

HEALTH INSURANCE COMPANIES IN INDIA

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INTRODUCTION

Insurance is a device for indemnifying or guaranteeing an individual against loss. Reimbursement is made from a fund to which many individuals exposed to the same risk have contributed certain specified amounts, called premiums. Payment for an individual loss, divided among many, does not fall heavily upon the actual loser. The essence of the contract of insurance, called a policy, is mutuality. The major operations of an insurance company are underwriting, the determination of risks the insurer can take on; and rate making, the decisions regarding necessary prices for such risks. The underwriter is responsible for guarding against adverse selection, wherein there is excessive coverage of high risk candidates in proportion to the coverage of low risk candidates. In preventing adverse selection, the underwriter must consider physical, psychological, and moral hazards in relation to the applicants. Physical hazards include those dangers which surround the individual or property, jeopardizing the well-being of the insured. The amount of the premium is determined by the operation of the law of averages as calculated by actuaries. By investing premium payments in a wide range of revenue-producing projects, insurance companies have become major suppliers of capital, and they rank among the nation's largest institutional investors.

Functions of insurance

Provide protection: Insurance cannot check the happening of the risk, but can provide for the losses of risk.

Collective bearing of risk: Insurance is a device to share the financial losses of few among many others.

Assessment of risk: Insurance determines the probable volume of risk by evaluating various factors that give rise to risk.

Provide certainty: Insurance is a device, which helps to change from uncertainty to certainty.

REVIEW OF LITERATURE

Kulkarni introduces the concept of productivity in public expenditure on health care and what concrete benefits have accrued from the expenditure. His article considers how the concept of 'Productivity' can be expressed in quantifiable terms, say, an index number.

Mayne, and Taylor states that the growing global insurance industry has brought new channels of distribution into existence leading to emergence of new concepts. Bancassurance is one such concept that brings banks and insurance companies on a common platform to promote the sales of policies through the counters of banks.

Thomas explains that Indian insurance industry has experienced a ballooning effect after globalization and the liberalization of the economy. Almost every company has its foreign counterpart in this game of insurance. The alliances have paved the way for newer concepts like bancassurance. The competition now is going to be tough between the private insurers and the public insurance giants like LIC and GIC. This fierce competition prompts the analysts to predict a promising and an efficient insurance market in the years to come.

Agrawal says that entry of brokers is certainly a step forward towards better competition and making insurance a market driven industry. A truly competitive industry will result in new products, low premiums and better services.

Indrani and Purnamita summarise that Delhi seems to be segregated along economic status, with the health seeking behaviour of low- income households being quite different from that of middle and high-income households. Since health care is an essential expenditure, the market mechanism places unnecessary burden on those who have lesser ability to pay. The determinants of health seeking behaviour controlling for sickness indicates that the lower income households are more prone to seek care in Delhi. This further corroborates the evidence on somewhat inequitable system that exists in Delhi in terms of health seeking patterns. This indicates that serious attention needs to be paid to the health needs of urban India.

Liu studies the behaviour of insurance intermediaries. The behaviour of insurance intermediators is typically economic, and driven by the motivation to seek the maximum benefit, and determined by individual nature and the environment and is affected by economic laws. An insurance intermediary is the bridge that connects the selling party and the buying party. His behaviour influences the two parties and, at the same time, is influenced by the two parties. Because of the limited rationality of human and market failures, it is necessary to guide and standardize the behaviour of insurance intermediators.

Vijayakumar argues that opening up of the insurance sector will foster competition, innovation and product variations. However, in this context one has to consider various issues at stake including demand for pension plan, separateness of banking from insurance sector, role of IT, possible use of postal network for selling insurance products and above all, the role of insurance regulatory authority. Basu and Jayabal explains that the service sector has been gaining importance, with 51.2 per cent of India's GDP. The health care industry in India forms a major part of this sector. It is estimated at Rs.1000 billion today and is projected to reach to Rs.2000 billion by 2012. He explains the opportunities offered by this industry in India and how can some of the challenges it poses be faced successfully.

Elliott discusses the cost implications of guarantees on income protection (IP), formerly known as Permanent Health Insurance (PHI) businesses. The care is required in determining appropriate premium loadings and reserving requirements for long-term guarantees. Expected future trends must be considered, taking into account all internal and external influencing factors. The main contributing factors are the state of the economy, increased stress in the workplace, and the overall risk management philosophy of the company, especially with respect

to the initial risk selection and ongoing claims management.

Bhat and Basu states that the Insurance Regulatory and Development Authority in India has paved the way for insurance intermediaries such as third party administrators (TPAs) to play a pivotal role in setting up managed healthcare systems. TPAs have been set up to ensure better services to policy-holders and to mitigate some of the negative consequences of private health insurance. However, given the demand and supply –side complexities of private health insurance and healthcare markets, insurance intermediaries face immense challenges.

Indrani, Abhijit and Trivedi attempts to understand the role of TPAs, and examine the issues that need to be taken into account while evaluating their usefulness and functioning. TPAs, in spite of their importance in enabling accessibility to insured healthcare, cannot be seen as a panacea for the problems of the health sector. The TPA system should be regulated and checked in order to ensure that consumer interest is not compromised.

Baker says that insurance is seen as a solution to the healthcare needs of the growing commercial enterprise by insurers. Currently, the global healthcare systems face numerous problems, especially funding, as healthcare costs are rising. “There is no perfect system. Demand is often supply-led and the impact of increasing costs also raises questions about efficiency and effectiveness,” he added, explaining the global trends of healthcare systems.

Jawaharlal and Kumar states that branding insurance is gaining prominence as the companies have realized the inevitability of creating an impression in the minds of the consumers, which would help them in facing the competition. Their article sheds light on the significance and strategies of branding the insurance products in the Indian insurance sector.

Susan and Kenneth in their article suggest that India can expand its health insurance market through the right policies and stringent regulations, which would bring quality care at reasonable cost to the teeming millions. They state that the absence of a substantial and accurate database addressing morbidity and mortality and beneficiary and claims related information is especially handicapping for the development of health insurance.

Parihar³⁰ explains that Bancassurance refers to a conglomerate offering both banking and insurance products, usually in the form of a holding structure of separate but interacting entities, an integrated alliance exchanging services or an integrated operational mode.

Bancassurance primarily banks on the relationship the customer has developed over a period of time with the bank. He emphasizes on how bancassurance will be beneficial for all the three segments i.e., banks, insurers and customers, and its challenges and opportunities in India.

Ronald, Richard and Snook describe that for the mass health insurance movement to be sustainable, the needs of all stockholders must be met . Several things need to exist as an incentive for consumer to purchase insurance like; financial incentives, preferable priced products, understandable information, and various sponsors to increase the entities of insurance in Health insurance, and fair regulatory environment is must with managing business risks.

Gupta and Mayur in their article state that insurance companies, in both the private and public sectors, should be involved in productive partnerships with various organizations to extend health coverage to the population.

HEALTH INSURANCE BUSINESS IN INDIA

Health Insurance though still in its Infancy in India, is growing fast. Health Insurance is perhaps the only product, which is being bought by the public of India, and hence, this sector has been growing in geometric proportion in the last few years. It reaches at the third position in the year 2003-04 after motor own damage and motor third party. This clearly indicates that in the coming years the growth in the health portfolio will be phenomenal. However, this subject has become a much maligned subject in India. It is potentially the largest and profitable segment of the general insurance industry, but at present, it is not. In its present form, it is neither dear to the insurers who have been collectively losing large money on this portfolio, nor to the insured's, who have always been at the receiving end of increased costs and coverage restrictions. The most frustrating aspect in this area is the lack of statistical data for analysing costs and devising policies and plans.

HEALTH INSURANCE PRODUCTS

Health insurance in a narrow sense would be 'an individual or group purchasing health care coverage in advance by paying a fee called premium.' In its broader sense, it would be any arrangement that helps to defer, delay, reduce or altogether avoid payment for health care incurred by individuals and households. The health insurance market in India is very limited covering about 15 percent of the total population.¹ The existing schemes can be categorized as:

- (1) Mandatory Health Insurance Schemes or Government run schemes (namelyESIS,GHS)
- (2) Insurance offered by NGOs / Community Based Health Insurance,
- (3) Employer Based Schemes, and Voluntary Health Insurance Schemes or Private-for-Profit Schemes.

PRICING THE HEALTH INSURANCE PRODUCTS

From the last several years the Indian government have been working to expand the insurance industry. Each insurance field has felt the force of change, perhaps none of them any more than health insurance. The key factor that plays a major role in the health insurance sector is pricing. The demand for a product, as economists tell, is normally price elastic. As a corollary, it is generally the price that determines its success. The existing public health insurers are providing comprehensive health insurance packages at reasonable prices but it may not be feasible for the private health insurers to price their packages cheaper. That stands as the reason for such a scarce number of takers for the health insurance in their product portfolio. In the absence of minimum capital reserves and incomplete epidemiological information about the population, there is a risk that insurance companies could be guessing wrong and charging premiums that are much lower in comparison to the benefits offered in a competitive environment. Thus, the public sector health insurance companies are ready to give tough competition to the private counterparts on pricing grounds. It needs the private insurers to come up with a different USP

than pricing to sustain in the industry.

DISTRIBUTION SCENARIO IN THE INDIAN MARKET

The distribution chain has importance to the customer not only for meeting the requirements, but also the impact it has on: time to fulfilment, quality of service, complexity of products, cost of servicing and returns to their policy holder. There exists an immense opportunity for the insurers as there is a huge market available which can be tapped by virtue of robust marketing and distribution strategies. The type of distribution channels that a company uses affects the design and pricing of its products as well as the way in which the products are promoted and perceived in the market place.

PROMOTION OF HEALTH INSURANCE POLICIES

Liberalization of the insurance sector that took place in the year 2000 has enhanced the availability of the insurance products by permitting private insurers to enter the market. It was expected that these new suppliers would create a fresh demand for insurance products and in the process spread the insurance net wider to cover more customers and raise the level of insurance awareness and the penetration. The information to consumers has also increased tremendously, both from the old and the new companies about their products and the companies themselves in an effort to reach out to the vast Indian market with a view to enhance awareness and to impart information. The companies are having new and vigorous promotional strategies. The type of promotional strategy that a company uses affects the sale of its products and the way in which it is perceived in the market place.

CONCLUSION

The overall analysis of the non-life insurance companies' growth and progress of health insurance players, the analysis of current scenario of health insurance marketing in relation with certain demographic factors, awareness level of the general public, satisfaction level with regard to various services, factors affecting their purchase decisions, impact of various distribution and promotional channels, sector preference and future trends regarding health policies for the consumers, and the perception of the providers towards health insurance market have helped in reaching certain conclusions. On the basis of these conclusions some workable recommendations have also been made to the providers seeking opportunity to penetrate into the health insurance market.

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