

Global analysis of health insurance in India

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The prospects for health care in India

These are heady times in India. A dynamic new government keen on accelerating reforms and boosting economic growth projected to exceed 6.5% annually suggests real opportunities lie ahead. This is especially true in the health insurance sector, where foreign participation was effectively blocked until recently but is now opening up. By 2021, Oxford Economics projects revenue from health insurance premiums to reach US\$3.5b, representing growth of more than 12% annually since 2006. Growth averaged just over 11% from 2006 to 2014.

The reasons for optimism seem clear-cut:

- ▶ **Market potential.** In addition to growth prospects for the general economy that are far higher than for most developed markets, India has enormous unmet needs for health care and a huge population of uninsured residents. Even among emerging markets, India is one of the least insured countries, with a health insurance penetration rate of only about 20%.
- ▶ **Demography.** The increase in life expectancy and growing prosperity mean that not only are Indians living longer, but also the cohort of Indians over the age of 65 is projected to increase markedly. By 2021, Oxford Economics estimates that 95m Indian citizens will be over the age of 65.

▶ **Rising incomes.** The Indian middle class is also growing rapidly – estimated to increase by a CAGR of nearly 7% for the five-year period 2016 to 2021 – and the rising prosperity of many Indian households is prompting demand for high-quality medical care and increasing private sector participation.

Yet, these massive opportunities also generate their own series of complex challenges.

Because so few Indians now carry health insurance, India has one of the world's highest rates of out-of-pocket spending in health care. According to World Health Organization (WHO) data, the public sector in India spent just 1.46% of gross domestic product (GDP) on health care, ranking 187th among 194 countries and at a ratio about half that of neighboring China, which has made health care far more of a government priority. This weakness is especially apparent in rural India, where government assistance for basic health care services is available but not enough patients take advantage of it. Regulation and standard-setting for hospitals and clinics are weak and often not enforced. Even among the growing number of the middle class, for whom health insurance would be a worthwhile investment, far too few Indian consumers comprehend the value of an insurance plan that can help them pay for

preventive coverage to keep them healthy and out of the hospital, especially if their overall health is good.

"Indian consumers want value for their money, and if they are paying a premium for coverage they don't use, many are inclined to drop it," explains Gagan Bhalla, CEO of Apollo Sugar Clinic, which uses an integrated service model to develop a full range of services for diabetes care. "Because the out-of-pocket share of insurance is so high, getting wallet share is quite difficult." Educating consumers and explaining the benefits of preventive care remains a significant challenge, he adds.

Thus, enormous opportunities exist across India to engage and educate customers, "manage for wellness," and increase preventive care to boost the effectiveness and efficiency of the health care system – even as government spending remains relatively low. But, this requires sustained initiatives by private health insurers.



India's outlook

The clear potential for growth – of India itself and among the rising, digitally savvy and well-educated middle class – is leading to a surge of investment and entrepreneurial experimentation. Insurers are now trying to move beyond mere hospitalization coverage to more comprehensive policies that can incentivize wellness and promote preventive care. In addition, the rising use of smartphones is leading to a burst of IT-related investments around the digitization of health insurance. These experiments range from initiatives to expand telehealth models, to disease-specific microinsurance plans, to new smartphone-based apps that engage and monitor patient behaviors. All these suggest that the Indian market is now poised to offer significant opportunities for insurers working across India to leapfrog ahead of developed markets

and create innovative health insurance programs and initiatives not yet available in more advanced economies.

In addition, the door has now been opened wider to the participation of foreign insurers. Following a period of lengthy deliberations, foreign investors can now take up to 49% ownership of an Indian insurance company without the permission of the Indian Government. This offers foreign firms far more incentive to invest in the insurance market. Indeed, even the surprise “demonetization” effort of the Modi government, forcing customers away from cash transactions in an effort to displace the black market, is now providing an opportunity for insurance groups to employ digital and mobile channels to more deeply engage an untapped customer base.

Macroeconomic view

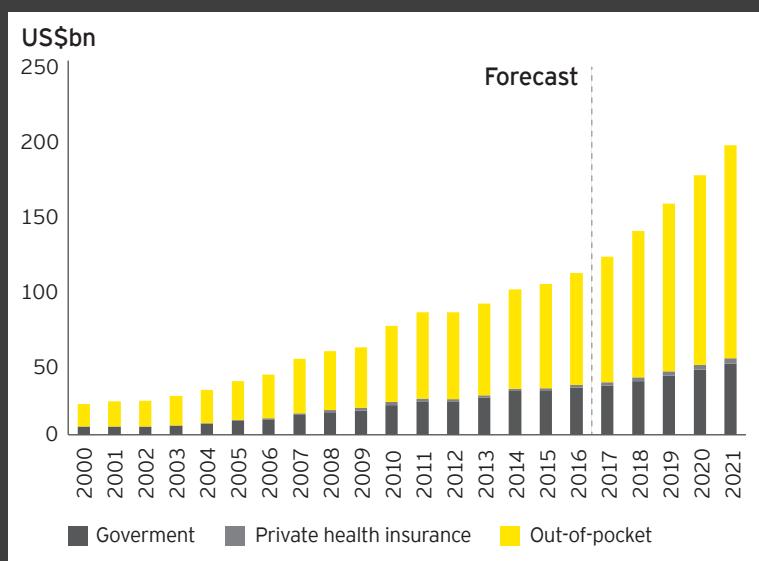
The macroeconomic drivers of health spending in India for the next five years appear very positive. Oxford Economics projects strong growth in household income, and spending from both the public and private sector is likely to be vigorous.

Example:

Total government spending is forecast to rise from US\$287b in 2016 to US\$407b by 2021, while total household spending is projected to reach US\$2.2t by 2021 compared with US\$1.3t today. This rising prosperity should mean that an increasing share of the economic pie will be allocated to health spending by both the private and public sectors. But, as the figure below illustrates, the share of health care spending captured by private insurers is still quite small, even if it is growing robustly.

Total health care spending

Figure 1: India – composition of total health spending

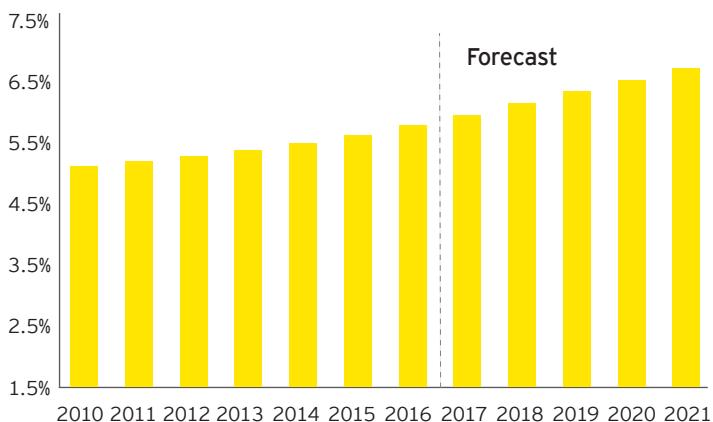


Population growth will undergird much of this spending. As India has grown wealthier, its birth rate has markedly declined, from 25 live births per 1,000 population in 2000 to 20 live births in 2014. Nevertheless, at a time when a number of mature countries are seeing populations stagnate, India is still growing.

Even more importantly, the proportion of the population aged 65 and above is expected to grow significantly. From 4.3% of the population in 2000, Oxford Economics forecasts the share of population over 65 to rise to 6.7% in 2021. This means that in four years, 95m Indian citizens will be over 65. Along with the rising aspirations and economic vitality of a growing middle class, this increasing share of an aged population should raise additional demands for health care services.

Share of India's population over 65

Figure 2

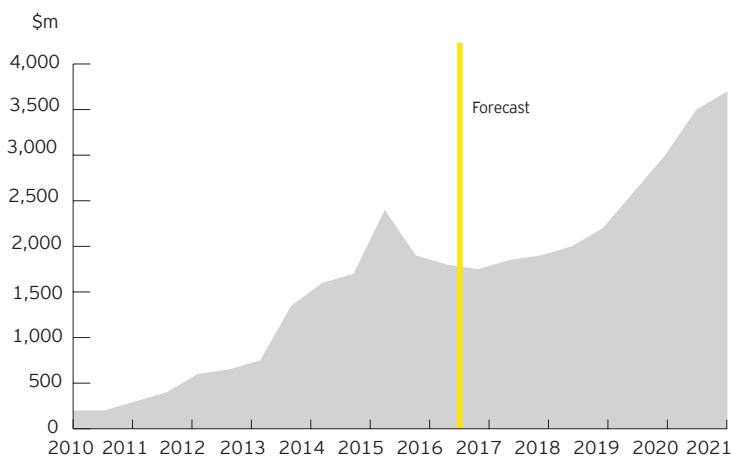


While the macroeconomic drivers suggest more health care spending and the demographic data suggests increasing demand for health insurance, out-of-pocket financing will remain the primary means of financing health care costs. As the figure to the left shows, private health insurance remains a small part of the overall financing mix. Yet, that "small" number is actually substantial in real terms and is only poised to increase rapidly.

Source: Oxford Economics/Haver Analytics

Private health insurance market in India to 2021

Figure 3



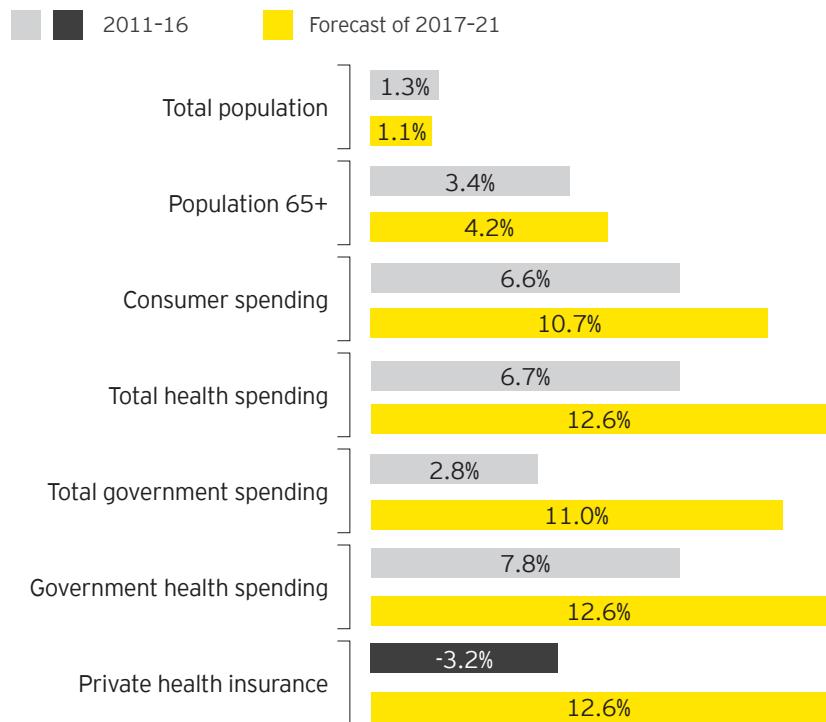
Private health insurance spending has been growing rapidly in the past couple of decades, with a sharp rise to almost US\$2.5b in 2010 (which, we surmise, reflects fears spread by the swine flu epidemic). The Oxford Economics forecast, based on their view of macroeconomic drivers and the increase in government and out-of-pocket spending, is for a resumption of fast growth in the industry from 2017 onward, rising to US\$3.7b by 2021.

And that reality suggests that health insurers must focus on the "missing middle" – the rising cohort of middle-class Indians who are not now insured. Focusing on those who can afford insurance beyond mere hospitalization coverage demands new approaches and innovative strategies.

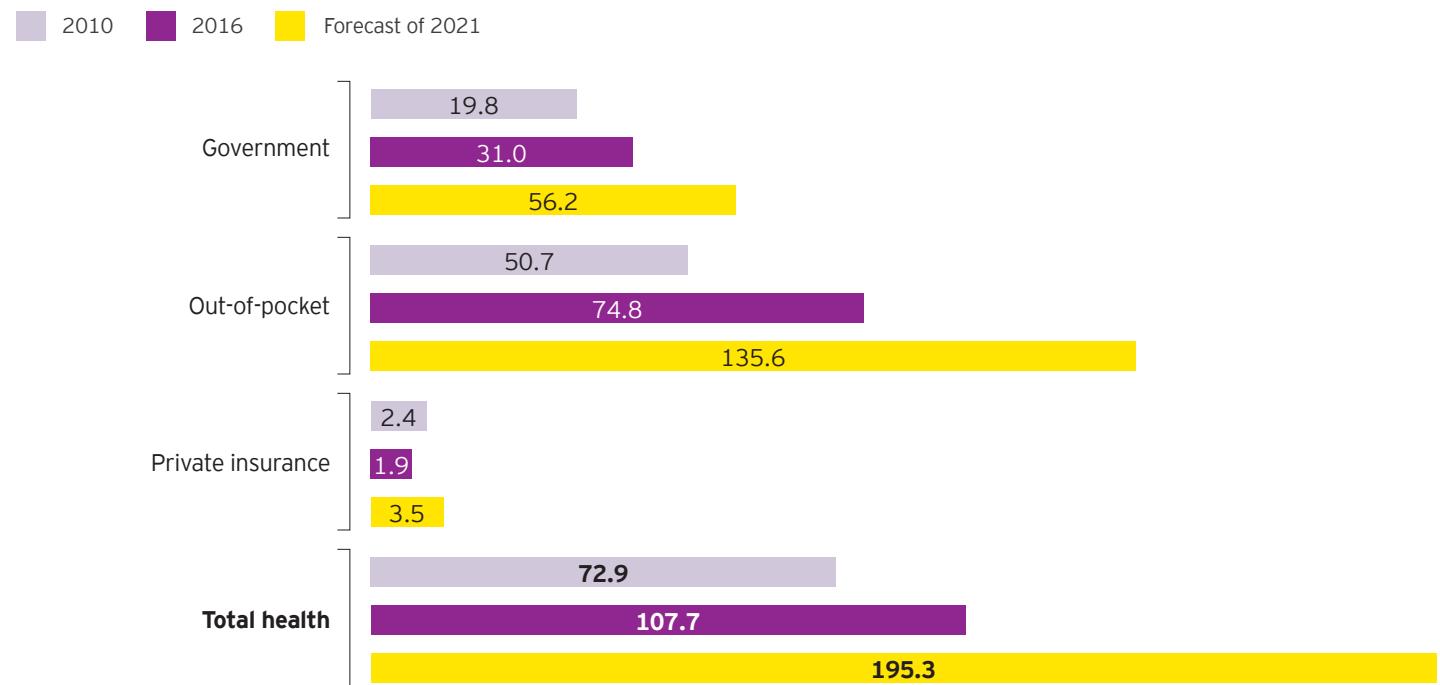
Source: Oxford Economics/Haver Analytics

A snapshot of India

Growth rates, per annum



Spending, US\$b



Source: Oxford Economics/Haver Analytics

Conclusion: Innovations are key

Because the number of uninsured in India is so high, and the amount of government spending on health care and health insurance is so limited, the natural focus of the private sector is on developing innovative solutions that encourage more Indians to purchase health insurance and to recognize the value of preventive rather than emergency care. Notable innovations are also occurring in terms of both digital distribution and creating more effective underwriting pools.

Some of the most intriguing examples include the following :



Family insurance. Employer-based health care is not a practical alternative for many who make their living in the nation's giant, informal economy. Moreover, paying for hospitalization coverage alone is not a sustainable strategy for most companies that consider entering the health insurance market.

One strategy to "de-risk" the health insurance pool and develop a deeper base of customers is to insure an entire extended family, from infant children to aunts and uncles, a tactic the insurer Max Bupa has initiated. An extended Indian family can encompass 40 or 50 people, and by offering coverage to an entire family clan, insurers can significantly grow the customer base and also guarantee they are covering healthy younger patients rather than just the elderly who tend to suffer from chronic or other life-threatening diseases.



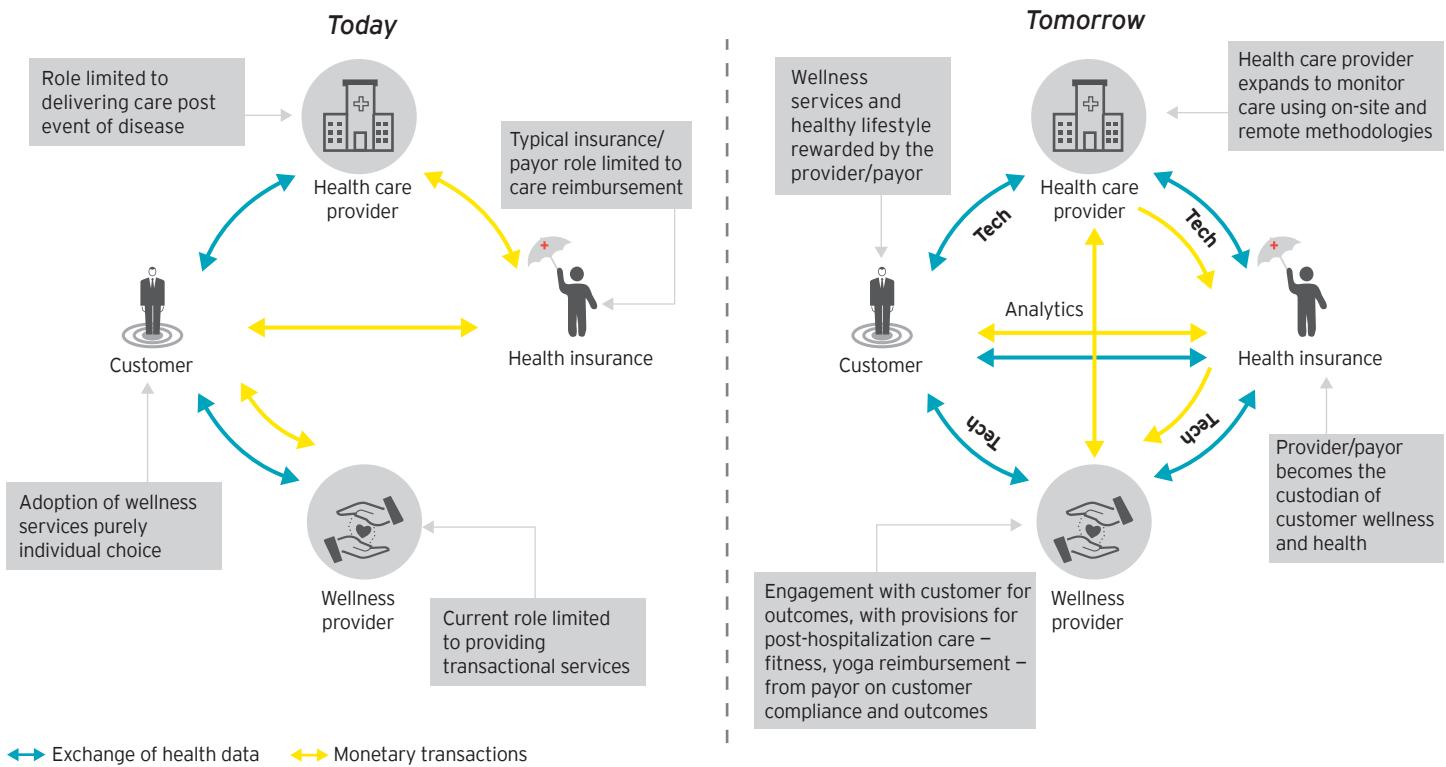
Linking coverage with "wellness." A number of new players in the health insurance market are linking health insurance programs to smartphone applications that monitor physical activity or visits to the gym. Aditya Birla's new insurance program offers a 30% monthly premium reimbursement to clients who work out regularly or who record a certain number of steps in their daily activity. Like many others, it is trying to use digital technologies to boost customer engagement and education to drive cost savings by rewarding healthy behaviors. "We don't want to be a buy-and-forget product," explains Mayank Bathwal, CEO of Aditya Birla Health Insurance. "We want to be a buy-and-engage product."



Creating networks that link coverage to care. Apollo Munich has created a network of pharmacies, clinics and hospitals, and even a call center, to help prospective customers manage their diabetes risk. By linking a smart app on a phone to covered patients, Apollo believes it will cut the hospitalization required of diabetes patients and engage patients in preventive steps that keep them out of the hospital in the first place. Through comprehensive management, Apollo is hoping to prove that its insured customers can spend less money overall as outpatients and enjoy a better quality of life.



Wellness. EY consulting, in association with the Federation of Indian Chambers of Commerce & Industry, released a report titled, "Value Added Service - Wellness and Preventive Healthcare," in December 2016. It highlighted that the success of wellness in India can only be achieved through a self-sustainable ecosystem between the insurer, health care provider, wellness provider and customer.



Support increasing health care costs. With increasing health care costs, close network products are expected to be more effective in driving wellness and health care. This will also be aligned with the government's vision on universal health insurance.

Health saving and Outpatient Department (OPD) are two other opportunities where India has a good opportunity over the coming years, considering the rising costs of health care.

In India's rural areas, however, expanded government coverage will likely be required to care for large numbers of poor citizens, and educational efforts will still be required to explain the benefits of health coverage to those who have never benefited from it.



Digital solutions to counter high marketing and distribution costs

As these examples show, a number of Indian insurers are betting on smartphone applications that will allow clients to track their vital signs, communicate directly with their insurers, and find and schedule appointments with doctors. Digital solutions are seen as a cost-effective way to counter high marketing and distribution costs and to create a new sales channel, distinct from the bancassurance model or the use of brokers. Apollo Munich, for example, is offering very low-cost insurance to cover against dengue fever that can be purchased directly via smartphone.

Additionally, companies are investing in analytics and predictive modeling to improve customer experience, claims management and fraud detection.

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EYG no. 00645-184GBL
1711-2484842

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