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THE STUDY OF COGNITIVE PHENOMENA IN THE BEHAVIORAL FINANCIAL BACKGROUND ASSOCIATED WITH THE COVID-19 PANDEMIC

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Abstract:
In the era of the present pandemic situation, there had been tremendous impact on the financial behaviour of the people. Economic crises have been seen since early 2020. Lockdown had announced major setbacks when people were removed from their jobs and were compelled to stay back at home. At the same time, financial pressure was also seen on the health insurance sector. On one hand, people were afraid of spending huge amounts on the treatment of the disease and on other, they were reluctant to draw the prices for spending on the mediclaim policies. Their dilemma ended with a decision to withdraw from paying on the mediclaim premiums. This has led to set back to the insurance companies as they were losing on the customer base. Further, to save up their losses they, in the initial stage, started offering discounts and concessions. This was the period when they did not know that the virus would strike the nation immensely. But soon they have to revert the policy by charging higher on the premium paid, as they started receiving claims in the month of April 2020. The paper deals with the fact that growing premium and necessity of the hour were the two major situations faced by many people in India. Their financial behaviour in this respect is presented in the current study.

1. INTRODUCTION

Due to Corona virus, there has been tremendous pressure on the economy, resulting directly in fall of stock prices and the market. Because of lockdown in many countries, the performance of companies in the world has been negatively affected by the shock of demand and supply **(Ibn-Mohammed, et.al. Sep, 2020)**. Economic growth in developed countries is projected to be at the level of −6.1 percent while emerging markets with normal growth rates are projected to be at the level of −1.0 percent in 2020, and −2.2 percent if China excludes in its calculations. During late February to March 2020, global stock markets were characterized by the extraordinary volatility induced by COVID-19 **(Tanmay Bansal, 2020)**. As of March 27, 2020, the top 10 countries that had been infected (including South Korea, Japan, and Singapore, and excluding India) had an increased risk of 26.8 percent from February to March 2020. Anomaly reports in the theory of efficient traditional markets appear inappropriate if they are not presented with significant evidence against the theory so that markets and humans are most logical and master efficient self-management and fail to portray dramatic volatility. This volatility can also be described by the behavioral finance paradigm. Financial behavior states that both investors & markets are not very rational and investors are controlled by speculation and cognitive refraction because of the attachment of rationality **(Putri, et.al., 2020)**. It consists of two main parts, namely, psychology which will explain fallibility in the concept of human behavior, and the limit of arbitration, which argues that the economy of commerce is rational and irrational. Irrationality has a significant sustainable impact.

2. HEALTH INSURANCE AND COVID-19

For both people and business, the last year (Year 2020) have been transformational for our country. Among the countries which have been hit hardest by the coronavirus pandemic, India is among the top three. The pandemic has put its mark on almost every industry and sector including Health insurance **(Singh, et. al., 2020)**.

There are positive changes which Health insurance industries have seen in the past few months. There has been an uptake in health insurance about 30 to 40%, some insurance companies have seen significant jumps.

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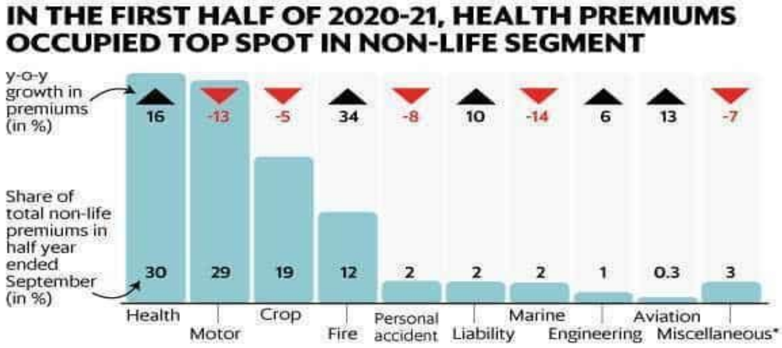


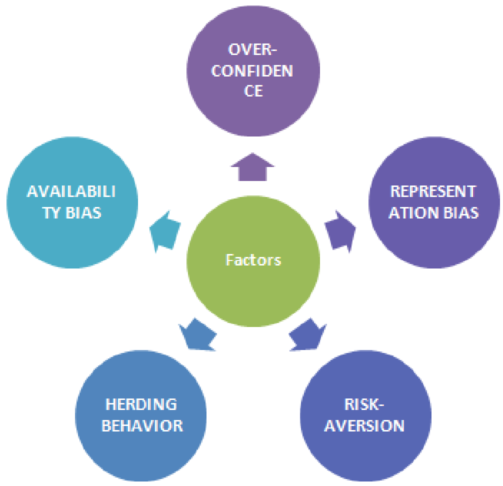
Source: Shrivastav, A. (Nov, 2020). The covid-19 boost to health insurance, in four charts, mintnews.com

Health industries have been shifting towards digitalization rapidly. The nature of service like filing process, underwriting process, etc has also pushed the industry in digitalization. The customer mind set has been clearly changed. The customer has realized that they have to do protective investment mainly in health security and life security. When it comes to returning this instrument, health insurance is very important parameter which is taking the market now. This may lead two transformations of healthcare insurance from traditionally "Push" products to modern "Pull" products.

Many challenges and uncertainty during this pandemic have been faced by the health insurance industry **(Richter, et.al., 2020)**. Firstly and undoubtedly is the uncertainty of treatment expenses for coronavirus. The claim cost is significantly higher than other infection diseases and epidemics, so in many aspects coronavirus pandemic is a nightmare. Much insurance is still calculating and predicting accurate impact on expenses on healthcare and consequently booking the claims.

Secondly, the healthcare industry is somewhere facing confusion during many cases. For instance, some non-insurance and non-payable items like gloves, kits, personal protective equipment, disinfectants, etc all of this has become an important part of the treatment protocol of coronavirus pandemic **(Singhal, T., 2020).** Also there is variance in treatment protocols and continuously changing of standardize cost and expense between insurer & hospital providers. And in certain cases, the claim process and availability of medicines is not predictable.

3. FACTORS ASSOCIATED WITH BEHAVIOR FINANCE IN TERMS OF INSURANCE POLICIES



After surveying the people and their opinion the most common factor that compelled people of not buying an insurance cover was over-confidence. They were assuming that they will not be infected from the virus and they do not require any such insurance cover.

4. The Present Situation

Whether it is sheer lethargy or misplaced optimism, there are many reasons for ignoring health insurance. But with covid-19 spiraling out of control and nightmarish stories of hospital experience and inflated bills

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slapped all over social media, panic has goaded many to consider health insurance seriously **(Velavan, et.al. 2020)**. That is a positive outcome and should be channeled to get more people to buy, but the insurance regulator wants to tap this new-found interest with covid-19 specific products. IRDAI's rationale seems to ensure more people are insured for covid-19-related medical expenses at an affordable rate, but this line of thinking has one serious flaw. It induces short-term behaviour for a long-term problem that is health.

A short-term covid-19 product provides answers to the visible and relatively short-term threat of the pandemic, but it does little to encourage the onboarding of people to health insurance. Insurers, too, do not seem to be enthused about covid-19-only products for two reasons: the first being pricing and the second being short-term policyholders. While the average claim size for covid-19 is higher, claims have seen a drop since planned hospitalization reduced considerably. This, according to insurers, may improve the loss ratios temporarily but the trend could reverse badly when people having bought the stand-alone covid-19 health policy vanish next year and with them, the premium bucket and hospital footfall resumes normalcy.

Pricing too will be a challenge. A health insurance expert I spoke to on pricing said, “It’s like the forest is on fire and I have to insure a house where the fire has not reached yet." He estimated the pricing of the standard covid-19 indemnity plan to be somewhere around that of Aarogya Sanjeevani, the standard basic health insurance policy that is mandated to be sold by all insurers.

Given that nearly 80% of the patients are asymptomatic and increasingly many are recuperating at home, the rationale for covid-19 health indemnity plans seems a bit misplaced. However, defined benefit plans help, as they act as income supplements. The covid-19-only health indemnity products could have made sense if the underwriting criteria were different and insurers were mandated to insure persons with co-morbidities, which doesn’t appear to be the case. Given this, a comprehensive policy that covers you for all unexpected emergencies as against a policy that covers only one, the former is a clear winner.

But one question still stands. How should one think about improving health insurance coverage during a pandemic? Getting the house in order by addressing gaps in health insurance coverage is a good start. Health insurance is important, but many have had bitter experiences even before the pandemic struck. Often the bitterness is a result of faulty structures through which insurance companies and healthcare providers interact. Issues such as inflated bills, complex policy structures and delays in claims settlement have plagued health insurance policyholders even in the past, but the problems have amplified now. So instead of a new covid-19 policy, existing health policies should be made more customer-friendly so that insured patients don’t end up paying huge hospital bills out of their own pocket.

The good news is that the industry already seems to be working on a billing pattern for covid-19 treatment where costs are standardized as per location and bed capacities and inclusions—PPE kits are included—clearly spelt out. The challenge, of course, would be to get the hospitals to adhere to these rates but this is precisely why the might of the industry is far more effective than individuals pushing for clarity and standardization of costs.

But if there is a product that needs to be offered, then it shouldn’t come at the cost of a regular health plan. It needs to be an add-on. Think of how motor insurance operates, for clues. It’s a standard policy that excludes certain claims and benefits. These can be included as add-on covers by paying extra premium. The same structure could be applied to health insurance, where customized benefits targeting the covid-19 infection are available as an add-on to regular health insurance policies.

5. The way forward

Everyone is watching the impact of covid-19 health insurance industry business and life. Solid digitalization of customers has become an important component of transfer formation. In upcoming months and years, consumer, insurance buyer could see clear changes in insurance industry.

Firstly, well designed innovative products of Health insurance could be seen growing vastly. The main barrier for digitalization has been product design for a long time. Because many insurance providers are trying to adapt this digital process of the product, which is based on a distribution model that is offline. Complicated risk mitigation and product features and confusing variants in product has reduced the purchases.

Secondly, the need for simple documentation policy has been growing. Simple and uncomplicated policy and documentation will be easy to understand for consumers and this will help to grow the Health insurance sector. This builds us an important role in establishing trust in digital experience and will make you excess for more people.

Thirdly, in near future need of digital transactions in processing claim and policy management would be seen. This digital and automatic claim adjustment could improve decision making system, customers would get claim settlement at a faster rate than the manual processing, and also, it will reduce manual work.

Fourthly, the emergence of uses of central digital channel distribution could be seen. The main factor will be how it would become easy to buy insurance policy. Along with existing old insurance which are also focusing on digital distribution model, the new specialist such as Acko & Godigit, and next generation digital health financing distribution companies like ok Toffee, Vital , Onsurity, Kenko, Plum, Riskcovery,etc looking forward to offer consumer experience that will go behind plain insurance plan, things are getting exciting space in this. The new insurance companies are focusing on user friendly experience with insurance products as well as other wellness needs.

And importantly the thing, which is to be seen, is how long the impact of the pandemic will be seen and in real sense, it will transform their way of industry functions to the better. Consumer protection should quickly capture and capitalize them. So an insurance company would be able to capitalize this opportunity and bring the digitalization in the insurance sector.

Covid-19 has taken a huge toll on governments across the globe. India is no exception and it’s understandable if the state looks up to the insurance industry for healthcare financing. This is the perfect time to set right the ecosystem in which healthcare and insurance interact instead of piling on more health policies and compounding the confusion.

6. Conclusion:

The global crisis caused by the COVID-19 pandemic that is currently hitting various parts of the world, we tend to focus on what is considered the easiest for us to be able to access and get information directly during this pandemic in order to adapt to the ongoing crisis. This is very ironic because, considering the current global crisis, we should be more careful. It is very important for us to be able to consider our subconscious biases in order to decide the right action to take next. Some of the cognitive phenomena in the behavioral financial background associated with the COVID-19 pandemic are described in this paper, namely the existence of over-confidence, representation bias, risk-aversion, herding behavior, & availability bias. There are greater cognitive errors found outside the financial behavior that we do in our daily lives. But in this paper, we hope to serve as a reminder of the psychological deficiencies that can help us to better navigate from future crises and not make the same mistakes as crises in the past.

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