

Fair play in Indian health insurance

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Overview

1. Health insurance is an important part of health
2. Is the industry working well?
 - 2.1 The industry is unacceptably actuarially unfair
 - 2.2 The industry is fragile
 - 2.3 There is a complaints problem
3. What are consumers complaining about?
4. Typology of issues
5. Strategy for reform

Section 1

Health insurance is an important part of health

Is the health insurance industry important?

The health insurance industry is growing and becoming an integral part of the Indian health landscape

Year	Premium* (Rs. trillion)	PHE (Rs. trillion)	Percentage
2013-14	0.17	3.22	5.28
2014-15	0.20	3.42	5.86
2015-16	0.24	3.69	6.51

Table 1: Health insurance industry as a percentage of Private Health Expenditure (PHE) (*Source: IRDAI Annual Report and World Bank*)

*Premium does not include premium collected under government health insurance schemes.

Does the industry insure a lot of people?

The number of people insured is growing rapidly

Types	2013-14 (in million)	2014-15 (in million)	2015-16 (in million)
Government health insurance schemes	155.3 (12.0%)	214.3 (16.3%)	273.3 (20.6%)
Group health insurance	33.7 (2.6%)	48.3 (3.6%)	57.0 (4.3%)
Individual health insurance	27.2 (2.1%)	25.4 (1.9%)	28.7 (2.1%)
Total	216.2 (16.7%)	288.0 (21.8%)	359.0 (27.0%)

Table 2: People insured (*Source: IRDAI Annual Report and World Bank*)

The figures in brackets indicate people insured as a percent of the total population of India.

What about health insurance premium?

Health insurance premium is also rising

Class of business	2013-14 (Rs. billion)	2014-15 (Rs. billion)	2015-16 (Rs. billion)
Government health insurance schemes	20.82 (12%)	24.74 (12%)	24.25 (10%)
Group business	80.58 (46%)	88.99 (44%)	116.21 (48%)
Individual business	73.55 (42%)	87.72 (44%)	103.53 (42%)
Grand Total	174.95	200.96	244.48

Table 3: Classification of health insurance premium by type of product
(Source: IRDAI Annual Report)

The figures in brackets indicate the share of each class of business as a percent of the total health insurance premium.

Where is the premium going?

Public sector has a lion's share but private stand-alone insurers are growing

Type	2013-14 (Rs. billion)	2014-15 (Rs. billion)	2015-16 (Rs. billion)
Govt-general	108.41 (62%)	128.82 (64%)	155.91 (64%)
Pvt-general	44.82 (26%)	43.86 (22%)	49.11 (20%)
Pvt-health	21.72 (12%)	28.28 (14%)	3946.00 (16%)
Industry total	174.95	200.96	244.48
Annual growth	13.20%	14.90%	21.70%

Table 4: Classification of health insurance premium by type of service provider (*Source: IRDAI Annual Report*)

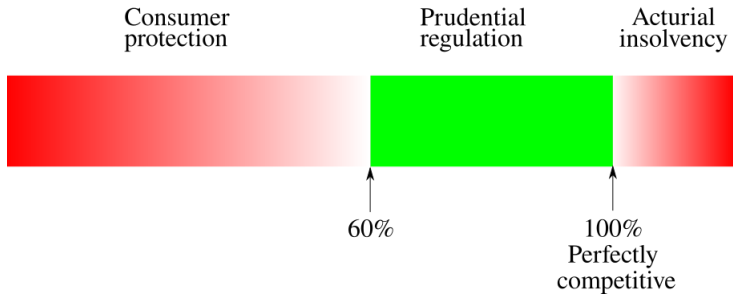
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Section 2

Is the industry working well?

The industry is unacceptably actuarially unfair

Claims ratio



The industry is unacceptably actuarially unfair

In the US, loss ratio below the prescribed limit triggers mandatory rebate by insurers

States	Individual market* (in percent)	Group market* (in percent)
New York	80	75
New Jersey	75	75
Maryland	60	75
Minnesota	65	75
Kentucky	65	75

Table 5: Medical loss ratio (MLR) requirement of various states in US (Source: *National Conference for State Legislatures (USA)*)

* Loss ratio below MLR triggers mandatory rebate by insurers.

The industry is unacceptably actuarially unfair

In comparison, claims ratio of private health insurers in India is unacceptably low

Type	2013-14 (in percent)	2014-15 (in percent)	2015-16 (in percent)
Govt-general	106	112	117
Pvt-general	87	84	81
Pvt-health	67	63	58

Table 6: Incurred claims ratio of health insurers (*Source: IRDAI Annual Report*)

High Premium for agents

A large amount is being taken up as commissions

Types	2013-14 (in percent)	2014-15 (in percent)	2015-16 (in percent)
Private sector health insurers	9.97	11.99	12.16
Public sector health insurers	6.77	7.77	7.14

Table 7: Percentage of commission to premium in health insurance
(Source: IRDAI Annual Report)

The industry is fragile

The claims ratio of group health insurance business is very high making it unviable

Class of business	2013-14 (in percent)	2014-15 (in percent)	2015-16 (in percent)
Government health insurance schemes	93	108	109
Group business*	110	116	120
Individual business	83	81	77
Grand total	97	101	102

Table 8: Business wise net incurred claims ratio (*Source: IRDAI Annual Report*)

*Group business does not include government business.

There is a complaints problem

Indian consumers are complaining the most

$$\text{Complaints rate} = \frac{\text{Total complaints in a year}}{\text{Million persons covered}}$$

Country	2013-14	2014-15	2015-16
Canada	14.48	14.28	11.53
Australia	143.41	174.55	178.51
UK	490.15	396.09	337.54
California	464.43	436.62	351.19
India	501.23	407.17	360.72

Table 9: Complaints rate of different countries (Source: Authors' calculation)

There is a complaints problem

This is when India is not a litigious society

$$\text{Litigation rate} = \frac{\text{Civil suits filed in a year}}{\text{Hundred thousand persons covered}}$$

Country	Litigation rate (per million)	Percentage	India's complaints rate (2015-16)
India	346	–	
Australia	1542	22.44	1607.48
Canada	1450	23.86	1511.81
England	3681	9.40	3837.44
USA	5806	5.96	6052.34

Table 10: India's litigious status and adjusted complaints rate (*Source: Ramseyer and Rasmusen, 2010*)

There is a complaints problem

The complaints rate is phenomenally high in an industry insuring limited health services

- ▶ Indian health insurance industry *only* covers hospitalisation
- ▶ All other compared countries provide hospitalisation, clinical visits, medication and some *wellness care*

There is a complaints problem

Consumers are mostly complaining outside the insurance regulatory framework

Source	2013-14	2014-15	2015-16
IGMS [†]	7030.18 (22.99%)	7646.68 (25.48%)	7976.20 (25.80%)
Ombudsman	10823.96 (35.40%)	9641.31 (32.13%)	10217.29 (33.05%)
NCDRC	12721.00 (41.61%)	12721.00 (42.39%)	12721.00 (41.15%)
Total	30575.14	30008.99	30914.49

Table 11: Number of health insurance consumer complaints in India
(Source: Authors' calculation)

[†] IGMS includes complaints made to the insurance company, IRDAI and DARPG. We assume 30% of the health insurance complaints are to IRDAI and DARPG.

The figures in brackets indicate the share of each source of complaint as a percent of the total consumer complaints.

Section 3

What are consumers complaining about?

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Three examples

- ▶ Insurer did not appear in court
- ▶ Insurer ignored contract terms
- ▶ Commissions and porting

What are consumers complaining about?

Insurer did not appear in court

► **Facts:**

Virender bought a *family* health plan (maintains)

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- ▶ Virender submitted the hospital certificate showing his mother needed hospitalisation

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- ▶ **Court findings:**

- ▶ Policy had an explicit clause for organ donor expense

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► Court findings:

- Insurer had right to 15 day investigation
- Could not have declined the claim up to original sum assured

Section 4

Typology of issues

Typology of issues

Regulatory issues highlighted in the three examples

1. Deficiencies in regulations
2. Poor enforcement of regulations
3. Industry-led redress body

Deficiencies in regulations

- ▶ Insurer rejected legitimate claims
- ▶ Lack of information about network hospitals
- ▶ Use of technical terms in the contract

Deficiencies in regulations

Insurers rejected legitimate claims

► **Issue:**

Virender's case Insurer ignored documentary evidence, did not appear before court

Suman's case Insurer violated its obligation under the policy

Shashi's case Insurer was not diligent, penalised insured

Deficiencies in regulations

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- ▶ **Applicable law:**

- ▶ The insurer must develop its own grievance redress system to facilitate analysis of complaints
(R. 17 and A. 1, IRDAI (Protection of Policyholders' Interests) Regulations)

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▶ Example:

- ▶ UK FCA mandates insurers to:
 - ▶ *investigate* competently, diligently, impartially
 - ▶ *assess* fairly, consistently, promptly
 - ▶ *offer* redress
 - ▶ *explain* assessment
 - ▶ *comply* with redress

Deficiencies in regulations

Lack of information about network hospitals

- ▶ **Issue:**
 - ▶ Insurer does not inform insured about network hospitals, applicable rates
 - ▶ Insured pays out-of-pocket at hospitals outside network
 - ▶ Network hospitals overcharge

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- ▶ **Example:**

- ▶ *Australia:* Insurer must disclose significant benefits, circumstances and manner of accessing benefits
- ▶ *UK:* Insurer cannot disguise, diminish or obscure important information

Deficiencies in regulations

Use of technical terms in the contract

- ▶ **Issue:**
 - ▶ Many terms in the policy not explained.
 - ▶ Pre-existing diseases, reasonable and customary charges, active line of treatment

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- ▶ **Applicable law:**

- ▶ Phrases and terms in policy defined by IRDAI (*R.20, Health Insurance Regulations*)
- ▶ Guidelines define pre-existing diseases, and reasonable and customary charges

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▶ **Example:**

- ▶ *South Africa*: Right to information in plain language
- ▶ *UK*: Prohibits unfair commercial practices

Poor enforcement of regulations

- ▶ Rejection of claims by insurance agents
- ▶ Low penalties

Poor enforcement of regulations

Rejection of claims by insurance agents

- ▶ **Issue:**

- ▶ Agents of insurers rejected the claim
- ▶ Insurers deny any knowledge of the decision taken by agents

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Rejection of claims by insurance agents

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 - ▶ Agents of insurers rejected the claim
 - ▶ Insurers deny any knowledge of the decision taken by agents
- ▶ **Applicable law:**
 - ▶ If a claim is rejected, the insurer is obligated to directly communicate the decision to the insured
(*R. 33(d)(iv), Health Insurance Regulations*)

Poor enforcement of regulations

Low penalties

► **Issue:**

Virender's case Insurer penalised ₹ 5,000

Suman's case Insurer penalised ₹ 1,25,000

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- ▶ **Applicable law:**

 - ▶ No penalty

Industry-led redress body

- ▶ **Issue:**
 - ▶ Industry-led ombudsman
 - ▶ Large-scale vacancies

Industry-led redress body

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- ▶ Industry-led ombudsman
- ▶ Large-scale vacancies

- ▶ **Applicable law:**

- ▶ ECI, which administers ombudsman, consists of insurers in the majority; part of the selection process
(*R. 5–7, Insurance Ombudsman Rules*)
- ▶ Ombudsman funded by insurers
(*R. 12 Insurance Ombudsman Rules*)

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(*R. 12 Insurance Ombudsman Rules*)

- ▶ **Example:**

- ▶ UK financial ombudsman does not include any financial service provider on its board

Section 5

Strategy for reform

Consumer protection cycle

Principles

- ▶ Higher standard of consumer protection
- ▶ Two-pronged approach: *prevention* and *cure*
- ▶ Sound regulatory framework

Consumer protection cycle

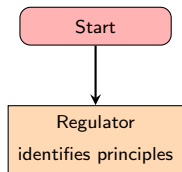
Regulatory process



Start

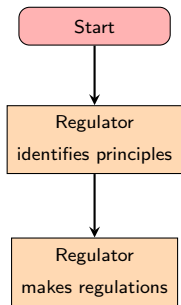
Consumer protection cycle

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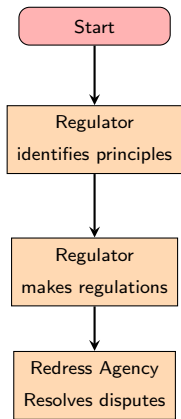
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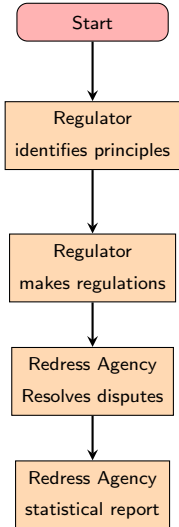
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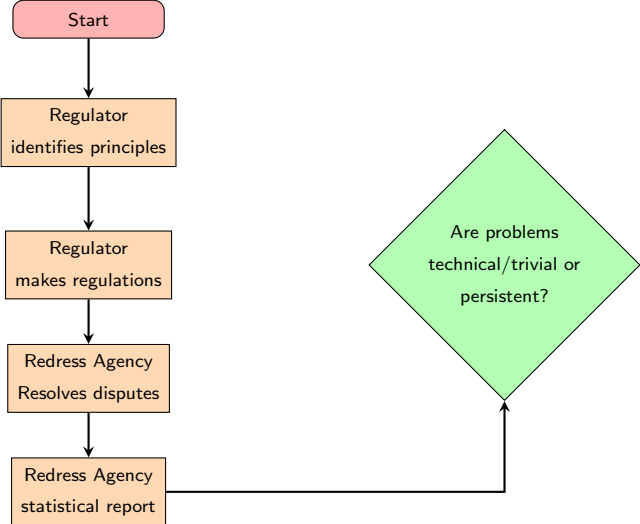
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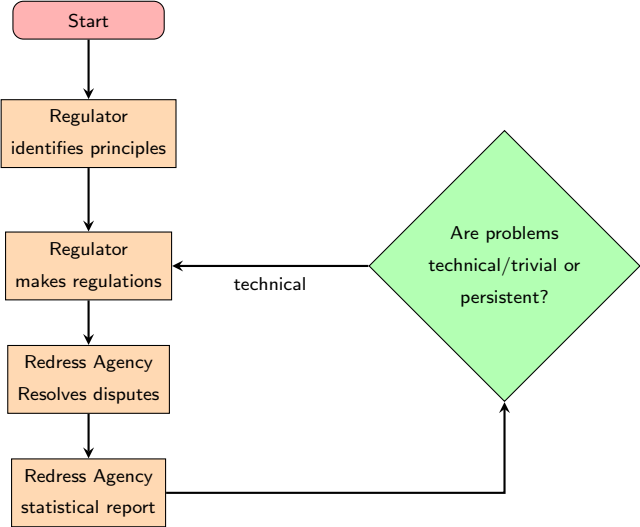
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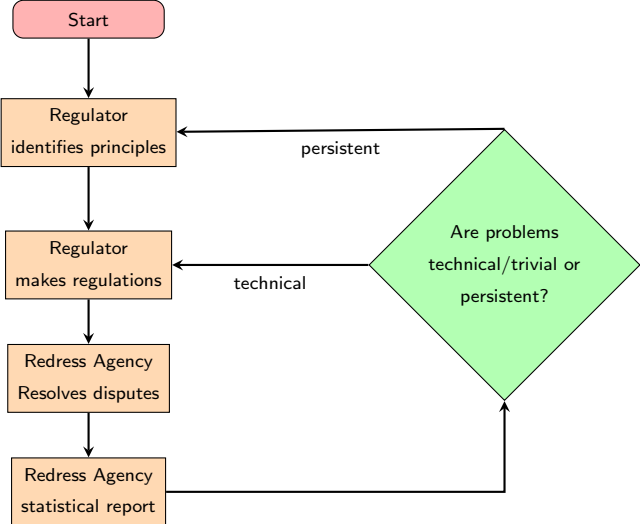
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Interconnections with existing strategies for reform

- ▶ Financial Sector Legislative Reforms Commission (2011-2013)
- ▶ Review legal and institutional structures of the financial sector
- ▶ Consumer protection is one area
- ▶ Two volumes:
 - ▶ Analysis and recommendation
 - ▶ Draft Financial Code

Deficiencies in regulations

- ▶ **Insurer rejected legitimate claims:**
 - ▶ Regulator specify the process to be followed by a financial service provider to receive and redress complaints (*S. 119, Code*)
- ▶ **Lack of information about network hospitals:**
 - ▶ Financial service disclose information to make *informed transactional decision* (*S. 112, Code*)
 - ▶ Regulator specify information that must be disclosed (*S. 112, Code*)
 - ▶ Financial service provider disclose material change in information (*S. 113, Code*)
- ▶ **Use of technical terms in contract:**
 - ▶ *Unfair terms* in a non-negotiated financial contract are void (*S. 109, Code*)

Poor enforcement of regulations

- ▶ **Rejection of claims by insurance agents:**

- ▶ Financial service providers liable for the act or omission of its representatives (*S. 125, Code*)

- ▶ **Low penalties**

- ▶ Penalties based on: (*S. 96, Code*)
 - ▶ Nature and seriousness of offence
 - ▶ Consequences and impact of violation
 - ▶ Conduct of person upon discovery
 - ▶ Repetitive nature of violation

Design of the redress agency

▶ **Independence of the ombudsman:**

- ▶ Members of the board appointed by the government; procedure laid in the law (*S. 17(1), (2), (3), Code*)
- ▶ Factors for consideration: (*S. 17(4), Code*)
 - ▶ Merit
 - ▶ Exercise independent judgment
 - ▶ No conflict of interest
 - ▶ Proportionate representation of different skills

▶ **Vacancies:**

- ▶ Ombudsman should be a technologically modern organisation (*S. 137, Code*)
- ▶ Discretion to open offices anywhere in the country (*S. 3(4), Code*)

Thank You