

# AN ASSESSMENT OF CONSUMER PREFERENCES TOWARDS HEALTH INSURANCE

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## ABSTRACT

**Background :** The socio-economic development and the health of the country go hand in hand. A health insurance policy is a contract between an insurance company and a policy holder intended to safeguard against high and unexpected health care costs. The purpose of this study is to elicit consumer preferences towards health insurance and also understand the causes that inhibit people from purchasing health insurance plans. The paper proceeds as follows. The first section dwells on understanding the health insurance industry in India. The second section lays out the need for the study, objectives, literature reviewed and research methodology. The third section discusses the results of the investigation. The final section concludes with suggestions and scope for further research.

**Place and duration of study:** The study was conducted in Kalyan and Dombivli, two suburbs in Thane district. Duration of study was one month in February, 2018.

**Methodology:** The research is descriptive and quantitative. The study employed purposive sampling technique and gathered data through the use of a structured questionnaire. The sample population consisted of 97 adults composed of diverse backgrounds. The statistical instrument employed for this study was percentage analysis and Garret's ranking technique.

**Results:** The study found that reimbursement of expenses due to medical emergencies was the most preferred benefit and Policy features and conditions was the most preferred criterion for selecting a health insurance policy.

**Keywords:** health insurance, preference, benefits, criteria, customer centric

## 1. INTRODUCTION

The risk or chance of suffering a certain economic loss and its consequence can be transferred from one individual to many through the mechanism of insurance. Most financial planners suggest making a health insurance plan to be the starting point of all financial plans. Everybody at some time in their life will need some kind of medical attention and treatment during which time ideally the patient should be able to concentrate on recovering, rather than scrambling for monetary resources. **Health insurance** is a type of insurance coverage that covers the cost of an insured's medical and surgical expenses. Depending on the type of health insurance coverage, either the insured pays costs out-of-pocket and is then reimbursed, or the insurer makes payments directly to the provider. One should ideally have adequate health insurance cover for not just oneself, but the entire family as well. At around age 40, one should consider buying a critical illness cover.

The general insurance industry of India consists of 25 non-life insurance and six niche health insurance companies. Other stakeholders include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims. The health insurance sector was opened to private and foreign participation in 1999. In 2003, the government of India also launched Universal Health Insurance for the unreached Below Poverty Line individuals. A large number of centrally and state sponsored health insurance programs have been conceptualized for the bottom of pyramid population since 2007. Health insurance is the fastest growing segment in the non-life insurance sector in India. The health insurance market share as a percentage of the total non-life insurance industry has more than doubled from roughly 11% in the FY 2006 to 28% in FY 2016.

Rising income levels, ageing population, and changing attitude towards preventive healthcare is expected to boost healthcare services demand. The young and growing insurable population is a blessing for Indian insurers to offer them a host of products

throughout the life cycle of this segment. A strong synergy between private and public players, complementing each other is imperative to cover the enormous population of India.

Against this backdrop, insurance companies face constant challenges. They must manage business acquisition costs and administrative costs as well as reduce claims costs for better penetration and growth. A huge part of our population does not use health insurance to finance their medical expenditures due to their belief that health insurance is not a worthy investment. A low public health spending coupled with poor health insurance penetration of less than 4% is reflected in India's high out-of-pocket expenditure on health. Health insurance in India predominantly covers hospitalization and not outpatient or domiciliary care. National Sample Survey Organization (NSSO) envisages that the main reason for the indebtedness among the poor and the middle class people is the escalating medical costs.

The Insurance Regulatory and Development Authority of India (IRDAI) has been quite pro-active in its approach by laying guidelines for “cashless hospitalization”, removing age-limits for health insurance eligibility and policy portability. IRDAI amended the (Health Insurance) Regulations, 2013 in 2016. The six important changes brought about by the regulations are:

- \* Combi plans can be a mix of any life (earlier only term plan) and health plan
- \* Cumulative bonus in benefit plans allowed
- \* Wellness benefits
- \* Insurers have been asked to launch pilot products
- \* Standard declarations format can be flexible and insurers may design them independently
- \* Life insurers will not be allowed to offer indemnity-based products

## 2. NEED FOR THE STUDY

The Indian health insurance sector has been struggling with high incurred claim ratio and a lack of understanding of the consumer profile. Premiums currently are decided based on very broad parameters such as age and sex, rather than a thorough analysis of the health risk profile of an individual. Proper understanding of consumers, their needs, psyche and expectations helps insurers to bring improvement in products offerings and services. The aim of this study is to unfold the preferences of consumers towards health insurance plans and provide notable indications.

## 3. OBJECTIVES OF THE STUDY

1. To understand the present state of affairs of the health insurance industry in India.
2. To find the preferences of consumers towards health insurance.
3. To suggest steps for increasing the policyholder base for health insurers.

## 4. REVIEW OF LITERATURE

T.Kavitha, Dr. A. Latha, S.Jamuna (2012) investigated factors that influence the policy holders to select the general insurance company by enumerating 25 satisfaction factors. Factor analysis tool identified that respondents were highly satisfied towards Product price, Officers / Agents are easily locatable, Reminder for renewal of policy, Response time, Attitude of Surveyor, Motivation given by the officials to buy the policy, Contacts by the development Officers/Agents after issuing the policy, Agent's attitude in guiding the claim settlement, Company's attitude in settling claims, Amount settled by the company (relative worth of the amount), Moral support, Convenient Service and Transparent of the Policies and Benefits associated with policy.

Nirav R. Joshi and Suraj M. Shah (2015) concluded that the main objectives of purchasing health insurance policy were risk coverage, to protect against high and unexpected medical cost and tax benefits. Additionally, the *Exploratory factor analysis* extracted four factors namely, facility and affordability, financial security, Health Insurance services and health security. Further, the Chi Square test depicted that there was an association between gender and Health insurance coverage plan while no

association was found between income and insurance coverage. Also income and occupation of Health Insurance policy holder was independent of term of policy.

The research of Tanuj Mathur et al (2015) found that age, marital status, number of dependents, education, medical expenditure, health status and personality traits had a significant association with insurance status. They applied a conceptual model to investigate relationship between socio-economic factors, product perception and personality traits with the insurance status of respondents with the help of logistic regression analysis. The findings reported that a lower propensity to purchase health insurance was identified with an increase in respondents' age and individuals having large number of dependent household members. Respondents with higher medical expenditure were more likely to buy health insurance. Respondents who perceived to have fair health possess a health insurance plan. The study depicted that positive perception about the health insurance benefits has a reasonable impact on its purchase inclination.

The inferential analysis conducted by K. Nithya and Dr. B. Mythili (2017) showed that there is a significant association between Mediclaim policy sum assured and satisfaction. Further it was pointed that there is a significant association between type of policy and level of satisfaction.

A Anandalakshmy and Dr. K Brindha (2017) found by Chi square test that there was a relationship between age and source of awareness among the respondents about health care policies. The Anova test revealed that there was no significant relationship between the income and premium amount of respondents.

The IRDAI sponsored market research on the insurance industry conducted by the National Council of Applied Economic Research (NCAER) was released in February 2017. The report disclosed that the awareness and understanding of life insurance has improved materially over the years. The findings on health insurance are mixed. Although awareness of health insurance is high at close to 70%, yet there is poor understanding of the benefits and clauses. Over half the sample cited high premium and cumbersome processes as issues in general insurances.

As per a study published in the Indian Journal of Medical ethics, private health insurance remains highly unregulated and lacks transparency. This study illustrates three reasons namely, "the hospital overcharges the insured; the Third Party Administrator cheats by reducing the approved amount for irrational reasons, and the insurance company washes its hands off the matter".

## 5. METHODOLOGY

- a) Type of Research – Descriptive and quantitative.
- b) Data – Primary data was gathered through the use of a structured questionnaire and coupled with secondary data. Information on the demographic profile of the respondents was gathered along with preferences for health insurance.
- c) Sampling - The study employed purposive sampling technique and the sample population consisted of 97 respondents. The online link of the self administered survey form was emailed to 150 adults and 97 duly filled questionnaires were received.
- d) Statistical tools – The results were obtained by employing percentage analysis and Garret's ranking technique.
- e) Limitations – All the limitations relevant to a primary data study are applicable to this study too. As the study is confined only to a part of Thane district, generalization of findings is not advisable.

## 6. DATA ANALYSIS AND RESULTS

## 6.1 Sample Characteristics

Table 1. Demographic Characteristics of Sampled Respondents (n=97)

Demographics	No. of Respondents (%)	Demographics	No. of Respondents (%)
<b>Gender</b>		<b>Educational Qualification</b>	
Male	39 (40.2)	Non-Graduate	30 (30.92)
Female	58 (59.8)	Graduate	20 (20.61)
		Post-Graduate	37 (38.144)
		Professional/Doctorate	10 (10.30)
<b>Age Group (years)</b>		<b>Occupation</b>	
Upto 30	52 (53.6)	Homemaker	19 (19.58)
31 – 40	19 (19.6)	Salaried	52 (53.60)
41 – 50	21 (21.65)	Self-Employed	23 (23.71)
51 – 60	5 (5.15)	Retired	3 (3.09)
<b>Monthly Income (Rs.)</b>		<b>Marital Status</b>	
Less than 25,000	38 (39.17)	Single	54 (55.67)
25,000 – 50,000	35 (36.08)	Married	42 (43.29)
50,000 – 75,000	11 (11.34)	Divorced / Widowed	1 (1.03)
75,000 – 100,000	9 (9.27)		
More than 1,00,000	4 (4.12)		
<b>No. of Dependents in Family</b>		<b>Avg. Monthly Healthcare spending (Rs.)</b>	
1-2	67 (69.07)	Less than 5,000	70 (72.16)
3-4	28 (28.86)	5,000 – 10,000	24 (24.74)
5-6	2 (2.06)	Above 10,000	3 (3.09)

The demographic profile of sampled customers is furnished in Table 1. The sample consists of a sizeable preponderance (59.8%) of female respondents over male (40.2%) respondents. The majority of respondents belonged to up to 30 years age group (53.6%) and the remainder 31 to 60 (46.4%). In terms of marital status, a majority of the respondents (55.67%) are single, 43.29% are married while a minuscule 1.03% of are divorced/widowed. Majority (39.17%) of the respondents fall in the monthly income range of less than Rs.25,000 and closely after, 36.08% between 25,000 and 50,000 followed by 11.34% who earned between 50,000 – 75,000 and 9.27% who earned between 75,000 – 100,000 whereas only 4.12% earned more than Rs.100,000. In terms of academic qualifications, majority (38.14%) of the respondents is post-graduate followed by non graduates (30.92%), graduates (20.61%) and professionals (10.30%). As regards the occupation of the respondents, a little over half (52%) are in salaried class,

while 23.71% are businessmen, 19.58% are homemakers and a slim 3.09% are retired.

The table also indicates that a whopping 69.07% have 1-2 dependents, 28.86% have 3-4 dependents and only 2.06% have 5-6 dependents. It is also seen that 72.16% incur an average monthly healthcare expenses of less than Rs.5000 while 24.74% incur expenses between 5000 – 10,000 and only a marginal 3.09% incur expenses of more than Rs.10,000.

## 6.2 Preferences towards Health Insurance

Table 2 Preferences of Sampled Respondents towards Health Insurance (n=97)

Preferences towards Health Insurance	No. of Respondents (%)	Preferences towards Health Insurance	No. of Respondents (%)
<b>Health Risk Covered</b>		<b>Information of Health Insurance among insured (n=65)</b>	
Insured	65 (67)	Agent	30 (30.92)
Uninsured	32 (33)	Financial Advisor	12 (12.37)
		Advertisement	3 (3.09)
		Websites	10 (10.30)
		Employer	10 (10.30)
<b>Preferred type of Health Insurance</b>		<b>Preferred type of Health Insurance Company</b>	
Individual Plan	25 (25.77)	Public Sector Gen. Ins. Co.	23 (23.72)
Family Floater Plan	56 (57.73)	Private Sector Gen. Ins. Co.	22 (22.68)
Critical Illness Plan	4 (4.12)	Stand Alone Health Ins. Co.	6 (6.18)
Group Plan	6 (6.18)	Life Insurance Co.	46 (47.42)
Unit Linked Health Plan	6 (6.18)		
<b>Preferred method of buying Health Plan</b>		<b>Preferred mode of paying premium</b>	
Online	29 (29.9)	Cheque	
Offline	68 (70.1)	Bank Auto Debit	48 (49.49)
		Online Payment	15 (15.46)
			34 (35.05)
<b>Appropriate Life stage for buying Health Plan</b>		<b>Reason for increasing Sum Assured</b>	
Before 25 years	35 (36.08)	Rising Medical Costs	
25 - 40	53 (54.63)	Rising Risk in Lifestyle	45 (46.39)
After 40	9 (9.27)	Increase in Tax Concession	42 (43.29)
			10 (10.3)

The preference of sampled respondents towards Health insurance is furnished in Table 2. Out of 97 respondents, 67% have health insurance and 33% are uninsured. It is not surprising to note that out of 65 insured respondents, 30.92% have sourced the health insurance information from Agents, 12.37% from Financial Advisor, 10.3% from websites and employer respectively and 3.09% through advertisements. This is a validation of the dictum that insurance is a complex financial product that requires solicitation. As regards the most preferred type of insurance policy for all the respondents, 57.73% chose Family floater plan followed by 25.77% for Individual plan and a mere 6.18% for Group plan and unit linked health plan respectively and only 4.12% preferred the Critical illness plan.

With reference to the most preferred type of insurance policy, surprisingly 47.42% preferred Life insurance Company followed by 23.72% public sector general insurance and 22.68% private sector general insurance whereas only 6.18% chose stand alone health insurance Company. Their first choice clearly shows that they repose more faith in Life Insurance Company than general insurance company though indemnity based health insurance is sold only by the latter. This clarifies that the general insurance companies have to undertake a lot of brand building campaigns to reverse this perception. A majority of 70.1% prefer to buy health insurance through the offline mode while the remaining 29.9% prefer the online mode. As regards mode of premium payment, 49.49% prefer to pay by cheque, 35.05% online and 15.46% prefer Bank auto debit.

As regards the appropriate age for buying health plan, a majority of 54.63% prefer to between 25 – 40 years and 36.08% before 25 years while only 9.27% prefer to buy after 40 years. This is a positive signal for the insurers to approach the maximum prospective customers above 25 years. With reference to the main reason for increasing the sum assured, majority of 46.39% cited

rising medical costs, 43.29% rising risk in lifestyle and a mere 10.3% cited tax concessions as a stimulant for increasing the health coverage. This is a pointer that insurers must market their products on the premise of its features and not as a tax-saving avenue.

Table 3 depicts Garrett ranking method's total score and mean score which helps to rank the perspective of respondents towards health insurance benefits. For each benefit factor, the total score is calculated by multiplying the number of respondents ranking that factor as 1,2,3,4 and 5 by their respective table value given in Table 1. Mean score is calculated by dividing the total score by the number of respondents.

**Table 3 : Ranking of Perceived Benefits of Health Insurance**

Benefits of Health Insurance	I (76)	II (61)	III (51)	IV (41)	V (28)	Total Score	Mean Score	Rank
Reimbursement of expenses due to medical emergencies	53	20	11	8	10			<b>1</b>
	4028	1220	561	328	280	6417	66.155	
Medical treatment in best hospital through cashless settlement	28	40	10	9	9			<b>2</b>
	2128	2440	510	369	252	5699	58.753	
Risk coverage against Future Critical illness	5	25	33	25	7			<b>3</b>
	380	1525	1683	1025	196	4809	49.577	
Risk coverage for existing illness	8	6	35	33	14			<b>4</b>
	608	366	1785	1353	392	4504	46.433	
Tax benefits	3	6	8	22	57			<b>5</b>
	228	366	408	902	1596	3500	36.082	

Source : Data collected and computed through structured questionnaire

It is evident from Table 3 that the key perceived benefits of health insurance are ranked in the order of importance. The most important benefit was assigned to Reimbursement of expenses due to medical emergencies while the least important was assigned to Tax benefits.

**Table 4 : Ranking of Preferred Criteria for Selecting Health Insurance Plan**

Benefits of Health Insurance	I (76)	II (61)	III (51)	IV (41)	V (28)	Total Score	Mean Score	Rank
Policy Features & Conditions	57	13	11	10	10			<b>1</b>
	4332	793	561	410	280	6376	65.73	
Premium amount	13	34	18	27	4			<b>2</b>
	988	2074	918	1107	112	5199	53.59	
Wide Network of Hospitals	9	15	27	36	9			<b>3</b>
	684	915	1377	1476	252	4704	48.49	
High Claim settlement ratio	7	15	24	14	37			<b>5</b>
	532	915	1224	574	1036	4281	44.13	
Post-purchase Service quality	11	20	17	10	37			<b>4</b>
	1220	867	410	1036	4369			

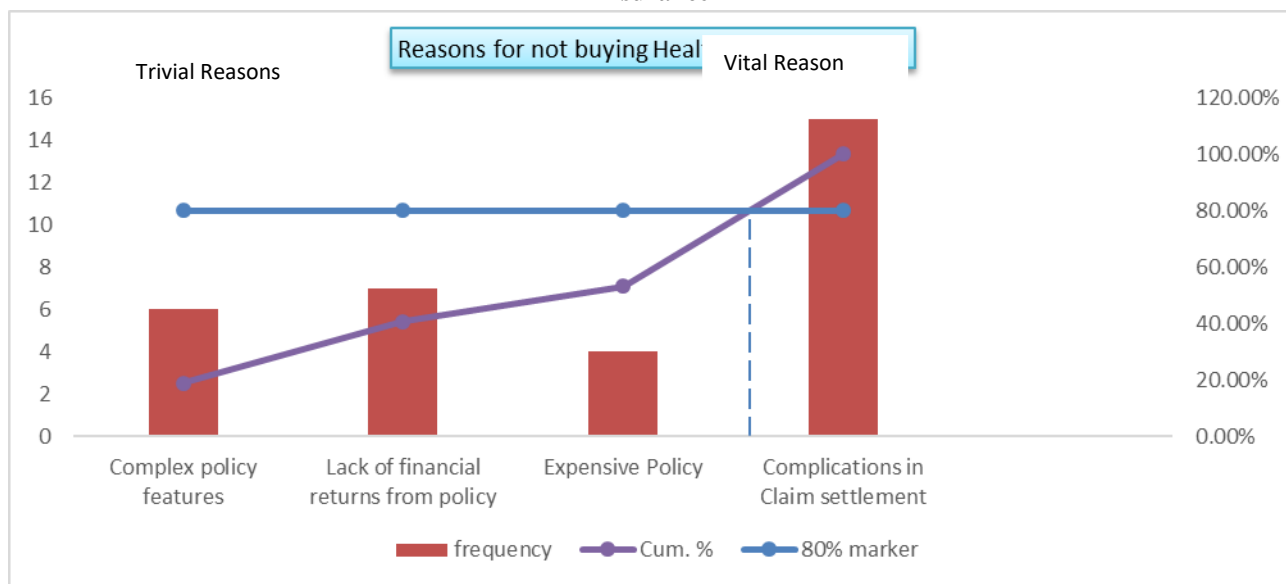
Source : Data collected and computed through structured questionnaire

Table 4 reveals the prime criteria observed by the respondents before buying a health insurance in the ranked order. The Garrett ranking method is applied. The most important criterion was recognized as Policy Features & Conditions while the least important was High Claim Settlement ratio.

### 6.3 Reasons for not buying Health Insurance

Figure 1 graphically depicts the reasons for not buying health insurance in the form of a Pareto Chart. Among the total sample of 97 respondents, 32 had not purchased any Health insurance. They were asked to provide the primary reason for not covering their health risks. The left vertical axis of the Pareto chart has "counts" and the right vertical axis has percent demarcations. According to the Pareto principle, 80% of the reasons are caused by 20% factors.

**Figure 1 : Reasons for not buying Health Insurance**



The Figure shows that “Complications in claim settlement” is the vital barrier for avoiding purchase of Health Insurance. The other reasons such as lack of financial returns, complex policy features, and expensive policy are perceived to be secondary. This finding suggests that health insurers must work towards improving their claims settlement ratio and encourage transparency and speed. As per the new IRDAI guidelines, TPAs do not approve or reject claims on their own; they need to take an approval from the insurer. This results in increased processing time for companies that settle claims through TPA networks. Companies with in-house settlement mechanism stand an advantage in this regard.

## 7. SUGGESTIONS

- Lack of awareness and misplaced perceptions should be tackled by running educational programs in colleges, simple yet informative advertisements and regular training to agents. Simplifying health insurance terms and benefits for the common man is the need of the hour.
- There is a need to shift from Indemnity focused model to Customer-centric approach through product, service and distribution innovations.
- Policyholders with better health should be rewarded and preventive healthcare management should be promoted.
- Appropriate usage of technology can narrow the gap in service quality. Long wait times and lower efficiency on claims processing are things which can be corrected using technology. Usage of electronic medical records, regular health profiling and use of mobile applications can improve consumer experience.
- Tie-ups with banks to bundle health insurance with their bank accounts and approaching more employers for group schemes can sharply step up the access to consumers.

## 8. SCOPE FOR FURTHER RESEARCH

More insights about the preferences can be analyzed based on demographic profile. Other inferential statistical tools like Chi-square, Anova and Friedman test can be employed. Other factors that induce or impede health insurance preferences can be considered.

## 9. CONCLUSION

The health insurance sector in India has plenty of potential. Growth has to be earned through innovation on two fronts, namely, products and services. This will help us accomplish our mission of getting to universal health insurance coverage in India. The regulator, government and industry have a full agenda for many more years.

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