

# Navigating health insurance: Key capabilities and strategic decisions for life insurers in India

What does it mean for the health insurance market?

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India is on the cusp of potentially significant regulatory changes in its insurance sector. Per the news reports,<sup>1</sup> the Insurance Regulatory and Development Authority of India (IRDAI) is contemplating allowing life insurance companies to sell health indemnity insurance products.

Traditionally restricted to offering fixed benefit health insurance and critical illness riders, life insurers may soon be allowed to manufacture and sell indemnity-based health insurance policies, including hospitalisation and medical expense coverage, in line with the medical expense products currently offered only by standalone health insurance (SAHI) companies and general insurance (GI) companies.

This potential change is aimed at responding to the critical under-penetration of health insurance in India, which stands at about 39% of the population in 2022-23,<sup>2</sup> a situation which was highlighted by the COVID-19 pandemic. By enabling life insurers to enter the health insurance market, the goal is to leverage the extensive distribution networks and customer base of life insurers to increase access to health insurance, especially in underpenetrated markets. Such a regulatory shift, overseen by the IRDAI, demands amendments to existing laws and aims to create a more integrated insurance market, offering consumers a broader spectrum of products and services from a variety of different underwriters.

The Indian insurance market has been historically segmented into distinct health and life insurance sectors, each with its specialised products and regulatory frameworks. Life insurers have traditionally offered limited health coverage through fixed benefit riders, while SAHIs and GIs have dominated indemnity-based health insurance offerings. Life insurers providing health products clocked a gross premium of INR 1,500 crores in the financial year (FY) 2022-23, out of which around 36% comes

from the fixed benefit product segment and the remaining 64% from riders.<sup>3</sup> However, the gross premium for SAHIs and GIs during the same period was around INR 98,000 crores.<sup>4</sup> In terms of total number of persons insured, life insurers covered just over 1 crore individuals for some kind of medical expenses during this period with the majority of them (around 88%) covered under riders,<sup>5</sup> whereas the SAHIs and GIs cover over 55 crore persons in the year 2022-23.

## WE LIST SOME POTENTIAL IMPACTS BELOW:

- **Increased competition and innovation:** The entry of life insurers into the health indemnity market will increase competition, potentially leading to more innovative and customer-friendly health insurance products.
- **Greater access and penetration:** Life insurers, with their extensive distribution networks and customer reach, can play a crucial role in increasing the penetration of health insurance across different regions, including rural and semi-urban areas.
- **Comprehensive and integrated solutions:** Life insurers can offer combined life and health insurance solutions, providing a more comprehensive financial protection package to consumers.

## Key capabilities and build/buy considerations for life insurers

To capitalise on this opportunity, life insurers will need to develop distinct capabilities. The SAHIs and GIs have built product design, pricing, hospital network, medical underwriting and claims management expertise, and it will take some time for life insurers to understand the nuances and develop the necessary functions to the required level.

For life insurance companies in India to successfully venture into the health indemnity insurance business, they need to develop key capabilities across various operational and strategic areas. They can approach this transformation on whether to build these capabilities in-house or buy or acquire external partners as per the considerations mentioned below.

1 <https://economictimes.indiatimes.com/wealth/insure/budget-2024-mega-insurance-life-health-insurance.cms> (As per data retrieved on July 15, 2024)

2 IRDAI Annual Report 2022-23, <https://irdai.gov.in/document-detail?documentId=4273788> (As per data retrieved on July 5, 2024)

3 Handbook on Indian Insurance Statistics 2022-23, <https://irdai.gov.in/document-detail?documentId=4417599> (As per data retrieved on June 26, 2024)

4 Ibid.

5 Ibid.

FIGURE 1: KEY CAPABILITIES AND BUILD/BUY CONSIDERATIONS

KEY CAPABILITIES	BUILD	BUY
<b>Product design and pricing</b> (use analytics tools and techniques for risk assessment, pricing, product design, customer behaviour and preferences)	<p>Gaining proficiency in health product design and pricing can be demanding in terms of both financial and time investments.</p> <p>Data will remain a challenge from both product design and pricing perspective.</p>	<p>Acquiring a health insurance business with existing portfolio will enable these capabilities but may stifle product and benefit innovation.</p> <p>Alignment of overall business strategy of existing life business with the acquired health products and target customer segments may present unique challenges</p>
<b>Underwriting management</b> (assessing morbidity risk using risk assessment tools, clinical history, batteries of blood tests and managing the workflow using underwriting guidelines in a most efficient way to maintain balance between sales and underwriting)	<p>Life insurance companies have been issuing health policies, but the current underwriting processes are mainly geared towards long-term risk assessment and there are distinct differences between morbidity and mortality underwriting assessments.</p> <p>As per current market practices, indemnity-based products need a short- to medium-term view and an understanding of the changing level and cost of medical technology. Developing in-house expertise in medical underwriting specific to health indemnity insurance will include training existing staff and hiring experts with health insurance backgrounds. It can be a challenge.</p>	<p>Procuring a specialised underwriting management system with proven underlying features and technology can help scale up the operations quickly.</p> <p>Adopting underwriting guidelines and aligning with overall business strategy will provide a good foundation. Integrating external systems and processes with an existing infrastructure can be complex, time-consuming and costly.</p>
<b>Policy administration</b> (processing high volumes of policies and capabilities to record policy-specific terms and conditions, exclusions, data sharing for claims management etc.)	<p>Upgrade IT systems to support the administration of health insurance policies, ensuring they can handle the complexity and high volume of transactions.</p> <p>Although initial setup costs can be high, in the long term in-house policy administration can lead to cost savings by eliminating third-party administrator (TPA) fees and gaining efficiencies through process optimisation.</p>	<p>Procuring a specialised and proven platforms for health insurance policy administration can reduce time to market. This can streamline operations, enhance efficiency, and provide access to innovative solutions.</p> <p>Integrating external systems and processes with an existing infrastructure can be complex, time-consuming and costly.</p>
<b>Claims management</b> (processing high-volume, low ticket size claims using automated claims adjudication systems; building capabilities to identify fraud and curtail waste and to identify abuse requires specialised knowledge for indemnity-based health products)	<p>Life insurance companies can make use of their existing infrastructures and manage the claims and other servicing issues by developing their in-house mechanisms.</p> <p>While in-house health insurance claims management offers greater control and data security, it also comes with significant costs and operational challenges. Building claims teams of medical professionals is a key prerequisite and requires significant time and cost investment in hiring and training.</p>	<p>SAHIs and GIs paid 2.36 crores claims, amounting to INR 70,930 crores in FY 2022-23, out of which 73%6 of the claims were handled by TPAs.</p> <p>Life insurance companies can either acquire TPAs or hire them for initial years to smoothen the claims process. Relying on an external entity for claims management creates a dependency that can be risky if the TPA faces operational or financial difficulties and incentives are not aligned around good claims cost control.</p>
<b>Actuarial and analytics</b> (team capable of pricing short-term products, developing analytics and risk framework and meeting capital, solvency, technical reserves and related regulatory requirements)	<p>Strengthen the actuarial team with professionals experienced in health insurance.</p> <p>Invest in analytics tools to mine medical claims data for risk assessment, pricing and fraud detection.</p> <p>Achieving expertise in analytics requires significant investments of both time and cost.</p>	<p>Purchase reputable software and analytics tools for standardised processes or where in-house development is not cost-effective. This can include predictive modelling software, data visualisation tools and risk management platforms.</p> <p>Standard tools are designed to cater to a wide audience, which means they might not align perfectly with the unique requirements of a specific situation. Customisation options may be limited, potentially leading to gaps in functionality or the need for workarounds.</p>

6 Ibid.

KEY CAPABILITIES	BUILD	BUY
<b>Provider network management</b>	<p>Develop a dedicated team to build and manage relationships with hospitals and healthcare providers, negotiate rates and ensure quality service. This can help the insurance company with direct access to detailed data on provider performance, utilisation patterns and cost trends, which can inform strategic decisions and cost management efforts.</p> <p>As the company grows, scaling the in-house provider network to meet the expanding needs of policyholders can be challenging, requiring additional resources and potentially leading to gaps in network coverage.</p>	<p>Acquire network management organisations to quickly gain access to a wide range of providers. External entities can offer scalable solutions that accommodate growth and changes in the provider network without the need for significant additional internal resources.</p> <p>The goals and objectives of the insurance company and its external partner may not always align perfectly, which can lead to conflicts and inefficiencies in network management.</p>
<b>Portfolio management</b>	Using in-house expertise and hiring new people as the portfolio grows to continuously monitor and adjust the health insurance portfolio based on performance, market trends and regulatory changes.	There is no significant advantage in acquiring this capability.
<b>Care management</b>	Establish a care management function to work on wellness programmes, case management, disease management and patient support services, enhancing customer engagement and outcomes. Can be a source of significant customer and claims management value.	<p>Acquire healthcare service firms that specialise in care management programmes to offer value-added services to policyholders.</p> <p>Incentives may not be well-aligned to manage claims costs and many care management programmes do not have proven return on investment (ROI).</p>
<b>Distribution/channel management</b>	<p>Life insurers distribution network comprised of 22 lakh individual agents, 850+ corporate agents (with over 240 banks) and 400+ brokers, which will help deepen penetration. Individual agents source 70% to 75% of indemnity-based health premium. Life Insurers can provide an incremental workforce of 12 lakh to 168 lakh agents who are currently not available to GIs and SAHIs. The untapped potential of the individual agent network of life insurers can be utilised.</p> <p>In-house channel management enables direct access to customer and sales data across all channels, providing valuable insights for decision-making, personalised marketing and product development. Over the long term, direct management of distribution channels can lead to cost savings by eliminating or reducing fees and commissions paid to external intermediaries or partners.</p>	<p>Distribution is a key differentiating factor for any successful health insurance business. Tapping into existing distribution capabilities may provide significant advantages to a life company.</p> <p>Managing conflicting strategies between life and health distribution network can be challenging.</p>
<b>Regulatory compliance</b>	Build in-house legal team to comply with specific regulatory requirements related to product design, pricing, underwriting, claims management and other operational aspects as stipulated by the IRDAI.	There is no significant advantage in acquiring this capability.

7 IRDAI Annual Report 2022-23, op cit.

8 Ibid.

## Conclusion

Entering the indemnity-based health insurance market potentially presents a significant opportunity for life insurance companies. To carve out a niche in this new segment and compete effectively with established market players, these companies must develop specific skill sets. They can draw on their experience in creating long-term products to innovate in product design. However, the differences between existing life insurance processes and health insurance processes should not be underestimated. Life insurers will need to leverage their existing distribution capability strengths, while investing heavily in product and benefit design and overall customer proposition. These challenges are compounded by the typically low-ticket size of products and high commission rates.

Functions such as medical underwriting and claims management processes look very different for a health insurer and life insurers will need to develop entirely new capabilities in provider supply chain management., Navigating the indemnity-

based health insurance sector involves managing complex relationships with various stakeholders. Effective provider and network management, along with strategic negotiations with third-party administrators (TPAs) are crucial. Use of third parties allows faster scale-up, but at a cost, and in the long term the life insurer risks losing competitive advantage and value by outsourcing critical customer functions. Therefore, a balanced approach to build versus buy which considers short-, medium- and long-term outcomes is critical.

In conclusion, each life insurance company in India will have to adopt a strategic mix of building internal capabilities and forming external partnerships to thrive in the health indemnity insurance market. While expense ratios will still need to be managed tightly, the focus for a health insurer is on balancing claims and administrative expense spend to optimise the total spend, recognising that higher expense ratios can lead to lower claims outgoes and therefore a focus on expense ratio alone can be counterproductive.



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