Get the model right

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Get the model right-For state-sponsored insurance, governments should avoid insurance companies

- World Bank data, in 2015, showed that nearly 65% of health-care expenditure in India is "Out of Pocket" (OoP).
- A report by the World Health Organisation has shown that around 3.2% of Indians would fall below the poverty line because of high OoP health expenditure.
- Thus, a national health insurance scheme like the Ayushman Bharat is welcome.
- While the principle of insuring a vulnerable population is widely accepted, what is contentious is the model that the government has adopted — that of using insurance companies.

The flawed model

- Insurance works on the principle of pooling the risk of policy holders.
- At least if the companies involved in the process are restricted to the public sector, government funds would only be going from one pocket to another.
- But at a phase when India is trying to promote more foreign direct investment and private sector participation in insurance, it is only fair to provide a level-playing field to public and private sector insurance companies.
- Another pertinent issue is finding reinsurers for government insurance schemes, a problem that is being encountered by companies on the Pradhan Mantri Jeevan Jyoti Bima Yojana because of high claims.

Costs of insurance companies

- Typical insurance company costs include designing insurance products to suit customer needs; actuarial input to assess and manage risk; advertising and marketing; empanelment (of approved service providers such as hospitals); administrative expenses to provide prior approval of

claims; and processing, which includes functions such as fraud detection.
- The last three functions, i.e. empanelling service providers, pre-approving hospitalisation of patients and subsequently settling the claim, are commonly outsourced to third-party administrators (TPAs) even by insurance companies.

Trust mode and cost cutting

- No insurance company has the kind of financial resources the Centre and the States have.
- Hence, governments must consider bearing the risk by themselves — known as the "trust mode" — instead of using insurance companies as risk-bearers and intermediaries.
- However, in India, governments continue to pay hefty sums in premium to insurance companies.
- By avoiding insurance companies and using TPAs instead, governments can save about 15%, or up to Rs.6,000 crore per year.
- Those who recommend the use of insurance companies allude that the government lacks the expertise to manage insurance.
- The government has already proclaimed that it wishes to cut the intermediary through the JAM trinity (Jan Dhan-Aadhaar-Mobile) and direct benefit transfers.
- It has also indicated that it wants to optimise fund utilisation through the recently introduced Public Finance Management System.
- Shifting to the trust mode will be the next natural step in this path, not only saving taxpayer money but also benefiting farmers and the underprivileged instead of insurance companies.

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