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'Isolated health claim grievances should not cast a shadow on insurers' efforts'

The insurance industry that has safeguarded millions of citizens and many businesses often faces situations that cast a shadow on its efforts. Recent media reports have once again led to a wave of criticism, leaving many wondering if sensationalism has overtaken reason. While much has been said about these reports, it is time to dwell deeper into the issue and look at the ground reality.

According to IRDAI's annual report, last year, the general insurance industry settled claims worth Rs 1.72 lakh crore, of which it paid more than Rs 80,000 crore towards health insurance. Yet those who benefit rarely make the news. On the flip side, isolated grievances and odd bad experiences become the face of the industry. The claim settlement ratio in the industry is more than 80 percent. The 20 percent of claims that are rejected are on the account of fraud or non-admissibility and yet there is an uproar about them. Insurance is public money and insurers should be lauded for handling this money responsibly.

Insurance support for industries, country critical

Let's say it is not making a difference and we decide to shut down the industry. What happens then?
Some argue that individuals can self-insure by saving for medical expenses. However, consider this: out-of-pocket (OOP) health expenses in India stand at 60 percent, a report by the government's think tank NITI Aayog has said. Without insurance, this figure would soar to 100 percent, leaving households entirely at the mercy of skyrocketing medical costs.

For families without significant savings, medical expenses will push them below the poverty line. Without insurance, the government will face increased pressure to subsidise healthcare, diverting resources from other critical sectors.

Such a scenario would derail our demographic dividend and exacerbate poverty. Are we ready with an alternate safety net for citizens if insurance shuts down?

The motor industry, thriving thanks to insurance-backed accident protection, will falter as claims payouts — approximately Rs 55,000 crore — cease to exist. Without insurance, the financial burden of accidents would fall entirely on vehicle owners, which can lead to economic instability and a drop in vehicle sales. Insurers also play a crucial role in covering motor third-party claims, which is mandatory. The IRDAI annual report says in FY 2023-24, the industry paid over Rs 27,000 crore under motor third-party claims. If the industry closes, who will bear this cost?

Nearly 36 crore beneficiaries had been verified under the Ayushman Bharat Pradhan Mantri- Jan Arogya Yojana (AB PM-JAY) as of November 30. Further, 8.39 crore hospital admissions worth over Rs 1.16 lakh crore have been authorised under the scheme.

Under PMJAY, the government provides health coverage of Rs 5 lakh a family every year for secondary and tertiary care hospitalisation to approximately 55 crore beneficiaries, covering 12.37 crore economically vulnerable families which account for the bottom 40 percent of India's population.

Without the industry's support, the scheme would not work. The government would have to bear all the costs on its own. According to PIB, the health expenditure for 2023-24 is Rs 5.85 lakh crores, which is 1.9 percent of the GDP. This is an increase from Rs 2.43 lakh crores in 2017-18. A significant portion of this expenditure supports low-income families. Insurance-backed programs like Ayushman Bharat alleviate this financial strain.

General insurers in rebuilding role

Natural disasters such as floods, cyclones and earthquakes wreak havoc, causing immense human and financial losses. Insurance serves as a critical recovery mechanism. The staggering more than 90 percent protection gap between insured and actual losses underscores the urgent need to bridge the gap as cyclones and floods become more frequent. In 2023 alone, India witnessed 17 natural calamities. Without insurance, economies would struggle to recover.

In the United States, a robust insurance framework ensures that post-disaster regions come back stronger, bigger, and more resilient. The infusion of insured capital post-Hurricane Katrina enabled infrastructure rebuilding and economic recovery.

In India, a higher insurance penetration could similarly transform recovery processes, ensuring affected communities rebound swiftly. The Centre allocated Rs 13,693 crore for the National Disaster Mitigation Fund (NDMF) and Rs 32,030.60 crore for the State Disaster Mitigation Fund (SDMF) for the period FY22-26. After each natural disaster, the government spends a huge amount as compensation. The money, which eventually goes from taxpayers, can be routed towards developmental projects and infrastructural development if a more robust insurance programme is in place.

Agriculture, the backbone of India’s economy, is vulnerable to the whims of nature. Thanks to the insurance industry, schemes like the Pradhan Mantri Fasal Bima Yojana (PMFBY) have disbursed claims worth Rs 1.64 lakh crore over the past eight years. These payouts have offered financial respite to farmers, reducing distress. By mitigating risks associated with droughts, floods and unseasonal rains, insurance ensures farmers can continue contributing to food security. Without insurance, there will be no effective safety net.

Grievance ratios low

Despite common misconceptions, the insurance industry boasts of impressively low grievance ratios, underscoring its robust complaint-resolution mechanisms. With just 94,843 grievances in FY 23-24 against 2.96 billion policies, the industry had a 0.003 percent grievance ratio — an achievement few industries can match.

Fraudulent claims cost the industry billions annually but it is not spoken about enough. Over the past five years, the insurance industry detected approximately 3.01 lakh potential fraud cases involving a sum assured of Rs 1.73 lakh crore. According to research, the Indian general insurance industry loses approximately $6 billion (roughly Rs 30,000 crore) to fraud annually. Yet, the narrative focuses solely on claim rejections, ignoring the root causes. Should fraudulent claims go unchecked? Shouldn’t there be stricter penalties for those exploiting the system?

The general perception is that insurers are generating huge profits and only exist to make a profit. Is profit such a bad thing for an insurer? Profit ensures that insurers can honour claims and remain sustainable. Underwriting profits showcase prudency.

The general insurance industry operates at an average claims ratio of more than 80 percent and a combined ratio of 115 percent, which means for every Rs 100 earned in premiums, the industry pays out Rs 115. Simply put, insurers lose money on claims payouts and operational expenses. Yet, every small price hike triggers public outcry. If so, let us shut this “evil” industry!

Moving the needle

In India, insurance penetration remains abysmally low at 1 percent. The industry works tirelessly to increase awareness and expand coverage. However, criticism without constructive dialogue risks alienating stakeholders, jeopardising progress and reducing trust. We need to understand that as insurance penetration increases, the nation will develop faster; without it, we would probably go backward.

Let’s not forget what insurance represents: a safety net, a fallback, and a protector of dreams. Is there a scope for improvement? Yes, but the industry is constantly evolving. The insurance industry welcomes scrutiny but demands fairness. Highlight the good, address the bad, and focus on the way forward. If you still think insurance is evil, let’s shut it down, provided we have an alternate safety net for our citizens. Till then, the choice is ours — criticise destructively or engage constructively.

By Tapan Singhel, chairman, General Insurance Council, and MD and CEO, Bajaj Allianz General Insurance.