HEALTHY GROWTH

International health insurers are eager to enter the Indian health insurance business, which offers a large under-penetrated market that is growing at a brisk pace, writes **A Kumar.**

The health insurance business in India is growing at a vigorous pace, as both public and private insurers unveil a slew of policies, providing coverage to a rapidly expanding – and urbanising – population that is keenly aware of modern ailments and the high costs of treating them.

The growth prospects of the insurance sector have attracted several leading international players and others too are keen to enter the fray. The opening up of the insurance sector in India in 2000 saw several international insurance giants enter the country. Initially, most of them were focussed on general (especially auto) and life insurance.

But gradually, with India's secondary and tertiary healthcare sectors having undergone major changes in recent years – especially with the entry of corporate and private sector hospitals established by medical professionals – insurance majors are now eyeing the health insurance business with greater interest.

"The health insurance business is at the threshold of unprecedented growth," explains Ravi Trivedy, executive director, business advisory services, KPMG India. The sector has grown at a compound annual growth rate (CAGR) of 37 per cent over the last seven years. Trivedy expects the industry to grow at a CAGR of between 25 and 30 per cent over the coming years, to reach a market size of US$5.54 billion by 2015.

According to the Insurance Regulatory & Development Authority (IRDA), the industry watchdog, the health insurance business has grown from US$150 million in 2002 to US$1 billion in financial year 2008.

KPMG, in a report – 'Health Insurance Inc: The Road Ahead' – points out that the health insurance sector is one of the most promising in the non-life industry today. But it needs to be strengthened in areas such as consumer awareness, standardisation and accreditation of healthcare providers, healthcare infrastructure, and data and information exchange. Similarly, there is need for innovation in areas such as product and pricing, technology and channels of distribution, adds the report.

All key stakeholders – including the government, the regulator, healthcare providers, insurance companies, non-government organisations, self-help groups, third-party administrators and distribution channel partners – have a major role to play in strengthening the industry, points out the KPMG report, which was brought out along with the Confederation of Indian Industry (CII).

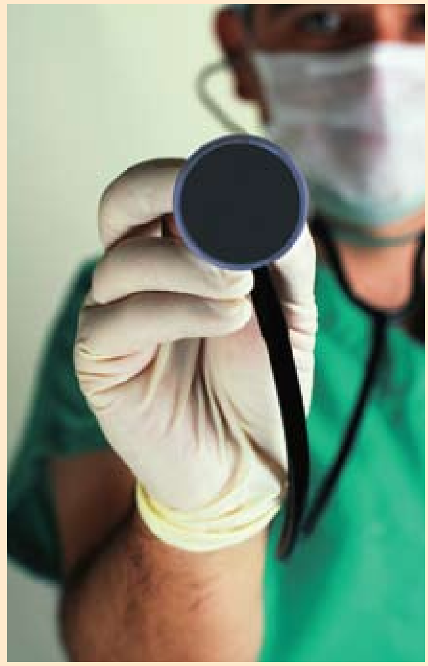
J. Harinarayan, chairman, IRDA, notes that health insurance covers just a fraction of total healthcare spending in India. India's total healthcare spend adds up to about US$40 billion, of which around US$14 billion is accounted for by hospitalisation expenses that could be covered by health insurance, he adds.

The IRDA chief points out that the average claim last year added up to under

HUGE POTENTIAL FOR GROWTH

The tremendous opportunities for growth that are available in the Indian health insurance sector were apparent in a study – 'How India Earns, Spends and Saves' – undertaken in 2008 by the National Council of Applied Economic Research (NCAER), a leading think-tank. The nationwide NCAER study, conducted in association with Max New York Life, covered 63,000 households across 23 states. The penetration of health insurance is only 1.2 per cent (as against 84.2 per cent in the US), with an average sum assured of less than US$2,000. The average medical expenditure of an Indian household is 6.7 per cent of annual income, the study reveals.

However, in the case of a major sickness, the average annual medical expenditure goes up to 37.4 per cent of annual income. Nearly 14 per cent of the surveyed households indicated that they had faced a major illness at some point in life.



The Indian Council for Research on International Economic Relations (ICRIER), another think-tank, in a study – 'Private Health Insurance Coverage in India' – published earlier this year, said that health insurance penetration can be increased if insurers are allowed to pay higher incentives to agents selling health insurance policies. Insurance companies should also be encouraged to devise incentive schemes for agents to sell such policies to low-income households. Similarly, self-help groups and other non-profit entities should be encouraged to popularise health insurance policies, it adds.

US$500, with the average hospital stay working out to four days. Just 2 per cent of the Indian population is covered by health insurance, indicating the huge potential for the growth of the sector.

"It is important that we encourage the public-private partnership mode to cover a larger proportion of the population under health insurance," says Harinarayan. Additional tax breaks are also needed to increase health insurance penetration, he adds.

Traditionally, non-life insurance companies have offered health insurance policies in India, unlike in many developed countries, where life insurance companies market such policies. According to the KPMG report, health insurance comprised a mere 0.2 per cent of business for life insurance firms last year, as against 18 per cent for non-life insurers.

Most non-life insurers offer health insurance – group schemes for companies' employees – as part of a comprehensive package for their corporate clients that includes fire and property risks.

But with the de-tariffing of non-life insurance business a lot of changes are occurring in the segment. Under the new regime, introduced in 2007, insurance companies are free to fix the premiums, or tariffs, depending on market conditions, unlike in the past when they had to adhere to government-stipulated rates.

> It is important that we encourage the public-private partnership mode to cover a larger proportion of the population.

Moreover, the de-tariffing is encouraging non-life insurance players to focus on the retail health insurance business (not group health insurance for corporates), which is expected to grow rapidly. Increasing coverage by health insurers will reduce the burden on individuals, many of who have to currently dip into their savings for costly medical treatment.

"High reliance on out-of-pocket spending alone can pose serious health policy challenges related to financial risk protection in future years," notes the KPMG report. "India needs to focus on the potential ways to pool this risk through insurance and reduce out-of-pocket expenditure, for which there is a need to step up public and private sources of healthcare funding."

At present, out-of-pocket spending accounts for 76 per cent of total healthcare expenditure in India, says the KPMG report. The balance is accounted for by public healthcare facilities and state insurance schemes for government employees. In 2007, about 15 per cent of the population was covered under pre-paid health insurance schemes, but private health insurance had a mere 2 per cent share, adds the report.

IRDA has also been pushing for changes in insurance laws - including lowering the minimum capital norms for health insurance firms and introduction of uniform hospital databases – to attract more stand-alone health insurance companies. At present, there are a handful of such firms that offer health

insurance coverage to individuals. One of the first to be set up was Star Health & Allied Insurance, a joint venture between Oman Insurance Company, a leading Middle East-based insurer, Syed Mohamed Salahuddin, chairman emeritus of Dubai-based ETA Ascon and ETA Star Group, and Essa Abdullah Al Ghurair of the Al Ghurair Group of Dubai, besides some Indian insurance industry professionals. It began operations in 2006.

In 2007, the Apollo Hospitals Group – which operates the largest chain of hospitals in the country – set up a joint venture with German health insurance major DKV; the Indian group has a 74 per cent stake in stand-alone health insurance firm, Apollo DKV Insurance Corporation, with the German partner controlling the remaining 26 per cent.

Chandra Sekhar, chief marketing officer, Apollo DKV, says the firm will be present in 40 cities by the middle of this year and later expand to about 100 locations by 2012.

A third stand-alone health insurance firm was set up last year, when Max Healthcare joined hands with the British United Provident Association Ltd (Bupa) to set up Max Bupa Health Insurance Ltd.

"The Indian health insurance market has massive potential, with a growing young population," says Ray King, chief executive, Bupa Group. "Bupa's foray into India emphasises our determination to identify and participate in new opportunities for health and care provision in international markets."

Dr Damien Marmion, ceo of Max Bupa Health Insurance, points out that this is

RISE IN THIRD-PARTY ADMINISTRATORS

The rapid expansion of the health insurance business in India has resulted in significant growth in the third-party administrator (TPA) business. TPAs are the link between the customer and the insurance company, managing claims for the former. They also liaise with hospitals on behalf of the insurer, but are not allowed to market health insurance policies. There are about 30 TPAs operating in the health insurance business in India.

The TPA business is expected to get a further boost with four state-owned non-life insurers – New India Assurance, United India Insurance, Oriental Insurance and National Insurance – planning to set up a joint TPA. The four non-life insurers have a nearly 60 per cent share of the general insurance business in India.

The General Insurers (Public Sector) Association (Gipsa) is spearheading the move to set up a common TPA for the four firms, which would improve client servicing, thereby improving their overall performance. The new joint venture TPA is likely to operate on a public-private partnership model.

The Insurance Regulatory & Development Authority (IRDA) is also keen on promoting a health insurance council, which will be a self-regulatory body for the sector. In addition, measures are being initiated to build a comprehensive database and to formulate common standards for the health insurance industry.

an exciting time to start a new venture in India's healthcare sector. "The country's growing economy and its young, increasingly-urban population are creating a real opportunity for providers of quality health insurance products. Our aim will be to design a range of products that help Indian families benefit from the peace of mind that health insurance can bring."

According to Analjit Singh, chairman, Max India Ltd, as a pure health insurance provider, Max Bupa aims to have a million customers in about three years from the date it issues its first policy. The company is expected to become operational in a few months.

Singh points out that the current regulations classify only three segments in the insurance industry – life, non-life and re-insurance. Health insurance will be classified as a separate segment, once the reforms in the sector accelerate.

> We are actively looking for an Indian partner and have already shortlisted some names.

Insurance industry analysts also expect greater interest from international insurers once the Indian government's proposal to hike the foreign direct investment (FDI) limit in the insurance sector from 24 per cent to 49 per cent materialises.

A proposal to lower the capitalisation for stand-alone health insurance companies – from US$20 million, which is applicable on all insurance companies, to US$10 million – is also awaiting government approval.

Many leading international health insurance majors are keen on having a presence in India. "We are actively looking for an Indian partner and have already shortlisted some names," says David Wichman, group executive vice-president, UnitedHealth Group, the biggest American health insurer. "We are bullish on India as a market that has huge under-penetration in healthcare insurance."

Other leading international health

insurers who are looking at a presence in India include Cigna and Aetna, both from the US.

Private life insurers in India are also looking at entering the health insurance segment. Aegon Religare Life Insurance – a joint venture between Religare Enterprises, Bennett Coleman and Company and Aegon – will be launching a health insurance product later this year, according to Rajiv Jamkhedkar, ceo.

Rajit Mehta, chief operating officer, Max New York Life Insurance, says his firm will be launching health insurance products by the end of 2009. "We plan to launch policies to cover hitherto untapped critical illnesses and different surgical requirements," he notes.

Birla Sun Life Insurance Company Ltd, which has seen a 130 per cent growth in premium income in fiscal 2008-09, will be unveiling health insurance products in 2009. Vikram Mehmi, president and ceo, Birla Sun Life, says the company is in the process of tying up with a national health partner.

He believes health insurance has huge potential and could generate revenues of US$3 billion in about five years for the company.

Life insurers such as ICICI Prudential and Tata AIG are also aggressively promoting stand-alone healthcare policies, especially those with higher risk coverage. While most non-life insurers offer healthcare policies with coverage of between US$10,000 and US$20,000, life insurers are now unveiling policies that offer coverage of US$40,000 and for periods of up to 20 years.

HDFC Standard Life plans to more than double its premium income from health insurance to US$10 million by next year, says Frederick D'Souza, senior vice-president, health.

State-owned New India Assurance Company Ltd, a leading non-life insurer, is also planning to move from generic products to need-based ones for specific diseases, especially lifestyle ones.

According to B. Chakrabarti, chairman and managing director, New India Assurance, health insurance would emerge as the second-largest segment after motor insurance in the total general insurance business in India over the next two years.

The health insurance industry is poised to grow at a phenomenal pace over the coming years, as millions of Indians realise the need for covering medical emergencies and risks, especially at a time when healthcare costs are increasing exponentially globally.