

# Covid experience and Insurance Industry



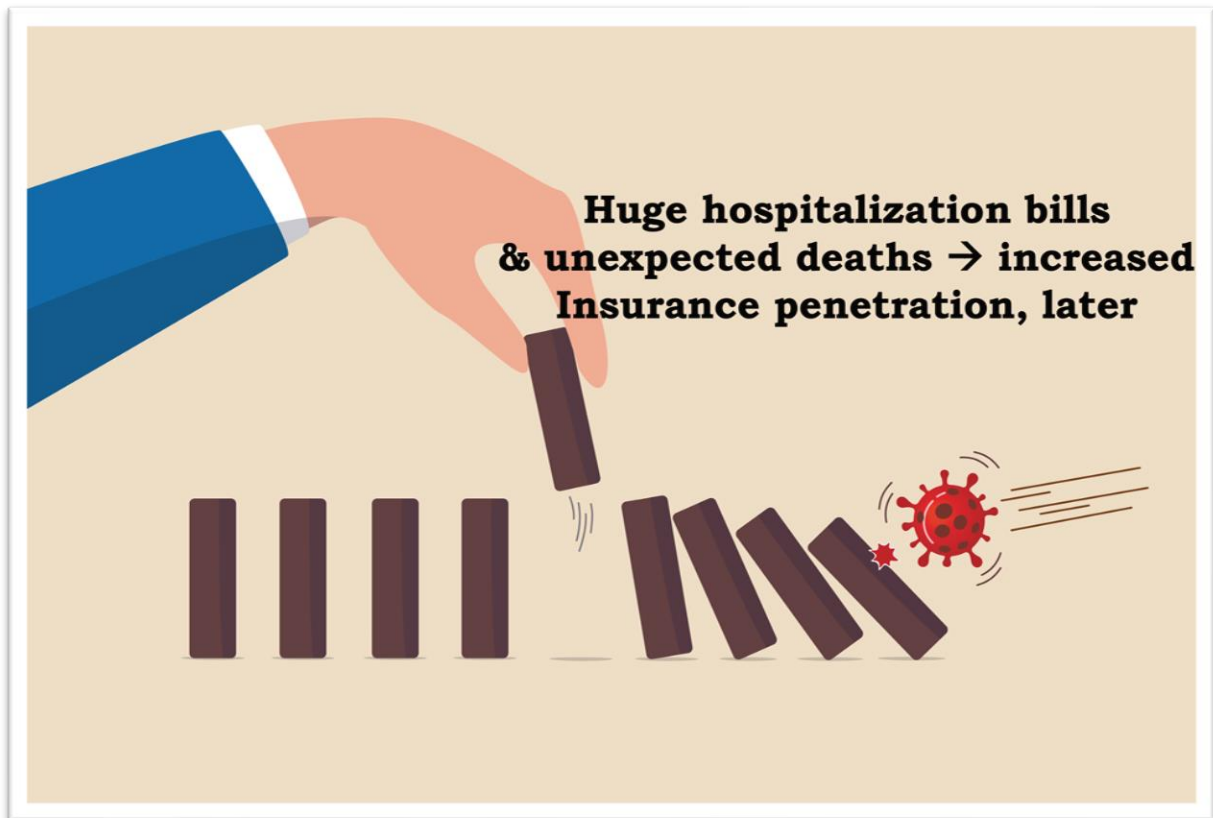
INCHES Group  
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COVID 19, a global pandemic, will go down in history as one of the deadliest disasters of the modern era. As of December 2021, 280 million people have been victims of this notorious virus, out of which more than 5 million have died so far. COVID 19 has brought many changes to our lifestyle and compelled us to adapt to these changes. Wearing masks in public at all times, maintaining social distance, avoiding large gatherings, and low-key celebrations have been inculcated in our personal lives. Work, students classes, shopping, Doctor's appointments and literally every aspect of daily life have shifted to online. Businesses and individuals who could not adapt to the new normal perished along the way.

### **How lockdown affected business and Insurance during pandemic?**

The impact of the pandemic was seen across businesses all over the world, and it has put the global economy into turmoil. The abrupt lockdowns without much planning affected the global supply chain and brought the markets to a sudden halt. As per a report in US, today, industries like retail, transport and travel were hardest hit by the novel coronavirus. Much like the transmission of the virus from one person to another, soon, the impact of the COVID started having a domino effect, adversely affecting rest of the industries as well; one such industry that started bleeding, at least initially, was the insurance industry. The increase in hospitalisations and deaths resulted in a sudden rise in health and life insurance claims; and this in turn created a sudden demand of both life and health insurance as people experienced huge bills and sudden deaths of near and dear ones - at time multiple in a family.



Life insurance companies have so far paid out INR 11,060.5 crore to settle Covid related death claims, a huge portion of which came when the second wave which ravaged India in the early part of 2021 says the data compiled by Life Insurance Council. As of October 2021, around 1,40,000 Covid related claims have been raised so far in India, amounting to a value of INR 12,948.98 crore as per a report in Business Standard. During the second wave, life insurance companies saw a 5 to 10 times surge in Covid claims. A report in TOI claimed that state-run settled health insurance claims to an amount of INR 2,350 crore in the first six months of the current financial year resulting in the rise of claims incurred ratio to a staggering 126% compared to 74% in the same period last year. However, the settling of death claims did not impact the solvency of the insurers but has indeed dented their profitability margins big time.

## IN NUMBERS

Covid-19 death claim status from life insurance companies since inception

### NUMBER OF CLAIMS

Intimated **139,069**

Settled **130,123**

### TOTAL AMOUNT FOR CLAIMS

(In ₹ crore)

Intimated  
**12,948.98**

Settled  
**11,060.50**

Source: Life Insurance Council

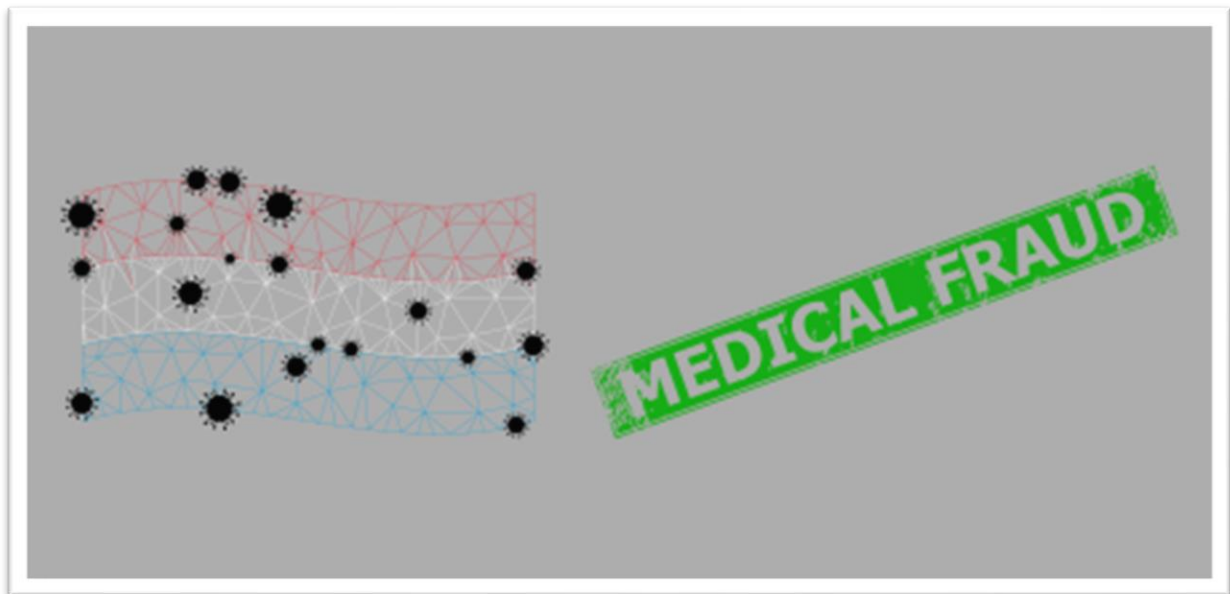
The balance sheet crash of COVID pandemic fatalities is secured to a certain extent from the reinsurance that the life insurance company acquires. While the reinsurers are committed to the policies already sold, they are being cautious while underwriting new covers. Some reinsurers have pulled back from giving new cover; others have increased their rates by as much as 20%-30%.

## COVID Specific Insurance

The pandemic also brought a noticeable shift in health and life insurance awareness. The COVID 19 changed the perception of insurance from just a tax-saving tool to a more serious investment to protect individuals and their family's

health and financial wellbeing. Initially, there were a lot of grey areas and confusion about whether the existing health insurance policies will cover the Coronavirus pandemic. As COVID 19 hospitalisation grew, many people became increasingly concerned about cost and expenses related to COVID 19. The IRDAI (Insurance Regulatory Development Authority of India) authorised two COVID specific policies Corona Kavach and Corona Rakshak, which will cover expenses related to the treatment of the virus at a nominal cost for the general public of India. Meanwhile, health insurers were also advised and instructed to extend the coverage of health insurance policies to cover the hospitalisation and expenses related to the treatment of COVID 19 pandemic.

## COVID Specific Insurance



Whilst the COVID 19 pandemic opened up modern ways for insurers to sell their policies online and offer pandemic specific related policies, it also created opportunities for insurance fraudsters. As per a report on the money9 website, insurers in India alone suffer a loss of INR 45,000 crore due to fraudulent claims (pl site date of this; I think it is 2011). The US insurance market loses a staggering \$80 billion a year to insurance fraud despite FBI being involved in curtailing insurance fraud.. Insurance fraud can be the result of a number of reasons, erroneous underwriting, fraudulent documents and poor claim operational processes etc. The global insurance industry agrees that around 10% of their premium collection is lost to insurance fraud every year. As per a study by FRIZZ in the year 2020 around 18% of the overall claims contain an element of fraud or misrepresentation.

As per a survey titled 'Impact Of COVID - 19 Pandemic On Insurance Fraud Risk Mitigation And Investigation', insurance frauds surged during the COVID 19 pandemic. At least 1 in 4 participants in the survey from the insurance industry said insurance frauds increased during the coronavirus pandemic. Besides, the insurers, not only, had to take a cut in the fraud investigation budget the field verification of suspect claims and suspect profiles came to a standstill due to lockdown further affecting risk mitigation. At least 48% of respondents said that the budget for fraud investigation had been reduced.

On the other hand, the fraud investigations have increased after the onset of COVID 19, with nearly 55% of respondents saying that their

professional duties related to fraud-fighting increased overall or under specific areas pertaining to operations during the pandemic.

The report also emphasises how insurers are relying on digital mediums to detect fraud. Almost 68% of respondents said digital solutions have been employed in their investigations, while 19% said they are in different stages of planning their transition to digital.

The survey revealed that the industry's move to digital fraud investigations is here to stay, with 92% of the respondents claiming that the increased use of technology in investigations will be the future even after the pandemic. Of these, 71% of respondents were specific that more emphasis would be put on a digital approach.

As per a report findings published by PWC 3 emerging fraud trends were found during the COVID 19 pandemic -

- New risks from digital claim process
- Organised crime targeting COVID 19 disruption
- Evolving health-care insurance fraud

## **Transformation of buying Insurance online**

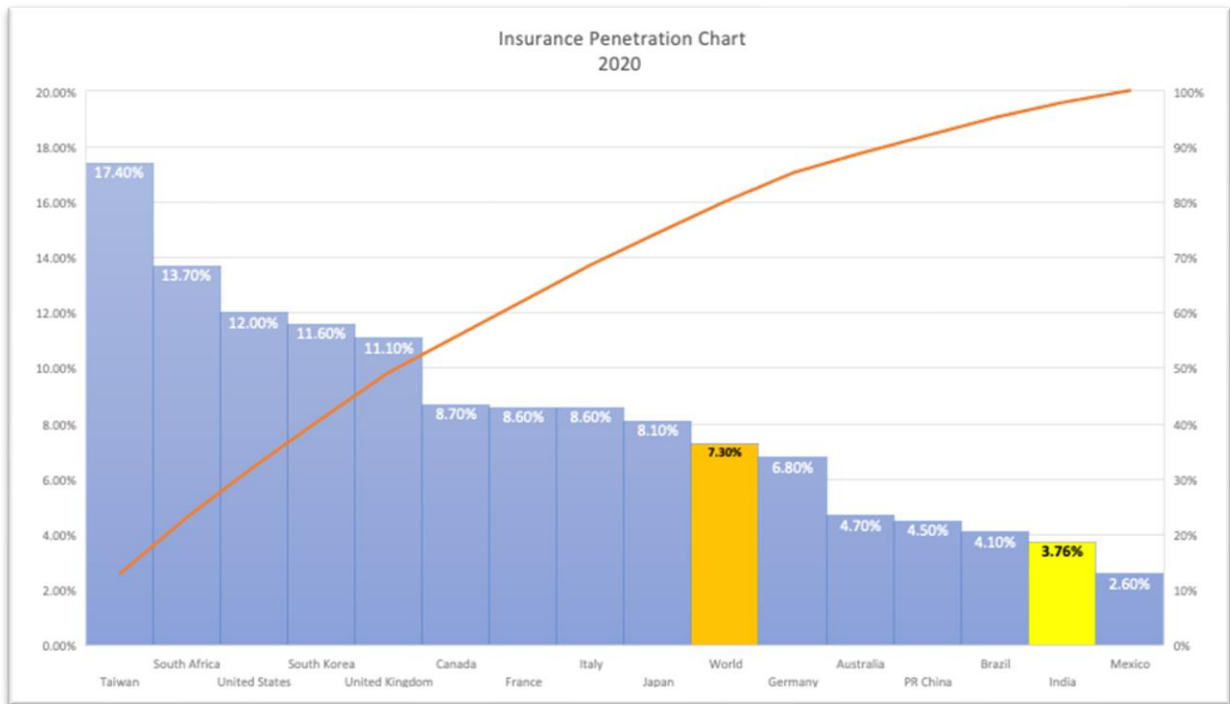
Insurance penetration saw a steep spike - largely due to this generation facing true uncertainty for the first time - both of mortality as well as of morbidity and a 12-15 day private hospital stay could ruin someone financially or simply they would not be able to afford the medical expenses all thanks to medical inflation running in double digits. One of the key findings in a 2020 report revealed that the pandemic forced 65% of insurers to switch to digital platforms. However, this number would go up as digital literacy and comfort amongst buyers drastically increased in the last 18 months. Today policies are easily available through purchase from digital platforms like websites, apps of insurance companies, aggregators. Even insurance agents are using free-to-use social media messenger services to send policy brochures, exchange documents of policy-holders and payment is also done through online payment gateways. Underwriting was also done through TELE / VIDEO - MER as for almost 18 months people were not comfortable to go for pre-issuance medicals. The added convenience has increased the insurance penetration and sales of policies but the fact for the insurance sector is that with every new policy a new opportunity for fraud is also created

## Increase in insurance premiums

Due to the pandemic, the worsening death rates for life insurers have prompted reinsurers to re-evaluate their prices on term life plans. Both life insurance and Covid claims have seen a leap of 4 to 5 times compared to the previous year. Due to this, insurance organisations have encountered losses, with even large ones which were making profits for 10 years in a row. Health insurance claims have also gone up with the Covid second wave hitting the country hard. A looming fear of the third wave emerged with the newly emerged Omicron variant but fortunately it turned out to be not as bad as earlier two waves. It is understood that Insurance companies are discussing with the reinsurer on the quantum of the hike. The revision in rates for policies might not be entirely because of Covid-19 pandemic, but it has undoubtedly played a considerable part. Insurance fraud has also had a big hand in the price hikes as the losses and low profit margins are not sustainable in the longer run. Unfortunately, the brunt of the losses is ultimately passed to the end consumer who has to suffer with price hikes and inflation.

## Final Thoughts

There is not much we can do with the outbreak of pandemic like COVID 19 but the concern of a more lethal problem of insurance fraud needs to be brought under control. The shift of selling insurance offline to online has led perpetrators to exploit the loopholes. Losing more than INR 45,000 crore every year, the insurance sector needs to implement technology and expertise to bring this number down. India's insurance penetration, which was at 2.71% in 2001, has steadily grown to 3.76% in 2019, but remained vastly below the international average of 7.23% as stated in the Economic Survey for 2020-21.



*Graph showing Insurance penetration of World's leading nations vs India*

The pandemic has, however, increased the awareness and importance of having insurance but even in 2021 as per figure mentioned on (India's Brand Equity Foundation) IBEF's website it is still reeling at 4.2%. It is high time we implement measures to further increase awareness of having insurance for the general public in India and take active measures to curb insurance frauds.

*INCHES portfolio includes 360° risk mitigation solutions - beginning from product design to prudent underwriting to rational claim management to clinical skill upgradation - all aiming to loss containment.*

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