i notes
Newsletter from India's Leading Insurance Broking House
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The risk managers

Message from the Editor

Dear Readers,

As an editorial policy, we ensure that **i-notes** stays focused on topics of general interest to the corporate insureds, and consciously avoid using it as a platform to broadcast India Insure's milestones. However, it is that time of the year when we permit ourselves a few minutes of preening in front of our readers.

We have just blown the candles on our 8th Anniversary cake last month and, as it happens every year, we feel humbled by the contribution made by our team and the support we enjoyed from corporates, insurers and others during the last 8 years of growth. With Rs 178 crores of Premium handled last year, and a whole new market opening up for Brokers, thanks to dismantling of Tariffs, we are aware of the challenges ahead and are bracing for it by investing more than ever in People, Process, Knowledge and Technology. Your continued support will go a long way in our realizing our dreams.

The dismantling of Tariffs in property insurance and launch of stand alone health insurance companies are expected to affect the Health Insurance landscape significantly. In this issue, therefore, we focus on Health Insurance once again (we first wrote on it in our July 2005 issue). In our product section, we have taken up "Construction Insurance" as our topic for this issue.

Once again, thank you for all the support and encouragement all these years.

V Ramakrishna
Editor – ***i-notes*** & Managing Director, India Insure

Health care and Health Insurance in India

Introduction

Every human being has a right to health which is, well and truly, recognized by the state. The state has to ensure accessibility to and affordability of Health Care to each of its citizens. Health care has always been a cause of concern for our country which has a large population, quite a large percentage of which is below the poverty line.

A few decades ago, the health sector was in a dismal and pathetic state distraught with high mortalities and the prevalence of a plethora of unmanageable diseases. Of late, a lot of importance is being attached to health care and considerable progress in improving the health status of the country has been achieved.

Medical Care is affordable as far as the affluent sections of the society are concerned, whereas for the poorer sections this still remains a nightmare, even with all that is being done by the Government in providing low-cost healthcare. It is a fact that more than 75% of the population makes use of private medical care. But rising costs of private medical care takes it out of the reach of the poor people.

Due to inaccessibility to good quality and subsidised healthcare, a majority of the population encounter loss of income which in turn 'rubs salt into their wounds'.

Health insurance is, of course, one of the important options which can provide affordability to all.

Health Insurance in India

Health Insurance, in India, can be classified as follows:

1. **Social Insurance schemes** that are formulated and administered by the Government. These are schemes like Employees State Insurance Scheme (ESIS) and the Central Government Health Scheme (CGHS). About 3 to 4 % of the population is covered under these schemes.

   Even for those who are covered under these schemes, the health care that reaches them is not of the desired quality.
2. **Community Insurance schemes** help to provide cover for the informal sector and can be Government-driven, self-managed at the community level, Insurer-driven or the service provider- driven.
3. **Employer-provided insurance schemes** are instituted as a welfare measure for the employees. This measure is undertaken by a few major corporate houses.
4. **Market-based schemes** those are private and voluntary. These are the private health insurance schemes offered by the insurance companies.

If health care is to be made affordable to all, the thrust has to be on the Insurance Schemes offered by the Insurance Companies – both Public and Private. The insurance companies will have to introduce products after proper segmentation of the markets. The 'one fit suits all' approach should be dumped. As of March 31, 2007, the Health Insurance premium collected by Insurers was to the tune of Rs 3209.88 crores.

Health Insurance Claims

The claims ratio witnessed by the Insurance Industry in India is quite alarming at more than 140 per cent. While this is so, a large number of grievances get reported on the grounds that the insurers reject genuine claims citing existence of 'pre-existing diseases' which is an exclusion under the policy.

Another contributing factor to the high claims ratio in Health Insurance is the pricing of Group Health policies for Corporates. The large chunk of capacity availability coupled with competition has resulted in reduction of price for these policies which in turn makes the claims ratio go north.

This throws up a need for a more scientific pricing of the product(s) by the insurers linked to a properly developed database relating to Health Insurance.

The claims ratio in Health Insurance which is upwardly mobile will have to be addressed through concerted efforts of all concerned in the supply chain. It should be ensured that the billing, be it on 'cashless basis' or on 'reimbursement basis' will have to be consistent.

A careful and detailed analysis of the claims paid will have to be undertaken by the insurers/TPAs/insurance brokers so as to identify the problem areas and initiate steps to address those concerns so that effective loss minimization is achieved. The remedy does not just lie in 'increased premiums' year-on-year linked to the claims ratio.

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What is the remedy?

The private sector health care delivery system in India has remained largely fragmented and uncontrolled. In the present situation there is a need to establish bodies and systems to monitor clinical and non-clinical effectiveness of the services as also the remuneration for the services rendered

Licensing of private healthcare providers by Government, Certification that grants recognition and Accreditation should be made mandatory so that legal recourse is available to the consumers of private health care.

Who can help to control claims?

1. **Corporate Employers :** In order to control the cost of purchase of Group Health Insurance, employers will have to actively contribute to loss control measures. They should exercise vigilance to minimise bogus claims and inflated claims.

   To make the employees more responsive, employers may resort to co-payment clause in the policy where the employee pays a stipulated percentage of the expenditure. This would force the employee to have a detailed look at the billing and question any excess charging by the hospital.

2. **Brokers :** Broker on record can play a major and vital role in controlling the claims ratio. Through a proper and detailed analysis, the broker can identify the reasons that contribute towards a high claims ratio (Which hospital? Which area? Which disease? Who is at fault? etc) and thereby suggest appropriate course corrections, either midway through the policy or at the time of renewal.

3. **Insurers :** Healthcare insurance providers should think of putting an absolute cap on each specific area of service provided by the provider (e.g. bed charges, diagnostic charges, consultant/surgeons charges and consumables) rather than an overall cap on total payout by way of the total sum insured.

   This will result in the introduction of viable operating models by the private healthcare service providers where they would have an incentive to keep costs low if they are to generate business volumes from insured patients.

4. **Third Party Administrators :** Third Party administrators will have to add more meaning and purpose to their role. Instead of just administering health claims, they should play an active role in the control of losses ratio.

   They should exercise more control over the network hospitals in order to eliminate unwarranted hospitalisation, more than required duration of hospitalisation, over providing of services and overcharging for the services provided.

The Future

As stated earlier, Health Insurance by the Insurance Companies will have to play a major and vital role to make Health care affordable to every citizen of this country.

The future of health insurance in our country, therefore, is charged with enormous possibilities. Although the Indian health insurance market is not witnessing a growth curve that many had envisaged, there is a growing awareness about Health Insurance among the customers. They are on the lookout for a feasible and affordable mechanism for accessing quality care, whenever required, simultaneously protecting their financial position against the significant costs that can be incurred due to hospitalisation.

1) **Managed Health-Care**

Health insurance market in India has all along been aligned to one of indemnity. But it is now time for the market looking beyond. Apart from indemnifying the insured, the market can now start focusing on Managed Health Care. A pure indemnity regime will result in increase in costs since the service providers do have an incentive to over-provide. The patient, on the other hand does not question the decisions of the service providers since he is anyhow being indemnified by the insurer.

A transition from the present system of indemnity insurance to managed care can usher in the following benefits:

a) **Higher quality of Health Care** : When done right the incentives of the providers are aligned with those of the patient which translates into optimum provision of Health Care.

b) **Costs can be controlled :** By setting up competition among providers, insurance companies can force providers to cut costs resulting in services at lower prices.

c) **Better organization of Health care :** Patients are more likely to get what they need when there are no financial barriers to care.

d) **Better preventive care :** Managed Care will result in better health. Caring for healthier members will cost less. This will serve as an incentive to keep people healthy.

e) **Disease management programs :** Disease management programs for specified sicknesses can be embarked upon under the Managed Health Care concept which can result in better outcomes – Healthier insureds and lower spend on curative care.

2) **Hardening of Health Insurance Premium**

The de-tariffing of Fire & Engineering Premium has led to the gradual disappearance of the cross subsidy from the more profitable property insurances, thanks to which Corporates have always been able to obtain Group Health insurance at a less-than-equitable cost. Group Health premium rates are hardening, and insurers are getting choosy.

Health Insurance will finally become viable as a stand-alone product, which is critical for the long-term growth of this sector.

3) **Need for Retail Growth**

Insurance works on the law of large numbers. Large scale penetration of Health Insurance in the retail segment is critical for the overall balancing of the portfolio. While the travel and motor insurance segments have witnessed high growth thanks to the birth of alternative distribution channels, there is no evidence yet of the same happening in Health Insurance. Insurers will need to think out of the box and come up with innovative ideas to sell retail health

(eg: 1) agents operating Insurance counters next to Hospital Billing sections – where the patient feels the pinch the most! 2) roping in college students and housewives to sell pre-underwritten policies).

4) **Standal one Health Insurance Companies**

The entry of stand alone health insurance companies like Star Health, and the proposed Apollo-DKV venture, will go a long way to expand the health insurance segment.

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Insurance of Construction Risks

Introduction

Construction Risks Insurance provides for insurance on property against accidents resulting in damage to the works while in the normal course of construction or erection.

The basic concept of Construction Risks insurance is to offer a comprehensive protection against 'All Risks' involved in construction/ erection. Construction Risks insurance is now an indispensable and integral part of any project – be it Greenfield or Expansion.

In India, Construction Risks insurance is driven by Tariff and is of two types viz., 1. Erection All Risks insurance and 2. Contractors' All Risks insurance. As the names suggest the coverage is on 'ALL RISKS' basis and it would therefore be prudent for the insured to take a careful look at the General as well as Specific exclusions.

Who would require Construction Risks Insurance?

Parties who carry an interest in the project can arrange for the Construction Risks Insurance. Typically, the lenders, the owners, the contractors or the sub-contractors are the parties who need to arrange for this insurance. In practice, the lenders do not arrange for the insurance but based on contractual conditions they can be introduced into the policy as joint assureds.

What is an ideal insurance program for Construction Risks?

An ideal Insurance program for construction risks will encompass the following covers:

1. **Marine Transit Insurance**

   This would be required for the transit of Construction materials, Equipments, Plants and Machinery from the suppliers warehouse to site including off site storage & fabrication.

2. **Contractors All Risks Insurance (CAR)/Erection All Risks Insurance (EAR)**

   As per the existing Tariffs, **Contractors' All Risks insurance** will have to be placed in case the value of Civil Works is more than 50% of the total project value. If not, **Erection All Risks insurance** will have to be opted for.

The wordings for the policy are provided by the Tariff. The deductibles can be the minimum offered by the Tariff or can be a higher deductible where a discount in the premium is allowed.

The policy has two sections namely Section I – Material Damage and Section II – Third Party Liability. Cross Liability between the various parties named as insureds under the policy can also be insured.

How is the sum insured arrived at?

The values of the following items are to be taken into account for arriving at total Sum Insured for CAR/EAR Insurance

a. Marine (Imports) - Landed cost at site
b. Marine (Indigenous) - Landed cost at site
c. Cost of Construction/Erection
d. Permanent Civil Engineering Works
e. Half the escalated value, if escalation is opted for

How is the premium computed?

Premium shall be computed for the total period commencing from Commencement of work or Date of arrival of the first consignment at the site of erection whichever is earlier until completion.

What are the add-on covers that can be opted for?

Some important add-on covers are as follows:

Escalation in Sum Insured : Escalation Benefit will be limited to a maximum of 50% of the sum insured for CAR/EAR and will be permitted only once at the time of inception of the CAR/EAR Policy. Additional Premium is to be charged for 'Escalation Provision' at the rates prescribed for CAR/EAR but on the amount of escalation.

Cover for Offsite Storage/Fabrication : This extension, on payment of additional premium, will indemnify the insured against loss of or damage to the insured property whilst it is situated elsewhere than at the contract site for the purpose of fabrication or storage.

Earthquake Fire and Shock : For projects coming up in Zones III & IV, no extra premium will be charged. All **Acts of God perils** other than **Earthquake (Fire and shock)** are taken care of in the CAR Rates prescribed. However no reduction in the rates can be allowed for excluding any of these perils. Earthquake cover cannot be opted mid-term or for part of the total CAR period

Terrorism : The extension is granted on payment of additional premium. No mid term Cover shall be granted. Every claim shall be subject to a deductible of 0.5% of the Sum Insured subject to a minimum of Rs. 100,000.

Sabotage will be treated at par with malicious damage provided the sabotage is not by reason of a political aim or due to such causes as associated with Terrorism. Malicious damage is payable under CAR policy without terrorism extension.

Coverage for Owners Surrounding Property : Loss or damage to Owner's existing property on site can be covered.

Construction Machinery, Plant and Equipments : Separate Sum Insured is fixed for CPM equipments used for such projects. Depending on the size of the sum insured, it shall be decided whether the CPM equipments will be covered under CAR/EAR or under a separately under a Contractor's Plant and Machinery Insurance Policy

Limited Maintenance Visits Cover : By payment of additional premium the indemnity can be extended to include Maintenance Cover for a specified period. During Maintenance Period the Insurance shall cover solely loss of or damage to the contract works caused by the insured contractor(s) in the course of the operations carried out for the purpose of complying with the obligations under the maintenance provisions of the contract

Extended Maintenance Visits Cover : By payment of an additional premium, the indemnity provided by the policy can be extended to include Maintenance Cover for a specified period. During the Maintenance Period this insurance shall cover loss or damage to the contract works 1. Caused by the Insured contractor(s) in the course of the operations carried out for the purpose of complying with the obligations under the maintenance provisions of the contract or 2. Occurring during the maintenance period provided such loss or damage was caused on the site during the erection period.

Clearance and Removal of Debris : This extension will grant cover for the costs and expenses incurred by the Insured with the consent of the insurers in demolishing or removing portions of the property insured destroyed or damaged by any peril insured against.

Waiver of Subrogation Clause : The insurers shall waive all rights of subrogation against the insured and any person, firm or corporation having an affiliation at the time of loss with the insured through ownership or management subject to having been insured under the policy.

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Insurance of Construction Risks........ *contd. # 3*

3. Marine Delay Start Up (DSU) / Advance Loss of Profits (ALOP)

When losses occur during execution of the project, the project can get delayed which in turn results in Loss of anticipated Gross Profits.

The Marine Delayed Startup and/or Advance loss of profits insurances taken in tandem with Marine and/or Construction Risks insurance indemnifies the owner against Loss of anticipated Gross Profits due to delay in the commencement of commercial operations.

The Sum Insured shall be the Anticipated Gross Profits which is the sum of Net Profit and Standing Charges. The policy period shall be identical with the Contractors All Risks Insurance

The Indemnity period will have to be chosen by the insured. Time excess in terms of days is imposed.

Delay in start up due to Marine Cargo Losses (Including Storage) and Damage to works due to insured perils during the construction phase can trigger the DSU/ALOP cover.

4. Workmen's Compensation Insurance

This insurance can be taken by the insured to provide compensation to employees in respect of accidents and diseases of occupation, whether or not such employees come within the scope of the Workmen's Compensation Act, 1923, and subsequent amendments thereto.

All policies are to be issued for 12 months. Policies may be issued for a period less than 12 months in cases of specific contracts or work which will be completed in less than 12 months provided policies are written for the full period involved.

Conclusion

A proper identification of the risks attached to the Construction/Erection project will have to be conducted so that an ideal Insurance Program can be constructed. A visit to the Construction/Erection site as well as an exhaustive look-in at the wordings of the related contracts will help identify the risks.

Health care and Health Insurance in India....*Contd. # 2*

5) Product Design

The Insurance companies will have to facilitate exponential growth of the Health Insurance portfolio through well thought out Product Design, Product Pricing and Product Servicing.

The **designing of the products** should smack of innovativeness and should result from proper segmentation of the markets. The scope of cover should widen so that there is no scope for manipulations. The product should result in adequate cost-control – probably building in sub-limits may help.

Product pricing should be based on the stand- alone concept. The premium should be rationalized and the insurance companies should understand that sheer dropping of prices cannot serve as a marketing strategy.

A high level of **Servicing** should be ensured so that all the entities involved – the customer, the insurer and the service provider – experience a win-win situation.

Conclusion

Health Insurance in India will be successful if the Insurance Companies adopt a long term view and resort to rational practices that are sound. The service providers are to be roped in as partners to the concept of 'Health Care to all'. Last but not the least the attitude of the customers towards Health Insurance should shift from that of 'apathy' to 'concern'. This would result in increased volumes for the Insurer and then the cycle would become vicious.

Disclaimer

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