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Government of India
Ministry of Finance
Department of Financial services

2nd Floor, Jeevan Deep Bldg., Sansad Marg,
New Delhi - 110 001, dated: **24th May, 2012.**

To

The CMDs of Public Sector General Insurance Companies

Subject: Strategy to be adopted in connection with underwriting Group Health Insurance Policies – reg

Sir(s),

Health Insurance (both retail and Group Health Insurance) is one of the fastest growing sectors in General Insurance and constitutes about one fourth of the total gross premium income for the Companies.

2. The details of gross premium income and incurred claim ratio excluding Management Expenses, TPA Commission and Agents'/Brokers' commission and other such expenses for 2010-11 and 2011-12 for the four non-life Public Sector Undertaking Companies in the case of Health Insurance are as under :

PARTICULARS	GROSS PREMIUM				INCURRED CLAIMS RATIO	
	2011-12	% of total business	2010-11	% of total business	2011-12	2010-11
UIICL	2231.81	27.29	1711.76	26.84	97.68%	114.86%
NIACL	2344.54	23.40	2003.37	24.36	116.22	102.77
OICL	1488.66	24.03	1516.58	27.23	102.83	102.70
NICL	2079.77	26.61	1681.40	26.92	104.96	105.52

As can be seen, the Incurred Claim Ratio for NIACL, OICL and NICL is 116.22%, 102.83% and 104.96% respectively and that for UIICL it is 97.68% for the year 2011-12. The combined ratio of the total Health portfolio including the Management Expenses, Brokers'/Agents' commission and TPA Commission would accordingly be in the range of 130-140%.

3. The Group Health Insurance portfolio constitutes more than 50% of the total Health Insurance business in each of the Companies. An analysis of the data on Group Health Insurance policies, the combined ratio in Group Health Insurance policies for each of these Companies will be in the range of 150 %-165%. Thus, on a total Health Insurance premium income of all the four Companies of Rs.8145

crores and a Group Health business of about Rs.4500 crores, the net combined loss for the year 2011-12 could be around Rs.1500 crores (assuring a combined rate of 150%) to these four Companies.

4. At a time, when there is a financial strain on these Companies on account of abolition of motor pool & shifting to declined motor pool and other factors, the Public Sector Insurance Companies to be incurring losses to an extent of Rs. 1500 crores and above every year on Group Health Insurance policies is totally unacceptable. This is especially when the total dividend declared by these Companies during 2010-11 was only Rs.30 crores!

5. A closer examination of these losses and a relative comparison with the private sector, it is clear that that these losses are due to the lack of prudent underwriting and a very unhealthy and self-destructive inter-company competition among these four Companies. Heavy discounts are being offered on premiums, so as to snatch the business from the other Public Sector Undertaking Companies. Such unhealthy competition has led to a state where premiums for Group Health Insurance policies are settling down to a very low level and such policies become loss making the very moment they are underwritten.

6. Health insurance is one of the most important upcoming segment in the non-life sector and the business in Health Insurance is only going to grow up in coming years. While the desire to increase the GDPI by underwriting new premium policies including those in the Health Insurance business is understandable, this cannot be done by seriously compromising the bottom line. Growth in premiums portfolio can not be at the expense of the bottom line and would make the entire Health Insurance Sector unviable in the long run. It is, therefore, necessary that a proper mechanism be put in place whereby an appropriate pricing mechanism for pricing Group Health Insurance is adopted which takes into consideration the existing ICR, management expenses, medical inflation, commissions, likely increase in the quantum of claims due to ageing of the covered group, cost of underwriting the business and other such associated factors.

7. In view of this, based on the interaction with CMDs on May 17th, 2012 and based on the inputs received from the Committee consisting of ex-CMDs of PSU General Insurance Companies and other subject experts, the following strategy shall be adopted strictly with immediate effect, so far as the underwriting the Group Health Insurance policies is concerned :-

A. Stand-alone Group Health Insurance policies where Combined Ratio is more than 100% - the premium to be charged in case of all stand-alone Group Health Insurance policies should be calculated in such a manner that it is not less than the combined ratio (ICR plus Management Expenses plus Agents'/Brokers' Commission plus TPA Commission and any other expenses) is more than 100%. Also when such policies are to be renewed for 2012-13, a proper price should be worked out, duly taking into consideration the burning cost, management expenses, medical inflation etc to ensure that premium is revised such that the Combined Ratio will be less than 95%. Such policies otherwise shall not be renewed. No TPA Commission shall be given for all such cases.

B. Stand alone policies where combined ratio is less than 100% – It will be ensured in all such stand-alone Group Health Insurance policies where the combined ratio is less than 100%, the premium is revised upward duly taking into consideration the medical inflation, margins, management expenses and other such factors. The brokerage/commission shall be restricted to a maximum of 5%. Unhealthy practices of letting the broker to hike the premium, by assuring him of brokerage at a higher percentage, shall not be entertained.

C. Comprehensive Insurance Policy :

Whenever Group Health Insurance Policy is **a part of comprehensive insurance policy** extended to the Corporate /Company, it must be ensured that the combined ratio in respect of the comprehensive policy is not more than 100%. The discount/commission/other charges shall be given only in cases where combined ratio is less than 100%.

D. Retail Health Insurance Policies :

The Incurred Claims Ratio in Retail Health Policies is somewhat healthier and the Combined Ratio must be less than 100% in all such policies.

8. The other general instructions for Group Health Insurance are as under:

- (i) Co-payment (20%) shall be made compulsory in every Group Health Policy.
- (ii) No Public Sector General Insurance Company shall obtain business of stand-alone Group Health Insurance from any of the other Public Sector Companies without the prior written and explicit “No Objection” from the concerned CMD of the other Company.
- (iii) Whenever a business of stand-alone Group Health Insurance is obtained from a private Sector Company, the decision shall not be based on the Brokers’/Agents’ advice alone. Necessary financial details for the last three years shall be obtained and such policies shall be taken over only when the combined ratio is expected to be less than 95%.
- (iv) All PSU insurers shall necessarily share the data concerning premium, claims etc. w.r.t. major accounts and ensure that there is no competition between them in any corporate/group account. Any deviation from this instruction will be viewed seriously.
- (v) Details of the frauds, if any, in the Group Health Insurance should be shared among the PSU Companies so as to keep a check on such accounts.
- (vi) Action against the persons involved in frauds should be strict and lead to immediate cancelation of the policy. Even legal action against the insured may be considered in serious cases.

(vii) The PSU Insurance Companies shall endeavour to obtain new policies for lower age groups where the Claim Ratio is likely to be favourable.

9. The full details of all the business of Group Health Insurance Policies, (whether stand-alone or a part of the comprehensive insurance policy) shall be brought to the notice of the Board every quarter without fail. This matter shall be reviewed periodically.

10. The above guidelines are mandatory and no discretion is available to the PSU Companies. Deviations, if any, shall be viewed very seriously, if discovered at any level.

11. The above instructions are to be implemented with immediate effect and shall be reviewed, in due course, taking into consideration the actual field level experience.

Yours' faithfully,

Sd/-

(Arun Kumar Misra)

Under Secretary to the Government of India