

SECTION 3

HEALTH SECTION

CHAPTER 17

INTRODUCTION TO HEALTH INSURANCE

Chapter Introduction

This chapter will tell you about how insurance evolved over time. It will also explain what healthcare is, levels of healthcare and types of healthcare. You will also learn about the healthcare system in India and factors affecting it. Finally, it will explain how health insurance evolved in India and also the various players in the health insurance market in India.

Learning Outcomes

- A. What is Healthcare
- B. Levels of Healthcare
- C. Types of Healthcare
- D. Factors affecting health systems in India
- E. Evolution of Health Insurance in India
- F. Health Insurance Market

After studying this chapter, you should be able to:

1. Understand how insurance evolved.
2. Explain the concept of healthcare and the types and levels of healthcare.
3. Appreciate the factors affecting healthcare in India and the progress made since independence.
4. Discuss the evolution of health insurance in India.
5. Know the health insurance market in India.

A. What is Healthcare

You have heard of the saying “Health is Wealth”. Have you ever tried to know what Health actually means? The word ‘Health’ was derived from the word ‘hoelth’, which means ‘soundness of the body’.

In olden days, health was considered to be a ‘Divine Gift’ and illness was believed to have been caused due to the sins committed by the concerned person. It was Hippocrates (460 to 370 BC) who came up with the reasons behind illness. According to him, illness is caused due to various factors relating to environment, sanitation, personal hygiene and diets.

The Indian system of Ayurveda which existed many centuries before Hippocrates, considered health as a delicate balance of four fluids: blood, yellow bile, black bile and phlegm and an imbalance of these fluids causes ill health. Susruta, the Father of Indian medicine is even credited with complex surgeries unknown to the West in those times.

Over a period of time, modern medicine has evolved into a complex science and the goal of modern medicine is no longer mere treatment of sickness but includes prevention of disease and promotion of quality of life. A widely accepted definition of health is the one given by World Health Organisation in 1948; it states that “Health is a state of complete physical, mental and social wellbeing and not merely the absence of disease”. It is to be noted that Indian system of medicine like Ayurveda incorporated such a complete view of health from times immemorial.

Definition

World Health Organisation (WHO): Health is a state of complete physical, mental and social wellbeing and not merely the absence of disease.

Determinants of health

It is generally believed that the following factors determine the health of any individual:

a) Lifestyle factors

Lifestyle factors are those which are mostly in the control of the individual concerned e.g. exercising and eating within limits, avoiding worry and the like leading to good health; and bad lifestyles and habits such as smoking, drug abuse, unprotected sex and sedentary life style (with no exercise) etc. leading to diseases such as cancer, aids, hypertension and diabetes, to name a few.

Though the Government plays a critical role in controlling / influencing such behaviour (e.g. punishing people with non-bailable imprisonment who abuse drugs, imposing high taxes on tobacco products etc.), the personal

responsibility of an individual plays a deciding role in controlling diseases due to life style factors.

b) Environmental factors

Safe drinking water, sanitation and nutrition are crucial to health, lack of which leads to serious health issues as seen all over the world, especially in developing countries. Communicable diseases like Influenza and Chickenpox etc. are spread due to bad hygiene, diseases like Malaria and Dengue are spread due to bad environmental sanitation, while certain diseases are also caused due to environmental factors e.g. people working in certain manufacturing industries are prone to diseases related to occupational hazards such as Asbestos in workers in asbestos manufacture and also diseases of the lungs in coal miners.

c) Genetic factors

Diseases may be passed on from parents to children through genes. Such genetic factors result in differing health trends amongst the population spread across the globe based on race, geographical location and even communities.

It is quite obvious that a country's social and economic progress depends on the health of its people. A healthy population not only provides productive workforce for economic activity but also frees precious resources which is all the more crucial for a developing country like India. At an individual level, ill health can cause loss of livelihood, inability to perform daily essential activities and push people to poverty and even commit suicide.

Thus the world over, governments take measures to provide for health and wellbeing of their people and ensuring access and affordability of healthcare for all citizens. Thus 'spend' on healthcare usually forms a significant part of every country's GDP.

This poses a question as to whether different types of healthcare are required for different situations.

B. Levels of healthcare

Healthcare is nothing but a set of services provided by various agencies and providers including the government, to promote, maintain, monitor or restore health of people. Health care to be effective must be:

- Appropriate to the needs of the people
- Comprehensive
- Adequate
- Easily available
- Affordable

Health status of a person varies from person to person. It is neither feasible nor necessary to make the infrastructure available at same level for all types of health problems. The health care facilities should be based upon the probability of the incidence of disease for the population. For example, a person may get fever, cold, cough, skin allergies etc. many times a year, but the probability of him/her suffering from Hepatitis B is less as compared to cold and cough.

Similarly, the probability of the same person suffering from a critical illness such as heart disease or Cancer is less as compared to Hepatitis B. Hence, the need to set up the healthcare facilities in any area whether a village or a district or a state will be based upon the various health care factors called indicators of that area such as:

- ✓ Size of population
- ✓ Death rate
- ✓ Sickness rate
- ✓ Disability rate
- ✓ Social and mental health of the people
- ✓ General nutritional status of the people
- ✓ Environmental factors such as if it is a mining area or an industrial area
- ✓ The possible health care provider system e.g. heart doctors may not be readily available in a village but may be in a district town
- ✓ How much of the health care system is likely to be used
- ✓ Socio-economic factors such as affordability

Based on the above factors, the government decides upon setting up of centres for primary, secondary and tertiary health care and takes other measures to make appropriate healthcare affordable and accessible to the population.

C. Types of Healthcare

Healthcare is broadly categorized as follows:

1. Primary healthcare

Primary health care refers to the services offered by the doctors, nurses and other small clinics which are contacted first by the patient for any sickness, that is to say that primary healthcare provider is the first point of contact for all patients within a health system.

In developed countries, more attention is paid to primary health care so as to deal with health issues before the same become widespread, complicated and chronic or severe. Primary health care establishments also focus on preventive health care, vaccinations, awareness, medical counselling etc. and refer the patient to the next level of specialists when required.

For example, if a person visits a doctor for fever and the first diagnosis is indicative of Dengue fever, the primary health care provider will prescribe some medicines but also direct the patient to get admitted in a hospital for specialized treatment. For most of the primary care cases, the doctor acts like a 'Family Doctor' where all the members of the family visit the doctor for any minor sickness.

This method also helps the medical practitioner in prescribing for symptoms based on genetic factors and give medical advice appropriately. For example, the doctor will advise a patient with parental diabetic history to be watchful of the lifestyle from young age to avoid diabetes to the extent possible.

At a country level, Primary Health care centres are set up both by Government and private players. Government primary health care centres are established depending upon the population size and are present right up to the village level in some form or the other.

2. Secondary healthcare

Secondary health care refers to the healthcare services provided by medical specialists and other health professionals who generally do not have first contact with patient. It includes acute care requiring treatment for a short period for a serious illness, often (but not necessarily) as an in-patient, including Intensive Care services, ambulance facilities, pathology, diagnostic and other relevant medical services.

Most of the times, the patients are referred to the secondary care by primary health care providers / primary physician. In some instances, the secondary care providers also run an 'In-house' Primary healthcare facility in order to provide integrated services.

Mostly, the secondary health care providers are present at the Taluk / Block level depending upon the population size.

3. Tertiary healthcare

Tertiary Health care is specialized consultative healthcare, usually for inpatients and on referral from primary/secondary care providers. The tertiary care providers are present mostly in the state capitals and a few at the district headquarters.

Examples of Tertiary Health care providers are those who have advanced medical facilities and medical professionals, beyond the scope of secondary health care providers e.g. Oncology (cancer treatment), Organ Transplant facilities, High risk pregnancy specialists etc.

It is to be noted that as the level of care increases, the expenses associated with the care also increase. While people may find it relatively easy to pay for the primary care, it becomes difficult for them to spend when it comes to secondary care and much more difficult when it comes to tertiary care. The infrastructure for different levels of care also varies from country to country, rural-urban areas, while socio-economic factors also influence the same.

D. Factors affecting the health systems in India

The Indian health system has had and continues to face many problems and challenges. These, in turn, affect the nature and extent of the healthcare system and the requirement at the individual level and healthcare organization at the structural level. These are discussed below:

1. Demographic or Population related trends

- a) India is second largest populated country in the world.
- b) This exposes us to the problems associated with population growth.
- c) The level of poverty has also had its effect on the people's ability to pay for medical care.

2. Social trends

- a) Increase in urbanization or people moving from rural to urban areas has posed challenges in providing healthcare.
- b) Health issues in rural areas also remain, mainly due to lack of availability and accessibility to medical facilities as well as affordability.
- c) The move to a more sedentary lifestyle with reduced need to exercise oneself has led to newer types of diseases like diabetes and high blood pressure.

3. Life expectancy

- a) Life expectancy refers to the expected number of years that a child born today will survive.
- b) Life expectancy has increased from 30 years at the time of independence to over 60 years today but does not address the issues related to quality of that longer lifespan.
- c) This leads to a new concept of 'healthy life expectancy'.
- d) This also requires the creation of infrastructure for 'Geriatric' (old age related) diseases.

E. Evolution of Health Insurance in India

While the government had been busy with its policy decisions on healthcare, it also put in place health insurance schemes. Insurance companies came with their health insurance policies only later. Here is how health insurance developed in India:

a) Employees' State Insurance Scheme

Health Insurance in India formally began with the beginning of the Employees' State Insurance Scheme, introduced vide the ESI Act, 1948, shortly after the country's independence in 1947. This scheme was introduced for blue-collar workers employed in the formal private sector and provides comprehensive health services through a network of its own dispensaries and hospitals.

ESIC (Employees State Insurance Corporation) is the implementing agency which runs its own hospitals and dispensaries and also contracts public/private providers wherever its own facilities are inadequate.

All workers earning wages up to Rs. 15,000 are covered under the contributory scheme wherein employee and employer contribute 1.75% and 4.75% of pay roll respectively; state governments contribute 12.5% of the medical expenses.

The benefits covered include:

- a) Free comprehensive healthcare at ESIS facilities
- b) Maternity benefit
- c) Disability benefit
- d) Cash compensation for loss of wages due to sickness and survivorship and
- e) Funeral expenses in case of death of worker

It is also supplemented by services purchased from authorized medical attendants and private hospitals. The ESIS covers over 65.5 million beneficiaries as of March 2012.

b) Central Government Health Scheme

The ESIS was soon followed by the Central Government Health Scheme (CGHS), which was introduced in 1954 for the central government employees including pensioners and their family members working in civilian jobs. It aims to provide comprehensive medical care to employees and their families

and is partly funded by the employees and largely by the employer (central government).

The services are provided through CGHS's own dispensaries, polyclinics and empanelled private hospitals.

It covers all systems of medicine, emergency services in allopathic system, free drugs, pathology and radiology, domiciliary visits to seriously ill patients, specialist consultations etc.

The contribution from employees is quite nominal though progressively linked to salary scale - Rs.15 per month to Rs.150 per month.

In 2010, CGHS had a membership base of over 800,000 families representing over 3 million beneficiaries.

c) Commercial health insurance

Commercial health insurance was offered by some of the non-life insurers before as well as after nationalisation of insurance industry. But, as it was mostly loss making for the insurers, in the beginning, it was largely available for corporate clients only and that too for a limited extent.

In 1986, the first standardised health insurance product for individuals and their families was launched in the Indian market by all the four nationalized non-life insurance companies (these were then the subsidiaries of the General Insurance Corporation of India). This product, **Mediclaim** was introduced to provide coverage for the hospitalisation expenses up to a certain annual limit of indemnity with certain exclusions such as maternity, pre-existing diseases etc. It underwent several rounds of revisions as the market evolved, the last being in 2012.

However, even after undergoing several revisions, the hospitalization indemnity-based annual contract continues to be the most popular form of private health insurance in India today, led by the current versions of Mediclaim. So popular is this product that private health insurance products are often termed by many people as 'Mediclaim covers' considering it as a product category rather than a specific product offered by the insurers.

With private players coming into the insurance sector in 2001, health insurance has grown tremendously but there is a large untapped market even today. Considerable variations in covers, exclusions and newer add-on covers have been introduced which will be discussed in later chapters.

Today, more than 300 health insurance products are available in the Indian market.

F. Health Insurance Market

The health insurance market today consists of a number of players some providing the health care facilities called providers, others the insurance services and also various intermediaries. Some form the basic infrastructure while others provide support facilities. Some are in the government sector while others are in the private sector. These are briefly described below:

A. INFRASTRUCTURE:

1. Public health sector

The Public health system operates at the national level, state level, district level and to a limited extent at the village level where, to implement the national health policies in villages, community volunteers have been involved to serve as links between the village community and government infrastructure. These include:

- a) The **Anganwadi workers** (1 for every 1,000 population) who are enrolled under the nutrition supplementation programme and the Integrated Child Development Service scheme (ICDS) of Ministry of Human Resource Development.
- b) The **Trained Birth Attendants (TBA)** and the **Village Health guides** (an earlier scheme of health departments in states).
- c) **ASHA** (Accredited Social Health Activist) volunteers, selected by the community under the NRHM (National Rural Health Mission) programme, who are new, village-level, voluntary health workers trained to serve as health sector's links in the rural areas.

Sub-centres have been established for every 5,000 population (3,000 in hilly, tribal and backward areas) and are manned by a female health worker, also called the Auxiliary Nurse Mid-wife (ANM) and a male health worker.

Primary Health Centres which are referral units for about six sub-centres have been established for every 30,000 population (20,000 in hilly, tribal and backward areas). All PHCs provide outpatient services, and the majority also have four to six in-patient beds. Their staff comprises of one medical officer and 14 para-medical workers (which includes a male and a female health assistant, a nurse-midwife, a laboratory technician, a pharmacist and other supporting staff).

Community Health Centres are the first referral units for four PHCs and also provides specialist care. According to the norms each CHC (for every 1 lakh population) should have at least 30 beds, one operation theatre, X-ray machine, labour room and laboratory facilities and should be staffed by at least four specialists i.e. a surgeon, a physician, a gynaecologist and a paediatrician supported by 21 para-medical and other staff.

Rural hospitals have also been set up and these includes the sub-district hospitals called as the sub-divisional / Taluk hospitals / specialty hospitals (estimated to be about 2000 in the country);

Speciality and teaching hospitals are fewer and these include the medical colleges (about 300 in number presently) and other tertiary referral centres. These are mostly in district towns and urban areas but some of them provide very specialized and advanced medical services.

Other agencies belonging to the government, such as hospitals and dispensaries of railways, defence and similar large departments (Ports/ Mines etc.) also play a role in providing health services. However, their services are often restricted to the employees of the concerned organizations and their dependents.

2. Private sector providers

India has a very large private health sector providing all three types of healthcare services - primary, secondary as well as tertiary. These range from voluntary, not-for-profit organisations and individuals to for-profit corporate, trusts, solo practitioners, stand-alone specialist services, diagnostic laboratories, pharmacy shops, and also the unqualified providers (quacks). In India nearly 77% of the allopathic (MBBS and above) doctors are practicing in the private sector. Private health expenditure accounts for more than 75% of all health spending in India. The private sector accounts for 82% of all outpatient visits and 52% of hospitalization at the all India level².

India also has the largest number of qualified practitioners in other systems of Medicine (Ayurveda/ Siddha/ Unani/ Homeopathy) which is over 7 lakh practitioners. These are located in the public as well as the private sector.

Apart from the for-profit private providers of health care, the NGOs and the voluntary sector have also been engaged in providing health care services to the community.

It is estimated that more than 7,000 voluntary agencies are involved in health-related activities. A large number of secondary and tertiary hospitals are also registered as non-profit societies or trusts, and contribute significantly to provision of inpatient services to insured persons.

3. Pharmaceutical industry

Coming to provider of medicines and health related products, India has a large pharmaceutical industry, which has grown from a Rs 10 crore industry in 1950 to a Rs 55,000 crore business today (including exports). It employs about 5 million people, with manufacturing taking place in over 6000 units.

The central level price regulator for the industry is the **National Pharmaceuticals Pricing Authority (NPPA)**, while the pharma sector is under

the Ministry of Chemicals. Only a small number of drugs (76 out of the 500 or so bulk drugs) are under price control, while the remaining drugs and manufacture are under the free-pricing regime, carefully watched by the price regulator. The Drug Controllers of the States manage the field force which oversees quality and pricing of drugs and formulations in their respective areas.

B. INSURANCE PROVIDERS:

Insurance Companies especially in the general insurance sector provide the bulk of the health insurance services. These have been listed earlier. What is most encouraging is the presence of stand-alone health insurance companies - five as on date - with likelihood of a few more coming in to increase the health insurance provider network.

C. INTERMEDIARIES:

A number of people and organizations providing services as part of the insurance industry also form part of the health insurance market. All such intermediaries are governed by IRDA. These include:

1. **Insurance Brokers** who may be individuals or corporates and work independently of insurance companies. They represent the people who want insurance and connect them to insurance companies obtaining best possible insurance covers at best possible premium rates. They also assist the insuring people during times of loss and making insurance claims. Brokers may place insurance business with any insurance company handling such business. They are remunerated by insurance companies by way of insurance commission.
2. **Insurance Agents** are usually individuals but some can be corporate agents too. Unlike brokers, agents cannot place insurance with any insurance company but only with the company for which they have been granted an agency. As per current regulations, an agent can act only on behalf of one general insurance company and one life insurance company one health insurer and one of each of the mono line insurers. at the most. They too are remunerated by insurance companies by way of insurance commission.
3. **Third Party Administrators** are a new type of service providers who came into business since 2001. They are not authorized to sell insurance but provide administrative services to insurance companies. Once a health insurance policy is sold, the details of the insured persons are shared with a appointed TPA who then prepares the data base and issues health cards to the insured persons. Such health cards enable the insured person to avail cashless medical facilities (treatment without having to pay cash immediately) at hospitals and clinics. Even if the insured person does not use cashless facility, he can pay the bills and seek reimbursement from the appointed TPA. TPAs are funded by the insurance companies for their respective claims and are remunerated by them by way of fees which are a percentage of the premium.

4. **Insurance Web Aggregators** are one of the newest types of service providers to be governed by IRDAI regulations. Through their web site and/or telemarketing, they can solicit insurance business through distance marketing without coming face to face with the prospect and generate leads of interested prospects to insurers with whom they have an agreement. They also display products of such insurance companies for comparison. They may also seek IRDAI authorization to perform telemarketing and outsourcing functions for the insurers such as premium collection through online portal, sending premium reminders and also various types of policy related services. They are remunerated by insurance companies based on the leads converted to business, display of insurance products as well as the outsourcing services performed by them.
5. **Insurance Marketing Firms** are the latest types of intermediaries to be governed by IRDAI. They can perform the following activities by employing individuals licensed to market, distribute and service such products:

Insurance Selling Activities: To sell by engaging Insurance Sales Persons (ISP) insurance products of two Life, two General and two Health Insurance companies at any point of time, under intimation to the Authority. In respect of general insurance, the IMF is allowed to solicit or procure only retail lines of insurance products as given in the file & use guidelines namely motor, health, personal accident, householders, shopkeepers and such other insurance products approved by the Authority from time to time. Any change in the engagement with the insurance companies can be done only with the prior approval of the Authority and with suitable arrangements for servicing existing policyholders.

Insurance Servicing Activities: These servicing activities shall be only for those insurance companies with whom they have an agreement for soliciting or procuring insurance products and are enumerated below:

- a. undertaking back office activities of insurers as allowed in the Guidelines on Outsourcing Activities by Insurance Companies issued by the Authority;
- b. becoming approved person of Insurance Repositories;
- c. undertaking survey and loss assessment work by employing on their rolls licensed surveyor & loss assessors;
- d. any other insurance related activity permitted by the Authority from time to time.

Financial Products Distribution: To distribute by engaging Financial Service Executives (FSE) who are individuals licensed to market, distribute and service such other financial products namely:

- a. mutual funds of mutual fund companies regulated by SEBI;
- b. pension products regulated by PFRDA;
- c. other financial products distributed by SEBI licensed Investment Advisors;
- d. banking/ financial products of banks/ NBFC regulated by RBI;
- e. non-insurance products offered by Department of Posts, Government of India;

- f. any other financial product or activity permitted by the Authority from time to time.

D. OTHERS IMPORTANT ORGANIZATIONS

There are a few more entities which form part of the health insurance market and these include:

1. **Insurance Regulatory and Development Authority of India (IRDAI)** which is the Insurance regulator formed by an Act of Parliament which regulates all business and players in the insurance market. It came into being in 2000 and is entrusted with the task of not only regulating but also developing insurance business.
2. **General Insurance and Life Insurance Councils**, who also make recommendations to IRDAI for governing their respective life or general insurance business.
3. **Insurance Information Bureau of India** was promoted in year 2009 by IRDA and is a registered society with a governing council of 20 members mostly from the insurance sector. It collects analyses and creates various sector-level reports for the insurance sector to enable data-based and scientific decision making including pricing and framing of business strategies. It also provides key inputs to the Regulator and the Government to assist them in policymaking. The Bureau has generated many reports, both periodic and one-time, for the benefit of the industry.

IIB handles the Central Index Server which acts as a nodal point between different Insurance Repositories and helps in de-duplication of demat accounts at the stage of creation of a new account. The Central Index Server also acts as an exchange for transmission/routing of information pertaining to transactions on each policy between an insurer and the insurance repository.

IIB has already launched its hospital unique ID master programme by enlisting the hospitals in 'the preferred provider network' serving the health insurance sector.

The latest initiative of IIB would be maintaining a health insurance grid connecting TPAs, insurers and hospitals. The aim of the initiative is to help the health insurance sector to come out with a system of insurance claims management with transparency in treatment costs and efficient pricing of health insurance products.

4. **Educational institutions** such as Insurance Institute of India and National Insurance Academy which provide a wide variety of insurance and management related training and a host of private training institutes which provide training to would-be agents

5. **Medical Practitioners** also assist insurance companies and TPAs in assessing health insurance risks of prospective clients during acceptance of risks and also advise insurance companies in case of difficult claims.
6. **Legal entities** such as the Insurance Ombudsman, Consumer courts as well as civil courts also play a role in the health insurance market when it comes to redressal of consumer grievances.

Summary

- a) Insurance in some form or other existed many centuries ago but its modern form is only a few centuries old. Insurance in India has passed through many stages with government regulation.
- b) Health of its citizens being very important, governments play a major role in creating a suitable healthcare system.
- c) Level of healthcare provided depends on many factors relating to a country's population.
- d) The three type of healthcare are primary, secondary and tertiary depending on the level of medical attention required. Cost of healthcare rises with each level with tertiary care being the costliest.
- e) India has its own peculiar challenges such as population growth and urbanization which require proper healthcare.
- f) The government was also the first to come up with schemes for health insurance followed later by commercial insurance by private insurance companies.
- g) The health insurance market is made up of many players some providing the infrastructure, with others providing insurance services, intermediaries such as brokers, agents and third party administrators servicing health insurance business and also other regulatory, educational as well as legal entities playing their role.

Key terms

- a) Healthcare
- b) Commercial insurance
- c) Nationalization
- d) Primary, Secondary and Tertiary Healthcare
- e) Mediclaim
- f) Broker
- g) Agent
- h) Third Party Administrator
- i) IRDAI
- j) Ombudsman