India's insurance sector in post-privatization period: Emerging of health care insurance

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Abstract

In the privatized insurance sector, the efficiency of the insurance firms will increase and their ability to sell the products at competitive prices will also improve because of competition exists among them and in between the private and public sector insurance companies. To withstand the competition, it is compelled the insurance companies to introduce new products to the public besides the conventional products viz. life insurance, fire insurance, marine insurance and accidental insurance. Exactly of the same reason, a new concept of health care insurance has emerged. Now health insurance in India is at booming stage and also contributes to a large portion of the health expenditure.

Key words: *competitive price, health expenditure, fire insurance*

Introduction:

The new economic policy and liberalization policy followed by the Government of India since 1991 paved the way for privatization of insurance sector in the country. Health insurance, which remained highly underdeveloped and a less significant segment of the product portfolios of the nationalized insurance companies in India, is now poised for a fundamental change in its approach and management. The Insurance Regulatory and Development authority (IRDA) Bill, passed in the Indian Parliament in 1999 is the important beginning of changes having significant implication for the health sector.

Health insurance scenario in India before privatization:

Health care has always been a problem area for India, a nation with a large population and larger percentage of this population living in urban slums and in rural area, in below poverty line. The government and people have started exploring various health financing options to manage the problem arising out of increasing cost of healthcare and the changing epidemiological pattern of diseases. The control of government expenditure to manage fiscal deficits in early 1990s has let to severe resource constraints in the health sector. Under this situation, one of the ways for the government to reduce under-funding and augment the resources in the health sector was to encourage the development of health insurance. In the light of escalating health care costs, coupled with demand for health care services, lack of easy access of people from low income group to quality health care, health insurance is emerging as an alternative mechanism for financing health care.

Implications of privatization on health insurance:

The privatization of insurance sector and constitution of IRDA envisage improving the performance of state insurance sector in the country by

increasing benefits from competition in terms of lowered costs and increased level of customer satisfaction. However, the implications of the entry of private insurance companies in health sector are not very clear. There are several contentious issues pertaining to development in this sector and these need critical examination. Role of private insurance varies depending on the economic, social and institutional settings in a country or a region. There is much of criticism of private insurance in India. The argument is that privatization will divert scarce resources away from the pool, escalate health costs, and allow cream skimming and adverse selection. According to this view, private health insurance largely neglects the social aspect of health protection. Contrasting to this, supporters of private health insurance claim that private insurance can bridge the financing gaps by offering consumers value for money and help them to avoid waiting lines. Low quality care and under the table payments problems often observed when households use public health facilities for free or participate in mandatory social insurance schemes. These two arguments are correct in the sense private health insurance can be valuable tool to complement or supplement the existing health financing options only if they are carefully managed and adapted to local needs and preferences.

Exploration of health financing options:

'Health is Wealth' is a concept related to sound health of human beings. The concept of Health is Wealth is one of the important parts of health care insurance. Health insurance is emerging fast as an important mechanism to finance the health care needs of people. In the absence of effective regulation in private health care services, healthcare costs are high inevitably; hence it is imperative to find out the alternative health finance mechanisms. Health insurance is one such alternative. India has developed an extensive network of healthcare infrastructure in the recent past. The system envisages availability and accessibility of public funded healthcare to all, regardless of their ability to pay. However, over a period of time due to the expansion in size and shortfall in budgetary support, the public healthcare system has lagged behind in terms of its ability to meet the challenges of fulfilling the health needs of the large segment of population. The health infrastructure in India is facing daunting challenge of meeting the health goals and complexities emerging from the changing disease pattern. The proliferation of various healthcare technologies and increase in cost of healthcare has necessitated the exploration of health financing options to manage problems arising out of increasing healthcare costs.

Health Care Services – An Overview:

There is a competition between private players though exists in very beginning of the healthcare industry in spite of larger market uncovered in insurance sector. Major players are making best policies and process efficient to be customer centric. Hence providing service is not only the sole goal for insurers, but providing the comprehensive and efficient service when required by the insured at all levels should be the prime goal of any insurance firm. Majority of the health insurance firms deals with *reimbursement and cashless services* at macro level. Whereas other processes involved in, to support the macro processes are enrolment process, retail, mass, corporate, CRM etc., Cashless service is one of the best

services and in fact the heart of any health insurance firm nowadays, which is basically deals with the network hospitals and the insured persons.

A) Cashless Service:

Cashless claim facility is a benefit given by an insurance company to its health policyholders. This facility enables the insured to get hospitalized at any network hospital of the insurer, without having to pay the hospitalization charges. This relieves the policyholder of a major financial burden, especially with the rising cost of medical care in these days. This facility is offered by virtue of the insurer's tie-up with the hospital, and such hospitals are called the network hospitals or the empanelled hospitals. The costs usually covered under the cashless claim facility are – hospital room rent, doctor's charges, cost of medicines, treatment cost, which are referred to as admissible expenses. Usually, in order to avail the cashless facility, one needs to go through a Third Party Administrator (TPA), who is an intermediary between the insurer and the hospital. The policy holder can contact the TPA directly on their toll-free number, who would guide on the process to be followed with the hospital.

B) Role of TPAs:

TPAs are the health insurance agents. The IRDA introduced TPAs in the year 2001 and defines it as a 'Third Party Administrators' who, for the time being, is licensed by the authority, and is engaged for a fee or remuneration, in the agreement with an insurance company, for the provision of health services. They undertake claims processing, tying up with hospitals across the country to provide cashless hospital facilities and maintaining of claims data for future use by the insurers. In other words, the administration of claims is outsourced to the TPAs by the insurance company. TPAs are empowered by the insurers to authorize the claims preferred by the hospitals up to the extent of certain percentage (as per the MOU) on the total claim preferred by the empanelled hospitals.

C) TPA vs. IN-HOUSE Claim Processing:

One of the interesting phenomenon in the Indian insurance industry is the setting up of ***in-house claims team*** by the insurance companies and not outsourcing it to TPAs. With the introduction of standalone insurance companies, the idea to administer claims without using TPAs in today's time is thought to be as unique selling proposition. The reasons stated by the insurance companies to take such an action are multiple. The following are some of them.

(i) there is no ownership by the TPAs;

(ii) they are not able to control costs;

(iii) they are just profit making agencies without focusing on service;

(iv) they have poor quality of manpower and belated services of health insurance;

(v) they are doing fraudulent practices like sharing of data with competitors etc.

It will be too early to comment as to which of them (TPAs or In-house claim mechanism) is more effective but as per the current customer and provider perception they feel that if they directly deal with insurance companies then it would be more beneficial for them. Thus, the decision to go for TPA or IN-HOUSE will have an impact on the level of

synergy between insurer and the providers. However, at this stage it is difficult to comment whether it will develop or destroy synergy but certainly affect the level of synergy among insurers and providers. At the insured and or customer level three different strategies are being proposed that can help to bring synergy among insurers and providers. They are – awareness, access and ownership, and value creation.

Suggestions for the effective usage of health insurance:

India has limited experience of health insurance. Given that government has liberalized the insurance industry, health insurance is going to develop rapidly in future. The challenge is to see that it benefits the poor and the weak in terms of better coverage and health services at lower costs without the negative aspects of cost increase and over use of procedures and technology in provision of health care. The following are some of the suggestions based on the observations for the effective usage of health insurance.

A) Creating awareness: Should concentrate in creating awareness among the rural populations regarding the health insurance and should increase the penetration levels in the market; should be more accessible to the rural populations.

B) Policy benefits: Wide range of disease coverage should be considered, such as congenital diseases, deficiency diseases, etc. Awareness and educating the policy terms and conditions should be done right from the sale of product to avoid grievance among the customers. Any discrepancy in claim processing should reach out to the policy holders timely, followed by instant actions.

C) Better Understanding: Health insurance products should be more elaborative with all clauses and terms for better understanding of the insured. Policy document should be translated in local languages for better understanding of the policy holders.

D) Wide variety of health insurance products should be launched in the market according to the necessity among the population.

E) Coverage should also be given to certain preventive and supportive treatments such as vaccination and aids like calipers, prosthetics etc.

F) Retail policies should be as transparent and beneficial as corporate tailor-made policies where in the policies are underwritten according to the needs and benefits seeking by the corporate people.

G) Segregate the population based on age group and disease-prone during certain age, should be statistically observed in order to launch most effective health insurance products.

H) Majority of the Indian population existed in rural areas where medical support is lagging behind due to expensive treatment facilities. These populations must bring up to the light of exposure of the insurance coverage. Low rate annual premiums must be incorporated for Below Poverty Line families.

Conclusion:

India with relatively developed economy and a strong middle class population, offers most promising environment for private health insurance development. But it is significant to note that private health insurance is certainly not the only alternative or the ultimate solution to address the alarming

healthcare challenges in India. Presently, the private health insurance plays only a marginal role in healthcare systems but it is gradually gaining importance. Private insurance companies, as such, should go hand in hand with government programs in order to help the needy.

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