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Health insurance

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ABSTRACT

Health Insurance can be broadly defined as a financial mechanism that exists to provide protection to individual and house holds from expenses incurred as a result of unexpected illness or injury. Under this mechanism, the insurer agrees to compensate or guarantee the insured person against loss by specified contingent event and provide financial coverage for which the insured party pays a premium.

Introduction

Health Insurance can be broadly defined as a financial mechanism that exists to provide protection to individual and house holds from expenses incurred as a result of unexpected illness or injury. Under this mechanism, the insurer agrees to compensate or guarantee the insured person against loss by specified contingent event and provide financial coverage for which the insured party pays a premium.[1]

The three main reasons for taking health insurance are:

First illness cannot be predicted,

Second financial burden of hospitalization is high and cannot be planned and

Third the proportion of people requiring hospitalization due to illness in any large population is small.

Thus, enabling riskpooling. Pooling of risks, resources and benefits is the hallmark of any insurance system. In India (and elsewhere) a variety of forms of health insurance both formal and informal exists which can be broadly categorized into three groups state run schemes Eg: Employee State Insurance Scheme, Market based and Voluntary Insurance Schemes and Schemes offered by member-based organization (Eg: NGO's and Cooperatives).

The Government run General Insurance Cooperation of India (GIC) and its four subsidiaries offer a number of health insurance schemes including Mediclaim. These schemes are sold on voluntary basis to individuals, group and cooperate sector. GIC periodically revises the features of Medical Insurance Schemes to make them more effective. Till recently only GIC run companies were allowed to offer and sell insurance products in India. The government of India has now permitted the private sector companies to enter. This sector which is likely to have a significant impact on the health insurance initiatives in the country.

The government of India has passed the Insurance Regulatory and Development Authority (IRDA) bill, which has paved the way of developing appropriate regulations to steer the process and development of the sector. The objectives of IRDA are to regulate the entry of Insurance providing protect the interests of policy holders, promote efficiency, control and regulate rates, regulate investments of funds and supervise the insurer, insurance intermediary and other organizations connected with insurance business.

Health Insurance can be defined as "any form of insurance whose payment is contingent on the insured incurring additional expenses or losing income because of incapacity or loss of good health."[2]

It is known as disability insurance or medical expensive insurance. Many markets particularly in Europe, classify health insurance as non life insurance whereas in US, it is considered as a branch of life insurance.

Need for Health Insurance:

The cost of health care is increasing day by day. The costs will still go up incase of a serious accident or major illness. It is difficult, if not impossible for a typical individual to find financial resources to meet such expenses that some of which may arise suddenly.

The demand for health insurance is also viewed from the other perspectives like:

- To ensure that no one is deprived of at least the standard form of health care.
- To protect the patient and his family from financial disaster.
- To simplify the mode of payments. For eg: instead of making separate payments, say for the doctors, surgeon, pathologist, nurse etc., the insured will pay premium to the insurer who in turn will take care of all expenses.
- To eliminate sickness as a cause of poverty.
- To reduce anxieties of different natures – economic, medical and moral.

[1] Dr G.Ramesh Babu "Indian financial System", Himalayas Publishing House,2004

[2] D.Chennappa "Development of Insurance in India", The journal of Institute of Public Enterprise , Vol 27 ,2004.

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Health insurance companies, thus, provide financial assistance to the insured incase of disability or loss of health, so that he / she cannot only take curative measures, but also maintain the dependents during the period of sickness / disability with the benefits provided by the insurer.[3]

Importance of health insurance:

Health insurance is of immense importance to the world. Usually the more developed a nation, the better the role of insurance as a financial security to individuals in terms of timely treatment against diseases / maladies and contributes to the growth of a nation.[4]

Benefits to the Individuals:

Apart from providing protecting to the policyholders, healthinsurance benefits individuals in various other ways, such as:

i. Make savings achievable:
ii. Safe and beneficial instrument:
iii. Promotes Thrift:
iv Minimizes worry and increases initiative:
II. Benefits to the Society:

Health insurance benefits not only individuals but also the society as a whole. It assists the economic development in several ways. Health insurance provides three categories of services to the national economy. They are:

i Mobilization of savings
ii Substitution of government security program
iii Efficient use of capital allocation.

Types of Health Insurance:

The word health insurance, used to denote any form of insurance whose payment is contingent on the insured incurring extra expenses on the medical treatment of illness, is losing income because of incapacity or loss of good health. Health insurance is classified into three categories:

a) Medical Expense Insurance: The expenses of the insured, such as hospital, physician and health care expenses are covered by this arrangement.

b) Long Term Care Insurance: Long–term care insurance policies promise to pay expenses if the incapacity prohibits the insured's activities of the daily life.

c) Disability Income Insurance: Disability income policies replace lost income when the insured is disabled as a result of sickness or injury. Payment is made because physical or mental incapacity prevents the insured from working.

Individual medical expense insurance:

Every individual requires health insurance coverage but group plans or government health plans do not cover all the people. Individual policies are meant for such people and the following people fall under this category.

Self-employed

Students not covered by their parents' insurance

Early retirees

Employees who are not offered any medical expense coverage

Part-time, temporary or contract workers, who are not eligible for coverage through their employees. Unemployed people, who are not eligible for government sponsored health plans for the poor.Spouse, children and other dependents, who are not eligible for coverage.

Even the individuals whose basic need is fulfilled by group or government plans may find enough reason to be covered by individual policies. Government health insurance plans do not provide coverage for all medical expenses.

Similarly, the individuals covered by a medical expense insurance may find their existing insurance inadequate. The health insurance plan may pay less than actual hospital charges for room and board. Some insurance plans may limit the existing medical expense insurance coverage.

Private health insurance policies cover such uncovered expenses and serve as a supplemental health insurance plan.

Comprehensive major medical policy:

All categories of medical care services and supplies are covered under this policy. The reimbursement of all the covered expenses is made after providing for the deductible. For example, a reimbursement of 80 percent of the total covered expenses in a year after providing Rs.500 for deductible up to a maximum amount of Rs.1,00,000. The major advantage of comprehensive major medical plan are as under:

1. Simple design of the plan.
2. No duplicate coverage.

A wide range of comprehensive major medical plans are developed that cover the various expenses of the insured. Some plans covering specific types of expenses, like hospital expenses, surgeon's fees would not require to provide any deductible, and co-insurance need not be applied on the initial hospital expenses. Today, many plans put a maximum annual out-of-pocket on expenses incurred by the insured.

Special individual insurance coverage:

Insurers offer special individual policies to meet the needs of the public who are interested in getting insured. These policies include:

a). Hospital Confinement Indemnity Policies
b). Temporary Major Medical Policies
c). Specified Disease Policies

Long-term care insurance:

Regular medical expense insurance policies do not cover the expenses incurred in a nursing home, or medical expenses incurred in his/her own home. Long-term care expenses and home health care expenses are covered under this insurance. Long-term care plans are special policies that provide coverage for nursing home care and home health care for a period specified in the policy. Either individuals or groups can benefit from LTC. Long-term group insurance is playing an important role in this fast developing market, though the LTC market developed initially by the individual products.

"Long-term care refers to a broad range of supportive medical, personal and social services needed by people who are unable to meet their basic living needs for an extended period of time because of an accident, illness or frailty.

Need for long-term care:

Today, people are living for longer periods than the earlier days. The life expectancy of the people has increased due to the availability of proper medical facilities. Longer lives lead to a rise in the older population, which presents many challenging problems. With longer life spans the number of older people incapacitated by chronic disease will increase. Such people will require continuous care to meet their daily needs.

The possibility of entering a nursing home increases with age. A man in his sixties will definitely need more health care

[3] Anand Ganguly, "Insurance Management", New Age International Publishers

[4] U.Jawaharlal, "Insurance Industry –Contemporary Issues", publication from ICFAI University, July 2002

than a man in his thirties. Past studies reveal that one percent of people between the ages of 65 and 74 reside in nursing homes. The percentage rises to 6 percent between the ages of 75 and 84 and to 25 percent incase of the age group of 85 and above. However, older people are not the only group of people who need long-term care. Younger persons who cannot care for themselves due to illness, accidents, birth defects and mental conditions etc., also require long-term care.

Coverage under long-term care:

Application and the attending physician's statements serve as the basis for most of the individual LTC policies. Some insurers however may conduct telephonic interviews and require paramedical examination. Insurance companies classify long-term insurance policies into major categories:

a). Nursing Home Care

b). Community Care

Benefits of long–term care:

Every LTC policy contains benefit provisions. The benefits are payments to be made by the insurer if an insured event occurs. The benefit provisions in LTC policies deal with the types and levels of care for which benefits will be provided and criteria benefit eligibility and the level of benefits payable. It should be understood that no policy covers all LTC expenses:

Elimination or Waiting Period:

Many insurance companies give the insured a choice of elimination period ranging from 0–365 days. The larger the elimination period, the lower the premium and vice-versa, other things being the same.

Daily Benefit Period:

Insurance companies provide a choice from a schedule of maximum daily benefits and the length of benefit periods. For example an LTC policy might offer the buyer a schedule of Rs.500 per day and the benefits period schedules might range from 2-5 yrs. Some companies make monthly payment to insured. A typical policy might pay Rs.5,000 per month.

Community Care:

Community Care is cheaper than the nursing care, mostly preferred by the elderly. The maximum daily benefit under community care is normally 50 percent of the maximum daily benefit of nursing home care. The length of benefit period is often the same for community care and nursing care but some policies might have different waiting periods. Most of the insurance policies provide some kind of inflation protection for an extra premium. Such inflation protection makes sure that the benefit amount increases with the cost of living.

Disability income insurance:

The ability to work and earn an income is the most valuable asset for most of the people. Work provides them the livelihood. Most people do not inherit or accumulate so much wealth that is large enough to give them the luxury of not joining the work force. It is necessary for a majority of the population to work fro a living and people whose inability keeps them out of the workforce face economic problems in their lives.

People may assume that they will keep enjoying a healthy life and have the ability to participate in the work force for a major period of their lives, if not through out their lives. Health impairments, however, may limit or stop an individual from participating in the work force either temporarily or permanently. Accidents, illness and congenital defects take the toll on individual lives. The financial consequences of a disability can be substantial and in some cases disability can prove to be more financially distressing than death. With disability not only is the income of the producer lost but also he or she continues to incur expenses unlike with death. Adequate income insurance helps individuals to avoid financial distress due to disability.

Accident: "An unintended and unforeseen even or occurrence."

Injury: "Injury means accidental body injury that occurs while the policy is in force."

Under the accidental means clause, a body injury most meet the condition that the cause of injury and the result (the injury itself) must be unforeseen.

Disability: "A partial or total, physical or mental impairment limiting substantially one or more major life activities of an individual."

Partial Disability: "The inability to perform some stated percentage of the insured's occupation or to perform at such a speed that completion of those duties takes a longer time than the normal time."

Benefit: "An amount received by the claimant, assignee or beneficiary by an insurance company."[5]

The guiding principle enunciated in the Bhore Committee of 1946, which states that 'no individual should fail to secure adequate medical care because of inability to pay for it' looks unreachable even after 50yrs of Indian Independence. Hardly 3% of the Indian population is covered by some form of Health Insurance either social or private. The total expenditure on Health in India is 6% of GDP and the government spending is less than 25% against the average appending of 30 – 40% in other developing countries.

In India, Health Insurance mainly exists in the form of Mediclaim Policy offered to the individual companies covering only about 2.5mn people of the country's population, do the penetration of Mediclaim Policy. Social insurances like Employee State Insurance Scheme are available but they have restricted the coverage to a very small segment of the population that is around 3%.

The government has taken serious interest in the potential of insurance companies to provide and popularize health insurance coverage at a modest rate of premium. To achieve this goal the government has to allow income tax rebate for premium paid for health insurance policies.[6]

GIC made some headway under its various health care plans for different segments of policyholders by covering more than 2mn persons. LIC and UTI also made attempts to offer some type of health insurance covers. However, health insurance could not pick up momentum in India due to the following reasons.

1. Services costs are out of reach of many people.
2. Lack of good and efficient physicians and less number of hospitals.
3. High illiteracy rate.
4. Poor medical equipment.
5. Poor Budget allocation towards health care.

Health insurance policies available in India are:

1. Mediclaim Policy [Individuals]

[5] U Jawaharlal, "Insurance Industry –Trends and Regulations", Publication division of ICFAI University, September 2004

[6] Chandrasekhar, "Health insurance in India", An article in Insurance Plus 2003

2. Group Mediclaim Policy
3. Overseas Mediclaim Policy
4. Raja Rajeshwary Mahila Kalyan Yojana
5. Bhagya Shree Child Welfare Policy
6. Janata Personal Accident Policy
7. Cancer Insurance Policy
8. Bhavishya Arogya Policy
9. Jana Arogya Bhima Policy
10. Personal Accident Policy
11. Grameen PA Insurance
12. Senior Citizen Unit Plan
13. Employee State Insurance Plan

Existing regulatory system in insurance business:

The important purpose of the insurance laws is to provide proper guidance for the conduct of the insurance business. The insurance law has an inbuilt regulatory system to control the insurance business. It is necessary to enhance the orderly growth of insurance business and maintain a healthy competitive environment to undertake the same. This regulatory system in the insurance laws can be traced to the Life Insurance Companies Act 1912. The Act provided direction regarding the insurance business and incorporation of the insurance business. The real regulatory system is detailed in Insurance Act 1938, the Act, with amendments made thereafter has the controller of Insurance to regulate the insurance business. The purpose of the Act is to be having a powerful strong supervisory and regulatory authority to direct and advise the insurers in the process of Insurance business. The nationalization of Life Insurance business in 1956 and general insurance business in 1972 and creation of the corporation to undertake the business is a part of regulatory provisions. The controller of insurance is the competent authority to supervise the operations of the insurance business and the Advisory Committee is the coordinating agency between the central government and the insurers. The two committees were formed as a part of the regulatory system. The controller of Insurance was initially attached to the Minister of Finance. In 1993, a committee on Reforms in the Insurance Sector was appointed to review the present insurance system in general and regulatory system in specific and also to recommend appointing an authority to regulate the business. The committee under the chairmanship of R.N.Malhotra recommended for strong autonomous body on the lines of SEBI with sufficient powers of control. The central government in 1996, to avoid delay formed the Interim Insurance Regulatory Authority by passing a bill in the parliament by a resolution to undertake the control system on temporary basis till the legislative body is formed. Considering the importance of the system and need for regularization of the business, the central government has issued a bill of Insurance Regulatory and Development Authority in 1998, which could not be voted due to dissolution of parliament. The Parliament enacted a separate legislation known as the Insurance Regulatory and Development Authority Act, 1999. It has the power to amend the provisions of the Insurance Act, 1938 Life Insurance Corporation Act 1956, and General Insurance Business Act 1972. This Act delegated the powers to the regulatory authority to make the regulations required to regulate the business. The authority made the regulations 2000 to regulate the business.

The regulations of the insurance business have been made with following objectives:

- To create public confidence in the insurance business. This will also be a basis for the long-term stability of the business.
- To protect the insurance business, policyholders and customers.
- To protect the insurers.
- To regularize the channel of funds and investments of funds.
- To have the transparency of insurance business and improve the innovative consumer based insurance products.
- To regularize the low-cost longtime funds for the economic growth of the country.To help the insurers in the beginning, saving him from frauds likely to be committed by the insured while presenting the proposals. To help the insured after the policy is allotted during settlement of the claims.[7]

The future scenario:

With Information Technology and consumerism transferring the health care system, there is a vast potential for health insurance market waiting to be tapped by the private sector in India. Health Insurance, which has remained highly under developed and a less significant segment of products portfolios of the nationalized insurance companies in India, is poised for fundamental change in its approach and management. The Health Insurance Regulatory Authority Bill, which was passed in the Parliament on October 20, 1999, is expected to bring revolutionary changes in the health insurance sector. The privatization of health insurance market allows the government to develop and maintain smaller ad targeted systems of health care financing to serve people who do not have access to private insurance. Privatization will also improve the performance of state insurance sector in the country by increasing benefits from competition in terms of lowered costs and increased level of consumer satisfaction. However, the implications of the entry of private people in the health sector are not very clear[8].

Experiences from other countries suggest that the entry of private firms into the health insurance sector, if not properly will have adverse consequences on the costs of health care, consumer satisfaction, and ethical standards. The IRDA has a significant role in the regulation of this sector and responsibility to minimize the unintended consequences of the change.

In spite of many positive developments in the health insurance sector, a lot remains to be done for its growth. Even now, health insurance is not recognized as a special line of business and health insurers have to seek a license under non-life sector. The minimum capital base of 100 crore (since health insurers have to seek license under non-life) sounds unrealistic for the firms. It is also not easy for general insurance companies to raise health care standards. All this means that there is an urgent need to fill this void by all the concerned i.e., government agencies and the market players.

The government has taken serious interest in the potential of insurance companies to provide and popularize health insurance coverage. As the Indian insurance market is now open to private players, every one is hoping that health insurance segment will witness is all for an exponential growth.[9]

Conclusion:

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[7] U Jawaharlal, "Insurance Industry – Contemporary Issues", Publication Division of ICFAI University, July 2002

[8] M N Srinivasn, "Priniciple of Insurance Law"Sixth edition , M/s Ramanuja Publishers , Sri Madhura Puri Malleshwari P.O., Bangalore.

[9] Randall p Ellis , Moneer Alam , Indrani Gupta ,"Health insurance in India Prognosis and Prospectus" Economic and Political Week , January 22,2000

Health Insurance has so far remained the most neglected subject with our insurers in India. The Mediclaim Policy introduced by the General Insurance Corporation has caught the attention of our people because of exclusion of many diseases and surgical intervention. The other main inhibiting factor is that it offers reimbursement of expenses whereby the insured has to first bear the cost of treatment out of his own pocket and the claim settlement procedure often puts spokes in the form of production of all medical reports and bills in support of the treatment. This has negated the attitude of people towards this policy.