

Health insurance in india a closer view economics essay



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Insurance is a subject matter of solicitation which means insurance has to be requested or asked for and not forced upon. But in reality majority of people never ask or request for insurance but are reluctant to buy insurance for some or the other reason. India being a hub of insurance industry, with enormous scope and development is still facing serious issues in terms of health insurance. According to study, as of now still major population of India is not covered under health insurance.

Health insurance plays a vital role in reducing huge expenditures people incur in circumstances of uncertain medical situations. With increasing medical costs, recessions, new diseases spreading all over, possession of health insurance policy makes it easy to fight these difficult times. At the same time in today's world with so much inflation purchasing power of people has reduced significantly. With all this, health problems can lead to heavy indebtedness. Even with such out of pocket expenses Indian population is still reluctant to buy or invest in insurance policies.

Health Insurance Industry has experienced vital changes since inception in terms of premium structures, high claim ratios, reluctance to buy health insurance which has given private companies a platform to develop in the Indian market.

In this research we will try to determine the past and future of the health insurance industry in India, the growth of the industry and companies, benefits and importance of health insurance, scope and innovative trends, challenges and cultural problems like marketing problems and competition

faced by health insurance companies and also why people of rural areas along with educated people are reluctant to buy insurance.

1. 2 Health Insurance in India: A Closer View

Decades ago when Insurance was not recognised around the world, it was first introduced by the British in India and thereafter over the past 50 years India has grown rapidly in terms of health improvement and health insurance. Even with the growth India still remains far behind many other developed and developing countries like Srilanka, China and Vietnam in terms of health indicators (Satia et al, 1999). Health insurance in today's world has become an important need for families and India a country with so much population provides a market with enormous scope for health insurance (Adukia, 2008).

The roots of Insurance might be traced back to Babylonia in Iraq a practice resembling similar to insurance. But insurance as we know it today can be traced back to the great fire of London. In the aftermath of the incident Nicholas Barbon opened the first insurance company. In the end of the 18th century Lloyd's started with its own insurance companies.

The first general insurance company Triton insurance company limited was established by the British in 1850 in Kolkata. After which the Indian Mercantile Insurance company was set up in 1907. In 1928 Indian Insurance Companies Act enabled government to collect statistical information about both life and non-life businesses (Adukia, 2008).

1956 led to nationalisation of Life Insurance and with growing mal practices and corruption in 1972 General Insurance Industry was nationalised in effect <https://assignbuster.com/health-insurance-in-india-a-closer-view-economics-essay/>

from 1st January 1973, with the formation of holding company General Insurance Corporation (GIC) having four subsidiaries under it, New India Assurance Company Ltd, National Insurance Company Ltd, Oriental Insurance Company, and United India Assurance Company Ltd. Unlike life insurance, general insurance was nationalised on a different structure and only after 1992 a government formed committee, Malhotra Committee recommended foreign and private companies participation in the Indian market (Adukia, 2008). However this took around 6 years to implement the recommendation and finally in the year 2000 Indian market was open to private sector companies with a shareholding of 26% of capital share with no right to foreign ownership.

In the early 80's all hospitals were government owned, but with increasing private medical care and the excessive medical expenses the need for health insurance raised and the above four companies mentioned started selling health insurance in the name of "Mediclaim". Only after nationalisation of the General Insurance Industry in 1972 and after a long wait Health Insurance was introduced in India in 1986 with Rs 30000 sum insurance limit. In the beginning premiums were moderate but companies faced heavy claims which actually led the companies to losses. With increasing demand and increase in medical expenses companies then started giving health insurance to a limit of Rs 300000 sum insurance.

By the start of the year 2000 the relation between the above four mentioned companies under GIC ceased to exist and at present operating as independent companies. By the end of 2000 many foreign companies

announced to start up operations in India with Indian partners but not all
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companies started (Jain, 2012). Very few of these companies survived the competition and currently there are 21 companies who are selling health insurance in India.

Table. 1

General Insurance Companies operating in India.

General Insurance Companies in India providing Health Insurance

Bajaj Allianz General Insurance Co Ltd

Bharti Axa General Insurance Co Ltd

Cholamandalam MS General Insurance Co Ltd

Future Generali India Insurance Co Ltd

HDFC Ergo General Insurance Co Ltd

ICICI Lombard General Insurance Co Ltd

Iffco Tokio General Insurance Co Ltd

Larson and Toubro General Insurance Co Ltd

National Insurance Company Ltd

New India Assurance Co Ltd

Oriental Insurance Co Ltd

Reliance General Insurance Co Ltd

Royal Sundaram Alliance Insurance Co Ltd

SBI General Insurance Co Ltd

Tata AIG General Insurance Co Ltd

United India Insurance Co Ltd

Universal Sompo General Insurance Co Ltd

Source: IRDA Journal, 2001

Stand Alone Health Insurance Companies in India

Table 1. 1

Companies providing only Health Insurance

Star Health and Allied Insurance Co Ltd

Max Bupa Health Insurance Co Ltd

Religare Health Insurance Co Ltd

Apollo Munich Health Insurance Co Ltd

Source: IRDA Journal, 2012

The above 18 companies in Table. 1 are General Insurance Companies operating in India which along with Fire, Motor and other insurances also provide Health Insurance. Table 1. 1 represents 4 stand alone health insurance companies which only provide health insurance policy throughout India.

According to Sethi (2011) 85% of Indian working population do not have Rs 500000 as instant cash for medical expenses. 14% of the population can afford it but after which will face serious financial crunch. Only 1% of the population can afford paying such huge amount in crisis of urgent medical conditions. Therefore we can understand how important health insurance is. Chandrasekar (2002) stated that even with such rapid growth and financial crunch only 2% of the Indian population is covered under health insurance scheme.

The Indian companies face heavy competition along with challenges like premium discounts, uneducated agents or representatives, illiteracy and

unawareness. India holds 23rd position and merely 0.41% in the world in terms of premium collection in the world (Gupta, 2007).

In this research we will determine how companies sustain in this competitive scenario, the reasons why people are reluctant to buy health insurance, the profits and claim ratios will be compared of 10 health insurance companies, data will also be collected showing the percentage of health insurance premiums collected in urban and rural areas, challenges and problems faced by companies, future prospects and growth, importance of health insurance, reluctance to insurance and also innovative trends in the current market.

1.3 Key Research Objectives

Health insurance plays an important role in an individual's life. The growing demands of insurance can be seen worldwide. However, health insurance in India did not benefit with a great opening, the industry faced big challenges to grow. Even with growth of the industry people have been reluctant to buy health insurance. The companies are facing issues to tap the market even with increasing need of health insurance. In this study 10 major companies are focussed to procure their perceptions to determine the health insurance industry of India.

The main objectives of this study are:-

To determine how the past was and what will be the future of the health insurance industry in India.

To determine the challenges faced by the companies and the industry.

To determine the growth of the industry and companies.

To determine the future growth prospects and scope.

To determine the importance and benefits of health insurance.

To identify the reasons of reluctance to buy health insurance.

In this research the main focus will be on 10 major health insurance companies operating in India. A lot of material has been written but it depicts a very general overview about the problems, challenges, growth prospects etc. In India, we find very few studies that have analysed health insurance sector and challenges it faces and also reason of low penetration and reluctance (Wadhavan, 1987). “ Most of the studies have documented issues and challenges the system faces in terms of accessibility, efficiency and quality of the health care delivery” (Bhat and Jain, 2007: 4). Other studies have tried to analyse, but not much empirical work is done and large research remains unexplored.

The main reason for focussing on the health insurance will be to gain an in-depth insight of the current scenario, to create awareness and to promote health insurance in the market by awakening and widening the thoughts of people and also to reflect the problems faced by the companies.

Health insurance particularly in India has remain under flourished and even with increasing awareness, there are major problems faced by companies. With increasing competition, heavy discounts on premiums and also high claim ratios companies are facing lot of difficulties.

The participants for this research have been selected who, at present are heading major insurance companies in India. Participants also include some top most faculties having experience in health insurance for more than decades and also some social workers in the field of health insurance. This will help us to reach our objectives by getting an insight to the insurance industry.

1. 4 Motivation

The motivation behind this chosen subject is the author's own interest in the field of health insurance. In an attempt to depict the nature of health insurance the author's main focus is on the insights and thoughts shared by professionals working in the field of insurance. As stated earlier, India a market with such enormous scope is still underdeveloped, what are the reasons for this underdevelopment, the challenges, and problems and also is there future scope for growth for companies in the India market?. This has motivated the author to get in deep to the reasons of these causes. Other countries like UK, USA has reached heights in terms of health insurance. But India being the second most populated country of the world and also with poor medical facilities is still facing problems in health insurance. These reasons has motivated and inspired the author to research on the chosen topic.

1. 5 Structure

The study is organised into four parts starting with a brief introduction to the Indian health insurance industry. Literature review offers a critical review of the current literature surrounding the past, future, competition, challenges, growth prospects, importance and other related topics to health insurance. <https://assignbuster.com/health-insurance-in-india-a-closer-view-economics-essay/>

The following third part will be research methodology which was used to obtain the objectives and achieve the results. The results are then estimated depending on the responses from the participants in relation to the literature, followed by discussion and comparison of the results and lastly a set of conclusions summarising the whole study.

Literature Review

2. 1 Introduction

The purpose of literature review is to throw some light on the existing available literature and research on health insurance. A critical approach by highlighting literature review will help to clarify the objectives and give a brief about the nature of the health insurance industry of India.

This review of literature will help to critically exclaim the data collected by me in the analysis stage of this research. As stated earlier almost all the research is basically depending on general ideas and thoughts and not specifically as per the perspectives of the people and insurance companies. This will determine and help to bring out thoughts and critically compare to the literature and research done before.

The literature review aims to identify valid ideas and themes and classify it in categories. This will help us to link the literature to the results and discussion part in chapter 4. However it is important to consider that some texts in the literature will not directly link. The main aim of the literature review will be to theoretically organise the literature reviewed and compare it with the current perspectives of 10 major insurance companies about the

nature, growth, benefits, future prospects, challenges, importance, past and future of the health insurance industry of India.

2. 2 The world of General Insurance

2. 3 Health Insurance- Around the World

Health insurance in the past was not recognised and underdeveloped.

According to

2. 4 Past of Health Insurance in India

The past of health insurance in India was not satisfactory and developed in comparison to other developing countries.

According to Sinha (2002), even with immense efforts to maintain an open market for health insurance, malpractice and corruption was the base of past Indian health insurance industry.

In the past health insurance was merely based on voluntary work and before independence it was basically shambled with large number of deaths and diseases (Singh, 2010).

Health insurance in early days was divided in 4 groups, provided by the government, employers, NGO's and market based systems which could be voluntary or private (Singh, 2010). Apart from the four subsidiaries under GIC in the past, there were some other schemes prevalent in the market to provide health insurance (Patrick, 2000). It was called the " Jan Arogya Bima", with a premium of Rs 100 and sum insurance of 5000 Rs. However like the mediclaim policy this was also a failure (Randal et al, 2000) because of which the government initiated entry of foreign players and private

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insurers to increase investments, coverage and to create an efficient and competitive insurance industry (Banarjee and Parekh, 2008).

2. 4. 1 Liberalisation and Nationalisation of Health Insurance

Liberalisation and nationalisation led to entry of private players and foreign participation. With liberalisation and nationalisation of health insurance an attempt was made to improve the scenario and grow its sector.

Mahal (2002) stated the entry of foreign insurers might help to reduce health care costs, at the same time to improve the quality of insurance in India. It was also believed that entry of foreign companies would lead to increased social gain and profits (Shrivastav and Siddharth, 1999).

The entry of foreign insurers was opposed by many. According to Ramadevi (2005) whatever the reasons for foreign participation, it is not always the case that private insurance companies providing health insurance works towards standard objectives of health policy and growth.

Even though the growth of health insurance was rapid and fast but however it failed to take into account the rural areas. As stated by Jain (2000), health insurance in the past has sustained itself to places only within its reach, resulting in insuring middle segment of people and ignoring the lower class.

The initiative by the government to introduce private and foreign companies in India to capture these rural markets, failed (Indrani and Trivedi, 2005) but led to growing market and a desirable future.

2. 4. 3 Future of Health Insurance in India

It is believed that the future of health in India is bright if proper efforts are put in. Even with depressing past, the Indian market grew at CAGR of 34% and is expected to grow at 23. 51% CAGR and register as the fastest growing industry among all other sectors (Bombourg, 2012).

Even though the growth is rapid, underdeveloped infrastructure can affect the future of health insurance industry. The effect of underdeveloped infrastructure is that the employer based insurance and community based insurance outweighs private insurance by 5%, which means people who actively want insurance are willing to take it only when provided conveniently (Priyadarshi, 2009).

According to some insurance scholars “ India’s health insurance industry is one of the most vibrant in the world, especially in terms of number of players, their pedigree, recorded growth and prospects for the future” (Rao, 2010: 9). Future growth will depend how service oriented insurers will be (Bhat, 2005). “ We are optimistic about the future of health insurance business in India” (Baradhwaj, 2012: 17).

2. 5 Growth of Health Insurance in India

Growth of health insurance in India is increasing rapidly which. Earlier, “ Health insurance has been predominantly within the non-life sector as a part of the miscellaneous accident portfolio. However, in the last couple of years, health insurance has emerged as one of the most promising growth segment with increase in not only number and variety of products but also in the

number of insurance companies venturing into the health insurance market” (IRDA Annual Report, 2010: 43).

Table 1. 2

% Growth of Health Insurance over the Years

HEALTH INSURANCE PREMIUM 2006-2011

Insurer

2006-07

2007-08

2008-09

2009-10

2010-11

Non-Life Private

1223. 99

1832. 5

2266. 3

2349. 8

3031. 48

Non-life Public

1973. 6

3136. 5

3824

4883. 3

6912. 55

Standalone Health Insurers

11. 16

155. 94

535. 09

1072. 1

1535. 7

Total

3208. 7

5125

6625. 5

8305. 2

11479. 7

Source: IRDA Journal, 2012.

Health Insurance in India continues to be one of the fastest growing segments with 12 to 15% growth annually. 2011-2012 figures state health insurance premium collected was around Rs 11479 crores which rose up from Rs 2222. 09 crore from 2005-2006 and expected to become a Rs 30000 crore industry by 2015 (Sethi, 2011). He further

Sethi (2011) predicts the growth for the next 6 years on the basis of 20%, 30% or 60%, which is illustrated in the table below. The table shows 60% growth from 2006-2007 to 2007-2008 whereas the growth subsided in 2008-2009 and fell down to 30%. The rate of growth fell even more in 2009-2010 which was 25% (Chandrasekar, 2009). According to Watson (2012), the industry recorded 17. 5% growth in annual premium in 2011-2012 as compared to 2010-2011

Table 1. 3

[http://1. bp. blogspot.](http://1.bp.blogspot.com/-AJPltY9RyUo/T9LtINEhvsI/AAAAAAAAAWU/RSsU8SkdlUg/s1600/Untitled.jpg)

[com/-AJPltY9RyUo/T9LtINEhvsI/AAAAAAAAAWU/RSsU8SkdlUg/s1600/Untitled. jpg](http://1.bp.blogspot.com/-AJPltY9RyUo/T9LtINEhvsI/AAAAAAAAAWU/RSsU8SkdlUg/s1600/Untitled.jpg)

Source: (Sethi, 2011)

The overall growth of premiums recorded since inception of companies has been huge and enormous, also the rising economy, increasing tourism, urbanisation, increase in middle class population might reflect a growth in health insurance (Prasad, 2011).

2. 6 Challenges to Growth

The growth of health insurance industry is hindered with increasing challenges. One of the problems identified was the problem of penetration. The total insurance penetration i. e. the ratio of premium to percentage of GDP has increased from 2. 32% to 5. 10% in 2010-2011 (Rao, 2008). The penetration in 2006-2007 was 0. 6% which was very low in comparison to other developed countries. South Korea, Australia and Taiwan accounted for 3. 8%, 2. 5% and 2. 7% of penetration in 2006-2007 (Banarjee and Parekh, 2008).

The penetration of health insurance increased from 0. 60% in 2009 to 0. 71% in 2010-2011 and overall growth of 10% from 2006 to 2011 (Jain, 2011). Mishra (2012) claims the penetration to be very low in comparison to other markets.

Mishra (2012) states with negative consumer perceptions the growth and penetration of insurance industry is a difficult. In context to growth and penetration, “ much remains to be conquered and even more remains to be accomplished” (Prasad, 2011).

Even with increasing premiums and growth, the claim ratios in health insurance were shocking, 2008-2009 reported claim ratios was 105. 95% and 2009-2010 reported 111. 13% which reports to be an hindrance to growth (Pauly, 2008).

The IRDA and CII together are trying to initiate growth by adopting different measures. For this IRDA are encouraging joint initiatives by stakeholders for collaborative action against the issues and concerns of health insurance <https://assignbuster.com/health-insurance-in-india-a-closer-view-economics-essay/>

industry and increase growth at pace with developed economies (Ramson, 2001). However according to Mavalankar and Bhat (2000) the implications of this venture and private insurance are not very clear. Unless privatization and development is managed well it may have a negative impact especially to a large segment of population in the country (Mavalankar and Bhat, 2000).

The growth of large number of government hospitals is one of the significant reasons of bottleneck of growth of health insurance in India. Free treatment to employees by “ Employers State Insurance Scheme”, private hospitals providing treatment at membership costs, no concrete database and mortality rates are hindrance to the growth of health insurance in India (Growth of Health Insurance Unsatisfactory, 2004).

Even low level of awareness, limited coverage of products, absence of medical infrastructure, frauds and absence of standardized health care costs are prominent in the health insurance industry hindering the growth (Priyadarshi, 2009). These problems occurred because the health sector was unorganised, no standardised rates, dependence on doctors instead of recruiting in house expertise (Kalyani, 2003). The industry needs to progress by add promoting riders and add on attachments to products (Bakshi, 2012).

One another important factor which determines growth is the continuity of insured in the insurance pool. As health insurance policies cover for a year, policy holders need to renew it after a year. As health insurance is not mandatory, it is seen that renewal of policies after a year is very low. This leads to affecting the growth of the industry (Bhat and Jain, 2007).

Healthcare expenditure is another important variable which affects health insurance purchase decision (Kronick and Gilmer, 1999).

Other challenges faced are the network through which the product is marketed, deficiency in products, after sales service, failure to understand consumer needs and also the industry is operating at high cost structure leading to reduced profits and growth (Dasgupta, 2011).

One shoe fits all approach has failed several times in the past. Indian industry needs to stop being simple and standard. Need for insurance changes with the life stage of a person (Mishra, 2012). However the scope for insurance is enormous in India.

2. 7 Scope of Health Insurance

India holds high scope and potential for growth of health insurance industry. The health insurance segment has scope of comfortable growth, as it holds huge potential in India when compared to overseas and developed markets (Ravichandran, 2010). The health insurance industry holds huge scope in India, and entry of private health insurers in recent past shows the growing demand and of having a health cover (Choudhury, 2012).

The low penetration of the industry is not only encouraging private and public players, but also stand alone health insurance companies to put their feet into this market (Kumar, 2012). Existing insurance cover provided a cover with limited sum insurance with innovative products and cover today, the scope is enormous (Ehrbeck and Kumra, 2007).

2. 7. 1 Scope to Cover – 98% of the Population

98% of the population in India still remains uninsured even with the potential market of India. Health insurance market has been growing significantly.

Within no time the insurance industry has tapped 14% of the non-life market, but the health insurance industry still remains underdeveloped with only 2.2% of population covered (Krishnamurthy, 2005). Less than 10% of the 2.2% population is covered in the rural areas (Gupta, 2007). It has undoubted scope and attractions for insurance companies with India's population reaching up to more than 1 billion, 72% resides in rural areas (Holloway and Krishnamurthy, 2006).

Ratna and Sarkar (2007) state the rural people treat health as an important aspect and are willing to invest in health insurance schemes. Insurance schemes are popular in rural areas and in a survey conducted by Mathiyazhagan (1992); maximum population was willing to contribute in community health insurance schemes. The people today are becoming aware of the importance, health insurance schemes underlie, which gives insurance companies a head start to capture the potential market (Vinod and Saharan, 2007). Insurance schemes are popular in rural areas, especially life insurance policies, which can give a platform for health insurance

The private out of pocket expenses accounting for 75% of the total health care expenditure for which health insurance can be seen as the latest avatar (Varatharajan, 2001). However the most common belief amongst insurance companies that doing business is expensive in rural areas, because of which most companies are only trying to meet regulatory norms, and do not see the rural business opportunities waiting to be exploited (Santhosha, 2009).
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At this rate, by 2033 only 50% of the population will be covered under health insurance (Healthcare Unwired, 2011).

As stated by Nagpal (2010), 40% of the Indian population had to sell assets or borrow money when hospitalised, these markets are fresh to tap and awareness by insurance companies will increase the scope. Indian mortality rates are still above average and this indicates that there is still lot of market to be covered (Healthcare Unwired, 2011).

According to Rao (2004), the companies to target the maximum uninsured population that is the poor living in the rural areas, should provide coverage at low rate, peg the price keeping in mind everyday expense, craft the product and guarantee claim settlement. " About two-thirds of the sample of India agreed to pay at least 1% annual household income; about half of the sample was willing to pay 1. 35% and 30% of the sample was willing to pay about 2% as premium towards health insurance" (Dror, Radermacher and Koren, 2007).

Even with poor reach to the rural area, this growth will create over 500 million urban middle class people by 2025 which in return creates a massive platform for insurers (Singhal, 2007). According to Mirchandani (2008), there are 170 million households and 630000 villages in rural India. The purchasing power is still debatable, but current statistics reveal that 40% of the refrigerator sale in India has been contributed by the rural populations. At the same time the 70 million credit cards have already been issued in the rural areas. India's accelerating economic growth is increasing the

purchasing power of people at the same time capacity to dispose of income in investments and insurance.

The scope of insurance is not only going to increase because of increased incomes, but also due to risk and volatility therefore increase in need of health insurance (Rangarajan, 2006).

2. 8 Need and Importance of Health Insurance- with increased medical costs

On average the possibility of poorest Indian to forgo medical treatment is 2.6 times more than the rich (Peter et al, 2002). Apart from believing the illness not to be serious, major reason for not seeking care was the medical costs. Given this context health insurance is a significant alternative to reduce out of pocket expenses (Devadasan et al, 2004).

Pauly (1986) stated the spread of health insurance can account for the significant rise in medical expenditure. " The widespread presumption that distorted prices because of insurance are inducing excess resources in medical care is not necessarily correct" (Manning et al, 1987: 251). With increasing costs of health care, technology, pharmaceutical costs, is increasing difficulties for uninsured, so health insurance does not only help to fund health care but also wealth preservation. Health insurance is a need which cannot be overlooked or ignored (Nagpal, 2008). " The burgeoning demand for hospitalisation policies is witness to the surge in demand for a means of paying healthcare costs" (Kalyani, 2004: 5).

Development of new hospital chains, stress on holistic well being, increasing the need for health insurance in the urban areas (Tungait, 2010). Inflation in <https://assignbuster.com/health-insurance-in-india-a-closer-view-economics-essay/>

medical costs is growing at a rate higher than the overall inflation, therefore personal accident policies and cover for hospitalisation can provide health care benefits to people. Along with health care it helps as a tax saving instrument (Krishnamurthy, 2008). Chronic diseases and disablements are increasing in India (Patel et al, 2011); with funding from government reducing it is important to have a secured investment in health insurance.

Figure 1

Source: (Patel et al, 2009).

In times of hospitalisation, chronic ailment and also accidents, a multi-approach to health insurance can provide substantial cover. Personal accident policies help to compensate and reimburse in times of accidents (Ahuja, 2004). Even dreaded diseases like cancer, heart attack etc can be covered under critical illness policies as add on to health insurance (Nagpal and Gautam, 2008). Since few years, health insurance also covers pre and post hospitalisation expense. Cost of illness and diseases are increasing at a fast pace. Rise in medical costs, better specialised treatments but at the same time costs of treatments have been beyond the reach for common man (James, 2004). According to Bovbjerg and Hadley (2007), the need for insurance arises as uninsured receive less timely and ineffective care. In addition, Hadley (2003) states uninsured people face worse health outcomes. The availability of health insurance also provides for economic growth and mitigation of risks (Bhat, 2005). Hsia et al (2000) stress the importance of health insurance as a determinant of cancer screening. In addition Gumber and kulkarni (2000) in their research show the growing importance of health insurance due to mortality rates, increasing

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expenditure on treatment and burden of health care, but people still are reluctant to buy health insurance.

2. 9 Reluctance to buy Health Insurance

The problems faced by companies all over the world clearly indicate there is no future for health insurance in India (Lele, 2004). It has been seen that even with health insurance companies offering low premium, people are reluc