Insurance & Reinsurance

The Changing Health Insurance Market

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Even though the Indian health insurance market grew by 38% in 2006 to 2007, only 1.08% of India's billion-plus population has medical insurance. The general perception is that prospects for growth in this sector of the insurance market are good.

Background

Health insurance policies were first introduced in 1986 when the Indian insurance industry was nationalized. The policies on offer were complicated to read and offered limited cover. There were no third-party administrators operating and no direct settlements of claims between health insurers and hospitals. Therefore, issues concerning claims servicing arose, which involved an insured following lengthy procedures to get claims authenticated and paid. The business was not profitable for the nationalized insurers, nor was it popular with the general public. Nonetheless, the original mediclaim policy developed and in many cases it has provided a base model for the healthcare insurance policies that were introduced immediately after liberalization of the general insurance sector in 2000.

The health insurance market contained no specialist players until the relatively recent entries into the market of companies such as Star Heath & Allied Insurance and Apollo DKV Insurance. This is because there was a general expectation that the insurance industry regulator, the IRDA, would set a smaller capitalization requirement for health insurers and/or amend the rules for foreign equity ownership in Indian insurers in recognition of the fact that health insurance loss ratios were not good, and therefore finding an Indian partner to invest 76% in a health insurer would be a difficult task. However, the IRDA relaxed neither the capitalization requirements nor the foreign investments caps. Initially, therefore, the health insurance market did not grow as quickly as may have been expected.

Future Prospects

The generally optimistic outlook for the growth of the health insurance sector is supported by the growth in the number of policyholders; however, the profitability of this line of business remains an issue. The health insurance sector had a loss ratio of approximately 78% in 2003, which deteriorated to 98% in 2004 to 2005. Current figures suggest that the claims ratio stands at 110% to 120%.

Growth in policyholder numbers, more effective third-party administration and an effective network of hospitals are all expected to contribute to an improvement in these figures. Other changes that have been effected to encourage growth in this sector include the following:

- Life insurers are now allowed to sell health insurance. Initially, life insurers were allowed to sell only certain types of health cover as a supplement to life policies. However, the IRDA now allows life insurers to sell pure health insurance products subject to product-specific approvals.
- The standard mediclaim policy has undergone several revisions and modifications. In recent years private health insurers, such as Apollo DKV, have been offering new products insuring increased covers and sums.
- The price of healthcare has increased. Private hospital rates are still low compared to the rates charged in more developed countries, but high when compared to average Indian earnings. It is no longer uncommon for Indian employees to expect healthcare as part of an employment package.
- With the opening up of the market to private competition, the claims process has been simplified.

Support for a health insurance market has also come from some less obvious sources. Indian states have started relying on insurance policies to meet some of their legal obligations to provide healthcare to their citizens. The central government has also proposed the introduction of free healthcare insurance for the underprivileged. This plan is meant to cover every underprivileged family for Rs30,000 (approximately $750) a year. The central government will pay 75% of the premium, leaving the remaining 25% to be covered by state governments.

The IRDA has also encouraged micro-insurance as a means of extending the availability of health insurance to areas of the market that, geographically and economically, may not have been at the forefront of insurers' business plans.

Legal Playing Field

As the market grows, the IRDA and the courts are stepping in to create a more consumer-friendly playing field, particularly as regards to:

- the treatment of senior citizens;
- the operation of the pre-existing diseases exclusion; and
- the reluctance of insurers to renew policies where the claims experience has been bad.

Senior citizens had complained about the reluctance of insurers to issue them policies and the inclusion of disadvantageous terms when policies were offered - such as significant increases in premium rates and added exclusions and conditions. In May 2007 the IRDA set up a Committee on Health Insurance for Senior Citizens. Its members included representatives from the General Insurance Corporation of India, Oriental

and Apollo DKV. The committee published a report in November 2007and made the following recommendations:

- Senior citizens should have some assurance that their policies will be renewed.
- The industry should adopt standard terms and conditions (eg, for the definition of 'pre-existing diseases').
- Policy wordings should be simpler for the lay person to follow. Uniform terminology should be used by all insurers to reduce confusion.

The IRDA is still in the process of evaluating the committee's recommendations and none of them has been formally adopted; however, there are indications of an indirect reliance on part of the committee's recommendations during the file and use procedure. This is the process whereby a non-tariffed product is brought to market. Before being sold it must be filed with the IRDA. During the filing stage, the IRDA has been paying particularly close attention to exclusion clauses in general, in particular the pre-existing disease exclusion.

The courts have taken a similar interest. The judgment in *New India Assurance v Akshoy Kumar Paul* was handed down by the Delhi High Court in November 2007 and has only recently been reported. The court had to consider whether, on renewal, a state-owned insurer could refuse to renew or insert an exclusion clause if it did renew. The insured had held the policy for five years, renewing it on four occasions. In the preceding year he had suffered a heart attack. It was held that New India must renew his policy and that the "renewal of an insurance policy means repetition of the original in a manner that the old policy gets revived on the same terms and conditions as were incorporated in the original policy". The exclusion clause was not permitted.

Although it interferes with principles of privity of contract, the judgment can be justified by reference to earlier decisions to the effect that state-owned insurers have special obligations to act fairly because they are state owned and therefore an extension of the state. It remains to be seen whether the obligation to renew on the same terms will be extended to private insurers. Nevertheless, when it comes to health insurance, the courts and regulatory bodies are displaying a clear pro-consumer trend.

For further information on this topic please contact Neeraj Tuli at Tuli & Co by telephone +91 11 2464 0906, fax +91 2464 0904 or email n.tuli@tuli.biz

www.tuli.biz

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