

## Impact of second wave of Covid-19 pandemic on Insurance Industry in India

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### ABSTRACT

The Indian insurance sector is badly shaken by the second wave of Covid-19 pandemic. Out of the 21 private based general insurance companies, 9 have slipped to the red mark and in the last fiscal year, out of four, three government based General Insurance companies have reported losses. Embarking on the same route are the Life Insurance companies which have been hit harder in the second wave due to increasing death rates and consequently the claims which have not only shrunk their profits but also the dividend payouts and health insurers have been unable to settle the ever-growing claims. In spite of all these challenges, the insurers have rapidly responded in the wake of crises which will present many opportunities in the times to come. In this paper, we have attempted to analyse the impact of second wave of Covid-19 on particularly Life Insurance and Health Insurance sectors in India, the causes of dent in their balance sheets and some recommendations for mitigation of the situation.

**Keywords:** Covid-19, second-wave, Life Insurance, Health insurance, IRDA

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### 1. INTRODUCTION

The peak in the second wave of Covid-19 pandemic has made the Financial year 2022 challenging as it is much more noxious than the first wave. The on-ground sales in the semi-urban and rural markets have been impacted. The rates of premium of life insurance policies have increased and companies are struggling to price in risks due to the uncertainty caused by pandemic. The questioning involved in underwriting fresh proposals have become more stringent. However, the lockdowns in the first wave were more severe which may lead to better results shown by current Q1 in comparison to Q1 of FY-21. As per the data of Insurance Regulatory and Development Authority, due to the fresh lockdowns and curbs, the life insurers

in India have observed decline in the new business premium by 79.15% over March 2021.

The entire country has been badly swept by the second wave of the Covid-19 pandemic and a dent in the balance sheets of the General and Health Insurance companies can be clearly seen due to mounting pressure in terms of settlement of health claims. According to a report on May 14, 2021 the claims received by non- life insurance companies has amounted to Rs. 22,931 crores out of which claims estimated to Rs. 11,796 crores have been settled so far. Further, in the last month of April 2021, the insurance companies have settled 366,306 claims out of total 466,498 received. There have been pending claims of nearly 2.6 lakh customers for treatment of Covid under different schemes of insurance worth Rs. 11,161 crores till date.

## 2. LITERATURE REVIEW

**Pranali V. Nawkhare, Dr. Vinita Ahire Kale (2020)** had depicted in their research the positive impact of Covid-19 pandemic on inducing people to invest in health plans and the relative boost that has come in the under-insured markets due to increased penetration of health insurance based customised plans. **IFC (2020)** in their research have highlighted the insurance industry will use technology based 'big data and artificial intelligence' to collect up to date and accurate data which will help in providing customised and tailor based products according to the requirement of the policyholders. The time involved of SME's and individuals in buying life, health, property and cyber-risk insurance can be reduced through the use of technology. **Gangopadhyaya, Anuj and Garrett, A. Bowen (2020)** have remarked the temporary loss of jobs and livelihood will have a proportional impact on losing health insurance cover or ESI as the coverage to most of the workers is provided either through their current occupation or through employer of spouse. **Babuna, Pius; Yang et all (2020)** talk about the need of the insurers to train the staff in performing operations remotely, working under regulations of social distancing, simplification of claims or processing of premiums through e-payment mechanisms, enhancement of protocols related to cyber security which will require a collaborative effort of the Ministry of Health and Family Welfare, Department of Financial Services and other concerned ministries along with international communities. **Umar Farooq, Adeel Nasir, Bilal & Muhammad Umer Quddoos (2021)** have investigated the abnormality in the returns showed by 958 insurance companies across 8 countries (India, UK, USA, Indonesia, Brazil, Canada and Australia) due to the Covid-19 pandemic. There has been a negative impact on the stock returns particularly in case of developing countries. Many factors such as P/E ratio, systematic risk, dividend yield, size of the firm and its profitability have augmented the abnormal returns and therefore, the insurers and policy makers must keep the factors in view while formulating strategies for mitigation of risks. The Covid-19 pandemic has acted as a warning signal for the government for improvising the resilience of the Indian economy towards the financial shocks. **Sumeet Gupta, Ruchi Tyagi, Anurag Sharma and Hardeep Singh, Human Wealthsurance (2021)** have mentioned in their research the threat of instability in the economy at its peak, nonetheless using the accumulated treasure of experience and data of the insurance sector can help the government in formulating such budgets which will help to tackle the short term shocks in the insurance industry.

## 3. OBJECTIVES OF THE RESEARCH

1. To analyse the impact of the second wave of Covid-19 on the Health Insurance and Life Insurance sector in India.

2. To understand the reasons for the mounting health and life insurance claims amid the second wave of Covid-19.
3. To give suitable suggestions to Health and Life insurers for better penetration of policies.

#### 4. METHODOLOGY

##### 1. Statement of problem:

S1. Has the increase in the level of claims during the second wave of Covid-19 actually caused a dent in the balance sheets of the health and life insurers?

S2. What has been the impression of the second wave of Covid-19 on the perception of health and life insurance among policyholders?

##### 2. Research hypothesis:

H1: There is a significant relationship between the mounting claims made by the health and life insurance policy holders and the profitability of the insurance companies amid the second wave of Covid-19.

H2: There is a significant impact on the registration of policies of private insurers and LIC in the second wave of Covid-19 crises.

##### 3. Research design:

The research is descriptive and exploratory in nature and data is amassed using secondary sources such as published journals, newspapers, blogs, Internet and relevant websites pertaining to insurance sector.

**Health insurance-** As medical emergencies can take place at any time, it is indispensable to have a health insurance cover especially when the costs of medicines, oxygen, doctor's fees and hospitalisation is sky-rocketing. In spite of many reforms taken to curtail the contagious spread of Covid-19 and the resultant unprecedented crises, the healthcare sector needs to expand its investment else the dearth of healthcare infrastructural facilities and medical funding can exacerbate the crises further. As per the report submitted by the General Insurance of India, the second wave of Covid-19 in the country witnessed surge in the level of infection and as on May 14, 2021 the health insurance claims shot to Rs. 22,956 crores with submission of hospital bills by 14.82 lakh customers.

**Table-1 Claims made of Covid as of May 14, 2021 \*Rs/crore**

| State              | Number of claims | Amount | Number of claims settled | Amount settled |
|--------------------|------------------|--------|--------------------------|----------------|
| <b>Maharashtra</b> | 5,35,513         | 6,896  | 4,48,986                 | 3,623          |
| <b>Gujrat</b>      | 1,66,572         | 2,271  | 1,32,968                 | 1,327          |
| <b>Karnataka</b>   | 1,23,562         | 1,904  | 1,01,547                 | 968            |
| <b>Tamil Nadu</b>  | 1,19,068         | 2,267  | 1,00,802                 | 999            |
| <b>Delhi</b>       | 83,229           | 1,574  | 71,081                   | 863            |
| <b>Total</b>       | 14,82,802        | 22,955 | 12,33,405                | 11,794         |

As it is evident from the above table, as of May 14, 2021 the 5 states mentioned above comprises of more than 65% of the total claims and Maharashtra tops with approximately 5.36 lakhs of customers putting forward 6,896 crore of claim and subsequently followed by Gujrat, Karnataka and Delhi. On an all India basis, the amount of an average claim of Covid as on March 2021 approximated Rs. 154,810 and the amount settled on an individual basis is Rs. 95,622. As far as the states are concerned, Telangana bags the first position in settling amounts for treatment and hospitalisation at Rs. 1,25,270 per person and closely led by Delhi with hospitalisation and treatment worth Rs. 1,21,640 per person.

The year 2020 saw selling of Covid policies of a short term- Corona Kavach and Corona Rakshak like hot cakes due to low premium, easy affordability and increased medical insurance awareness. However, the second wave not only witnessed surge in claims but also rejections due to manifold reasons. Firstly, many claims based on Corona Rakshak plan were getting rejected because insurers were arguing if the value of CT is high in the RT-PCR report, then hospitalisation is not required. To avail benefits under the Corona Rakshak plan, minimum hospitalisation of 72 hours is needed but the question that arises is Can the insurers co-relate the requirement for hospitalisation on the basis of gravity of Covid-19 with the CT count? Secondly, inspite of getting coverage under the Corona Rakshak plans, it is being denied by many insurers because they are alleging that most of the comorbidities such as heart attack, hypertension, diabetes is not connected with Covid-19.

Corona Kavach excludes all pre-existing diseases and the mention of it such as lung disease, pneumonia, typhoid etc. is resulting in rejection of claims. Also to mention, home treatment of Covid-19 and use of oximeter, oxygen cylinders and nebuliser was allowed under Corona Kavach plan, but that too is being rejected by the insurers. Thirdly, there has been rejection of claims owing to the fact that Corona Rakshak policies are not having any financial underwriting and in other cases due to negligence of the insured in coming in contact with Covid-19 patients.

**Life Insurance-** Due to soaring death rates and the havoc created under the second wave, along with the pre-existing reserves, the Life Insurers have started to maintain a separate base of 'Covid reserves' to be better off in comparison to last year. The last fiscal year recorded 25,560 death claims and life insurance companies paid nearly Rs. 2,000 crores for its settlement. However, the Life Insurance companies have shown better performance in April 2021 than the last fiscal year as there has been a growth of 7.5% Y-o-Y in the New Business Premiums. The private players have outsmarted the LIC as the latter has recorded a growth of 3.5% and the private institutions have grown by 16% in FY21. In the times of the current pandemic, most of the insurers are maintaining a solvency ratio of 200% as compared to the 150% margin mandated by IRDA which acts as a cushion against any peril that may give a jolt to their balance sheets.

**Table-2. Decline in Life Insurance policies in 2020-21**  
First dip since 2017-18

| Year    | Total premium (Rs/crore) | % growth Y-o-Y | Number of policies and schemes | Percentage change Y-o-Y |
|---------|--------------------------|----------------|--------------------------------|-------------------------|
| 2015-16 | 1,38,657.31              | 22.55          | 2,67,40,089                    | 2.20                    |
| 2016-17 | 1,75,021.89              | 26.13          | 2,64,56,645                    | -1.06                   |
| 2017-18 | 1,93,865.32              | 10.99          | 2,81,98,791                    | 6.59                    |
| 2018-19 | 2,14,672.86              | 10.73          | 2,86,87,812                    | 1.73                    |
| 2019-20 | 2,58,896.49              | 20.60          | 2,88,86,569                    | 0.69                    |
| 2020-21 | 2,78,277.98              | 7.49           | 2,81,67,513                    | -2.49                   |

Source- Life Insurance Council

**Table-3 Companies impacted in 2020-21**

| Year                                   | Total premium (Rs/ crore) | Percentage growth Y-o-Y | Number of policies and schemes | % change Y-o-Y |
|--|---------------------------|-------------------------|--------------------------------|----------------|
| <b>Aditya Birla Sun Life Insurance</b> | 4,564.26                  | 24.81                   | 2,58,069                       | -1.69          |
| <b>Aegon Life Insurance</b>            | 61.78                     | -32.66                  | 19,271                         | -48.59         |
| <b>Aegnas federal Life Insurance</b>   | 631.74                    | 12.71                   | 41,875                         | -11.88         |
| <b>Bharti AXA life insurance</b>       | 783.31                    | -5.49                   | 1,16,853                       | -43.72         |
| <b>Excide Life Insurance</b>           | 780.72                    | -12.15                  | 1,48,670                       | -21.94         |
| <b>Future General Life Insurance</b>   | 523.09                    | -31.84                  | 53,284                         | -18.43         |
| <b>ICICI Prudential Life Insurance</b> | 13,032.11                 | 5.54                    | 6,64,396                       | -13.38         |
| <b>Pramerica Life Insurance</b>        | 228.49                    | -55.62                  | 30,852                         | -23.58         |
| <b>Reliance Nippon Life Insurance</b>  | 1,135.00                  | 12.81                   | 1,90,524                       | -7.02          |
| <b>Tata AIA Life Insurance</b>         | 4,144.03                  | 27.86                   | 4,60,607                       | -3.67          |
| <b>Private Life Insurers</b>           | 94,103.41                 | 16.29                   | 71,60,279                      | 2.86           |
| <b>Total</b>                           | <b>1,84,174.57</b>        | <b>3.48</b>             | <b>2,10,07,234</b>             | <b>-4.19</b>   |

Source- Life Insurance Council

As it is evident from the data, inspite of the decline in the various schemes and policies of life insurance recorded in 2020-21, a growth in premium was visible which was a positive sign for the Life Insurance industry. The premiums for the first year collected by the life insurers have increased by a total of 7.49% from Rs. 2,58,896.50 crores in 2019-20 to Rs. 2,78,277.99 crores in 2020-21 with a contraction in the number of life insurance policies and schemes by 2.5% from 2.88 lakh in 2019-20 to 2.81 lakh crores in 2020-21.

The adverse impact of the pandemic has been felt more on the group business as in the year 2020-21, there has been a contraction of 50.42% in the single premium group policies and of 6.3% in the non-single premium group policies leaving the other individual businesses of insurers ineffectual. Similarly, in 2020-21 on an annual basis, the non-single premium individual LIC policies have de-grown by 5.01%, followed by group single premium policies and group yearly renewable premium policies by 51.96% and 9.52% respectively.

The data also shows a declining trend in the registration of policies by the private players and the LIC inspite of the interest shown by consumers in the protection and term insurance plans. For example, in the year 2020-21, the private players like Bharti AXA and Aegon saw contraction of 43.72% and 48.59% while LIC too witnessed a decline of 4.19%. Some other private players such as HDFC Life Insurance and ICICI Prudential Life Insurance performed better than their peers in terms of the new business premiums which surged by 74.32% and 127.23% respectively but at the same time, their new business premium also tumbled over March 2021 by 60.78% and 73% respectively. The reported fall in the number of policies sold by LIC is 85.19% while that of private players is 72.13%. For the whole insurance industry, there was an 82.71% month-on-month fall in the sale of the number of policies.

## 5. SUGGESTIONS

1. The work must be done on penetration of life insurance policies. In spite of the demand coming from the consumers, the supply seems to be constrained which has made the growth of policies sluggish.
2. Strict norms for underwriting of life insurance policies must be implemented.
3. The insurers should devise a mechanism which gives a grace period for payment of premium through an automatic renewal route so that the policies stay in continuation.
4. To make sure there is an uninterrupted and continuous supply of cash flow, the premiums paid towards government based policies must be accentuated.
5. Ease out the overall procedures involved in settlement of claims in terms of quick approvals and home care facilities for the policyholders who are already bearing the brunt of the pandemic and its after-effects.

## 6. CONCLUSION

Since the Indian economy is grappling with the horrendous second wave of the pandemic, people are concerned about their health and lives and the concerned expenses which are shooting up. The economy is also showing signs of regression and the insurance sector needs to come up with customised policies. Despite of the second wave in 2021-22 the life insurance business will show a better performance in individual APE with revival of ULIP's, pension and annuity products. Undoubtedly, the insurance companies have been withstanding the brunt of the pandemic and not failing in their duties to provide continuous support to the customers, the financial pressure is temporary and will subside giving a sigh of relief and fresh breath to the companies soon.

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