

Impact of COVID-19 on Health Insurance Adoption in India

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Abstract

The COVID-19 pandemic has profoundly influenced health insurance adoption in India, a country with a historically underpenetrated insurance market. This research paper examines how the pandemic altered consumer behavior, raised awareness of healthcare risks, and influenced government policies and private sector strategies. By analyzing data from surveys, industry reports, and secondary research, the paper highlights key trends, challenges, and opportunities in India's health insurance landscape post-COVID-19.

Introduction

The COVID-19 pandemic exposed vulnerabilities in India's healthcare system, driving an unprecedented focus on health insurance. Despite India's growing population and increasing healthcare expenditure, health insurance penetration has remained low. The pandemic acted as a catalyst, compelling individuals and families to secure financial protection against unforeseen medical emergencies.

- **Research Questions:**
 - How has COVID-19 influenced health insurance adoption in India?
 - What factors contributed to the shift in consumer behavior?
 - What role have government and private insurers played in this transformation?

Pre-COVID-19 Health Insurance Scenario in India

Before the onset of the COVID-19 pandemic, the health insurance landscape in India exhibited several notable characteristics:

Low Insurance Penetration: According to the IRDAI report of 2018, the penetration of health insurance was approximately **37%**, leaving a significant portion of the population uninsured. A majority of individuals bore healthcare expenses out-of-pocket, leading to financial strain for many households in the event of serious illnesses.

Dominance of Employer-Sponsored and Government Schemes: Health insurance coverage was primarily **employer-sponsored** for salaried and urban workers. These plans were limited in scope and coverage.

Government initiatives like **Ayushman Bharat** targeted vulnerable and economically weaker sections, offering coverage to more than 500 million individuals. However, a large portion of the population remained outside the purview of such schemes.

Limited Public Awareness: Awareness regarding the need for health insurance was especially poor in **rural and semi-urban areas**, where disposable income was low, and insurance products were either inaccessible or unaffordable. Health insurance was perceived more as an option than a necessity, with many viewing it as an additional financial burden instead of a protective tool.

Market Focus: The health insurance industry predominantly catered to urban, middle-class customers. Insurers focused on offering indemnity-based products with coverage for hospitalization but limited focus on preventive care or outpatient treatments.

Challenges in Outreach and Affordability: A lack of **distribution channels** in rural areas hindered the ability of insurance companies to reach these regions. Premiums were often unaffordable for low-income groups, making health insurance an unattractive choice for those with competing financial priorities.

Pandemic's Influence on Health Insurance Adoption

Increased Awareness: The fear of hospitalization costs during COVID-19 heightened awareness of health insurance benefits. Google Trends data indicates a surge in searches for health insurance during 2020-2021.

Rise in Individual Policy Purchases: Insurers reported a significant increase in first-time buyers, particularly among millennials. Customizable policies addressing COVID-19-related expenses, such as "Corona Kavach" and "Corona Rakshak," gained popularity.

Growth in Digital Platforms: Lockdowns spurred digital adoption, making it easier for individuals to research, compare, and purchase policies online. Insurtech companies witnessed exponential growth, with platforms offering seamless user experiences.

Government Initiatives: Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (PM-JAY) expanded its coverage during the pandemic, benefiting economically weaker sections. Tax incentives for health insurance premiums under Section 80D also played a role in boosting adoption.

Literature Review

1. Pre-Pandemic Status of Health Insurance in India

India historically had low health insurance penetration rates. According to the Insurance Regulatory and Development Authority of India (IRDAI), only around **37% of the population** was covered under health insurance by 2018. The primary reasons for under-penetration included:

- Lack of awareness about health insurance products (Somil et al., 2017).
- Mistrust in insurance providers due to perceived complexities and delays in claim settlements (Kumar & Ramesh, 2015).
- Heavy reliance on out-of-pocket (OOP) expenditures, constituting **62% of total healthcare expenses** (National Health Accounts, India, 2019).

2. Pandemic-Induced Changes in Health Awareness

The pandemic reshaped attitudes toward health and financial security. Studies (e.g., Sharma et al., 2021; Bhatia et al., 2022) highlight how increased health risk awareness during COVID-19 accelerated the demand for financial instruments such as health insurance. Key insights include:

- COVID-19 acted as a *behavioral catalyst*, fostering proactive risk mitigation strategies.

- Rapid increase in policy purchases, with IRDAI reporting a **35% growth in health insurance policies in 2020** (IRDAI Annual Report, 2021).

3. Factors Influencing Health Insurance Adoption Post-COVID-19

The pandemic intensified certain factors contributing to insurance adoption:

a) Risk Awareness and Perception

The uncertainty associated with COVID-19 mortality and morbidity risk led families to seek health insurance to manage potential healthcare expenditures (Roy & Manna, 2021).

b) Government Policies and Pandemic Relief Efforts

Government initiatives like the **PM-JAY (Pradhan Mantri Jan Arogya Yojana)** and other health insurance schemes gained traction. These were crucial in enabling underprivileged households to access affordable health coverage (Rathi et al., 2020).

c) Insurtech Adoption

Digital technologies have simplified insurance buying and claim processes, enhancing accessibility during and after lockdown periods (Joshi et al., 2022).

4. Behavioral and Economic Barriers

Despite heightened demand, barriers such as affordability and lack of digital literacy persisted. Studies by Gupta et al. (2022) highlighted that:

- **55% of uninsured households** cited affordability concerns.
- Structural challenges like low claim settlement rates and policy exclusions deterred trust among potential policyholders.

5. Broader Impacts of COVID-19 on the Indian Health Insurance Industry

Beyond consumer behavior, the pandemic reshaped the operational landscape of insurers:

- Customization: Introduction of specific COVID-19 coverage plans such as **Corona Kavach** and **Corona Rakshak** policies.
- Digitization: A surge in online policy sales through web aggregators and fintech platforms.

The sector also witnessed a rise in private-public collaborations to drive health insurance adoption (Shankar et al., 2021).

6. Comparative Global Studies

India's trends parallel those observed in other developing nations, where pandemics have historically triggered spikes in insurance awareness and purchases (e.g., during SARS in Hong Kong or Ebola in West Africa). However, high-income nations demonstrated a **higher insurance penetration rate pre-pandemic**, cushioning them from catastrophic OOP health expenditures.

Research Methodology

1. Research Design

This study adopts a descriptive research design to analyze how the COVID-19 pandemic has influenced the adoption of health insurance in India. The focus is on identifying trends, patterns, and underlying factors affecting consumer behavior. AI tools, such as ChatGPT, were used to draft or support the writing process.

2. Data Collection

This study exclusively relies on secondary data, which includes the following sources:

- **Government Reports:** Insurance Regulatory and Development Authority of India (IRDAI) annual reports and press releases.
- **Industry Publications:** Data and insights from reports by insurance companies (e.g., ICICI Lombard, Star Health, etc.).
- **Academic Literature:** Articles from journals related to health economics, public health, and insurance policies.
- **Surveys and Studies:** Pre-published findings by organizations like NITI Aayog, FICCI, and ASSOCHAM regarding healthcare and insurance.
- **Media Reports:** Information from reputable newspapers, magazines, and online news portals.
- **Databases:** Use of databases like Statista, World Bank, and IndiaStat for insurance adoption and COVID-19 statistics.

Data Analysis and Interpretation

Surge in Health Insurance Coverage

Between April and September 2020, the number of lives covered under health insurance policies rose by 69.8%, reaching 30.22 crore, compared to 17.83 crore during the same period in 2019 (ThePrint, 2020). This surge in coverage can be attributed to increased awareness due to the pandemic.

Premium Growth

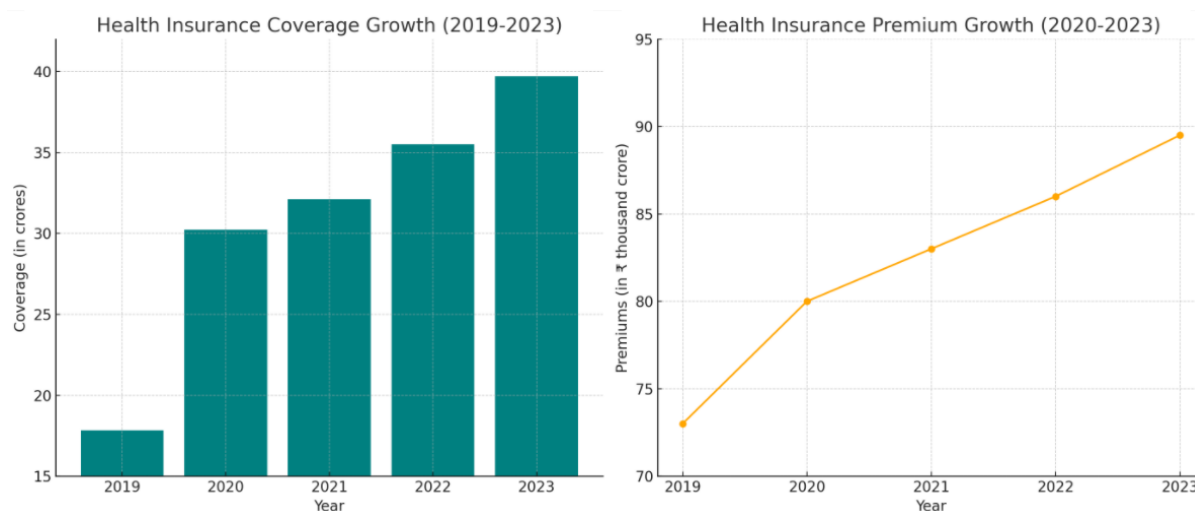
Health insurance premiums have experienced substantial growth. In the fiscal year 2023, premiums increased by 22%, amounting to ₹89,492 crore, up from ₹73,052 crore in March 2022. This increase is largely due to higher premiums from existing policyholders rather than a significant increase in the number of lives covered (Times of India, 2024).

Post-Pandemic Demand Increase

Post-COVID, demand for health insurance surged by 321%, with Tier-I cities accounting for 61% of this demand. However, cities like Coimbatore, Chandigarh, and Jaipur in Tier-II regions also experienced significant increases in health insurance inquiries (The Hindu, 2022).

Government Initiatives

In 2024, the Indian government expanded its healthcare program to provide free medical insurance to citizens aged 70 and above, with annual coverage of ₹5 lakh per family. This initiative aims to benefit an additional 60 million people (Reuters, 2024).



Important Findings

- Increased Awareness of Health Risks:** The pandemic heightened consumer awareness regarding the financial vulnerability caused by healthcare risks. The surge in Google search trends for health insurance between 2020 and 2021 indicates a heightened interest, primarily driven by the fear of hospitalization costs due to COVID-19.
- Shift in Consumer Behavior:** There was a notable increase in first-time buyers of health insurance, especially among millennials, who sought more flexible and customizable policies like "Corona Kavach" and "Corona Rakshak." This shift towards individual health insurance policies marked a change from the previous reliance on employer-sponsored schemes.
- Growth of Digital Platforms:** The pandemic-induced lockdowns accelerated the adoption of digital platforms for buying health insurance. Insurtech companies benefited from a surge in online policy purchases, offering seamless user experiences and making insurance products more accessible.
- Government Initiatives:** Government efforts, such as the expansion of Ayushman Bharat (PM-JAY) and offering tax incentives under Section 80D for health insurance premiums, played a critical role in driving up the adoption rate of health insurance, particularly among economically vulnerable sections of society.
- Rural and Semi-Urban Demand:** While Tier-I cities exhibited the highest demand growth, Tier-II cities also experienced significant increases in health insurance inquiries. However, gaps in digital literacy and affordability continue to hinder adoption in rural regions, where disposable income remains low.
- Affordability and Trust Barriers:** Despite the increased demand, barriers like concerns about affordability and mistrust in insurers due to perceived complexities, claim settlement delays, and policy exclusions continue to deter some potential policyholders.

7. **Premium Growth:** Health insurance premiums grew substantially by 22% in FY 2023, with a significant increase in premiums from existing policyholders. This suggests that while there was not an overwhelming increase in new customers, existing policyholders recognized the increasing value of their coverage.
8. **Global Comparisons:** The trends observed in India align with those seen in other developing nations, where pandemics catalyzed greater interest in health insurance. However, India's low penetration compared to high-income nations indicates a critical opportunity for further growth.

Recommendations

1. **Enhanced Outreach in Rural Areas:** To tackle the issue of low awareness in rural and semi-urban areas, insurance companies should focus on building trust through community-driven initiatives, targeted educational campaigns, and leveraging local influencers to overcome skepticism about health insurance products.
2. **Promote Affordability:** The affordability of health insurance needs to be improved through government subsidies, lower premiums for low-income households, and innovative payment options. This can increase coverage, especially among economically disadvantaged segments.
3. **Digital Literacy Programs:** Given the shift to online platforms, insurers should invest in digital literacy programs to empower potential buyers in understanding product features and navigating online insurance platforms. This is critical in rural areas where access to technology might be limited.
4. **Government and Private Collaboration:** Public-private partnerships can help enhance coverage and improve affordability, particularly in underserved segments. Expansion of government programs, such as free medical insurance for senior citizens, should be complemented by private sector initiatives offering customizable plans.
5. **Innovation in Product Offerings:**
 - There should be a greater focus on offering more flexible and comprehensive products that cater to a wider range of health risks, including outpatient care, preventive measures, and mental health coverage.
6. **Improving Trust and Transparency:**
 - Insurance companies must address the barriers of trust by simplifying their processes, enhancing transparency, and providing clear communication regarding claim settlements. Efforts to build consumer confidence in the claims process will likely contribute to increased adoption.
7. **Leveraging Digital Health Insurance Models:**
 - Insurtech companies should continue to innovate by providing more personalized, easy-to-understand health insurance policies, accessible through user-friendly mobile apps and online portals.

Conclusion

The COVID-19 pandemic has acted as a pivotal catalyst for transforming the health insurance landscape in India. While health insurance penetration was historically low, the health crisis amplified the need for financial protection against unforeseen medical expenses. The surge in awareness, particularly in response to the growing risks associated with the pandemic, has led to significant shifts in consumer behavior, with an increase in first-time policyholders and a greater acceptance of digital platforms for insurance transactions.

Government initiatives like Ayushman Bharat and tax incentives, combined with the increasing popularity of customizable health insurance plans and the rise of digital solutions, have accelerated adoption, particularly in urban and semi-urban areas. However, challenges such as affordability, limited trust in insurers, and a lack of digital literacy continue to impede the progress of full market penetration, especially in rural areas.

To build on the progress made during the pandemic, stakeholders—ranging from government bodies and private insurers to insurtech companies—must work together to overcome existing barriers. Emphasizing accessibility, affordability, and transparency will be key to ensuring that health insurance becomes a basic necessity for all Indian citizens, contributing to greater financial resilience in the face of health-related risks.

The findings of this research underscore the significant opportunities for growth within India's health insurance sector. By continuing to innovate and address the unique challenges of various demographic groups, India can move toward a more inclusive and comprehensive healthcare system, enhancing the well-being of its population in the long term.

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