CHAPTER - 2
THE INDIAN HEALTH INSURANCE INDUSTRY

2.1 Introduction:

In India approx 15% to 18% per cent of 1.27 billion populations have some form of health insurance coverage, and this percentage includes those also who are covered in some government schemes. By 2012-13 as per IRDA Annual Report only 207 million people have health insurance.

Such lower coverage of health insurance results in to higher out-of-pocket expenses at the time of medical emergency. As per the data of World Health Organization (WHO) in 2011 the Out-of Pocket expenses for India stood at 86%, while these expenses in developed economy like US and UK is 20.9% and 53.1% respectively. Such higher Out-of-Pocket expenses results in to increasing poverty as people at the time of medical emergency have no option except of selling property or borrowing money. On the other hand as per WHO statistics 2011 India spent only 3.9 per cent of gross domestic product (GDP) on the health sector which is the lowest amongst the BRICS (Brazil, Russia, India, China, South Africa) member countries. This is also a big reason of lower penetration of health insurance in the country.

Although above described facts are true, but health insurance segment is rising specifically after liberalization of insurance sector. It continues to be one of the most rapidly growing sectors in the Indian insurance industry. Today its Gross Written Premium (GWP) for the year 2012-13 is `15,701 Crore while it was only `675 Crore in 2001-2002. The health insurance premium has registered a compounded annual growth rate (CAGR) of 32\(^1\) per cent for past eight financial years. Lets have a look on amazing and enthusiastic growth rate of Indian health insurance Industry:

Table 2.1

Premium* of Indian Health Insurance Industry

(Premium in `Croc)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>675</td>
<td>1670</td>
<td>2222</td>
<td>3209</td>
<td>5125</td>
<td>6625</td>
<td>8305</td>
<td>11479</td>
<td>13468</td>
<td>15701</td>
</tr>
</tbody>
</table>

* including the Premium of Standalone Health Insurers
* Data Source – IRDA Annual Reports for respective years.

Graph 2.1

Year wise Total Health Insurance Premium in `Croc

Table 2.2

Health Insurance Coverage in terms of population

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Person (in million) covered Under Health Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>8.3</td>
</tr>
<tr>
<td>2006-07</td>
<td>16.3</td>
</tr>
<tr>
<td>2010-11</td>
<td>131</td>
</tr>
<tr>
<td>2012-13</td>
<td>207</td>
</tr>
<tr>
<td>2016</td>
<td>505 (projected)</td>
</tr>
</tbody>
</table>

Data Source: - IRDA Annual Reports for respective years
As we can see in graphs (2.1) given above, premium for the year 2005-06 for health insurance segment was ₹2222 Crore which reached to ₹15701 Crore in the year 2012-13.

In terms of coverage, in 2004-05 there only 8.3 million policy holders was covered under some health insurance scheme, today that digits have crossed 200 million policyholders.

Ultimately health insurance has become one of the most prominent segments in the insurance industry and is expected to grow significantly in the next few years.

### 2.1.1 Pre and Post Liberalization Scenario of Indian Health Insurance Industry:

The new economic policy was being followed by the Government of India since 1991. With setting up the IRDA in 1999, concept for privatization and liberalization of insurance sector in the country had been reaping. Health insurance, which was nothing and underdeveloped, have been developed a lot in its fundamentals, product innovation, premium contribution, and management strategies after liberalization. Here in the table (2.3) Pre and Post liberalization seen of health insurance sector is given:

<table>
<thead>
<tr>
<th>Pre liberalization seen (Before the year 2000)</th>
<th>Post liberalization seen (After the year 2000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No proper mechanism to regulate health insurance industry.</td>
<td>IRDA as a regulator, standardizing policy, forms and definitions. Set up of Health Insurance Forum and Insurance Ombudsman.</td>
</tr>
</tbody>
</table>
### Pre liberalization seen (Before the year 2000) vs Post liberalization seen (After the year 2000)

<table>
<thead>
<tr>
<th>Pre liberalization seen</th>
<th>Post liberalization seen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only LIC, and general insurance companies (NIA, NIC, UIA and OIC) were doing business of health insurance.</td>
<td>21 more general insurance companies from private sector who are doing health insurance business.</td>
</tr>
<tr>
<td>No Stand alone health insurer</td>
<td>4 Stand alone health insurer</td>
</tr>
<tr>
<td>Only one Mediclaim policy and few Critical Illness plan were there.</td>
<td>Innovative products (Critical illness, Top up, Market linked) and Rational Pricing. Cashless facility, Hospital cash, Continuity benefit, Life long renewal Prompt In-house services and involvement of TPA</td>
</tr>
<tr>
<td>No specific policy for older</td>
<td>Several attractive plans for older, covering critical illness and including several benefits and value added services</td>
</tr>
</tbody>
</table>

#### 2.1.2 Effect on the Health Insurance Market Due to entry of Private and Standalone Health Insurers:

Years came after 2000 proved fruitful and glorious for health insurance industry in India as market had been opened for private player. Entry of private player put an end to monopoly of public sector companies and free competition started to flow in the market. Within first 12 months of liberalization of Indian insurance industry, 6 licenses were issued to private sector insurance companies to sell general insurance products. The standalone health insurers started their working from 2006-07, the Star Health and Allied Insurance Company Limited was the first to work as a standalone health insurers, and the Apollo DKV Health Insurance Company Limited was the second, started its working form 2007-08.

It is expected that in coming years more standalone health insurance player would join the market as the health insurance market is full of opportunities, and penetration of it is still very low.
Several changes in the market took place due to entry of Private Sector Insurers that are:

- Monopoly of public sector general insurers came to an end.
- LIC, GIC and the 4 public sector general insurers started losing their market share because of good growth profile of private players.
- Entry of the private player leads to a greater competition in the health insurance market.
- As per IRDA Annual Report 2012-13 private players have acquired about 24% to 26% market share of health insurance segment.
- Wide variety of health insurance products on different prize band available in the market.
- Products with different innovations started to be developed after entry of private players.
- Products with different benefit and value added services came into the market after entry of private player.
- Dependency only on the public general insurance companies to purchase health insurance policies has been ended.
- Customer perception has been changed towards health insurance due to increasing literacy level, awareness level, income, lifestyle disease, etc. That is the private player who first started to make the policies which focused on customer centric relationship.
- Entry of private players in the market boost up awareness level of people regarding need of health insurance as several advertisement campaign organized by these players, highlights the benefits of health insurance.
- Technological revolution in health insurance segment has taken place like online purchasing and premium calculation of policy and its comparison, online premium payment, online registration of claim and grievances etc.
- Services became fast like enquiry through massages, documents available on web, online chat with company personnel, these services are available on 24*7 basis.
- Several new distribution channels like banc assurance, self help group etc. has been evolved so reach of the companies to Tire II and III cities has been increased.
With entry of private sector companies, public insurers also upgraded their system, processes and policy’s provisions to sustain the competition and be continuing on the position of market leader. The 4 public insurers are still market leader and possessed 61% of health insurance market together (IRDA Annual Report 2012-13).

2.1.3 Trend in Health Insurance Premium:

The Gross Direct Premium Income is an important measure to estimate the growth of any insurance segment. Here in the table (2.4) the GDPI in `Crore from 2005-06 to 2012-13 are given below. The table (2.4) is showing sector and year wise performance of health insurance segment and growth over the previous year.

Table 2.4

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Private sector</td>
<td>1223.99</td>
<td>1832.50</td>
<td>2224.53</td>
<td>2330.21</td>
<td>3031.48</td>
<td>3660.79</td>
<td>4382.52</td>
</tr>
<tr>
<td></td>
<td>(49.71)</td>
<td>(21.39)</td>
<td>(4.75)</td>
<td>(30.09)</td>
<td>(20.76)</td>
<td></td>
<td>(19.72)</td>
</tr>
<tr>
<td>Public Sector</td>
<td>1973.60</td>
<td>3136.50</td>
<td>3863.46</td>
<td>4981.16</td>
<td>6912.55</td>
<td>8148.23</td>
<td>9592.15</td>
</tr>
<tr>
<td></td>
<td>(58.92)</td>
<td>(23.17)</td>
<td>(28.93)</td>
<td>(38.77)</td>
<td>(17.88)</td>
<td></td>
<td>(17.72)</td>
</tr>
<tr>
<td>Stand Alone Health</td>
<td>11.16</td>
<td>155.94</td>
<td>535.09</td>
<td>1072.10</td>
<td>1535.77</td>
<td>1659.78</td>
<td>1726.21</td>
</tr>
<tr>
<td>Insurer</td>
<td>(1297.3)</td>
<td>(243.13)</td>
<td>(100.35)</td>
<td>(43.24)</td>
<td>(8.07)</td>
<td></td>
<td>(4.00)</td>
</tr>
<tr>
<td>Total of HI Industry</td>
<td>3208.75</td>
<td>5124.94</td>
<td>6623.08</td>
<td>8383.47</td>
<td>11479.80</td>
<td>13468.80</td>
<td>15700.88</td>
</tr>
<tr>
<td></td>
<td>(59.72)</td>
<td>(29.23)</td>
<td>(26.57)</td>
<td>(38.22)</td>
<td>(17.33)</td>
<td></td>
<td>(16.57)</td>
</tr>
</tbody>
</table>

*figures in the brackets are showing growth over the previous year *GDPI – Gross Direct Premium Income in `Crore

Data Source: Handbook on Indian Insurance Statistics IRDA, 2012-13 Table 47: Segment wise Gross Direct Premium Income of Non Life Insurers (With In India) and Annual Reports of IRDA.
The table (2.4) is narrating the Gross Direct Premium Income for health insurance segment for public, private and standalone health insurers for the period from 2006-07 to 2012-13. As the data in the table states that in last 7 years the public sector and private sector companies have slower growth over the previous year’s premium of health insurance year by year. Yet in 2010-11 these insurers again catch the growth at higher rate but after 2010-11 again growth has been come down.

As the data is reflecting the standalone health insurers has emerged as a big competitors in the health insurance market as they are sharing with respectabel figures in health insurance premium though the growth rate of each year premium over the previous year is slow for the stand alone health insurers also.

The overall health insurance industry definitely is growing but at a slower rate then the previous year as the data is showing in the table (2.4). Yet it is true that after liberalization the industry started to grow faster as where, in the year 2001-2002 the premium of health insurance segment was only `675\(^1\) Crore, in 2012-13 it has reached up to `15700 Crore.

### Table 2.5

**Market Share of Public, Private and Standalone Health Insurers for Health Insurance Premium**

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector</td>
<td>38.15%</td>
<td>36%</td>
<td>34%</td>
<td>28%</td>
<td>29%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>61.5%</td>
<td>61%</td>
<td>58%</td>
<td>59%</td>
<td>60%</td>
<td>60%</td>
<td>61%</td>
</tr>
<tr>
<td>Stand Alone Health Insurer</td>
<td>0.35%</td>
<td>03%</td>
<td>08%</td>
<td>13%</td>
<td>13%</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>Total of HI Industry</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Data source - Different IRDA Annual Reports

\(^1\) IRDA Annual Report 2007-08 page no 43
The table (2.5) is showing Market Share of public, private and standalone health insurers specifically for health insurance premium. As the data is showing in the table (2.5) the public sector insurer still maintain their position of market leader but at the cost of losing their share gradually. The current market share of public sector remains 61% while private sector’s market share is 28% and it is 11% for standalone health insurers. It is all because the private sector including standalone health insures are more aggressive, have updated technology to reach the customer, better marketing and advertising strategies and better services in comparison to public insurers. Theses insurers are giving tough competition to public insurers.

2.1.4 Claim Ratio of Health Insurance Segment:

To pay the claim is the prime services of an insurer, and it is prompt and fair settlement of claims that improves level of trust among people for the insurer. Incurred Claim Ratio is the ratio of all Paid Claim to the Total Premium Received to a particular account.

\[
\text{Incurred Claim Ratio} = \frac{\text{All Paid and Outstanding Losses}}{\text{Total Premium}}
\]

The incurred claim ratio is very much important as it reflects the performance of risk to the underwriter. And according to this performance which can be Good (low ratio) or Bad (high ratio), premium rates of the policies are determined.

In the table (2.6), the Incurred Claim Ratio of some important companies from public and private sector for health insurance segment is given for last five years.
Table 2.6

Incurred Claim Ratio for Health Insurance Segment from 2008-09 to 2012-13

<table>
<thead>
<tr>
<th></th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>New India</td>
<td>107.41%</td>
<td>113.06%</td>
<td>102.54%</td>
<td>97.24%</td>
<td>103.89%</td>
</tr>
<tr>
<td>National</td>
<td>111.27%</td>
<td>108.53%</td>
<td>105.52%</td>
<td>105.09%</td>
<td>105.60%</td>
</tr>
<tr>
<td>United</td>
<td>121.27%</td>
<td>131.56%</td>
<td>114.86%</td>
<td>97.68%</td>
<td>99.38%</td>
</tr>
<tr>
<td>Oriental</td>
<td>136.96%</td>
<td>128.91%</td>
<td>102.7%</td>
<td>102.83%</td>
<td>104.45%</td>
</tr>
<tr>
<td>Public – Total</td>
<td>116.60%</td>
<td>119.85%</td>
<td>106.31%</td>
<td>100.28%</td>
<td>103.21%</td>
</tr>
<tr>
<td>ICICI Lombard</td>
<td>86.07%</td>
<td>96.06%</td>
<td>92.41%</td>
<td>86.19%</td>
<td>84.82%</td>
</tr>
<tr>
<td>Bajaj Allianz</td>
<td>78.20%</td>
<td>69.36%</td>
<td>65.66%</td>
<td>66.52%</td>
<td>75.15%</td>
</tr>
<tr>
<td>Bharti</td>
<td>94.00%</td>
<td>102.1%</td>
<td>73.05%</td>
<td>80.44%</td>
<td>91.29%</td>
</tr>
<tr>
<td>HDFC Argo</td>
<td>100.5%</td>
<td>118.05%</td>
<td>71.45%</td>
<td>67.53%</td>
<td>64.35%</td>
</tr>
<tr>
<td>Future Generali</td>
<td>141.12%</td>
<td>103.99%</td>
<td>87.60%</td>
<td>85.58%</td>
<td>80.61%</td>
</tr>
<tr>
<td>Reliance</td>
<td>91.74%</td>
<td>115.83%</td>
<td>123.65%</td>
<td>85.77%</td>
<td>94.61%</td>
</tr>
<tr>
<td>Iffco Tokio</td>
<td>122.23%</td>
<td>109.3%</td>
<td>102.91%</td>
<td>85.79%</td>
<td>86.62%</td>
</tr>
<tr>
<td>Private – Total</td>
<td>85.33%</td>
<td>92.22%</td>
<td>85.15%</td>
<td>77.93%</td>
<td>79.08%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>105.95%</td>
<td>111.13%</td>
<td>100.08%</td>
<td>94.00%</td>
<td>96.43%</td>
</tr>
</tbody>
</table>

Data Source: Handbook on Indian Insurance Statistics 2012-13 – Table No. 53, Pg. No. 182

Table 2.7

Incurred Claim Ratio for Standalone Health Insurers from 2008-09 to 2012-13

<table>
<thead>
<tr>
<th></th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Star Health</td>
<td>85.74%</td>
<td>87.11%</td>
<td>91.19%</td>
<td>95.76%</td>
<td>63.17%</td>
</tr>
<tr>
<td>Apollo Munich</td>
<td>114.27%</td>
<td>85.39%</td>
<td>61.96%</td>
<td>58.20%</td>
<td>59.25%</td>
</tr>
<tr>
<td>Max Bupa</td>
<td>-----</td>
<td>-----</td>
<td>50.31%</td>
<td>56.15%</td>
<td>58.45%</td>
</tr>
<tr>
<td>Religare</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>100.31%</td>
</tr>
</tbody>
</table>

Data Source: IRDA Annual Reports for respective years, ----- “Not in operation”
The table (2.7) is showing the Incurred Claim Ratio for standalone health insurers. If we focus on the incurred claim ratio of the companies sector wise then we find that the ICR in among the private sector health insurer is lower then the public sector insurers and the same thing is with standalone health insurers as their situation is better then the public insurers. Even the average claim ratio for the public sector companies is higher in last 5 years period then the private sector insurers as it is always more then 100% while in case of private sector insurers it ranges between 77% and 93%, and for 2012-13 it was 79.8% (103.21% for public sector insurers). The claim ratio for the health insurance industry as a whole was more then 100% up to 2010-11 and started to come down then after but it is still considered high and it is mainly due to higher claim ratio of public sector health insurers. So we can say that there is significant difference regarding claim ratios between the companies belong to public and private sectors.

2.2 **Contribution of Insurance Industry (including Health Insurance) towards Economic Growth**:

Insurance Sector plays a vital role in development of economy of a Nation. The sector provides long term finance for infrastructure development and enhance risk taking ability of businessman and corporate. Insurance also provide security to the most precious asset of a nation that is its citizen through health insurance, accidental policies, critical illness plans etc. Let’s examine the role of insurance sector for economic development through following points:

- The insurance sector fulfills an important part of investment requirement for infrastructure development which is an important prerequisite of economic development of country. As per Annual Report 2012-13 of IRDA, total investment by non life insurance sector was `122992 Crore. Out of this approx 24.42% was in central government securities and project, 9.41% was in state government securities and project, 15.31% was in infrastructure development, 38.85% was in approved securities, 8.4% was in housing and loan to state government and 2.78% was in other approved securities. Overall the GI sector has invested around 35% in government securities.
Insurance sector is continuously contributing to boost direct and indirect employment opportunities. Company’s on roll personnel are called direct employee of the company. TPAs, diagnostic centers, agents, broker etc. are comes under indirect employment of the insurance companies.\(^1\) The Indian general insurance industry employs around 7 Lakh people directly or indirectly. The general insurance industry supports financially to government and society at the time of natural catastrophes.

General insurance industry contributes significantly to GDP as a marginal increase in general insurance penetration results in to \(0.39\)% growth in GDP which is higher then banking and life insurance.

Insurance provide broader coverage to the firms and its employees hence helpful to improve financial soundness. If a firm is not insured or do not take Group Mediclaim policy for its employees then it need to manage large contingency fund every year for emergency. If insurance is there, then only by paying premium the firm can use the spare fund in development and expansion. Hence having insurance allow the firms to take more risk as they are financially sound.

There is no gain without risk, even “the more the willingness to take risk, the more will be produced.” Here insurance play a pivotal role as it provides coverage against several kind of risk, hence it enhance risk taking ability of entrepreneurs. In a well developed insurance market entrepreneurs are prepared to take risk and successfully shift the scarce resources from conservative to innovative activities.

Consumption is an important indicator of economic growth of a nation and well being of its citizen. Insurance allow the people of the nation stable consumption throughout their life by offering them lifelong protection against hazardous situations. For example:

1. Home and other property insurance give relief to people by securing their assets.

\(^1\) India General Insurance “Vision 2025”: Towards an inclusive, progressive and high performing sector, FICCI Oct 2013

\(^2\) India General Insurance “Vision 2025”: Towards an inclusive, progressive and high performing sector, FICCI Oct 2013
2. Life insurance protects the relatives of policyholders after his death from economic crisis.
3. Mediclaim insurance/ accidental insurance protect the one when he need it most.
4. Other line of insurance like fire and liability insurance provide security to infrastructure projects and investment risk.

- Insurance enhances risk taking ability of insured as it finances the losses of insured at the time of emergency.
- Insurance is the only sector which garners long term savings. If saving of households are not converted into investment then speed of economic development remains slow. The insurance works as a mobilizer of savings of households, business entities, corporate etc.
- For tax planning definitely the insurance is a most viable instrument.
- Health insurance and pension plans provided by the general insurance companies protects the people specially the old age people at the time when they are not in situation to earn even they need money to handle the hazards of life.
- There is huge potential in insurance sector as penetration is low that's why this sector is most favorable place for FDI, which would not only benefit the sector but also the other crucial sectors of the economy like infrastructure.

Hence we can say that an economy without insurance can not be developed fast and remain less stable. Insurance is a way to transfer risk hence on one side it help to companies, firms and entrepreneurs to work with tension free mind set by creating stable operating environment, on the other side it allow the companies/entrepreneurs to pay their whole attention and resources towards their main activities as less capital need to be invest to secure the firms and its employees.

Various social security schemes are provided by states and central government through insurance which protects the workers from economic crisis at the time of accidents, on the other hand it help to maintain a healthy working population.
2.3 Types and Glossary of Health Insurance:

2.3.1 Types of Health Insurance:

There are mainly 3 types of health insurance covers provided by insurance companies in India, which are as follows:

1. **Individual Mediclaim Policy**: It is a policy in which each member is covered for a separate sum insured, yet premium is payable in single amount but it is costlier then floater policy.

   **Example**: If a family has 4 members you can take an individual cover of `2 Lakh each for each member. Each member is now covered for `2 Lakh. If all the 4 members are hospitalized, all 4 of them can get expenses recovered upto `2 Lakh each. All the 4 policies are independent.

2. **Family Floater Policy**: In family floater policy there is a single sum insured, which can be used by each covered member any number of time but up to the maximum limit of sum insured. The family floater plan’s premium is less than individual policies. For example a family of 3 members has sum insured of `5 Lakh. One member hospitalized and claimed `1 Lakh then rest of `4 Lakh will be left for all family members up to the current term of policy.

3. **Unit Linked Health Insurance Plan**: In market there are some health insurance plans which give security at the time of medical emergency as well as some market returns as per market trend and companies rule known as unit linked health insurance plan.

2.3.2 Health Insurance Glossary:

**IRDA** - “Insurance Regulatory and Development Authority” established in 1999 under an act of Parliament, is regulator of the insurance industry in India. Its mission is to protect interest of investors and to promote the insurance industry.
Policy – is a contract document which has been done between insurers and insured. The policy is duly stamped and explains benefits and features provided to insured by insurer under the plan he has chosen.

Agent – is a person or company who is authorized by IRDA by giving license to sell insurance products of one or more insurance company. In return he gets commission from these companies.

Claim – It is a sum which has to be reimbursed to the insured by an insurer, as per the norms of policy. The claim incurred because of treatment taken by insured for covered disease.

Certificate of Insurance – It contains what the covered under the policy and what is not, it describes the benefits and coverage of a policy contract.

Premium - On yearly/quarterly/six monthly basis an insured has to pay a sum to his insurer as a cost of insurance, is known as premium.

Renewal – Generally all health insurance policies have term of one year. If customer wants to continue the policy then he can get renewed it with the company by paying renewal premium before expiry date.

Cashless Claim – It is the facility, available only in any network hospital, where an insured after having discharged need not to pay cost of treatment to the hospital, such treatment cost is paid by insurer/TPA directly to the hospital.

Reimbursement – Where an Insured takes treatment in non network hospital he has to pay the bills, and submit it to the insured/TPA then he get back his money from the company. This is known as reimbursement.

Coverage Amount – It is also known as sum insured. A company is responsible to pay a claim amount up to the limit of sum insured at the time of claim arises.

Pre-existing Disease - A disease which is already exist in a person is known as pre existing disease.
Third Party Administrator (TPA) – Some companies hire intermediaries to provide services to the customers known as TPA. TPAs handle various tasks like customer data and claim data management, claim settlement, cashless facilities etc.

Cumulative Bonus – For each claim free year customer get some increment in his sum insured from the company known as cumulative bonus. It generally ranges from 5% to 10% and for 5 to 10 years.

Exclusions – The diseases which are not cover under the policy known as permanent exclusion whereas Some disease are coverable only after some waiting period is known as exclusions with waiting period.

Deductible – Where at the time of claim as per the policy rule insured pay some percentage of claim amounts by his own is known as deductibles.

Network Hospital – Insurance companies for giving facility of cashless claim, do tie-up with the hospitals and nursing home, which are known as network hospitals.

No Claim Discount – If a customer did not file any claim in previous year, he receive No Claim Discount on the renewal premium, which generally ranges from 5% to 25% on basic Premium for every claim free year.

Dependents - Spouse and/or unmarried children (whether natural, adopted or step) of an insured are known as dependent.

Floater Policy – When an insured takes a common policy with a single sum insured by paying a single premium than it is known as floater policy. Any covered member of the family, any number of times can file claim but total of paid claim amount in a policy year can not exceeds from sum insured.

Group Insurance – Generally all repudiated company, firm or an association for its employees and members take common health insurance policy is known as group insurance.
Domiciliary Hospitalization – Where treatment of the patient is carried out at home as per the doctor’s recommendation known as domiciliary hospitalization. Rare insurance companies cover domiciliary hospitalization.

2.4 Insurance Regulatory and Development Authority (IRDA):

The Insurance Regulatory and Development Authority (IRDA) is a national agency run by the Government of India. IRDA is based in Hyderabad and was formed by an act of Indian Parliament called as IRDA Act of 1999. Considering some of the emerging requirements of the insurance industry, IRDA was amended in 2002.

As stated in the act, mission of IRDA is

- To protect the interests of the policyholders.
- To regulate, promote and ensure orderly growth of the insurance industry and for matters connected there with or incidental thereto.
- Indian insurance industry is regulated by the terms and conditions of the IRDA.

Duties, Power and Function of IRDA:

According to the Section 14 of IRDA Act of 1999 there are certain duties, powers and functions laid down for the IRDA, these are as follows:

1. The Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

2. The powers and functions of the Authority with respect to its duties shall include,

   - It issue certificate of registration to insurers and have power to renews, modify, withdraw, suspend or cancel such registration.
   - To protect Insured regarding insurable interest, settlement of claim, surrender value and other terms and conditions.
   - For surveyors, loss assessors, insurance intermediaries and agents, specify qualifications, code of conduct and practical training.
   - To inspect, enquire, audit and investigate the insurers, intermediaries, and other organizations and specifies the form and manner to maintain the books of account and statements.
To finance scheme of professional organizations connected with the insurance and re-insurance business.

To control and supervise action of Tariff Advisory Committee.

To release guidelines for investment of fund and solvency margins.

To promote efficiency in the conduct of insurance business.

2.5 Health Insurance Intermediaries:

Intermediaries are those person or organizations who work as a link between insurers and insured, at different stage like at the time of selling of policies, filing the claim, claim settlement, etc. Some important intermediaries are: Third Party Administrator (TPAs), Agents, Corporate Agents, and Brokers etc.

2.5.1 Insurance Agent:

These are the selling personnel who have license to sell insurance products and known as representative of an insurance company. Captive Agent sell the policies of only one company, while Independent agent sell the policies of many companies. A company is responsible to the customers for wrongful act of its agent. The regulation “Insurance Regulatory and Development Authority (Licensing of Insurance Agents) Regulations, 2000” is applicable to agents.

Important Norms, Guidelines and Eligibility Criteria to be an Agent:

- Qualification must be minimum 12th pass and should have completed practical training from approved institution.

- One need to pass pre-recruitment examination in life or/and general insurance business conducted by any approved examination body.

- While applying to become an agent one need to pay the specified fee and give the application in Form IRDA-Agents-VA, if an individual is applying to be an agent, and in Form IRDA-Agents-VC, if the applicant is a firm or a company.

- A license in Form IRDA-Agents-VB, and an identity card in Form IRDA-Agents-VZ will be issued if the authority is satisfied on all front.
2.5.2 **Corporate Agent**:

Corporate agents (may be a company, a partnership firm etc) are usually engaged in a particular business and sell insurance policies to their existing customers. For example, dealer of two wheeler/ four vehicles sells insurance policies to purchaser of vehicles, travel agent sells travel insurance policy to its existing customers. “IRDA (Licensing of Corporate Agents) Regulations, 2002” is applicable on the corporate agents.

**Important Norms, Eligibility Criteria and Guidelines to be an Corporate Agent**

- First an applicant should make application by submitting a specific fee, in the Form IRDA-Corporate Agents-A-1 for obtaining license.
- The applicant should ensure that, the Partnership Deed/Memorandum of Association or any other document which is prove of existence of the entity, should contains a clause that the main object of entity is to do insurance business as a Corporate Agent.
- The corporate insurance executive shall possess qualification must be minimum 12\(^{th}\) pass and should have completed practical training from approved institution. One need to pass pre-recruitment examination in life or/and general insurance business conducted by any approved examination body.
- A license in Form IRDA-Corporate Agents-L-1, and an identity card in Form IRDA-Corporate Agents-ID-1 will be issued if the authority is satisfied on all front.

2.5.3 **Insurance Broker**:

A broker can be said as a representative of insured because he helps to the insured to find suitable insurance product at the lowest cost. Brokers do not have restriction to sell insurance products of companies. The regulations “Insurance Regulatory and Development Authority (Insurance Brokers) Regulations, 2002” is applicable to the brokers.
Important Guidelines and Norms

First applicant should decide area of operation i.e. Life Insurance or General Insurance. Then he need to make an application in Form A by paying specific fee to get license to work as Broker, But before filing application he has to fulfill capital eligibility criteria.

<table>
<thead>
<tr>
<th>Category</th>
<th>Fee amount in `</th>
<th>Capital requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Broker</td>
<td>25000</td>
<td>`50 Lakh</td>
</tr>
<tr>
<td>Reinsurance Broker</td>
<td>75000</td>
<td>`200 Lakh</td>
</tr>
<tr>
<td>Composite Broker</td>
<td>125000</td>
<td>`250 Lakh</td>
</tr>
</tbody>
</table>

The applicant for broker must fulfill all criteria related to qualification, training as explained for agents and capital requirements. If the authority is satisfied the applicant got a license in Form B.

A license is valid for three years from the date of its issue. A broker can get it renewed within thirty days before the expiry, by applying in Form A and summiting the specified fee.

2.5.4 Third Party Administrator:

TPA is basically service providers in health insurance industry. They provide services at the time of taking policy, at the time of claim arises, for grievances settlement etc. on behalf of insurance companies. In return they took remuneration from insurance company as per agreement signed between the company and TPA. TPAs need to take license from IRDA to start their working. Insurance Regulatory development Authority of India (Third Party administrator – Health Services) Regulation 2001 is applicable on TPAs.

Important Guidelines and Norms for TPAs:

1. Capital Requirement norms for TPA

- Only a company with share capital and registered under the “Companies act 1956” can function as a TPA.
- The minimum paid up capital of the company shall be in equity shares amounting to `1 Crore, and at holdings of equity share by a foreign company shall not at any time exceed 26% of paid up equity.
capital of TPA. At no point of time the working capital can be of less than `1 Crore.

- Transfer of shares exceeding 5% shall be intimated by the TPA.

2. Procedure for obtaining License:

- For obtaining license from the IRDA, TPA need to apply in Form TPA-1 enclosed with a crossed demand draft of `20000 as non refundable processing fee to the authority. TPA need to pay a further sum of `30,000 as license fee if application is accepted. If such application is rejected then the TPA can not apply for next 2 years.

- A license is valid for 3 years and can get renewed by applying through Form TPA -3 along with a renewal fee of `30000 at least 30 days prior to expiry of the license.

Basic function of TPAs:

1. At the time of policy taken by customer:
   - Make arrangements for pre policy check up if needed.
   - Maintain the record of policyholders and issue ID card to them.
   - Provide list of network hospitals to the policy holders.
   - Resolve the query of policyholders about procedures, documentation etc.

2. At the time of claim arises:
   - Receive the request for preauthorization for cash less claim.
   - Acceptance for such request and arrangements for cashless facility.
   - To check doctor Prescription, admission Form, hospital Information etc.
   - If treatment is taken in non network hospital then TPA should demand original bills along with prescription, diagnostic reports and discharge summary with claim form.
   - After analyzing all the document TPA may respond as claim settled completely/partially or claim rejected or process is pending due to document shortfall.
3. Apart from above described function a TPA has to make efforts to control fraud claims. For this they take several measures like to scrutinize the bills against Standard Discounted Tariff Rates. TPA has responsibility to held audits of medical procedure for cost control. In complicated case TPA takes medical opinion to assess claim amount. Value-added health services like health checkup, health talks, and preventive programs are also held by TPA.

Functions clearly not permissible for TPAs within the regulatory framework:

- As per rules and regulation TPAs can not involve in insurance activity.
- Insurance Broking is also prohibiting to TPAs as per regulation, as there is clear conflict of interest.
- TPAs are not allowed to underwrite the risk on its own books.
2.6 Market Driver of Indian Health Insurance Industry:

Robust economic growth – Growing GDP means growing income and hence saving and investment of natives of a nation also. For the year 2005, GDP of India was 9.17% which reached to 9.67% in 2010 and expected to increase continuously. Further share in world GDP of India is also continuously increasing, it was 4.17% in 2005 reached up to 5.05% in 2010 and expected to reach 6.28% by 2015.

Increasing Income and Savings – India’s per capital income for the year 2012-13 was `68747 a net increase of 11.7% from the year 2011-12 when per capita income was `61564, a net increase of 13.64% from the year 2010-11 when per capita income was `54835 at current prize. So we can say that income level of the country is continuously increasing which also pushing up gross domestic saving and hence investment also. As per data from Central Statistics Organization (CSO) India’s average saving rate continuously increasing in each 5 year plan. In first FYP (1951-1956) it was only 9.20% which reached up to 18.50% almost double during 5th FYP (1974-1979) and reached up to 33.70% during the 11th FYP (2007-2012).

Proposal to increase FDI limits in GI Sector – Comings of foreign companies to Indian market to do business of health insurance is a clear indicator of increasing demand of health insurance. For this Govt. of India is also considering increasing the limits of FDI in insurance sector from 26% to 49%. It will be helpful to Indian health insurance Companies as loss ratio of health insurance business is at around 100% to 150%.

Growing Population in Middle Class – India fast growing population and middle class present extra demand of healthcare facilities while supply is not increasing proportionally, as a result health care is becoming costlier. As per a

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1 International Monetary Fund, World Economic Outlook. October 2010. (https://www.pwc.in/assets/pdfs/pharma/PwC-CII-pharma-Summit-Report-22Nov.pdf)
In the year 2011 India has 31.4 million middle class households (160 million individuals) which is expected to grow up to 53.3 million middle class households (267 million) individuals by 2015-2016 and reached up to 113.8 million households (547 million individuals), hence demand for health care and health insurance is expected to increase continue.

**Increasing Healthcare expenditures** – Continuous growing population and middle class, present big demand supply gap of health care facilities results in medical inflation. In 2005 the Indian population spent 7% of its disposable income on healthcare, which is expected to reach up to 13%, almost double, by 2025. Hence demand for a good health insurance cover will be increases.

**Surging medical cost** – Medical cost is continuously increasing year on year. As per analysis done by global consultancy firm **Towers Watson in 2010**, inflation regarding cost of drugs and medicine is running at 8.1% per year from past 15 years and expected to increase continuously. Similarly room, boarding and doctor's fees are also increasing day by day. Overall the analysis stated that medical inflation in India is expected to reach to 17 to 25% in coming years.

**Increase in Life Style Disease** - A number of researches & surveys has been proved that disease profiles are shifting towards lifestyle disease (Diabetes, Cardio Vascular, Nervous system disorder, Hypertension Obesity etc.) whose treatment is costly. Cases of Diabetes in 2008 were 1.2 million people which are expected to grow up to 3.4 million people by 2018. Similarly Cases of Cardiac in 2008 were 2.9 million people which are expected to grow up to 8.3 million people by 2018. So with current scenario of medical inflation to bear treatment expenditure for such disease will not be easy, hence the only way is health insurance.

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2. IDFC Institutional Securities, Indian pharma (June 2010) https://www.pwc.in/assets/pdfs/pharma/PwC-CII-pharma-Summit-Report-22Nov.pdf
Increasing Awareness of personal healthcare – Awareness regarding health and health insurance is also a responsible factor for increasing demand for health insurance. This awareness mainly comes from increasing literacy level. From 52% in 1991 the literacy rate in the country has increased to 64.8% in 2001 and to 74.04% in the year 2011. This has resulted in better awareness and hence the need for quality healthcare facilities.

Expansion of Distribution Channel - The health insurance companies today have several kind of distribution channel like Agents, Corporate Agents, Bancassurance Channel, Online policy etc. All these channels make it possible to insurance companies to enhance their health insurance market share.

Need Based Products and Rational Pricing - Health insurance companies are making efforts to modify their products to make it different and capable to full fill need of customers at lowest premium. Now customer has become king with rational pricing.

Detariffing of the general insurance industry - Tariff system was never applicable on health insurance sector, but on other line of business of general insurance. Removal of tariff on other segment of general insurance business has been boosting the market of health insurance. It is just because, by giving comparatively lower quotes for Fire or Motor insurance premium, Mediclaim policy can be issued to the same customers on the same premium as earlier.

2.7 SWOT Analysis of Indian Health Insurance Industry:

Strength:

☐ Growing GDP results in increasing disposable income and hence investment in health insurance also.

☐ Government is proposing to increase FDI to 49% from 26% at present, building more trust among foreign counterparts in Indian health insurance industry.

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1 http://www.mapsofindia.com/census2011/literacy-rate.html
1 Government has proposed to increase its public spending from 1.2% (2011) of GDP to 2.5% by the year 2017 and to 3% of GDP by the year 2022.

Private hospitals are moving towards tier II tier III cities.

Health insurance industry has potential to be a largest industry. It is fastest growing sector (12 to 15% per annum) than other segments of GI.

Since the health care and health insurance industry is still untapped, there is plenty opportunities of employment.

2 The cost of medical treatment in India is one-tenth that compared to costs in the US and Europe.

Private players are making the market more competitive hence customer became king.

Weakness:

- Poor infrastructure and limited access to healthcare especially in rural and semi urban areas.
- Lower public spending on health care.
- Lack of a proper and systematic framework to regulate and manage health insurance industry.
- Lack of standards regarding process, definition, treatment cost etc.
- Lack of properly managed data on disease pattern and consumer results in under pricing and higher claim amounts.
- Huge underwriting losses in health insurance business.
- Cashless facility is not available in each hospital.
- To take treatment in non network hospital made health insurance less attractive as here customer have to pay medical bill than after it reimbursed by insurer to him.
- People don't feel easy with paper work at the time of taking policy and at the time of claim.
- Generally there are negative tendency of people with respect to Claim Procedure, Preauthorization from TPA, and claim reimbursement.

2 http://www.medicaltourismresourceguide.com/india-medical-tourismnc
Opportunities :

- There is great potential for insurers as market is still untapped.
- Public and private insurance companies are innovating low cost, low-asset base models that make possible availability of Healthcare at lower prices.
- Light regulatory framework.
- Surging medical costs and increasing cases of non communicable and life-style disease, treatment of that is expensive.
- Health insurance premium accounts for only 22% of total GI Premium in India, so there is a great opportunity to work.
- Demand for HI is going to high due to current lack of supply.
- Continuous increase in average income level and population of middle income group.

Threats :

- Customers always feel fear to deal with private insurer and have doubt on them.
- There are so many deductions and exclusions make the policies less attractive.
- Companies are solving queries through online services or call centre but the people sitting there to answer don’t have expert knowledge and give reply based upon scripts.
- Increasing cost of treatment may make the current medical policy void or insufficient and customer feels confused.
- Challenges for designing and servicing to high risk groups like old agers.
- Threat and pessimistic behavior of people while processing their complaint regarding less/denial of payment of their claim.
- Challenge to provide coverage for chronic illness and OPD charges.

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1 Chart L12, IRDA Annual Report 2012-13