difficult times, employers need to build a robust plan to provide continuity or portability of benefits. If salaries are reduced, employers will need to discuss with Accident and Life insurers whether the Sum Assured, which is linked to remuneration, needs to be revised.
4. Revised Benefits Budgets: The cost for claim are projected to move upward. With new COVID-19 safety protocol, an additional burden of 10-15% on overall claim ratios can be foreseen.
5. Voluntary Covers to Employees: It is important that employers start looking at creating innovative choices for employees that advance care plans for adequate coverage.
6. Well Being: Well-being of employees is not a value-add anymore. It's a necessity and employers will have to look at relevant virtual programs with the right balance and emotional well-being.
7. Digital Health Offerings: COVID-19 has clearly caused interference to the in-person case model. It is hence important for the employers to prospect virtual care options and alternate delivery in case of lockdown situations for routine care, chronic conditions and stress management.
8. New Norms for Workplace: Thoughtful strategy and vendor support before, during and after opening of the workplace is a must. Designing an action plan for sanitization of the office premises, thermal screening, sanitization tent, on-site medical rooms and supply of masks, soap, and sanitizer is must.[11]

[11] 6. "Maintaining a Healthy Workforce is now Simplified "https://www.ekincare.com/how-it-works"