Source : www.thehindu.com Date : 2018-11-28

GET THE MODEL RIGHT: ON STATE-SPONSORED INSURANCE

Relevant for: Health, Education & Human Resources | Topic: Health & Sanitation and related issues

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. High premiums are paid for these schemes. Ayushman Bharat, for instance, has enhanced the Rashtriya Swasthya Bima Yojana (RSBY) of the United Progressive Alliance government, to cover around 11 crore families with a yearly coverage of 5 lakh. Experts estimate this will require 25,000 crore per year, when fully implemented. Similarly, the Central and State governments jointly paid 17,796 crore for crop insurance (2017-18) under the Pradhan Mantri Fasal Bima Yojana (PMFBY).

Insurance works on the principle of pooling the risk of policy holders. But another common sense idea must guide insurance decisions. If an individual, corporation or a government can bear a certain quantum of risk by themselves, it is not financially sensible to insure with an insurance company. This is because administrative overheads and profit margins of insurance companies are included in insurance premium costs.

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.

However, recently in Jammu and Kashmir, when a compulsory health insurance scheme for employees was rolled out by the Central government tied to a private insurer, it raised eyebrows and was subsequently rolled back. Similarly, last year, insurance companies made a bumper profit of 85% to the tune of 15,029 crore on crop insurance premium under the PMFBY.

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.

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.

However, of these, the first three are not applicable to programmes such as Ayushman Bharat which will be fully funded by the government as a blanket scheme. The government is also funding more than 80% of crop insurance. 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.

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.

This phenomenon was researched in 2015 by Srikant Nagulapalli and Sudarsana Rao Rokkam of the Andhra Pradesh University. Studying the Aarogyasri scheme introduced in undivided Andhra Pradesh by the late Congress Chief Minister, Y.S. Rajasekhar Reddy (the forerunner of the RSBY), they showed that the bid by insurance companies on such health schemes included a 20% margin for administrative expense and profit. By avoiding insurance companies and using TPAs instead, governments can save about 15%, or up to 6,000 crore per year. These savings will continue to rise due to rising premiums. Additionally, since premiums paid to insurance companies are transferred at the beginning of the year, there is an opportunity cost, which at current interest rates could amount to around 2,000 crore a year. The study also found the claim-to-premium ratio and customer satisfaction to be better in the trust mode than the insurance mode. It would also prevent exorbitant profits accruing to insurance companies in good cropping seasons as in 2017-18.

Those who recommend the use of insurance companies allude that the government lacks the expertise to manage insurance. While the “government has no business being in business” is the neoliberal mantra, insurance companies are a redundant layer in the government’s social security structure. 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.

‘Americai’ V. Narayanan is a CPA, an IRDA certified insurance broker and Chairman of EasyInsuranceIndia.com. Kavya Narayanan is a commerce graduate

Blaming Gandhi for Partition and by implication lionising his assassin is the worst form of historical revisionism

Our existing notification subscribers need to choose this option to keep getting the alerts.

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com