

Premium for group health insurance may rise by 50%

Pradeep Thakur, TNN | Jul 29, 2012, 02.00AM IST

NEW DELHI: Premiums on group health insurance could rise by up to 50% as the finance ministry has told all public sector insurance companies to stop giving discounts on such policies.

The instruction, issued by the department of financial services to the chairman and managing directors of the four government insurers, talks about the strategy to be strictly adopted with immediate effect. It seeks to stop providing discounts on any policy where combined ratio, or the cost of a policy to the insurer, is more than 100%.

The combined ratio refers to costs on insurance claim, management expenses, commission to agents and to third party administrators (TPAs) and any other expenses that may have been incurred in servicing a policy. According to the directive, all expenses are to be factored into pricing the products, hence the potential surge in premiums.

A study by the finance ministry has found that the combined ratio is now in the range of 140%-165% on average. The four PSUs — National Insurance Company, New India Assurance, Oriental Insurance and United India Insurance Company — have to slash this combined ratio to 95%, according to the directive.

The four insurers command more than 60% of the total health insurance segment in India. Group health insurance accounts for more than 50% of this business.

4 insurance PSUs had net loss of 1.5k cr

In 2011-12, the total health insurance premium income of all the four PSU companies — National Insurance Company, New India Assurance, Oriental Insurance and United India Insurance Company — was Rs 8,145 crore, while the net combined loss for the year was Rs 1,500 crore (assuring a combined rate of 150%) to these firms.

A official at one public sector insurance company said each of them have issued directives to their field offices that "premium should be suitably loaded" to recover all expenses related to the insurance policy. The official said the increase in premiums could be as high 50%, but insurance experts said several factors will determine the actual hike.

"The directive predominantly talks about group health insurance policies. Premiums may go up significantly for these schemes and marginally for retail policies. While, the increase for group insurance premiums could be up to 35%, in case of individuals it is likely to be between 5%-10%," said V Ramakrishna, chairman of India Insure Risk Management and Broking Service. "This directive drastically reduces the choice available to group customers whose portfolio is healthy and the move is anti-free market," he added.

"Prices should be worked out, duly taking into consideration the burning cost, management expenses, medical inflation to ensure that premium is revised and that the combined ratio will be less than 95%. Such policies otherwise shall not be renewed," says the finance ministry directive. "Any cartelization of this sort where prices are determined uniformly may result in the business shifting to the private sector where the management cost is at least 20% less in comparison to the public sector insurers," the PSU company official said.