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An empirical study on insurance sector in India post covid-19

Rashmi MR
Assistant Professor, Department of Economics, Maharani Women's Arts, Commerce and Management College, Seshadri Road Bengaluru, Karnataka, India

Abstract
The Covid-19 outbreak has changed the economies across the world. Indian economy is no exception in this regard. The key sectors in the financial front have seen a sea change in terms of the way and the mechanisms before and post-Covid. The present study is undertaken with special reference to Insurance Sector in Indian context. The inclination of the urban India towards the Health Insurance is a takeaway for the insurance sector. The article unfolds the various facets of the Insurance sector in the Indian context.

Keywords: insurance, policy, economic environment

1. Introduction

The coronavirus and its spread have thrown a curve ball for everyone across the globe. Not only has it had a micro-level impact but it has affected countries at a macro-level as well. Industries across the globe are facing challenges they have not seen before. One such industry that is facing multiple challenges is the insurance industry. The COVID-19 crisis has not only given rise to immediate challenges but also raised a lot of long tail questions for the insurance industry, PWC India states in its report, COVID-19 impact on the Indian insurance industry. "The industry deals with the possibility of claims on a policy being made for the next seven years in the case of some risks. For some products like health, which are lifelong renewable, additional attention has to be paid to portfolio ageing.

Covid-19: Considerations for the Insurance Industry [1]

COVID-19's impact on the insurance industry will undoubtedly be severe. The primary impact on insurers across all lines of business — from property and casualty (P&C) to specialties — will likely be on the balance sheet. This will stem from the challenge of navigating large claim exposures combined with a fall in the global equity markets, which has reduced investment return income. Investment income previously supported overall income, lowered combined ratios, and mitigated prior-year losses. Many specialty insurers operating in long-tail businesses are yet to assess COVID-19's severity. Various coverage areas, however, already feel the impact. Following are some key questions and considerations for various lines of business.

Impact of Covid-19 on the India's insurance Industry [2]

The pandemic has pushed businesses across sectors to change the way they operate and the insurance industry is no exception. From selling new policies to settling claims, the extended lockdown in the wake of covid-19 has pushed insurance companies to depend heavily on their digital architecture.

According to the PWC report the two productive months for the insurance industry—March for life insurance and April for non-life corporate renewals—have been hit by around 30% and 15%, respectively. It further emphasizes the changes insurers will have to bring about in terms of their product categories.

- **Health insurance**

Private health insurance schemes coverage is only 18% of the population in urban areas and a little over 14% in rural areas. "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.

The number of claims for covid-19 is not really hurting insurers as much because the number of planned surgeries are down at the moment. For general insurers who have a mixed bag of products, motor claims are down due to the lockdown and social distancing which means their loss ratio is down too. "Planned surgeries will happen eventually and claims could go up then. But it is also important to note that covid-19 claims are not very high in number because the percentage of people covered under health insurance is quite low. As a percentage of the total number of cases, the claims filed are very less.

Insurers believe the fear around covid-19 has pushed people to buy health insurance. The inquiries about health insurance policies have increased by about 30-40%.

But the issue now is the lack of data related to patient profiles, morbidity rates, and the course and cost of treatment which is required to underwrite risk and determine the premiums for products that are designed specifically for covid-19. Companies are consequently at the risk of under or overpricing their products.

"Based on the emerging experience of Covid-19 claims, insurance companies will need to test the hypothesis of the state-wise or district-wise possibility of escalation of claims."

[1] https://www.marsh.com/uk/insights/research/covid-19-considerations-for-insurance-industry.html
[2] DishaSanghvi (2020) Covid-19: How it has impacted India's insurance industry

- **General insurance**

A large proportion of the general Insurance industry is dependent on industries and businesses such as automobile, travel, hotels and infrastructure. So challenges in these sectors due to the lockdown could create additional issues.The automobile sector was witnessing a slowdown even before the pandemic set in. The over 70-day lockdown leading to job loss and pay cuts across most industries will put the purchase of new vehicles on the back burner, hurting the motor insurance space further.

"Normally, that (lack of new purchases) would be compensated for by increasing the coverage net of existing vehicles, a vast majority of which fall out of the insurance net by the third and fourth years. But that would be difficult to do given the lack of distribution feet on the street.

For every insurer, the motor portfolio dipped in April-May because customers delayed renewals and the sale of new cars was minimal. It will take two-three months for normalcy to return because the production of new vehicles is gradually getting back on track. For motor insurance, the number of claims has come down to less than 5% of the normal which led to some savings for insurers.

There is a possibility of vehicle owners considering own damage (OD) as a luxury and retaining only the third-party component for a while. Even multiple-year third-party insurance may see drop-offs despite being compulsory. This could be The case for the next few months but given that users will prefer using their own vehicles, the sale of OD component will not take a hit for long.

On the personal accident front, too, low claims are expected due to lack of activity and movement, and also lower renewal of policies. This is a category where penetration is clearly very low and insurance companies would do well to concentrate and try to increase business here as it is not dependent on underlying economic activity.A fall in the sale of new vehicles directly impacts the growth of new premiums. Overall till June, the industry has seen de-growth in the motor segment by 11%. will continue for the next one quarter and The festive season could see a rise

- **Life insurance**

With a crisis like this, there is a rush to increase one's cover. According to the PwC report, pure life covers should see renewed interest, and since that is largely an online market, it should see a boost in demand. There is awareness of being protected and protecting loved ones from unforeseen risks. In line with this, consumers are more inclined towards pure protection covers leading to an increased demand for term plans.

Long-term guarantees will look attractive, but insurers will face constraints in continuing to marketing these products as interest rates plummet. The overall uncertainty in the environment, the market volatility and the falling interest rates has made an average consumer more cautious. The Investment-Linked Products could also experience a drop in demand as consumer confidence in the stock market is shaky. "Overall market volatility and falling interest rates have taken the focus away from products that have Long-Term savings and variable returns through linked instruments or annual bonuses. This has led to consumer confidence shifting to products with guaranteed returns and benefits, such as non-participating plans apart from the shift to pure term plans. Though the pandemic has changed the way people look at insurance and has pushed companies to tweak their product strategies, there lie opportunities to re-imagine operations.

Reasons for the Exclusions of Covid-19 Under Insurance Coverage

- Communicable Disease
- Sars-Cov-2 Virus is A Pollutant/ Contaminant
- Restriction on the Operations

Premium Collection of Life Insurance Companies

Life insurance companies saw a 32.2 percent year-on-year (YoY) decrease in the new premium collection to Rs 25,409.30 crore in March 2020 amidst the coronavirus pandemic leading to a lockdown across the country. Similarly, for April 2020, the first-year premium collections declined 32.6 percent year-on-year (YoY) to Rs 6,727.74 crore in April 2020. For the month of March, the new business premiums of life insurance companies stood at Rs 25,409 crore compared to Rs 37,459 core in March 2019. The private life insurers, 23 in total, saw their new business premiums decline by 34.21 per cent in March 2020 at Rs 8,342 crore compared to Rs 12,682 crore in the same period of the last financial year.

Similarly, state-owned life insurance behemoth – Life Insurance Corporation (LIC) – saw its premiums decline by 31.11 per cent in the reporting month. In March 2020, it collected new business premiums to the tune of Rs 17,066 crore compared to Rs 24,776 crore in March 2019. However, for the entire fiscal year (FY20), life insurers saw new business premium grow 20.6 per cent to Rs 2.58 trillion compared to Rs 2.14 trillion in FY19. LIC outpaced the private insurers in new business premium growth in FY20. LIC's premium grew 25.17 per cent to Rs 1.77 trillion while private insurers reported an 11.64% per cent growth to Rs 80,919 crore.

The Horizon for Insurance Companies in 2020

The impact of COVID-19 will dominate business decisions over the next year and beyond as insurers manage their claims as well as their regulatory capital levels. Insurers' business continuity plans will be tested as the majority of workers operate from home during the pandemic. Conduct and governance will be carefully scrutinized by supervisors during this period and reviewed for effectiveness after the crisis subsides.

Aside from the pandemic, other market challenges should not be overlooked. The pace of regulatory change has continued over the past year and will continue for the future. In Australia, the Government plans to focus on individual accountability in insurance companies as well as product governance. In South Africa, a new 'Twin Peaks' model of regulation settles in under which prudential supervision is separated from market conduct. China is increasingly opening up its insurance market to foreign investment. The restriction on the ownership of life companies in China was lifted in January this year. The result is that foreign investments into any life or non-life insurers, reinsurers or insurance intermediaries are no longer subject to any foreign ownership restrictions.

The risks arising from climate change will have a significant impact on insurers over the next few years. Regulators expect insurance companies to be able to manage their exposure to these risks and be able to report how they are doing. In a number of jurisdictions insurance companies have to be able to demonstrate how they are managing the financial risks of climate change, including the impact of 'transition risks' as the economy shifts away from carbon assets. Furthermore, as climate change causes more extreme weather-related damage many insurers will find themselves exposed to unanticipated losses, or 'silent climate' exposures.

As has been seen over the past few years, technology is transforming the insurance market with dynamic new providers entering the marketplace. Jurisdictions, such as Hong Kong, have introduced expedited licensing or 'sandboxes' (in which products can be tested) to encourage new market entrants. In the current economic environment InsurTech start-ups may be able to thrive as existing products reliant upon legacy systems struggle to keep pace with changing consumer demand.

Covid-19: A Global Challenge In 2020

COVID-19 will impact insurers and reinsurers across the globe. Claims under personal lines will be made under travel and PMI and health policies and, tragically, also life policies. Commercial lines will face numerous business interruption (as well as contingent business interruption) claims, trade credit, D&O, professional liability, public liability and employers' liability claims. In many instances existing policies will not extend to covering claims related to the pandemic, without extensions for diseases or pandemics.

Escalating claims will require insurers to closely monitor their capital position over the next few months and consider new exclusions to cover. Regulators will expect insurers to treat policyholders fairly and not unreasonably reject legitimate claims. This will mean providing clear information about claims and coverage when policyholders get in touch.

Operational challenges will test business systems as employees rely on remote working to Access Company IT. With remote working comes vulnerability in terms of cyber security and privacy. The fallout from the virus will dominate the remainder of the year as insurers manage claims, and ensure business continuity. There will inevitably be disputes as a result of the outbreak, as was seen after the 2003 SARS epidemic.

For health and life insurance policies, the Insurance Regulatory and Development Authority (IRDA) of India has issued guidelines which call upon insurers to settle all claims related to COVID-19 responsibly. However, there are certain exclusion clauses which can prevent a successful claim:

1. The standard exclusion as set out by IRDA in its guidelines for standardised exclusions in a contract exclude any unproven treatment for which there is no medical record or study. At present, there is no proven medical treatment or vaccine prescribed for treating COVID- 19 patients and the claim can be rejected on this ground.
2. The contract may exclude claims of a person infected with COVID-19 if he or any of his family members have recently travelled to COVID-19 affected countries like China, Italy, etc.
3. A claim may be rejected if a person contracts COVID-19 during the policy waiting period, which is generally 30 days after the issuance of policy.
4. A claim may not be allowed if an insured was not hospitalised for 24 hours or more.

These are just a few examples, but they can be resisted by the *main purpose rule,* which lays down that wide exclusion clauses will be read down to the extent to which they are inconsistent with the main purpose, or object of the contract.

Impact of Covid-19 and new tax regime on the Life Insurance Sector [3]

As per the data published by the Insurance Regulatory and Development Authority of India (IRDAI), life insurance companies logged a growth of 11.36% in the collective sum assured. The sum corresponds to the collection during the end of the financial year 2019-2020. In contrast, the new premium collection dropped 32% to Rs.25,409.30crore in March 2020 as compared to Rs.37,459.36 crore in March 2019.Life Insurance Corporation (LIC), with the largest market share of around 76%, reported 31% dip in new premium income during the last month of FY20 as compared to the same month in FY19. Other private insurers have also been hit, such as Aviva Life Insurance (-80.18%), Pramerica Life (-73.1%), and Future Generali Life (-62.24%).The lockdown imposed across the nation due to COVID-19 has created an adverse impact on the life insurance sector. Since the social distancing norm began early March, it majorly affected the sale of fresh policies for tax-saving purposes during the month. Another cause for the drop in sales can be attributed to the new tax regime. Though the new tax regime is applicable from the next financial year, individuals may have opted for another long-term commitment if they do not intend to avail tax deduction from the next year. A growth of 37.5% in the new business premium of life insurers was seen in December 2019 as compared to the same month previous year. However, the growth started to decline in the following months—18% in January 2020, 1.8% in February 2020, and a negative value in March 2020.

COVID-19 has already paralysed the daily lives of the people as well as the entire economy. Further, it makes the purchase of new policies the least priority as mobilising the savings may not be easy in the days to come. Similarly, social distancing norms will make the new business to continue to be low in the near future. The situation opens up all possibilities for individuals to get attracted towards simpler and fixed returns giving financial products. Life insurers need to look at such a product structure to stay afloat in terms of sales.

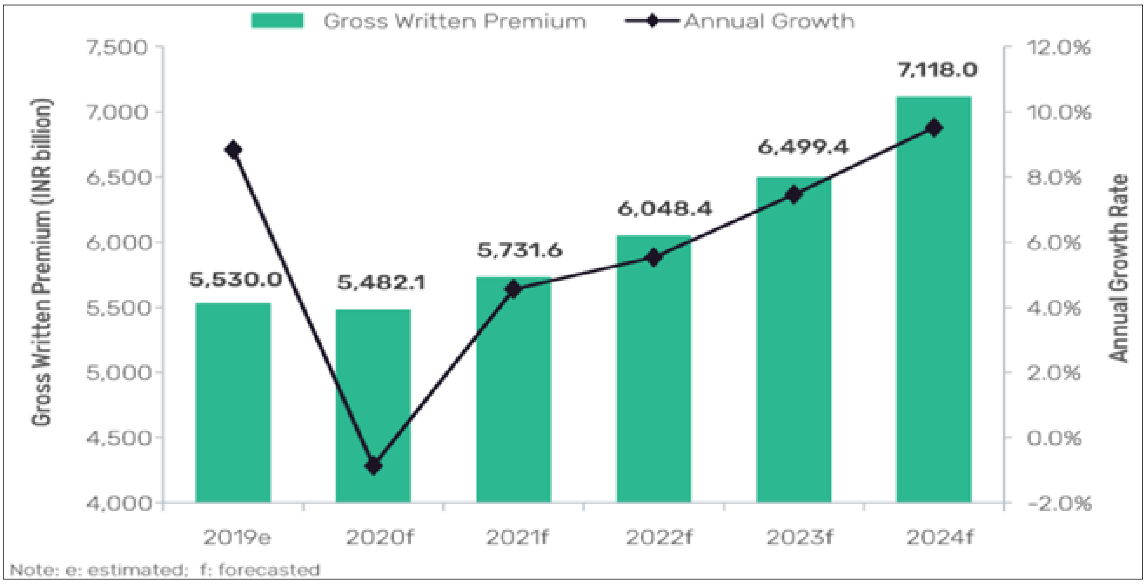
In addition, the country has been looking at the lockdown extension in many parts. Even in those parts where the lockdown is lifted, social distancing still needs to be followed. Consequently, the life insurance sector has to quickly adopt digital engagement with potential customers. This can answer the void that has been created between the insurers and customers due to the lack of an opportunity to physically meet.

Scenario Indian Life Insurance Industry

The Indian life insurance industry is expected to contract in 2020, declining by 0.9% in 2020 as compared to 8.8% growth recorded in 2019, Global Data has revised India's insurance forecast in the aftermath of the global coronavirus (COVID-19) outbreak. As per the latest data, India's life insurance market is forecasted to grow at a compound

[3] https://news.cleartax.in/impact-of-covid-19-and-new-tax-regime-on-the-life-insurance-sector/

annual growth rate (CAGR) of 5.3% during the forecast period 2019-2023.



Source: Global Data, Insurance Intelligence Center

Fig 1: India Life Insurance Market Size

Bancassurance and agency channels account for over 90% insurers' new business premiums in India. Due to the lockdown restrictions, sales through these channels have been severely impaired." The extended phase of lockdown and its related restrictions had a negative impact on the new business premiums growth in 2020. Premium from new business accounts for 42% of the life insurance market. As a result of lockdown, life insurers reported decline of 32.6% in new business premium in April 2020 against the same period last year.

State-owned market leader Life Insurance Corporation of India registered a decline of 32% in premium from new business while private life insurers have seen decline of 33.3% during the same period. To offset the adverse impact of offline distribution channels, efforts are being made by insurance companies to accelerate online sales. growth from online channels is unlikely to prevent contraction in the overall life insurance business."

Research Methodology

This paper is basically descriptive and analytical in nature. In this paper an attempt has been made to analyze the Impact of Covid-19 on the Insurance sector in India. The data used in both the primary and secondary sources according to the need of this study.

Analysis and Interpretation of Primary Data

The primary data is collected from 50 sample respondents who are the insurance holders residing in the city of Bengaluru.

Table 1: Profile of the Respondents

Variables	Frequency	Percentage
Age in years		
25-30	12	24.0
30-35	12	24.0
35-40	9	18.0
40-45	10	20.0
45 and above	7	14.0
Gender		
Male	31	62.0
Female	19	38.0
Employment		
Self-Employed	11	22.0
Business	10	20.0
Professional	8	16.0
Service sector	13	26.0
Others	8	16.0
Type of Insurance		
Life Insurance	24	48
General Insurance	3	6
Health Insurance	23	46
Health Insurance		
Ayushman Bharat Yojana	5	10
Company's Group Health Scheme	3	6
Private Company Health Insurance	15	30

24 respondents are in the age category of 25-30 years. 14 respondents are aged 45 years and above. The gender composition indicates that 62% of the respondents are male. 22% are self-employed. One-fifth of the respondents are doing business. 26% of the respondents are in the service sector.

48% of the respondents possess the Life Insurance, 6% are holders of General Insurance and 46% of the respondents are having The Health Insurance. Out of the Health Insurance holders, 10% of the respondents are the holders of Ayushman Bharat Yojana and three-tenth of the respondents are the holders of Private Company Health Insurance.

Hypothesis

Ho: There is no relationship between the Type of Insurance and the Factors preventing the Successful claim for the policy holders

Table 2: Influence of the Type of Insurance on the Factors Preventing the Successful Claim for the Policy Holders

		Sum of Squares	df	Mean Square	F	Sig.
Rejection of claim became of Exclusion Clause	Between Groups	61.461	2	30.731	50.293	.000
	Within Groups	28.719	47	.611		
	Total	90.180	49			
Person With the Travel History	Between Groups	69.706	2	34.853	60.954	.000
	Within Groups	26.874	47	.572		
	Total	96.580	49			
During the policy waiting Period	Between Groups	75.363	2	37.682	69.136	.000
	Within Groups	25.617	47	.545		
	Total	100.980	49			
If Non hospitalized for 24 Hours or More	Between Groups	25.153	2	12.577	66.666	.000
	Within Groups	8.867	47	.189		
	Total	34.020	49			

The Anova result shows the relationship between the Type of Insurance on the Factors Preventing the Successful Claim for the Policy Holders. The results of the sample respondents for the Type of Insurance differ significantly ($p<0.05$) with respect to Factors Preventing the Successful Claim for the Policy Holders.

Table 3: One-Sample TestInfluence of the Type of Insurance on the Factors Preventing the Successful Claim for the Policy Holders

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Rejection of claim became of Exclusion Clause	17.826	49	.000	3.420	3.03	3.81
Person With the Travel History	16.218	49	.000	3.220	2.82	3.62
During the policy waiting Period	14.678	49	.000	2.980	2.57	3.39
If Non hospitalized for 24 Hours or More	17.815	49	.000	3.460	3.07	3.85

The T-test result shows the relationship between the Type of Insurance on the Factors Preventing the Successful Claim for the Policy Holders. The results of the sample respondents for the Type of Insurance differ significantly ($p<0.05$) With respect to Factors Preventing the Successful Claim for the Policy Holders.

Ho: There is no relationship between the Health Insurance and the Cyber Risk Because of Telecommuting

Table 4: T-Test Association between the Health Insurance and the Cyber Risk Because of Telecommuting

	N	Mean	S.D.	Std. Error Mean
Cyber risk because of telecommuting	50	3.27	1.552	.220
Grace Period for Insurance payments	50	3.28	1.415	.200
Exclusion Clauses	50	3.48	1.418	.200

The T-test results for the association between the Health Insurance and the Cyber Risk Because of Telecommuting reveals that the mean scores range between 3.27 and 3.48. The S.D. ranged between values 1.41 to 1.55.

Table 5: Model Summary of the Health Insurance and the Cyber Risk Because of Telecommuting

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.853[a]	.727	.691	.469

a. Predictors: (Constant), Exclusion Clauses, Grace Period for Insurance payments, Cyber risk because of telecommuting

The R^2 value (0.853) indicates that 85.3 percent of variations in the Cyber Risk because of Telecommuting are influenced in the set of all the independents variables included in the model.

Table 6: Coefficients of Health Insurance and the Cyber Risk Because of Telecommuting

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-4.418	.887		-4.982	.000
Cyber risk because of telecommuting	-1.231	.533	-.842	-2.311	.030
Grace Period for Insurance payments	-.336	.256	-.276	-1.310	.000
Exclusion Clauses	3.030	.572	1.798	5.301	.000

The results for the association between the Health Insurance and the Cyber Risk Because of Telecommuting the Health Insurance differ significantly ($p<0.05$) with respect to the Cyber Risk Because of Telecommuting.

The Way Forward

According to PWC Indian insurers should consider performing targeted activities to protect community interest and build more trust in the society, Some of the activities that might help attain a superior customer experience include immediately offering to enroll more people under health schemes to cover COVID-19. Offering more coverage and fast-track services to those who are occupationally more exposed to the threat of COVID-19

Relaxing out-of-network, network and preferred provider restrictions for hospitalisation

- Extending claim filing periods
- Easing out pre-authorisation and certification rules
- Deferring rate increases, premium payments, renewals and cancellations
- Waiving co-payment obligations
- Developing a transparent communication process for all customers to intimate them about any changes in policies and operating procedures
- Paperwork in insurance business related to underwriting and claim processing should be replaced with complete digitisation, with all processing methods with authentication available through the Internet.

Conclusion

The COVID-19 pandemic, thus, is challenging for the health insurance industry on various fronts; at the same time, it represents an opportunity. Health insurance is expected to cushion the blow that this pandemic will deal. While being extremely relevant to society, using appropriate mitigation strategies, insurance companies may be able to support it further though product development activities and ensuring their reach is extensive.

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