Rethinking Health Insurance

Hatim Maskawala and *Affrah Khalid* look at strategies that can benefit health insurance in a post-COVID-19 era.

The Year 2020 has been a challenging year for individuals, industries, and geographies. The pandemic, which in insurance jargon is a one in 100-year event, has created turmoil that has resonated globally and the ripple effects of which will be felt long after it subsides. The insurance sector is not impervious to it as well, in fact, the impact of the coronavirus on the insurance industry may be more far lasting than other sectors.

However, the pandemic has demonstrated how humans innovate in the face of adversity and can evolve as a product of their circumstances, which is evident in how many industries have changed their dynamics and adapted in finding new ways to doing business. Analogously, COVID-19 ushered in

the advancement of Insurtech, from being a good-to-have accessory to a must-have facilitator, as insurance companies started thinking out of the box to keep up with reaching out to and providing continued solutions to the insured.

RETHINKING DISTRIBUTION

Due to the ensuing lockdowns as a result of the pandemic, it was observed that aggregators and companies with an online capabilities gained high traction and were able to write substantial volumes of business. Companies who lacked these distribution channels or were late to jump onto the bandwagon were evidently disadvantaged, as the first mover baton had passed.

A significant impact of online buying behaviour was the consequential reduction in the cost of sales of insurance policies.

This practice may continue after the pandemic wanes as it has proved to be convenient, economical, and efficient. Insurance companies benefit from reduced overheads and operating expenses, while prospective policyholders can compare across a menu of options and make an informed and conscious choice. Further, online/mobile payment opportunities for both the premiums and claims speed up the processes, cut costs, and potentially reduce (but does not eliminate) opportunities for fraud. Targeting Individuals and SMEs online, a niche segment that historically has relatively lower loss ratios and lesser bargaining power, allows insurance companies to close potentially profitable sales with reduced or no brokerage cost. Over time, as the mechanics of free market competition kick in, the pricing benefit will tend to pass on partially to the end customer, making it a win-win.

Companies need to rethink the way they are doing medical underwriting and move away from aged processes to those that are fully automated. They have to figure out ways of removing questions, which neither help them in underwriting and are difficult for the user to answer, such as the number of hours of sleep, the intention to get pregnant and so on. Answering questions like these are difficult especially in small enterprises where they are applied so the buyer will shift to the company that makes their purchase process easy.

RETHINKING SERVICE DELIVERY

To provide continued medical care service during the COVID-19 crisis, companies have developed different methods to improve the efficiency of their health care systems, one of which is the use of telehealth services. Digital health technologies in telehealth, remote health monitoring, and EHR will shape the future of healthcare. To ease the financial pressure, insurance companies are focusing more on digital health services to cap the increasing health costs. Service provider's teleconsultations are helping as they come at a fixed cost while giving members easy access. This can be combined with telemedicine and controlled formulary drugs. Using smartphone apps has allowed many companies to reach a bigger audience in a more efficient and effective manner.

Telehealth has served as a more than able replacement for personal consultations. A Dubai-based company launched the Middle East's first e-hospital with access to over

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2,000 doctors across the world. According to the global study from Frost & Sullivan, Telehealth consultation grew by 2000 percent between March and April 2020. Before the onset of the pandemic, only 15 percent of physicians used telehealth, which has now reached 90 percent. Not only that, but 80 percent of the patients also prefer virtual visits. Time wasted and inconveniences caused during the commute from household to clinic/hospitals can be saved, and people with commute issues can now have easy access to these facilities.

The potential benefits of telehealth include increased access to care, productivity gains for health providers and patients through reduced travel, and the potential for cost savings. The Telecommunications Regulatory Authority (TRA) has approved six telemedicine solutions in the UAE to support providers and insured persons to get healthcare services without face-to-face dealing and maintaining social distancing. Electronic health records (EHR) have reduced the manual processes and improved efficiency to further digitalise all medical files. Mobile health is another great innovation that helps track blood glucose levels and patches for patients.

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RETHINKING PRICING

The fallout of the events and experience perceived by the insurance sector during 2020 is expected to lead to changes that affect the insurance premiums of 2021. Cost of testing and cost of treatment, key components in prospective premium calculations, both will factor into escalating premiums, as claims severity hypothetically worsens. There is also the backdrop of losses of 2020 that would need to be recovered. According to a research by Willis Towers Watson, medical insurance costs are expected to increase by eight percent in the UAE next year. On the flip side, while claims severity is purportedly on an upward curve, claims frequency is expected to decline in the wake of continuing social distancing SOPs and restrictions from self-imposed or mandatory lockdowns and the work and study from home protocols in practice. Further, individuals are still wary of visiting medical facilities for regular checkups. This all translates into fewer claims and lower cost for insurance companies. Hence there is a fine line to balance between increasing claim costs, decreasing claims counts, insurer profitability, and competitive prices for the customer. Throw in digitalisation and Insurtech into the equation and it becomes an interesting conundrum.

At the moment we have seen lower utilisation in claims and health insurance loss ratios have significantly dropped. Reduced economic activity is impacting insurance spending due to movement towards lower benefits, reduction in insured population due to expats leaving and job losses. These factors combined are causing competition on the health insurance premiums.

Ban on capitation business serves as a positive boon for insurance companies as it eliminates competition in a segment where it was historically impossible to compete given the low rates at which these schemes were being serviced. Recently, with the ban on capitation and closure of certain TPAs, there is a market gap for the low-end product (EBP plan), which insurance companies can exploit to their advantage. Historically, the loss ratio of the EBP plans has been low due to lower utilisation levels. However, with the end of capitation schemes, this situation is expected to change. There will be a demand for limited network plans and this will also lead to an increase in level of premiums.

Dubai was following the lower range of AED500 to AED700 which was set for the EBP when the Abu Dhabi basic was at a standard rate of AED600. Now the basic plan of Abu Dhabi is at a minimum of AED950 plus other rating factors also apply. The lower end health insurance market of Abu Dhabi has turned profitable while the Dubai market is still struggling. This combined with the ban on capitation should see the average premiums for the lower end plans go up. However, this will not happen immediately due to competition and will only happen after a few quarters.

In conclusion, to maintain growth and sustainability, insurers cannot and are not only focusing on how to increase the premiums, as there is a limit to the upside on that end. There is more and more focus on looking for ways to reduce cost and make the process simpler and seamless. Pricing is just one pillar in the product strategy and we need to rethink others like distribution and servicing too.