# Health Insurance Policies of Public Sector Undertakings in India – a Study

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***Abstract***

*The aim of this study is to investigate the various Health Insurance policies issued by Public Sector Undertakings in India. The four PSU's that have been in the market for number of decades have been tremendous job by offering the products that are economically and socially viable.The liberalization in insurance industry with the establishment of IRDA via IRDA Act 1999 has brought a big boost in the opening of insurance market. New private players in the market has not only affected the growth rate of public sector companies but also made the play more competitive. The present paper deals with the basic features of Health Insurance policies of public sector undertakings and also compares the premium underwritten and the growth rate over last few years. The paper highlights the report of finance ministry on the performance of public sector health insurer in the year 2006-2009.*

***Key words:*** *Health Insurance, Public sector undertakings, IRDA, Market, Private sector*


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## 1. Introduction:

In India, Insurance started with the setting up of Oriental Life Insurance Company in 1818 in Kolkata by Anita Bhavsar to fulfill the needs of European community. Indians were charged higher premium and were subjected to face discrimination in the pre-independence era. Bombay Mutual Life Assurance Society was the first life insurer which was stated in the year 1870. National Insurance Company is the oldest existing insurance company in india which was founded in 1906. In 1956, Life Insurance was nationalized. The General Insurance Business (Nationalization) Act was passed in the year 1972 and with that General Insurance business was nationalized. 107 insurers functioning that time were amalgamated and grouped into four companies, namely the Oriental Insurance Company Ltd, , the New India Assurance Company Ltd. , the United India Insurance Company Ltd and the National Insurance Company Ltd. General Insurance Corporation of India was incorporated in the year and it commenced its business on 1 January 1973.

The setting up of IRDA led to the opening of insurance market for the private players and that increased the growth and the efficiency and performance of the insurance industry in India. It functioned as the supervisor and the controller of the entire insurance industry.

**Mediclaim**– The scheme was launched in the year 1986.At the time of introduction of this scheme the minimum and maximum age limits were 5 and 70 years respectively.Under this scheme a person between 3 months to 80 years of age can purchase Mediclaim

Policy.The total insurance sum can be up to Rs. 5 lakhs against accidental and sickness hospitalizations during the policy period. Since the launch of Mediclaim in 1986, the health insurance has grown substantially due to liberalization and globalization of economy and spread of general awareness among the people of the importance of health insurance. The advent of standalone health insurers has brought new phase in the insurance market with the product innovation and efficiency. The health insurance premium from all companies was only about Rs 675 crore in the year 2001-02. The market share before regulation of the market was totally shared by four PSU's and because of lack of competition and lack of variety of products, the health insurance with basic features were only offered to the people. The era was marked with: Poor product design Poor penetration Lack of Technological feature Inefficiency Market Scenario There are 28 non-life insurance companies in India which includes 4 Public sector insurers namely Oriental Insurance Company Limited, , The New India Assurance Company Limited, United India Insurance Company Limited, and National Insurance Company Limited. and 5 standalone health insurers. Standalone health insurers underwrite policies exclusively in Health.

Broadly health insurance plans in India can be classified into three categories: Hospitalization Hospital daily cash benefit plans Critical illness plans Insurance industry in India registered substantial growth after enactment of Insurance Regulatory Development Authority Act in 1999.

## 2. Literature Review:

Insurance in India started in the year 1818, with the starting of Oriental Life Insurance Company by Anita Bhavsar in Kolkata to cater to the needs of European community. In the pre-independence times Indians had to face discrimination and were charged with higher premiums. In 1870, first life insurer was stated up in Indian by name Bombay Mutual life Assurance Society. At the dawn of the twentieth century, many insurance companies were founded. The oldest existing insurance company in India is the National Insurance Company, was founded in 1906 and it is still doing business. In 1956, Life Insurance was nationalized. The Indian Parliament passed The General Insurance Business (Nationalization) Act in the year 1972 and consequently, General Insurance business was nationalized with effect from 1 January 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. In the year 1972 , the General Insurance Corporation of India was incorporated and it commenced business on 1 January 1973.

The setting up of IRDA has increased the growth Performance of the insurance industry in India, which supervise and controlled the entire insurance industry. The growth in insurance penetration and density, increase in the number of insurers both in life and non-life, increase in the number of policies issued and increase in the speed of claims settlement and in many more aspects the IRDA is playing a prominent role in the Indian insurance sector.

**Mediclaim –** The scheme was launched in the year 1986. At the time of introduction of this scheme the minimum and maximum age limits were 5 and 70 years respectively. Under this scheme a person between 3 months to 80 years of age can purchase Mediclaim Policy. The total insurance sum can be up to Rs. 5 lakhs against accidental and sickness hospitalizations during the policy period. Launched in 1986, the health insuranceindustry has grown significantly mainly due to liberalization of economy and general awareness. There are standalone health insurers along with government sponsored health insurance providers.

In 2001-02, health insurance premium from all companies amounted to only Rs 675 crore.The market share before regulation of the market was totally shared by four PSU's and because of lack of competition and lack of variety of products, the health insurance with basic features were only offered to the people. The era was marked with:

- Poor product design
- Poor penetration
- Lack of Technological feature
- Inefficiency

**Market Scenario**

There are 28 non-life insurance companies in India. Out of them, 4 are Public sector undertakings and 5 private sector insurers are registered to underwrite policies exclusively in Health. Health insurance in India typically pays for only inpatient hospitalization and for treatment at hospitals in India. Outpatient services are not payable under health policies in India though some insurers have come out with such kind of policy but with exorbitantly high premium rates. Insurance industry in India registered substantial growth after enactment of Insurance Regulatory Development Authority Act in 1999. This industry today functions in a highly competitive environment. The health services insurance is provided by 19 private insurance companies and four public sector undertakings viz., National Insurance Company Limited, The New India Assurance Company Limited, Oriental Insurance Company Limited and United India Insurance Company Limited.

**3. Objectives of the Study:**

1) To study health insurance policies of public sector undertakings in India.
2) To study the performance of these companies in terms of premium underwritten over the years.

**4. Research Methodology:**

The paper is based on theoretical data and secondary data, which was sourced from various research publications, , online journals, , magazines, books, web sites,periodicals ,printed journals etc.

**5. Data Analysis**

**Data:**

The Table 1 below shows the various policies that are offered by public sector undertakings in India. The Table also highlights the salient features of the policies. The sum insured offered are more or less the same. The National Insurance and United India have many variants of products to allure the customers.

## Table 1 – Salient Features of the various policies offered by public sector insurers.

| PSU | Policy | SALIENT FEATURES |
|---|---|---|
| **National Insurance Co Ltd** | ParivarMediclaim | Floater Policy |
| | | Sum insured range is between `2 Lakh and 5 lakh, in multiples of ` 50,000/-. |
| | | The policy is for people between age of 18 and 60 years. |
| | | children between the age of 3 months and 25 years can be covered. |
| | | Renewal can be allowed upto the age of 65 years. |
| | National Mediclaim Plus Policy | The Policy offers three plans with varying covers |
| | | **Plan A -** INR 2 lac to INR 10 lac in multiples of 1lac |
| | | **Plan B-** INR 15 lac, INR 20lac,INR 25 lac |
| | | **Plan C-** INR 30 lac, INR 40 lac ,INR 50 lac |
| | | |
| | | Self, spouse, dependent children and parents are covered. |
| | | Entry age -<br>proposer - 18 years to 65 years.<br>Children - 3 months to 18 years.<br>Other members - 18 years to 65 years. |
| | | The policy can be renewed lifelong. |
| | National Mediclaim Policy | The policy is for people between age of 18 and 65 years. |
| | | Dependent children between the age of 3 months and 18 years can be covered provided at least one parent is covered at the same time. |
| | | Dependent parents of the proposer could also be covered. |
| | | Sum insured range is between `50,000 and 5 lakhs, in multiples of `25,000/-. |
| | | The policy can be renewed lifelong. |
| **New India Assurance Co Ltd** | Mediclaim policy | Sum Insured ranging from Rs. One Lakh to Eight Lakhs. |
| | | For those aged over 55, the Sum Insured at entry could range from Rs. One Lakh to Rs. Three Lakhs. |
| | | The members of the family getting coverage - |
| | | Proposer |
| | | Proposer's Spouse |
| | | Proposer's Children |
| | | Proposer's Parents |
| **Oriental Insurance Co Ltd** | Individual mediclaim Policy | This health policy covers citizens aged from 3 months to 80 years. |
| | | The sum insured ranges from Rs.50000/- to Rs.500000/- |
| | | if the beneficiaries are below 45 years of age, no medical examination is required. |
| **United India Insurance Co Ltd** | Family Medicare 2014 | Sum Insured ranges between Rs.1 lac to Rs.10 lacs in multiples of Rs.50,000/- upto Rs.5 lac and from Rs.5 lac to Rs.10 lacs in multiples of Rs.1 lac. |
| | | Children between the age of 3 months and 18 years are covered provided |

| | | |
|---|---|---|
| | | either or both parents are covered concurrently. |
| | | The policy covers all the members of the family under a single Sum Insured. The age of the proposer can be between 18 and 80 years. |
| | Individual mediclaim | Sum Insured uptoRs 5 lacs |
| | | Spouse and two children covered. |
| | | |
| | Senior citizen | Seniors between the age of 61 years and 80 years can be covered. An insured beyond 80 years shall continue to be covered under Senior Citizens policy provided the policies are renewed without any break. |
| | | Children between the age of 3 months and 18 years may be covered provided either or both parents are covered concurrently. |
| | | Sum Insured offered by us is between Rs.1 lac to Rs.3 lacs in multiples of Rs.50,000/-. |
| | UNI Criticare | The policy has various Sum Insured options of Rs.1 lac, Rs.3 lacs, Rs.5 lacs and Rs.10 lacs. The policy has a waiting period of 90 days from date of inception of policy and a survival period of 30 days from date of diagnosis. |

**The basic features that are commonly offered by the insurance companies are:**

**Coverage:** All policies cover the proposer and their spouse and the dependent children. However,Oriental Insurance also covers parents and parents in laws. while New India Assurance policies give coverage to parents as well.

**Entry age and age on renewal:** Entry age for seniors are very important as most of the policies have high entry age in order to have a healthy portfolio. National Insurance and Oriental Insurance score poorly on these counts. United India Insurance and New India Assurance give higher age for renewal which makes their policies bit attractive

**Sum Assured:** While private sector insurers are free in giving policies with high sum assured, PSUs have been conservative in offering policies with high sum assured. There are private sector policies which offer up to Rs 1 cr as the sum assured, whereas public sector insurers offer mostly 5 lacs and others with the top up feature upto 10 lacs.

**Premium per annum:** While private insurers charge higher premium, public sector health insurers in view of social aspect, charge less premium from the customer and that has been an attraction. Though the sum assured is the negative feature, the premium sought from the custormer is a positive feature for public sector policies. Those who normally can't afford excessive premium of private sectors go for PSU policies. Thus this aspect has been able to target the major chunk of middle class income families.

**Co-payment requirements:** Co-payment is the amount which the insured has to pay from his side in case of a claim. New India Assurance charges highest co-pay The other plans have co-pay requirement of 10%. While there are some plans which come without any co-pay like Happy Family Floater plan offered by Oriental Insurance.

**Benefits:** No claim discount is given to the policy holder in case there is no claim in the policy period. The renewal premium is decreased by some percentage as an award for no claim. It works out to be the best for the Oriental Insurance policy, ranging up to 20%. Free health check up benefits is available under United India Insurance and New India Assurance. The latter also offers discount on family members' premium. The National Insurance policy seems to be restrictive in terms of extra benefits offered.

**Other features:** All the polices have Pre and post hospitalization time period of 30 days and 60 days respectively while National Insurance policy takes a more conservative approach and offers the same with 15 days and 30 days respectively. Pre-existing diseases are usually covered only after 4 years. The exclusions are also pretty standard across all the policies.

## 6. Results and Discussion:

We seek to discuss the various aspects of the performance of public health insurers by comparing the underwritten premium and also the growth rates.

**Premium Underwritten –**

To gauge the performance of public sector insurers, we have taken their underwritten premium from the year 2011 onwards. The data also presents the premium of private sectors. New India Insurance Co Ltd has been a leader in health insurance among all the health insurers. Its premium collection has been the highest all the years.

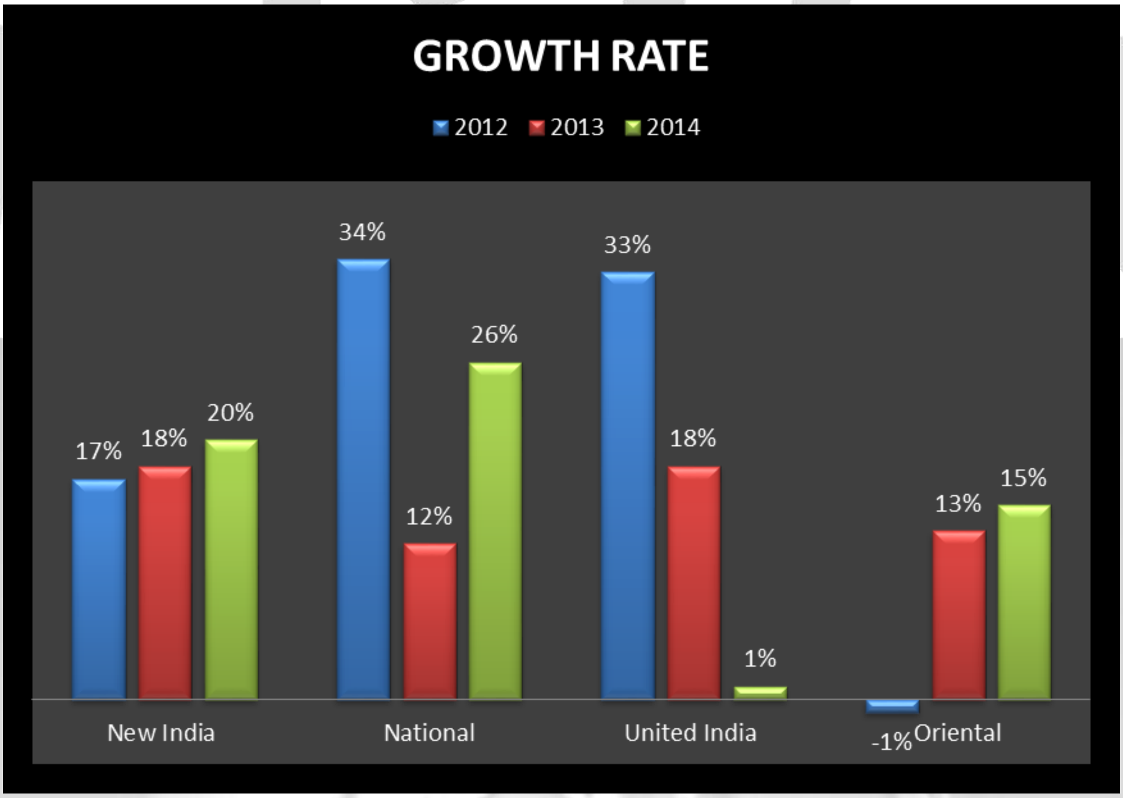
**Table 2 – Underwritten premium of Public Sector Insurers in health insurance segment. ( incr )**

| *PSU's* | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| **New India** | **1,994** | **2,340** | **2,758** | **3,296** |
| **National** | **1,572** | **2,110** | **2,372** | **2,993** |
| **United India** | **1,681** | **2,232** | **2,643** | **2,660** |
| **Oriental** | **1,331** | **1,324** | **1,492** | **1,718** |

**Growth rate of PSUs over the years:**

The Chart 1 shows the growth percentage of PSUs based on the underwritten premium. While New India has always been growing, the other companies have shown fluctuations. For National Assurance, year 2014 brought a big margin of profit as the premium grew by about 26%. Oriental Insurance too showed a good comeback in the year 2013 registering a growth of 13% from the previous year.

### Chart 1 – Growth rate among public sector insurers over the years




### Public Sector vs Private Sector

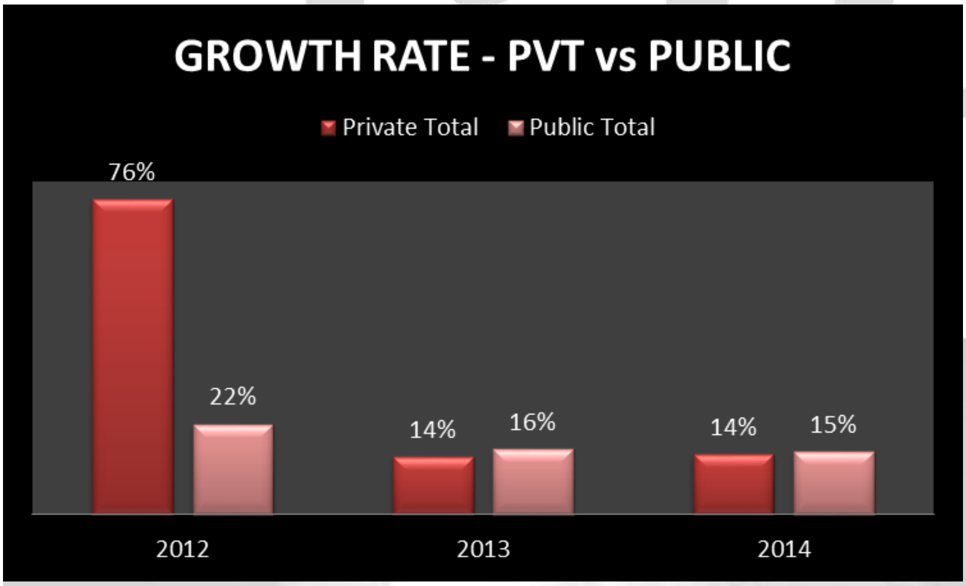
The Table 3 – depicts the premium underwritten by public sector companies and the private companies from 2011 onwards. Public companies have always dominated the health insurance market and thus premium fetched by them is comparatively higher than that of private companies altogether but the growth rate shows a different picture.

**Table 3 – Premium underwritten by public health insurer and private health insurer**

| | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|
| **Private Total** | **3037** | **5339** | **6076** | **6957** |
| **Public Total** | **6578** | **8006** | **9265** | **10667** |
| **Grand Total** | **9616** | **13345** | **15341** | **17624** |

The Chart 2 shows the growth rate of public and private health insurers. The year 2012 brought a very high growth rate for Private companies as compared to that of Public companies. Growth rate of private companies in that year was more than 3.5 times than the growth rate of public sector companies. Though the growth rates for private companies decreased in the subsequent years but still it matches with the growth rates of public undertakings.

**Chart 2 – Growth rate of private and public health insurers**




A performance audit of health insurance services by PSUs was conducted for the three years from 2006-07 to 2008-09. The performance audit revealed that:

•The premium from health insurance which was less than 10 per cent in 2004-05 rose to around 20 per cent in 2008-09 i.e. it almost got doubled. However, there was a fall in the market share from 64 per cent in 2006-07 to 57 per cent in 2008-09.

•In case of individual policies, all the PSU insurers suffered a loss of Rs. 417 crore while the group policiescontributed a loss of Rs. 622.49 crore during the time span of three year period from 2006-07 to 2008-09. Despite these huge losses, it was seen in most cases that group policies were renewed withoutappropriate loading, thus it violated the rules for renewal of such policies

•The Public sector health insurers did not make any attempt to reduce their losses. There was no attempt made to reduce the cost of medical services through standardization of rates.

•The cashless settlement has not been made full- fledged and is being been achieved only about 55 per cent only and there has been observed the cases of delay in issue of ID cards. There is inordinate delay in claim settlement beyond 7 working days which were noticed in most cases. For similar clinical procedures, there were wide variations in the amount of claims. The PSU insurers failed to monitor the performance parameters resulting in deficiency in services of the third party administrators to the insured with consequent impact on customer satisfaction.

**Fixation of Premium**

Till 2002, PSU insurers had continued with mediclaim policies designed by the GIC, the then holding company. The health insurance was not under the tariff regime and companies were free to fix their premium duly approved by IRDA. Consequent to introduction of TPAs, the PSU insurers revised (2002) the premium rates taking into consideration the service fees payable to TPAs. Health portfolio premium was revised upwards by OIC during September 2006 and by other three PSU insurers during 2007. PSU insurers reported loss in the health portfolio from the next year of premium revision in 2006 and 2007. Report on Health insurance submitted to the Fourteenth Lok Sabha, observed (March 2006) that lack of adequate data on morbidity, demographic groups and diseases was a major hindrance in formulating and designing new products in health insurance and this affected the development and progress of health insurance in the country.

## 7. Conclusions and Recommendations:

Though the health portfolio was growing at a phenomenal rate, the PSU insurers were losing their market share to private sector companies. Despite growth in the volume of business PSUs continued to incur losses. The underwriting losses were incurred especially in respect of Group medi-claim policies due to lack of monitoring and control of underwritting issues which repeatedly recorded high adverse claim ratio. The main objective of introduction of TPAs for providing cashless services to the policy holders, remained largely unfulfilled. PSUs insurers had not made efforts for negotiating with the network hospitals for standardization of rates and clinical procedures to reduce the cost of health care services to the Insured. The delays in issue of identity cards, settlement of reimbursement claims and failure of PSU insurers to monitor the performance parameters indicate deficiency in service of the third party administrators to the insured. The inclusion of private companies in the helath insurance field has been helpful in raising the productivity and efficiency of public sector insurers. They seem to be coming out of conservative approach of doing business and this is a good sign for the overall development of health insurance sector.

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