



HEALTH CARE INSIGHTS

2018-2020

February 2021

Message from the CEO's Desk

Our “Healthcare Insights” report describes a health care sector that is undergoing seismic shifts, fuelled by a maturing digital health market and regulatory traction.

To truly understand how this future is taking shape for patients, we felt it was critical to start by asking those who will be directing their care. So, Medi Assist conducted an analysis of healthcare purchasing and consumption trends in India.

What we found boils down to one central idea that “the need to tame runaway cost inflation is spawning new incentives and payment structures”.

And yet, the promise of this future is not assured. In our analysis, few feel “very prepared” to adapt to this changing landscape. Providers, health benefits administrators, government and the insurance sector have distinct opportunities to alleviate these burdens.

The findings presented in this report are just the beginning of an important conversation. As we embark on a new decade, there is no better time to have a discussion about how we can prepare and support tomorrow’s health care providers and payers to rise to their fullest potential.

Satish Gidugu
CEO, Medi Assist

Executive Summary

We are amidst an **unprecedented disruption** in healthcare, thanks to two huge shifts - the **need to tame runaway cost inflation**, which is spawning new incentives and payment structures, & **digital health**. These disruptions are democratizing data and empowering consumers.

Insurers and Governments are in the driver's seat and an increase in healthcare cost is influencing how consumers make healthcare decisions and the rate at which they adopt/purchase health cover. As consumers look to enhance medical benefits, Insurers are making efforts to update and upgrade their product portfolio.

In this report, we present our analysis of the changing Indian landscape in **a) Health Cover and b) Healthcare Utilization**. The model has looked at data over three years (CY2018, CY2019, CY2020) and has overlaid the burden of Covid-19.

The model described in this report is not the only approach that one could take. Regardless of the specific model chosen, many of the components of our approach are relevant in today's changing landscape.

Key Findings

Our model uses Premium per Life (PPL)¹ as a proxy or indicator to evaluate the changing patterns in health cover and healthcare utilization. PPL is influenced by changes both in health cover (type and extent) and healthcare utilization.



Our study identified 10 key drivers that contributed to growth in PPL and have been discussed in this report.

- While the pandemic led to a **fall in the number of hospital admissions** we have seen a reasonable recovery in hospital admissions.
- Covid-19 has impacted the Cost Per Claim (CPC). **Precautionary measures / safety protocols** being adopted is driving up the claim cost. An **increase in the Average Length of Stay (ALOS)²** is also seen to drive claim cost.

In the readings that follow, we have outlined our understanding of each driver and its impact on the growth in PPL.

1. Premium per Life(PPL) is the average premium that would be borne by each individual who is insured in the population pool under study

2. Average Length of Stay (ALOS) is defined as the average number of days that patients spend in hospital for one instance of hospitalization

Approach & Tools

The purchase decision for privately funded health cover has continued to see growth. This growth is seen in both employer-backed cover (as an employment benefit) and retail uptake (out-of-pocket decision).

Our model used stable population data. The population stability index (PSI) for the dataset used is $PSI < 0.10$ (<10%) meaning "little shift". A Limited Data Set³ of active health plan members (~ 1 crore members) was used for the study.



THE HONG KONG EXPERIENCE

In Hong Kong, post the SARS epidemic, there was a huge surge in the uptake of health insurance for the next 4 years from CY2005 to CY2008. Since SARS, the contribution of health insurance steadily increased with a deterioration in the combined ratios (due to bunching up of optional medical treatments). A similar trend could play out in India's health insurance market.

3. A limited data set is described as health information that excludes certain, listed direct identifiers but that may include city; state elements of date; and other numbers, characteristics, or codes not listed as direct identifiers

Driver 1 | Is Age of the Beneficiary increasing?

Population demographics can play a critical role in influencing PPL. The median age of the beneficiaries and its trend over the years would be a good demographic indicator. Our model shows that in ~71% of the population studied, there was an increase in median age of the beneficiaries Y-o-Y.

Driver 2 | Are Beneficiaries opting for Top-up Cover?

The trend of beneficiaries opting for top-up cover has gained popularity on over the past few years.

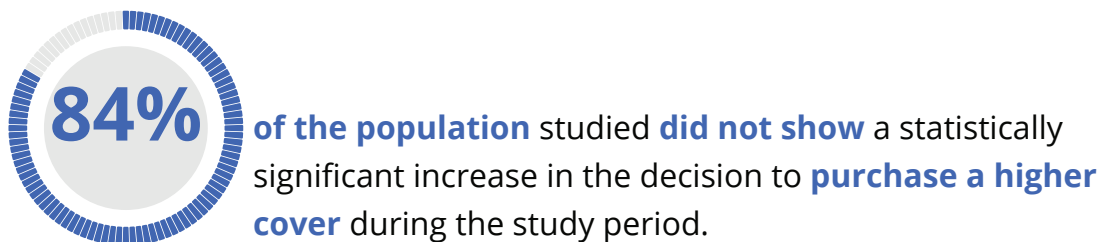
- In our model, **32%** of the current population has purchased a Top-up cover. Over the same period, 69% of this subset has demonstrated an increase in Top-up.
- **19%** of this subset are first-time optees of Top-Up Cover.

Driver 3 | Is Family size growing?

A significant data set that emerged from our model, shows an increase in family size in 67% of the instances. A combination of the increase in average family size and increase in the median age of the beneficiaries acts as an upward driver of PPL.

Driver 4 | Are Beneficiaries choosing higher cover?

Beneficiaries are constantly interested in increasing the scope of health benefits & often purchase benefits including a higher cover for inpatient care, ambulatory care⁴, pharmacy benefits, etc.



4. Ambulatory care or outpatient care is medical care provided on an outpatient basis, including diagnosis, observation, consultation, treatment, intervention, & rehabilitation services & can include advanced medical technology & procedures provided outside of hospitals

Driver 5 | Cost per Claim (CPC)

The Medical Trend Rate⁵ for India was at 9.0% in 2019 and was projected to be 8.5% in 2020, according to Aon⁶. Similarly, Willis Towers Watson⁷ projected a Medical Trend Rate of 11.3% and 12.0% for the same period. In recent years, healthcare costs, as well as insurance premiums, have continued to rise for both individuals & families, in India.

Our model shows a CAGR of 5.5% in CPC over the 3 years under study. However, the impact of the Covid-19 pandemic is evident in the CPC trend with 4-year CPC CAGR at 5.5% while the 3-year CAGR (excluding CY2020) is significantly lower at 1.7% as seen in Figure 3.



Figure 3 : Cost per Claim (CPC) Trend

Our model shows that about **26%** of the growth in PPL can be attributed to the **inflationary trend in Cost per Claim.**

5. Medical Trend Rate is defined as the percentage of change in the cost of health care prior to any cost-containment measure undertaken
 6. <https://www.aon.com/2020-global-medical-trend-rates-rising-health-plan-costs-risk-factors/index.html>
 7. <https://www.willistowerswatson.com/en-MY/Insights/2019/11/2020-global-medical-trends-survey-report>

Cost per Claim Trend in Metro Cities vs. Non-metros

Metro cities show a Cost per Claim CAGR of 5.2% while Non-metro locations show a CPC CAGR of 6.5% over the period of study in Figure 4, while Non-metros have a lower absolute CPC compared to Metros, they still show higher inflation in cost. The significant increase in CPC in both Metros and Non-metros can be attributed in large part to the Covid-19 pandemic.

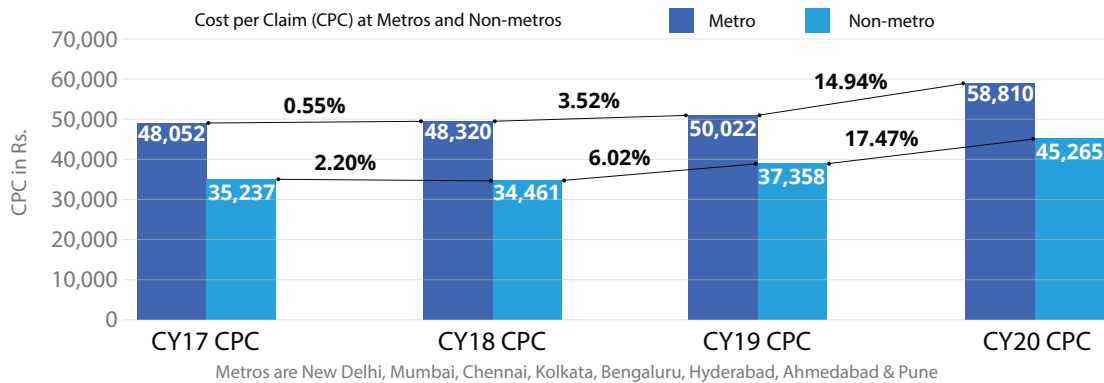


Figure 4 : Cost per Claim (CPC) in Metros & Non-metros

Driver 6 | Are High-value claims on the rise?

An important driver of cost per claim is high-value claims. In our model, all claims more than Rs. 1 lac were categorized as high-value claims. These claims grew by 4.6% over the period of study. It is significant to note, in Figure 5, that the Covid-19 pandemic has played an important role in the increase of high-value claims.

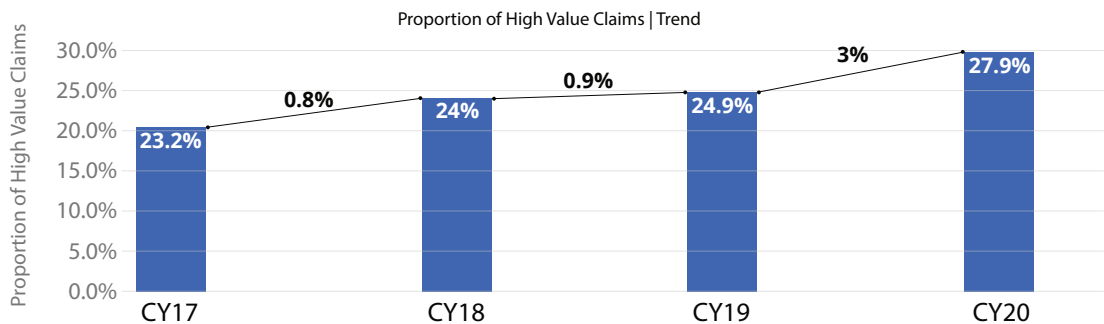


Figure 5 : High Value Claims Trend

Our model shows that about **24%** of the growth in PPL can be attributed to the **increasing occurrence of high-value claims**.

Driver 7 | Are Out-of-Pocket Claim Expenses Increasing for the Insured?

Over the years, health insurance products have matured and many loss control measures are regularly being underwritten. While this serves to reduce loss ratios and ensure sustainability, it is likely to increase the out-of-pocket claim expenses for the beneficiary. As is evident in Figure 6, out-of-pocket claim expenses for beneficiaries have increased by 9.1% over the years. An increase in out-of-pocket claim expenses is likely to drive consumers to choose higher levels of cover.

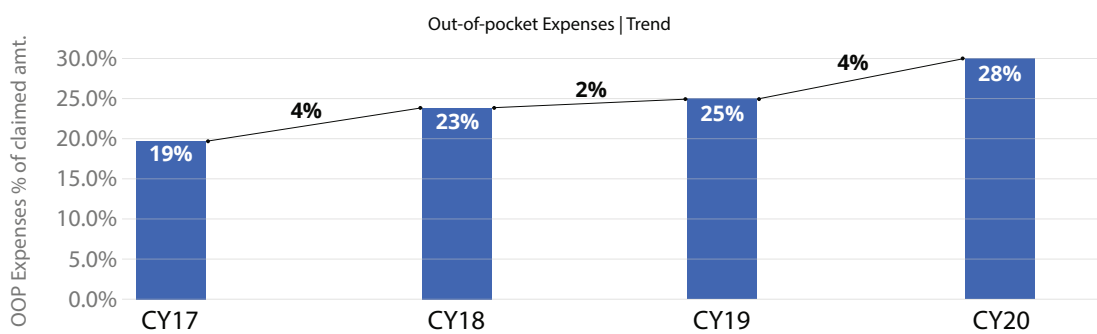


Figure 6: Out-of-pocket Expenses Trend

This model shows that about **22%** of the growth in PPL is the result of the **increase in out-of-pocket claim expenses for the beneficiary.**

Driver 8 | How is Claim Incidence Trending?

Claim incidence has remained relatively stable at 8% over the study period. The Covid-19 pandemic has impacted hospitalization patterns in the CY2020 with an increase in claim incidence.

Changes seen in **Claim Incidence rates** in this model contributed to about **11%** of the growth in PPL.

Driver 9 | Are Loss Ratios on the rise?

According to the IRDA Annual Report 2018-2019⁸, the net Incurred Claim Ratio (ICR) under health insurance (excluding PA and Travel Insurance Business) under Groups was as below:

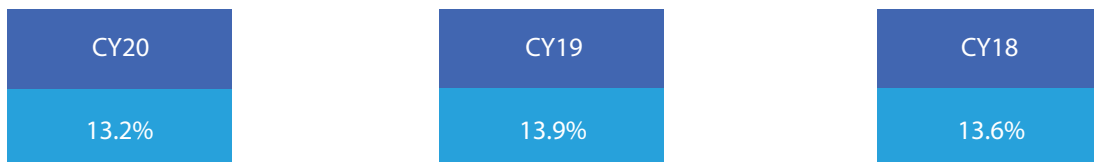


Reflecting the industry trend, our model shows that in 72% of population studied, Loss Ratios showed a decreasing trend.



Driver 10 | Is there an increase in Pre/Post Hospitalization Claims?

This study shows a marginal decrease in the proportion of pre/post hospitalization claims over the 3-year study period.



8. https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_NoYearList.aspx?DF=AR&mid=11.1

Covid-19 Impact

The Covid-19 pandemic has left no sector untouched with its scathing spread. It has substantially and critically impacted and continues to impact cost of care and access to care.

Covid-19 Cost Per Claim (CPC)

The pandemic has had a significant impact on the Cost per Claim (CPC). It has driven up the cost of non-Covid admissions also. Covid-19 CPC per se is much higher than the overall CPC. The Covid-19 CPC for claims in this study was Rs. 96,000 while the overall CPC in CY2020 is Rs. 53,000.

This trend in Covid-19 CPC is and will be a significant driver of PPL in the months to come. Higher claim cost would in turn encourage beneficiaries to seek higher cover and top-up cover. Additionally, the volume of beneficiaries opting for top-up cover with higher sum insured would further increase, setting the tone for an overall increase in PPL.

Covid-19 Claim Incidence

Covid-19 Claim Incidence rate is trending at less than 1%.

High cost of Covid-19 claims and the impact of Covid 19 pandemic on non-Covid Claims, coupled with a high incidence rate for a single ailment leads to increased awareness of the need for higher cover and also top-up cover. This increase in the benefit, with corresponding higher health insurance costs, will be a definite positive driver of PPL in the foreseeable future.

Nevertheless, at the time of preparation of this report due to the high efficacy of Covid-19 vaccines and mass vaccine rollout planned by the government, there appears to be some light at the end of the tunnel concerning the Covid-19 pandemic in India.

Looking ahead

With the Premium per Life (PPL) showing an unequivocal upward trend over the years, the cost of health cover is likely to continue to grow significantly.

Last, but not the least, the Covid-19 pandemic and its impact on health, cost of care and access to care would be a critical and prominent upward driver of PPL.

Decision makers, Health Plan members, and Healthcare Providers need to recognize the manner in which these drivers are impacting health cover. Stakeholders need to connect on a common platform and drive dialogue and action that will address and build solutions to tackle each of these drivers. The amalgamation of InsureTech and HealthTech is a possible way forward to rein in unprecedented growth and improve the healthcare delivery experience.

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About Medi Assist

Medi Assist is a leader in health benefits management and third party administration in India. Medi Assist is in the midst of an industry-wide once-in-a-lifetime transformation that is blurring traditional boundaries and redefining health care as we know it. The move to “Tomorrow's Healthcare” - the technology-enabled benefits and insurance future of healthcare - is fast changing. These disruptions demand bold new approaches, alliances, and business models.

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