



Joint Colloquium of the IACA, PBSS and IAAHS Sections  
of the International Actuarial Association  
Westin Copley Place Hotel, Boston, U.S.A. – 4-7 May 2008

# India

## Current opportunities & issues in health business development

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# India at a glance



**Land area:** 3.29 million square kilometers

**Politics:** Socialist Democratic Republic

**Population:** More than 1.1 billion, growing at 1.93% per annum

**Life expectancy:** 60.4 years, **Male:** 61.8 years, **Female:** 59 years

**Literacy rate:** 65.38 per cent

**Languages:** 22 constitutional languages; English is the preferred business language

**Major Metros:** Mumbai, Delhi, Kolkatta, Chennai, Hyderabad, Bangalore

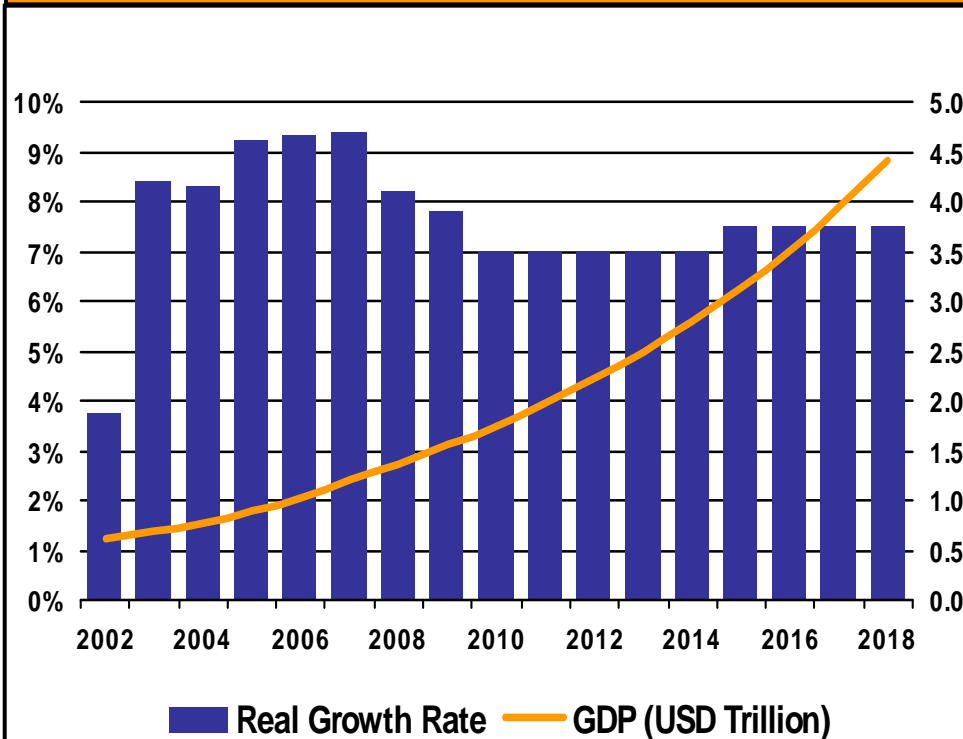
**Major religious groups:** Hindus, Muslims, Christians, Sikhs, and Buddhists

**Currency unit:** Indian Rupee (INR); **Prevailing Exchange Rate:** USD  $\approx$  40 INR



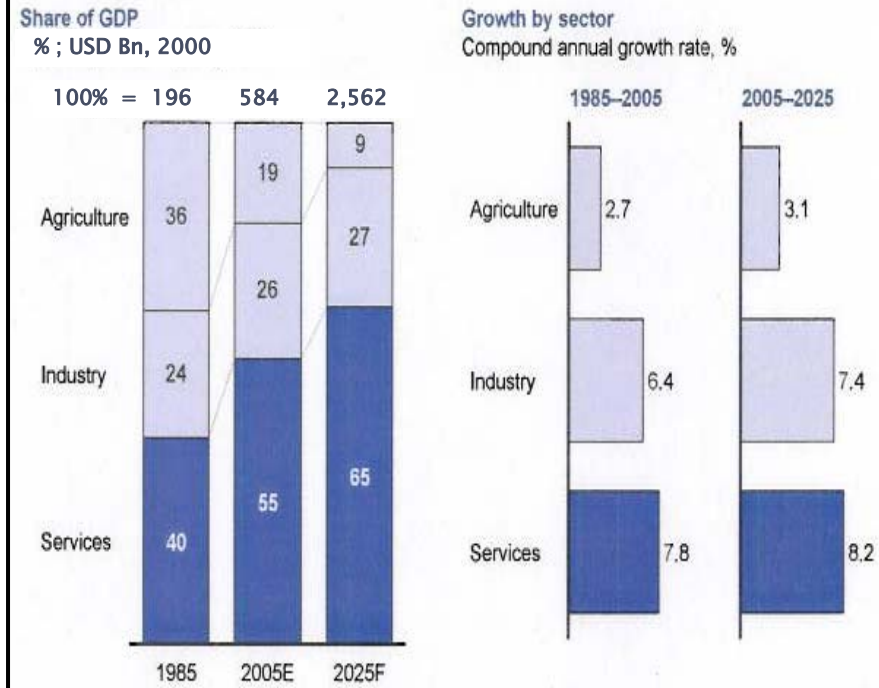
# Macroeconomic indicators

## Long-term GDP growth at 7 to 8%



Source: Swiss Re India Country Report

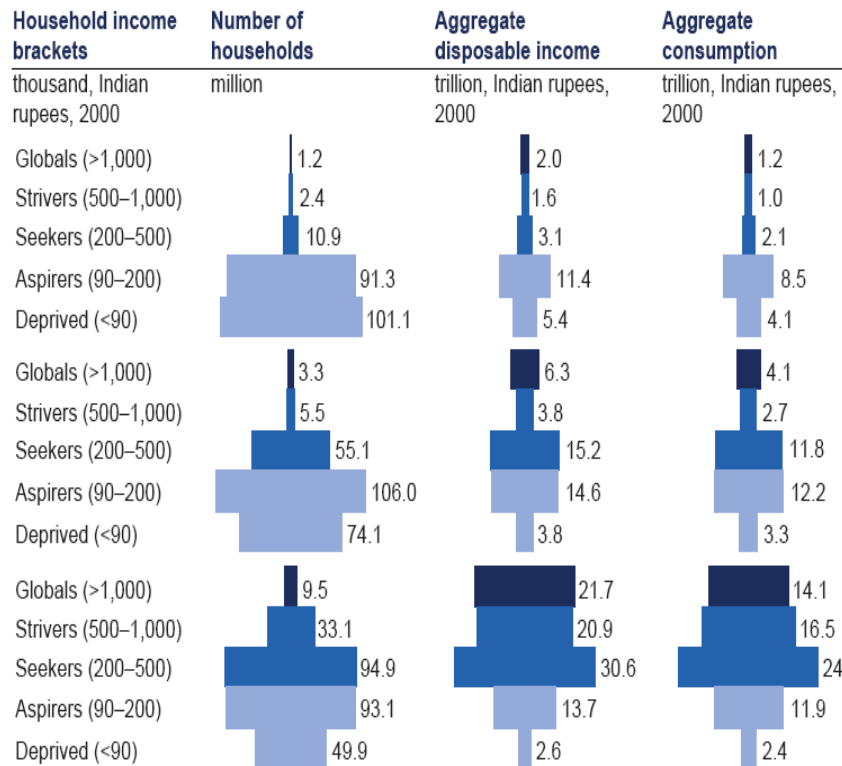
## Services sector continues to fuel GDP



Source: McKinsey Global Institute

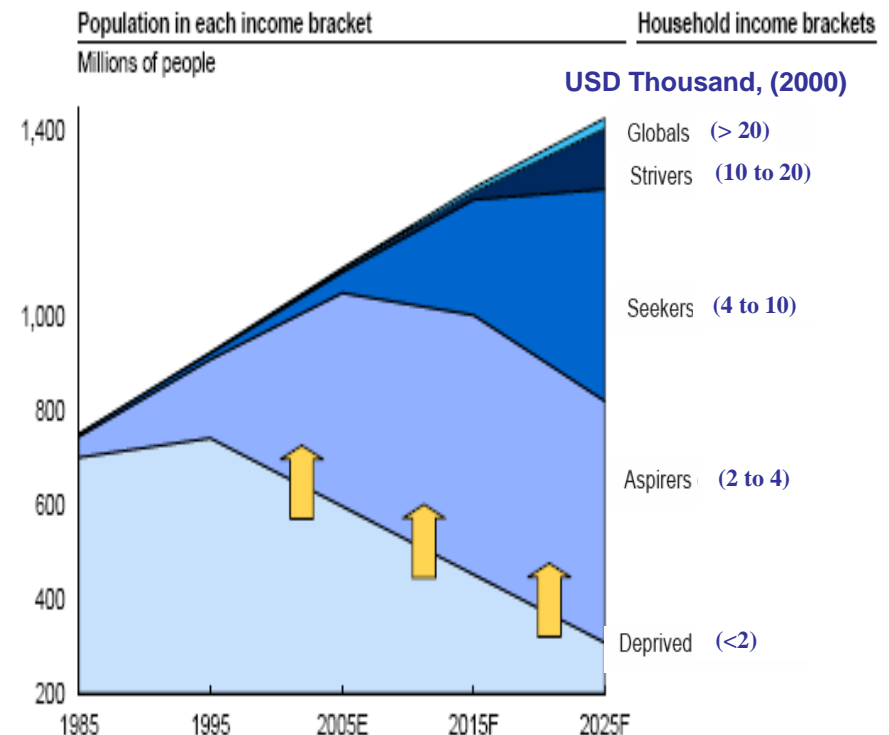
# Economic structure: purchasing power

## Number of mass affluent urban households projected to increase



Source: McKinsey Global Institute

## 140 M Indians will move above the poverty line in the next two decades



Source: McKinsey Global Institute

# Healthcare spending scenario

## India vs. OECD countries

Parameter	India	OECD
Population (% of World Total)	16.0%	20.0%
Health Spend (% of World Total)	0.8%	90.0%
Health Spend (% of Respective GDP)	5.0%	11.0%
Health Spend (US\$ per capita)	31.4	3,170
Total Absolute Health Spend (US\$)	60.3 Bn *	4.1 Tn

**Source:** World Health Statistics 2007, WHO

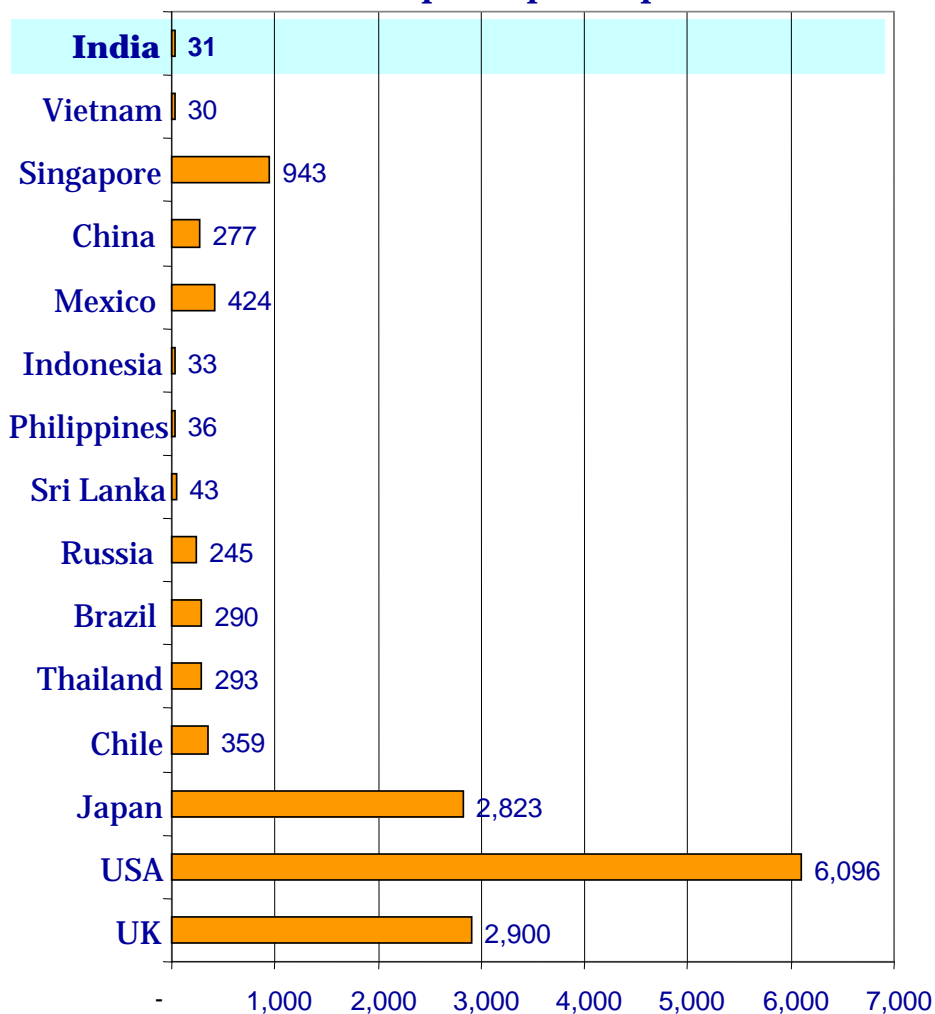
\* Extrapolated for projected GDP of US\$ 1.16 tn in 2007 – 2008 and increased health spend of 5.2%

Note: OECD = Organization for Economic Cooperation and Development

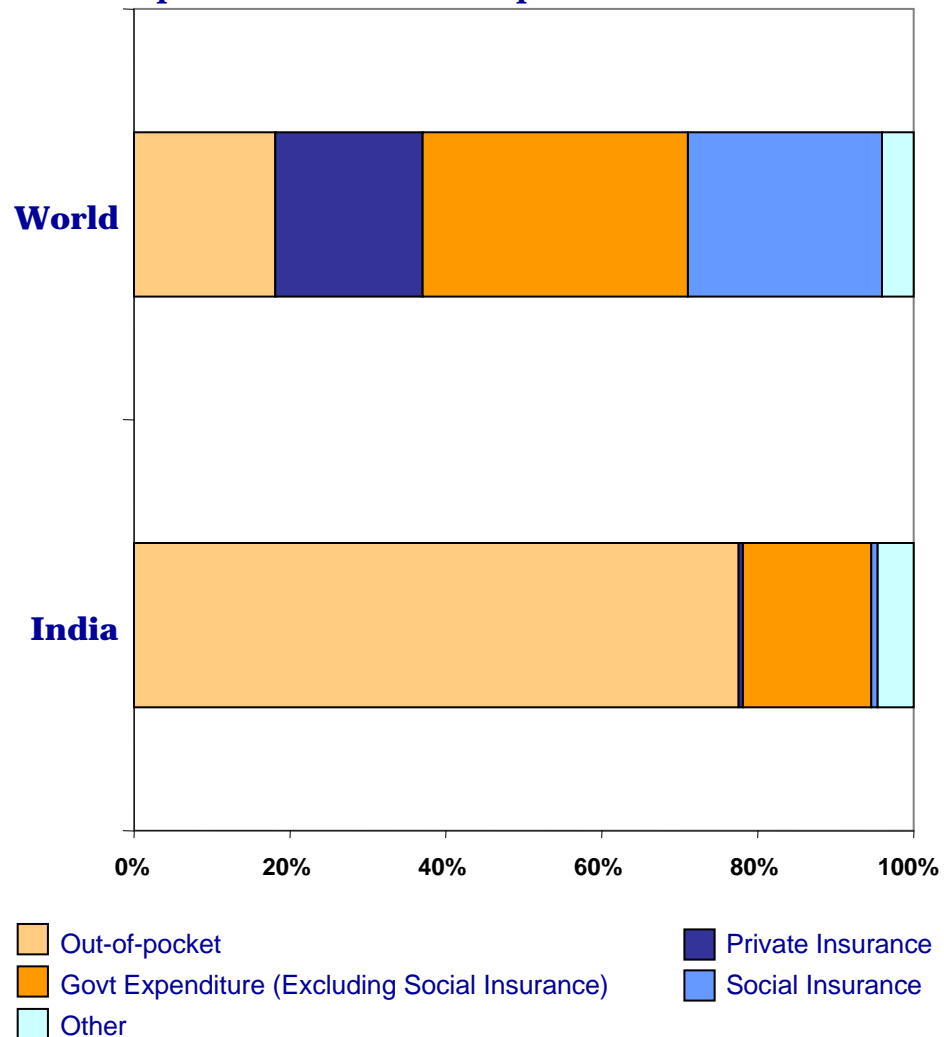
While India supports ~ 15% of World population, healthcare spending is disproportionately low

# Current pattern of healthcare financing in India

## Total health spend per capita

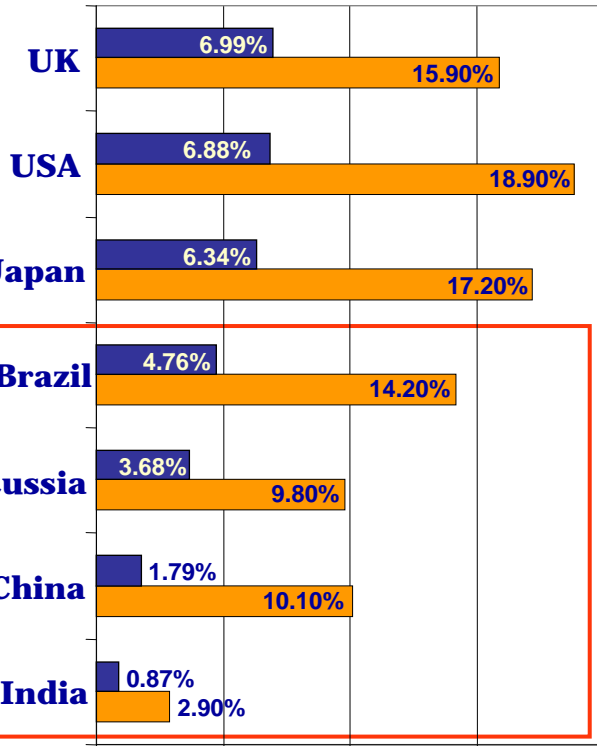


## Composition of health spend – India vs. World

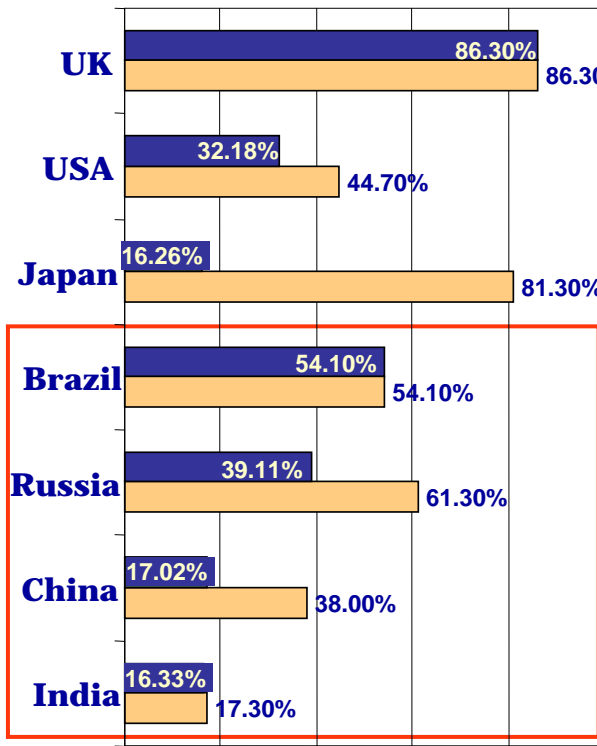


# Among BRIC countries, India has lowest % of government spending and private insurance

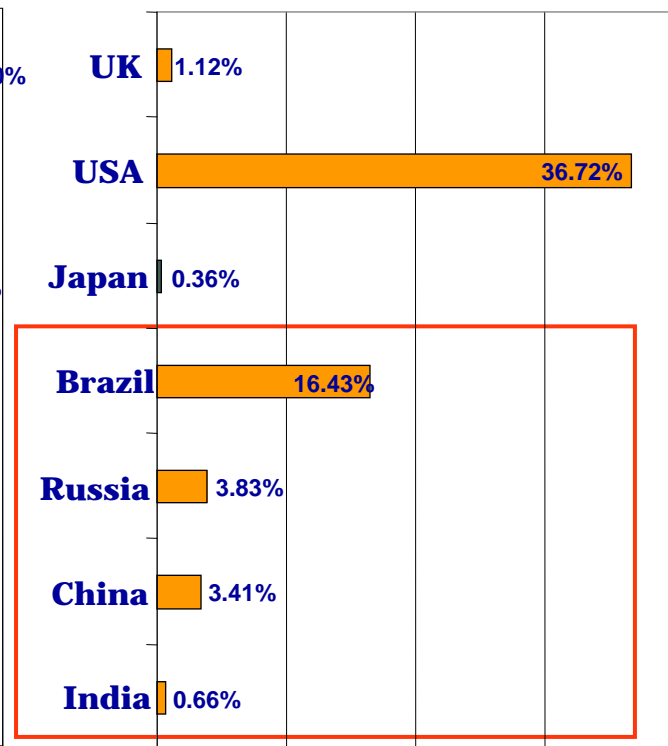
Government spend on health



Govt. share in health spend



Private insurance



0% 5% 10% 15% 20%

0% 20% 40% 60% 80% 100%

0% 10% 20% 30%

■ As % of GDP

■ Health spend excluding social security

■ As % of Total Government Expenditure

■ Total health spend

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# Brief history of the Indian health insurance market

- 1986: Government-owned P&C insurers mandated to sell health insurance providing in-patient reimbursement benefit ('Mediclaim')
- 2001: Insurance privatisation - new P&C companies focus on commercial lines, offering group health as accommodation business
- 2002: IRDA creates Third Party Administrators (TPA) by regulation; provides cashless access for policyholder to healthcare facilities for the first time
- 2003-4: ICICI Lombard (leading private sector P&C Co.) initiates focus on personal lines, and health in particular
- 2005-6: Time-line for detariffing announced - other P&C Co. start to focus on retail health. Life Co. start selling stand-alone health products. First pure health insurer launched
- 2007-8: Life Co. increase their focus on health business; LIC, the largest life insurer, launches a range of unit-linked health benefits

## **'Mediclaim'**

- Established as the generic category of in-patient indemnity cover; accounts for ~ 90% of the market
- Reimbursement of medical costs after 24 hours in hospital; limited pre- and post-admission cover
- Modest annual benefit limit, typically with inner limits for room & board and surgeon's fee
- Initial waiting periods linked to specific diseases (e.g. 24 months for cataract surgery)
- Minimally underwritten; waiting periods and PEC exclusion clause used to control claims costs
- Strictly, offered as 1-year cover; the courts have upheld customers' rights to renew cover

# Regulatory overview

- Private participation in Insurance (life / non life) permitted since 2001
- Private companies set up as a JV; foreign partner stake currently limited to 26%
- Minimum capital requirement for JV: INR 1Bn (~USD 24 M)
- Currently, no specific regulations for health insurance; stand-alone health companies are authorised as P&C insurance companies
- The regulator (IRDA\*) has framed health insurance-specific regulations; currently being reviewed by the Cabinet. With 2008 likely to be an election year, unlikely that regulations will be passed before 2009
- Consistency of approach to regulatory review of health products proposed by life and P&C Co, should be enhanced by recent creation of IRDA health team
- Regulatory enablers for health business include ongoing detariffication of P&C commercial lines business and approval of stand-alone health products of life companies

\*IRDA: Insurance Regulatory & development Authority

# Current health players in India

Company	Segment	Sector	GWP FY 2007; USD M	Market share
ICICI Lombard	P&C	Private	225.8	23.2%
New India	P&C	Public	198.7	20.4%
Oriental	P&C	Public	119.8	12.3%
United India	P&C	Public	117.8	12.1%
National	P&C	Public	103.8	10.7%
Bajaj Allianz	P&C	Private	42.2	4.3%
LIC	Life	Public	30.5	3.1%
Royal Sundaram	P&C	Private	24.1	2.5%
Reliance	P&C	Private	18.2	1.9%
Iffco Tokio	P&C	Private	18.1	1.9%
ICICI Prudential	Life	Private	12.7	1.3%
Other	various	Private	60.0	6.2%
<b>Total Health market</b>			<b>972</b>	<b>100%</b>

**Source:** IRDA; Swiss Re analysis. For LIC, only estimated risk premium component has been considered

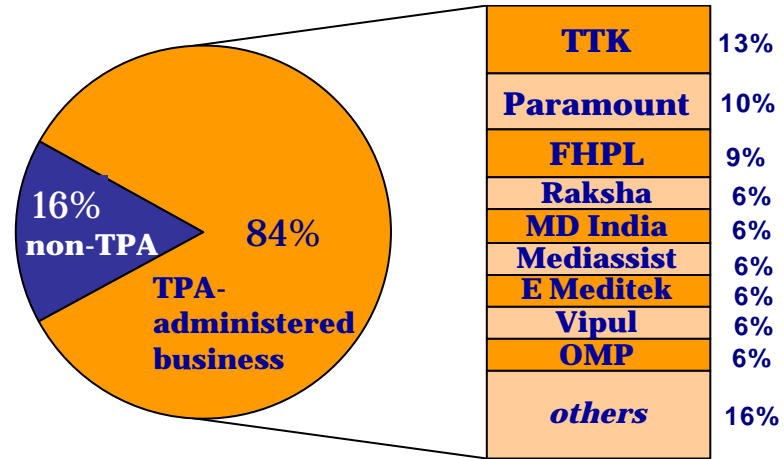
NB: Two stand-alone health players, **Star Health** and **Apollo DKV**, are included in the “Other” category

# TPA and medical provider segments

## Indian TPA sector

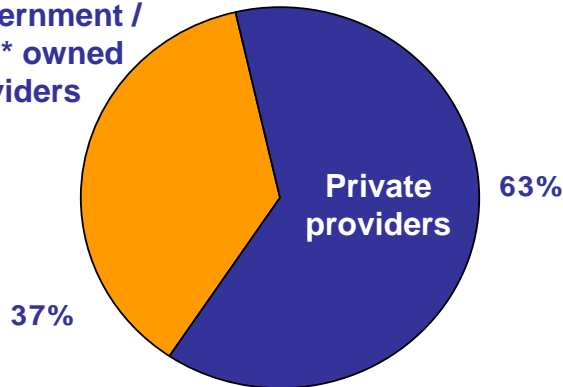
- TPA sector regulated since 2002
- Market is fragmented with 28 licences awarded so far
- Top 5 players account for 40% of premium under management

Source: TTK Health care services, March 2008 estimates

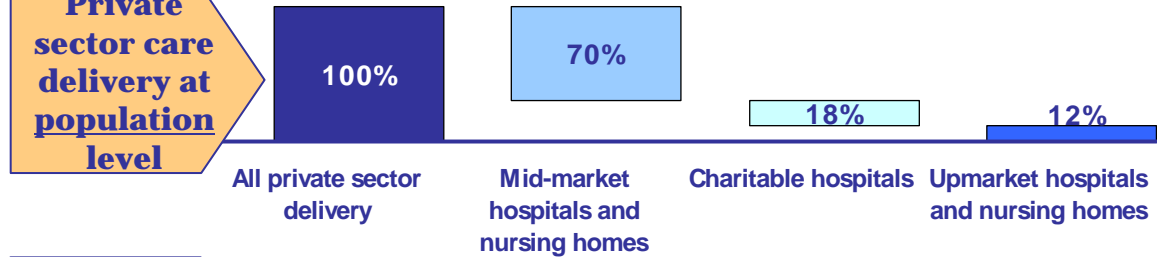


## Private sector dominates care delivery

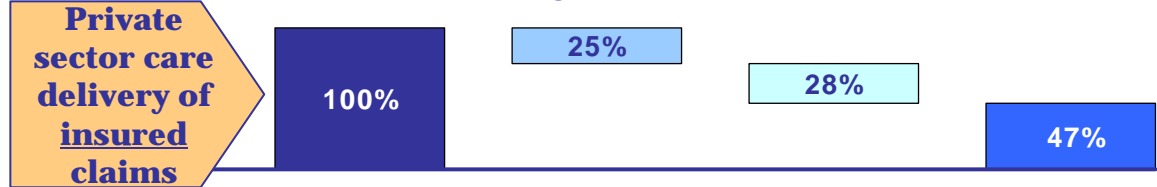
Government / PSU\* owned providers



## Private sector care delivery at population level



## Private sector care delivery of insured claims



- Future investment in the medical provider capacity will occur principally in the private sector

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Source: TTK Health Care Services, December 2007

# Current health products

- ‘Mediclaime’-type indemnity cover
  - incremental variations on the basic plan structure
  - family ‘floater\*’ benefit and cover for dependant parents are popular features
  - currently, true product innovation is minimal
- Defined benefit medical cover
  - daily hospital cash and lump-sum surgical covers
  - benefit amounts are graded to match broadly the average cost of care
  - favoured by life companies, as an entry strategy to health business
  - may be attached to unit-linked savings benefit, to create health savings account structure (attempts to leverage off tax break available for medical risk costs)
- Other products
  - recent focus on health business has also seen a number of stand -alone critical illness (CI) products launched by life companies
  - number of covered CI conditions increased from 20 to ~45

\* ‘Floater’ structure provides benefits for the entire family, but capped at a shared, aggregate annual benefit limit

# Anticipated direction of product development

## Claims cost control features

- Greater focus on quality of medical underwriting
- Cost-sharing via deductibles and copayments
- Incentives to service claims within the TPA's provider network
- Products designed around closed medical provider groups (especially for corporate market)
- Product features / premium rating to address significant regional cost differentials

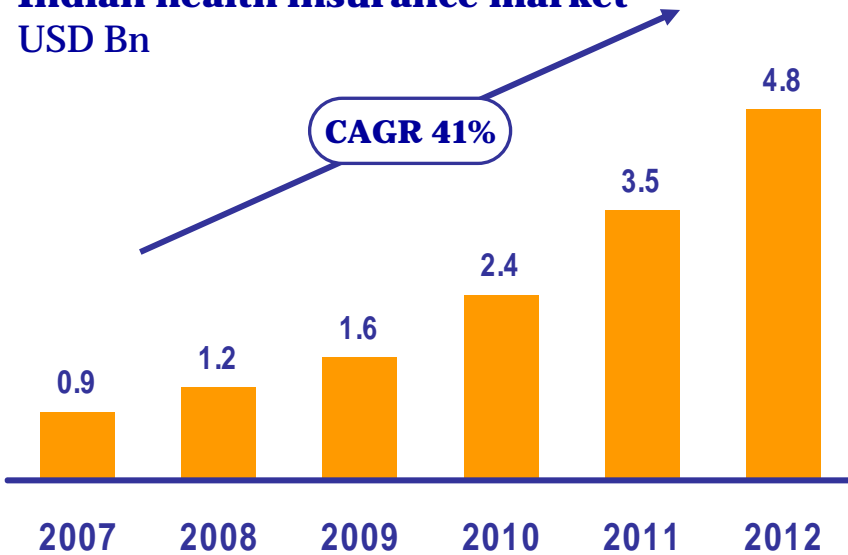
## Scope of insurance cover

- Higher annual limits, to provide adequate insurance
- Extension of out-of-hospital coverage
- More inclusive coverage for chronic diseases (type II diabetes and ischaemic heart disease are highly prevalent)
- Disease management and wellness programmes
- Long-term product proposition, via guaranteed renewability +/- or multi-year cover
- Leverage new opportunity to offer parental coverage (following introduction of new tax break in 2008)

# Indian health market growth projection

Expected to continue to follow a high growth trajectory for the next 5 years

**Indian health insurance market**  
USD Bn

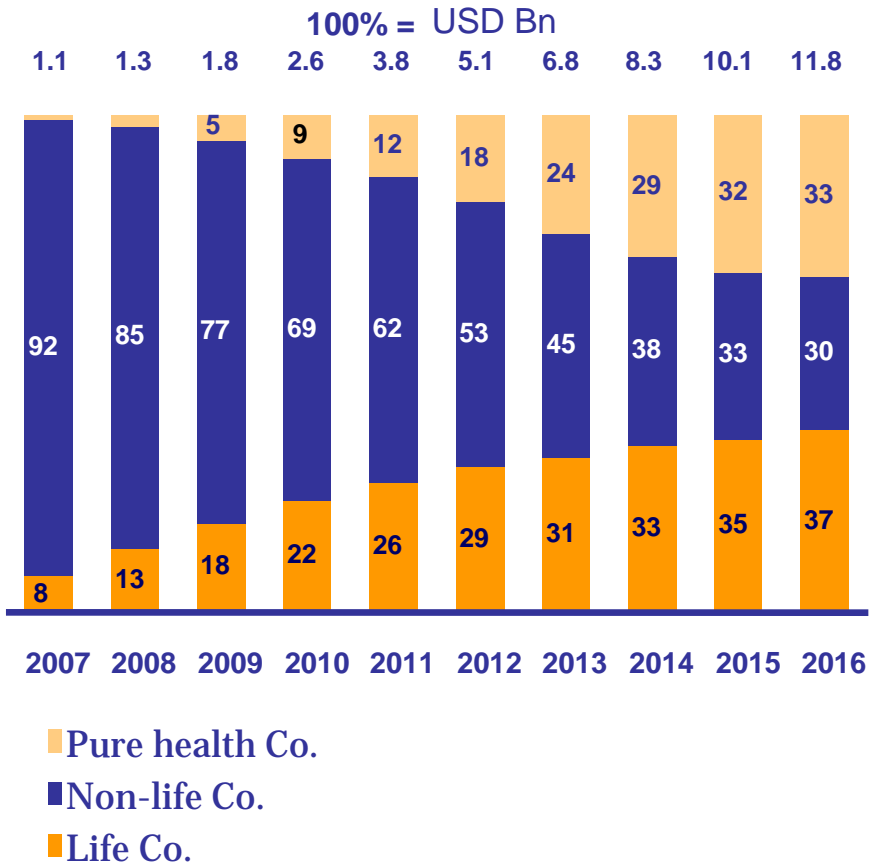


## Key drivers

- Number of insureds increasing through favorable demographics
- Per-capita insurance spend increasing with economic growth
- Rates increasing through detarrification

Source: Swiss Re

Market share of life Co. and pure health insurers is expected to increase substantially



# Challenges to development of the medical insurance market in India

## *Healthcare infrastructure*

- ❑ Mis-alignment of physical and human infrastructure at the point of demand for healthcare
- ❑ Systems for provider accreditation, clinical protocols and medical coding standards for utilisation data are almost non-existent
- ❑ Limited engagement of providers with insurers /TPA to pre-agree terms of business

## *Private medical insurance*

- ❑ Little focus to date on data management to steer the business
- ❑ No systematic practice of re-pricing the business to account for claims cost trend
- ❑ Lack of clarity on the health insurance regulatory landscape
- ❑ Level playing field for all types of insurance Co. to write medical business does not yet exist

## *Role of the government*

- ❑ Elderly population face unaffordability of health insurance premiums; aggravated by historic under-pricing and trend
- ❑ Insurance is viewed politically as a panacea for 'health for all', but the poorest sections of society cannot afford products to meet even basic health needs
- ❑ Fiscal incentives do not support pre-funding of healthcare costs



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