NEWSLETTER
HEALTH AND AGEING

THE GENEVA ASSOCIATION

No. 33 October 2015

India: Social Insurance Schemes in the Social Media Era

by S. Jayaprakash+

This article discusses India's evolution in terms of population growth and the development of social media. It also describes the challenges the country is facing in bridging the gap between the growing need for health-care infrastructure and social insurance, and provides some suggestions on how to bridge that gap. The article concludes by discussing how the recently promoted social insurance scheme has performed and suggests ways in which it can be improved.

Growing society and growing social media

India today has a competitive edge in many respects. It is expected to overtake China by 2050 as the country with the world's largest population: the positive side of this demographic trend is the enormous manpower potential it creates; however it also creates a major challenge in terms of providing health care for its citizens and promoting social insurance.

Over the same period, the growth of social media in India is expected to be very high. According to the report *Social Media in India 2014*, jointly released by IAMAI and IMRB International, social media users in the country had reached 143 million as of April 2015, with rapid uptake seen in rural India where the user base in the last one year doubled to 25 million.[1] This growth of social media usage has stirred interest amongst big companies like Facebook and Google. It has also spurred the creation of various health-care start-ups in India that provide various kinds of health-care services to customers via the Internet such as specialist advice, telemedicine, etc. Most of them, however, are focusing only on niche segments and it may take a long time to cover the entire country, especially rural areas.

India is a socialistic state; the government has introduced many welfare measures for its citizens such as free medicine, free treatment in government hospitals and some degree of old-age pension. It also provides money to the family members of pension beneficiaries who die due to a natural calamity, or accidents that have occurred due to inadequate government regulation, for example, railway and road accidents, accidents due to poor road infrastructure, epidemics, etc. This is the only form of alternate risk management mechanism that the government has adopted to safeguard families from the distress of financial constraints. The compensation amount also varies depending upon various factors like the nature of the accident, place, sensitivity, etc., from INR 10,000 to a several INR 100,000.

In the earlier part of the 20th century, India had a strong "joint family"[2] system. Under this system—the best insurance mechanism at the time in India—dependents of deceased persons were cared for by the other family members. With the growth of urbanisation, many families have split up for economic and logistic reasons, and slowly India is witnessing the death of the joint family system. Many poor people have already migrated to urban areas because of declining agricultural and related economic activities in rural areas. Ambitious plans by the Narendra Modi government to build 100 smart cities is going to further intensify this urbanisation trend.

+ Author is co-founder and vice-president of Nanobi Data and Analytics, Bangalore and has more than two decades of experience in Insurance sector (jayaprakash@nanobianalytics.com). Views are personal.

1 See http://www.iamai.in/PRelease_detail.aspx?nid=3582&NMonth=6&NYear=2015

2 An extended family consisting of several generations living in the same home.

Directionless direction

Many people living below the poverty line (BPL) have very uncertain futures and live from hand to mouth. Their access to health-care facilities is very limited due to various factors such as lack of a daily income, poor doctor–patient ratio, poor hospital bed ratio, etc.

The *National Health Profile 2015*[3] recently released by the Central Bureau of Health Intelligence paints a grim picture, in particular with regard to the longevity of common, poor citizens. Here are some highlights:

- India considers infrastructure an important indicator for understanding its health-care policy and welfare mechanism, yet with one government hospital bed catering to approximately 1,833 patients, the data are not favourable.
- India has not reached its ambitious goal of spending 2 per cent of GDP towards health care. Instead, health spending is dwindling: statistics show that, in 2011–12, the share of total public expenditure on health was 35 per cent, and fell to 33 per cent in 2012–13 and to 30 per cent in 2013–14.
- Out-of-pocket expenditure has increased steadily over the years: the rising awareness of diseases has led to more diagnoses as well as increased expenditure on medicines, consultations, etc.
- Non-communicable diseases in India are on the rise: heart disease (24 per cent), cancer (6 per cent) and diabetes (2 per cent) are now the leading causes of mortality in India.
- The increase in pollution is taking a significant toll: nearly 3,000 deaths in 2014 were related to acute respiratory infection (ARI).

Hence, the longevity of poor people is a big question mark. These people do not have access to any form of insurance. Some families are lucky to receive money from the government for family members whose death happens to be due to a form of accident or epidemic, as mentioned earlier in this article.

At this juncture, insurance is deemed to be one of the best risk-mitigating mechanisms for the masses. Though the Insurance Regulatory and Development Authority (IRDA) stipulates that all insurance companies must comply with a minimum percentage of rural coverage, there has still not been any significant impact even 16 years after the liberalisation of the insurance sector. Hence, the government has brought out a major insurance scheme under the banner 'Pradhan Mantri Insurance Scheme'.

About the Pradhan Mantri insurance scheme 2015

Insurance is not only a form of risk management but also a mechanism to protect the economy. Even after liberalisation in 1999, insurance penetration hovers around 3.9 percent of GDP, which is far behind the world average of 6.5 per cent.

In India, insurance continues to be sold, not bought. Unless the population has had previous experience with insurance, it does not understand the importance of it. This may change thanks to the Narendra Modi government's initiative to introduce the Pradhan Mantri Jeevan Jyoti Bima Yojana, which offers life insurance coverage of INR 200,000 at a premium of INR 330 per annum for those aged between 18 years and 50 years, and the Pradhan Mantri Suraksha Bima Yojana, which is an accident insurance plan at a premium of INR 12 per annum for the age group 18–70. The government has also introduced 'Atal Pension Yojana', which offers a fixed monthly income of between INR 1,000 and INR 5,000 during old age depending upon the contributions. Comparatively, because poor people have less longevity, the government has designed these low-premium high-benefit plans to maximize penetration to these segments.

In 2014, before the introduction of these schemes and to improve financial inclusion, the government announced the 'Jan Dhan Yojana' bank account scheme with the objective of bringing many people into the banking fold. Rules for enrolment were relaxed. Motivational factors were attached to this account, such as subsidy credit, loan credit, a RuPay card with free accident insurance coverage of INR 100,000, and more. Despite these benefits, official

3 http://www.cbhidghs.nic.in/E-Book%20HTML-2015/index.html#2-3

statistics show that only 155.9 million accounts have been opened and of these, 85 million held zero balance as of 13 May 2015. This means that about 50 per cent of these accounts are yet to be operational. So, mere numbers do not mean financial inclusion.

Making the insurance scheme work well

Insurance schemes may suffer a similar fate as the Jan Dhan scheme if some amount of flexibility is not exercised at this point. While the banking scheme aimed at financial inclusion, the insurance schemes, because of factors such as inadequate health infrastructure, larger numbers of dependents, more urbanisation, etc. have higher significance for poor people. Hence, some suggestions for improving the reach of these schemes are provided here.

For starters, these schemes do not have any great subsidy component, which means that the premium may fluctuate year after year depending on experience. Also, the target age group of 18–50 years for life insurance could be a cause of concern, as people in this age group are generally confident about experiencing higher, normal longevity. But all would be unsure of accidental death and hence want to get insurance for it.

Already the majority of people may have 'missed the bus'; the government announced that they were waiving the health declaration requirements for people who avail themselves of these schemes before 31 August 2015. But there is not much reach despite such motivational factors, as statistics show. As of 31 August 2015, 112.8 million insurance and pension schemes were bought: 84 million for accident insurance, 27 million for life insurance and a mere 729 thousand for pension. This means that people are already aware of accident cover and are buying it, while policies for life insurance and for pension are not very popular. It should be noted that not all the distribution channels were showing enough interest to promote the scheme, as the commission is small when compared to the work involved. It has to be made clear that, though the government brought this out as a social measure, not all the channels took it as such, but rather as a commercial measure, leading to lesser penetration than expected.

Some of the political parties have shown interest in funding premiums for a select category of citizens. For example, some political parties have paid premiums for 10,000 people in a particular town/village to bring them under insurance cover, but the big question is the continuity of premium payments in such cases, because the premium rate also depends upon continuity, lapses, new member enrolment, claims made and other factors. The lapse ratio in the industry in general is high. So, if 30 per cent of policies lapse during the second year, the premium rates for continuing members will increase, which will lead to further lapses in the following year. Also, the expense component charged in the premium is very small, about 15 per cent. It may not be enough to probe claims thoroughly and can lead to an increase in the number of fraudulent claims. If that happens, it will indirectly increase premiums. So, while people may leave by lapsing, lack of control may motivate fraudsters to join, thus creating a double blow. (Though the government foresees no upward revision of premiums in the first three years, there is also a disclaimer 'due to unforeseen circumstances').

One way to avoid such a situation is to enrol more genuine people in the schemes. Studies indicate that the insurable population in India is expected to be around 750 million in 2020, with life expectancy reaching 74 years. Therefore, we need to have bank account penetration of that magnitude.

To bring more people under this net, extending the product design would be a good move. According to the Indian Assured Lives Mortality (2006–08) table,[4] effective 1 April 2013, the probability of death compared with age of 50 (which is the current maximum age limit for enrolment) increases manyfold at the ages of around 58, 63, 67 and 70. Hence, charging extra premium for older categories, without denying insurance, could be an option. Proper controls can cut losses.

Bringing higher age groups under insurance also has a sociological angle to it. These days, many families struggle with paying for themselves and taking care of their children's needs such as education and marriage. Big financial challenges come up after a person turns 55. Charge them an extra premium, but allow participation. This will increase the population base.

4 http://www.actuariesindia.org/publication/IALM-_Mortality_Tables_(2006-08)_ult%20.pdf

Frauds are prevalent to the tune of 15–20 per cent in the insurance sector. To reduce this, make it mandatory for claims to be settled only through processes such as using Aadhar (a 12-digit unique identity number) whenever possible. In an era of statistical advancements in analytics at reasonable costs, use fraud analytic techniques to spot possible fraud patterns and create a system of mobile phone alerts to avoid frauds.

Insurers should understand that the government is enabling the population to experience insurance. Hence, it is important for insurers to leverage more cross-selling and up-selling of regular insurance schemes. For example, selling simple general insurance schemes such as home insurance or jewellery insurance will help cross-subsidise any losses arising from the government schemes in the long run.

Conclusion—bridging the gap

Insurance in India is about creating awareness so that people can buy. There is no dearth of social media activists, social media coverage, etc. in India. What we lack now is bridging the gap so as to promote such social insurance schemes to bring more people under the insurance net, which will also reduce the burden on government.

There are lots of health-care start-ups and also a lot of venture capital funding going on in India's health-care space; one key element to retain in all these ventures is to promote social insurance schemes through social media for more enrolment and to cover more poor people within the health-care net, which will also reduce the claims in the accident and life insurance portfolio.

While in the past, many social insurance schemes have been launched but have failed to achieve their objectives, the current government has taken good steps to make sure that its policies work. The waiving of the health declaration requirements for three months up to 31 August 2015 was a step in the right direction towards bridging the gap. At this juncture, Government should consider extending not only the deadlines but also include other age brackets as well with necessary controls and also try to leverage on the emerging start-up culture to make these schemes reach out to the masses.