C.P.U.No. 907

18

EIGHTEENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(2006-2007)

(FOURTEENTH LOK SABHA)

HEALTH INSURANCE – A HORIZONTAL STUDY

MINISTRY OF FINANCE

(Action taken by the Government on the recommendations contained in the 11th Report of the Committee on Public Undertakings (14th Lok Sabha) on – Health Insurance – A Horizontal Study)

Presented to Lok Sabha on 20.03.2007

Laid in Rajya Sabha on 20.03.2007

LOK SABHA SECRETARIAT

NEW DELHI

March 2007

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COMMITTEE ON PUBLIC UNDERTAKINGS
(2006 – 2007)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings have been authorized by the Committee to submit the Report on their behalf, present their 18th Report on Action Taken by Government on the recommendations contained in the Eleventh Report of the Committee on Public Undertakings (Fourteenth Lok Sabha) on Health Insurance – A Horizontal Study.

2. The Eleventh Report of the Committee on Public Undertakings was presented to Lok Sabha on 9th March, 2006. Replies of the Government to the recommendations contained in the Report were received on 25th September 2006. The Committee on Public Undertakings considered and adopted this Report at their sitting held on 20 March, 2007. The minutes of the sitting are given in Appendix-I.

3. An analysis of the action taken by Government on the recommendations contained in the 11th Report (2005-2006) of the Committee is given in Appendix-II.

NEW DELHI:
19 March, 2007

RUPCHAND PAL
CHAIRMAN,
COMMITTEE ON PUBLIC UNDERTAKINGS

CHAPTER – I

REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations contained in the Eleventh Report (Fourteenth Lok Sabha) of the Committee on Public Undertakings, which was presented to Lok Sabha on 9th March 2006.

2. Action taken notes have been received from the Government in respect of all the 12 recommendations contained in the Report. These have been categorized as follows:

(i) Recommendations/Observations that have been accepted by the Government:
Sl. Nos. 4,6,7 and 8 (Total 4)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:
Sl. Nos. 1,2 and 9 (Total 3)

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:
Sl. Nos. 3, 5,11 and 12 (Total 4)

(iv) Recommendation/Observation in respect of which final replies of the Government are still awaited
Sl. No. 10 (Total 1)

3. The Committee desire that the final replies in respect of the recommendations for which only interim replies have been furnished by the Government should be furnished expeditiously.

4. The Committee will now deal with the action taken by the Government on some of the recommendations in the succeeding paragraphs.

Recommendation (Sl. No. 3) – Lack of Coordination

5. The Committee note that various insurance schemes viz. the Employee's State Insurance Schemes, the Central Government Health Scheme and other Commercial Health Insurance schemes are being operated by three different Ministries viz. the Ministry of Labour, Ministry of Health & Family Welfare and Ministry of Finance respectively and there is no coordination amongst the three Ministries as also the IRDA in policy planning, programme implementation, monitoring and evaluation with regard to commercial health insurance thereby depriving the business of the much needed synergy which can evolve only through synchronization of individual efforts.

The Committee further note that the Ministry of Chemicals and Fertilizers has proposed, through the draft National Pharmaceutical Policy, to set up a new health insurance scheme – Rashtriya Swasthya Bima Yojana – for the poor which will be funded through a 2% health cess. While lauding the proposal, the Committee feel that an integrated approach involving all the above agencies needs to be evolved by the Government for the successful implementation of Health Insurance Schemes.

The Committee desire that a mechanism for regular cross-consultation and coordination among these agencies should be put in place to enhance the synchronization of efforts to promote health insurance in the country. The Committee further desire that a pilot health insurance scheme involving the Ministry of Health and Family Welfare, Ministry of Finance, IRDA and Public Sector Insurance Companies may be evolved and launched within a specific time-frame.

Reply of the Government

6. Ministry of Health and Family Welfare has developed a framework for developing health insurance programmes in the country. Instructions have already been issued to all the State Governments to develop innovative health insurance products. This is the outcome of a consultative process in which Ministry of Finance, Public Sector Insurance Companies and State Governments actively participated. Moreover, an Inter-disciplinary Committee has been formed under NRHM to monitor the progress periodically.

[Ministry of Finance, Department of Economic Affairs, Insurance Division O.M. No. 12013/1/2006-Ins. IV dated 25th September, 2006]

Comments of the Committee

7. Observing that the lack of coordination amongst different Ministries who have been operating various insurance schemes viz. Employees State Insurance Scheme, the Central Government Health Scheme and other

commercial Health Insurance Schemes and the regulator, IRDA, was depriving the commercial health insurance business the much needed synergy, the Committee in their original report had recommended for setting up of a mechanism for regular cross consultation and coordination amongst them to synchronize the efforts to promote health insurance in the country. The Committee had also desired that a pilot health insurance scheme involving the Ministries, IRDA and public sector insurance companies may be evolved and launched within a specific time frame. The Committee are constrained to note that the Ministry has neither taken steps to set up a mechanism for cross-consultation and coordination nor have they evolved any pilot health insurance scheme. Instead, the Government have taken steps to add to the multiplicity of agencies by instructing State Governments to develop innovative health insurance products. The Committee express their apprehension about availability of expertise with the State Governments to undertake this task, which is a highly specialized one and requires professional expertise that only insurance companies are expected to possess. The Committee take strong exception to the Ministry's indifference to their recommendations and its attempt to present NRHM and its programmes as adequate to address the concerns expressed by them. The Committee therefore would like to <u>reiterate their recommendations and desire that steps for setting up of a mechanism for consultation and coordination amongst various Ministries, IRDA and the PSU Insurance Companies for the promotion of health insurance and the evolution of a pilot scheme involving all these agencies may be initiated without any further delay.</u>

Recommendation (Sl. No. 5) – Lack of Awareness

8. The Committee in their 11th Report had recommended the following with regard to the lack of awareness about Health Insurance in the country.

> "The Committee are constrained to observe that the level of public awareness about the need, availability and benefits of health insurance in

the country is still very low despite the fact that public sector general insurance companies have been operating in the field of health insurance for nearly two decades, beginning from 1986. Though efforts have been made at the Finance Minister and Finance Secretary level to solicit the cooperation of State Governments in creating awareness amongst masses and about the need and importance of health insurance, they have not yielded the desired result.

The Committee desire that concerted efforts be made to create awareness about the need, availability and benefits of health insurance schemes especially in rural areas through a multi-pronged strategy involving the public insurance companies, the central Government, the state Governments and the Panchayati Raj Institutions as well as non-governmental organizations so that more and more people come forward to adopt Health Insurance schemes."

Ministry of Finance in their Action Taken reply on the above recommendation has stated as follows:

"Health being a State subject, the participation of State Governments is essential for the creation of necessary awareness. Under NRHM, the Ministry of Health and Family Welfare has developed a framework for formulating Health Insurance Programmes in the country. This framework envisages multi-pronged approach involving the public and private sector service providers, the State Governments, NGOs and other community groups. It also calls for developing State-specific and District-specific schemes."

Comments of the Committee

9. The Committee were very well aware of the various benefits sought to be made available to rural masses under the National Rural Health Mission (NRHM). However, in view of the fact that only 1% of the country's population is covered under the Commercial Health Insurance Schemes, the Committee had felt that the abysmally low level of awareness about the need, availability and benefits of health insurance among the masses was one of the important factors responsible for such a limited percentage of the population coming under commercial health insurance. Keeping all these aspects in mind, the Committee had aptly recommended that the Ministry should chalk out a multi-pronged strategy to create awareness

through the coordinated efforts of various agencies like the Finance Ministry, the PSU Insurance Companies, the State Governments, Panchayati Raj Institutions, Cooperatives, Self-Help Groups, etc. The Committee felt it unfortunate that the Ministry failed to address the crux of the issue.

The Committee therefore would like <u>to reiterate their earlier recommendation and desire that steps may be taken to create awareness amongst the masses about the need, availability and benefits of Health Insurance Schemes throughout the country.</u>

Recommendation (Sl. No. 11) – Lack of Profitability

10. The Committee in their 11th Report had recommended the following with regard to the Lack of Profitability of Health Insurance schemes in the country.

> "The Committee note that most health insurance schemes offered by public sector insurance companies are loss-making primarily due to their inability to insure the younger people who are relatively free from major diseases. Besides this, the absence of proper re-insurance facility for health insurance is also adversely affecting the confidence of insurance companies to underwrite health covers on a large scale. The Committee, therefore, feel that public sector insurance companies need to take concerted steps to motivate and educate the young people to take health insurance policies in their own interest. The Committee desire that the Government and the regulator, after due consultation, prescribe viable targets of health coverage to the insurance companies, both in the public and private sector, and introduce incentives linked to their performance in fulfilling those targets.
>
> The Committee also desire that the Government may give special attention and take time-bound action to set up a viable re-insurance mechanism for health insurance."

Ministry of Finance in their Action Taken reply on the above recommendation has stated as follows:

> "For developing a balanced and viable portfolio, it is the need of the hour that the insurers devise innovative products. The Public Sector Insurance Companies have realized the necessity of developing long-term policies for the young people in order to address the adverse claim ratio of the health portfolio. Besides this the insurance companies are going for infallible reinsurance programmes in order to minimize the financial risks."

Comments of the Committee

11. In view of the fact that most Health Insurance Schemes offered by Public Sector Insurance Companies were loss making primarily due to their inability to insure the younger people who are relatively free from major diseases, the Committee had recommended that the Public Sector Insurance Companies need to take concerted steps to motivate and educate the young people to take health insurance policies in their own interest. They had also recommended that the Government and the IRDA, after due consultation, should prescribe viable targets of health coverage to the insurance companies and introduce incentives linked to their performance in fulfilling those targets. The Committee deprecate the reply of the Government, which has merely informed them about the realization by Public Sector Insurance Companies of the necessity for developing long term policies for younger people and does not contain any concrete steps taken with regard to their recommendations. Taking strong exception to the casual approach of the Ministry in dealing with their recommendations, the Committee reiterate their earlier recommendation and desire that the public sector insurance companies should devise attractive policies for younger people so as to address the adverse claim ratio of the Health Portfolio. The Committee would also like that the Ministry, in consultation with IRDA, should prescribe viable targets of health coverage to the Insurance Companies and ensure their strict compliance.

On their recommendation concerning setting up of a viable reinsurance mechanism for Health Insurance, the Committee note that the Ministry in their reply have stated that the Insurance Companies are going for infallible reinsurance programmes in order to minimize financial risks. The Committee desire that <u>they may be apprised of the details of infallible reinsurance programmes and their impact in minimizing the financial risks of the insurance companies.</u>

Recommendation (Sl. No. 12) – Poverty and need for subsidy

12. The Committee in their 11th Report had recommended the following with regard to the need for subsidy in Health Insurance premium for the poor in the country.

> "The Committee note that affording the premium of health insurance schemes is beyond the economic capacity of people living below the poverty line as well as for a large section of the population living just above the poverty line. The Committee also note that the only way to ensure health insurance cover for the poor is through subsidy to be provided by the Government to make the premium affordable for the poor. The only subsidized scheme at present is the Universal Health Insurance Scheme launched in 2003 and it has been confined exclusively to the BPL segments in 2004 with enhanced subsidy.
>
> The Committee desire that subsidy for the poor and BPL segments be made available to all existing health insurance schemes and not restricted only to Universal Health Insurance Scheme. Further, the Committee desire that a system of differential subsidy for the poor and the BPL segments may be introduced across the board for health insurance schemes and service tax for providing health insurance may be abolished to increase its affordability."

Ministry of Finance in their Action Taken reply on the above recommendation has stated as follows:

> "Under UHIS differential subsidy is being provided and this scheme is also exempted from service tax. Recently Ministry of H&FW has issued guidelines for developing the insurance schemes according to which the State Governments have been advised to formulate insurance schemes for rural people based on the principle of public-private participation. For BPL families, the Ministry of H&FW has proposed providing subsidy to the extent of 75% of the premium while the remaining premium may be borne by the State Government and/ or the beneficiary."

Comments of the Committee

13. The Committee were fully aware that UHIS is the only subsidized commercial health insurance scheme currently in operation. In view of the fact that UHIS is restricted to BPL segments and a large number of poor people just above BPL were neither able to take advantage of this scheme nor in a position to pay premium for other Health Insurance Schemes, the

Committee had desired that a system of differential subsidy for the poor and BPL segments may be introduced across the board for UHIS and other health insurance schemes because there is a large population in the country who are really poor but technically – for the deficiency in the criteria of measurement of poverty line – belong to Above Poverty Line (APL) category or who are for some reason or other not included in BPL but are in fact poor who need health insurance. Apart from this, the Committee had also recommended that service tax for providing health insurance schemes should be abolished to increase its affordability. The Committee are dismayed to note that the Ministry has not taken any action on the above recommendations of the Committee nor have they proffered any explanation for not considering the same. The Committee therefore reiterate their recommendations and would like the Ministry to take concrete action on them with due promptitude.

CHAPTER-II

RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (Sl. No. 4) – Lack of Data

The Committee note that lack of adequate data on morbidity, demographic groups and diseases etc., is a major hindrance in formulating and designing new products in health insurance and thus affect the development and progress of health insurance in the country. The Committee are pleased to note that a sub-committee constituted under the IRDA's Internal Working Group on health insurance with the objective, inter-alia, `of drawing up a road map for establishing a data repository and evaluating the adequacy of data elements already finalized' has already submitted its recommendations.

The Committee desire that the recommendations made by this Committee be examined in its entirety and steps taken for their expeditious implementation.

Reply of the Government

The report of the sub-committee constituted by IRDA's Internal Working Group on health insurance data has been submitted to the Ministry of Health and Family Welfare and the Ministry of Finance. The Tariff Advisory Committee has been identified as the custodian of the data repository. Data for the years 2002-03 and 2003-04 have already been collected from the Third Party Administrators (who service the Health Insurance policies of the Insurance Companies) and the same is being analyzed by the Tariff Advisory Committee.

[Ministry of Finance, Department of Economic Affairs, Insurance Division O.M. No. 12013/1/2006-Ins. IV dated 25th September, 2006]

Recommendation (Sl. No. 6) – Lack of Adequate Health Infrastructure

The Committee note that two factors that discourage a majority of potential customers from buying health insurance cover are (i) lack of adequate health care infrastructure, especially in rural areas where 75% of the country's population lives, and (ii) the consequent inaccessibility to health care for a majority of the population. Viewed in this context, the Committee feel that strengthening of the existing infrastructure for providing health care to the rural masses is of paramount importance. As efforts of the Government alone are not bringing the desired impact, the Committee feel that there is a need to involve the private and corporate sector in health infrastructure development and they should be provided with suitable incentives for this purpose. Further, the Committee desire that the possibility of channelising investments by public insurance companies to rural as well as urban health infrastructure be seriously examined,

and necessary policy level initiatives and regulatory changes be effected to facilitate such investments.

The Committee are also aware of the severe shortage of manpower resources in the public health care system especially in the rural areas. The Committee desire that the Ministry of Health & Family Welfare should take necessary steps to meet the huge shortfall of medical personnel and introduce stringent measures to enhance efficiency in health care delivery.

The Committee further desire that Governments of all States and Union Territories may be requested to allot land for development of health infrastructure in rural areas at concessional rates to private bodies/Self-help Groups/ cooperatives etc. Soft loans from Life Insurance Corporation of India, Banks and other financial institutions should be made available to these bodies for creation of rural health infrastructure. The Committee further desire that enhanced budgetary support for health infrastructure should also be made available.

Chairman, IRDA, had suggested before the Committee, a system where by the amount that is paid by the insurance companies for treatment of the insured should go to a pool in that particular hospital and the creation of a pool of this money for treating the insured persons. The Committee desired that the suggestion should be studied in-depth and implemented to improve the availability of health service providers.

Reply of the Government

As on September, 2005, the number of Sub-Centres, PHCs and CHCs functioning in the country are 146026, 23236 and 3346 respectively. As per population norms 2001, the shortfall in the number of Sub-Centres in the country is 19269, that of PHCs is 4337 and CHCs is 3206.

As far as manpower is concerned, doctors at PHCs in position are 20308 with shortfall of 1004 against sanctioned posts of 24476 and 2482 vacant posts. The number of specialists at CHCs in position is 3550 against the sanctioned number of posts of 7582, 3538 vacant posts and shortage of 6110 posts as on September, 2005.

Human Resource Management is a great challenge under NRHM. In order to make the Public Health Delivery System fully functional, the NRHM seeks to provide for additional manpower as well as upgradation of the quality of existing manpower. 500,000 ASHAs are to be selected and trained for deployment in every village of the selected States. Each Health Sub-Centre would be provided with one additional ANM. Similarly, to make the PHCs functional on round-the-clock basis, two additional Staff Nurses are being provided. The CHCs are also being brought on a par with Indian Public Health Standards (IPHS), which would mean sanctioning of four additional Specialists

under NRHM. The States are authorized to appoint ANMS & Specialists on contractual basis under the Reproductive and Child Health [RCH] programme. States like Tamil Nadu, Andhra Pradesh, Madhya Pradesh, Rajasthan, Bihar have made good progress in that area.

It is estimated that there would be a shortfall of 84,000 staff nurses, 2,00,000 ANMs and 5000 to 7000 Specialists in each of the areas of the specialization like anesthesia, obstetrics and gynaecology, paediatrics etc. Since the success of the Mission would ultimately depend on the success of efforts to mobilize additional manpower, it is necessary that the States undertake advance planning for setting-up / revamping ANM training schools, nursing colleges, setting up medical colleges and increasing the seats of medical colleges particularly in those specialties where the needs are most acute. Besides, it would also be necessary to impart specialized abilities like administration of anesthesia through multi-skilling of doctors. With the help of Medical Colleges and Premium Institutes / Organizations, the Government of India is helping States organize Integrated Skill Development Programmes, including administration of anesthesia, Skilled Birth attendance etc. These measures would certainly ease the manpower position in the long run. However, in the short run, the availability of the health professionals could be improved by measures like rational transfer and posting policy, district cadre of doctors, and accountability through increased community control. Increasing the age of retirement on the condition that the additional years would be spent in the rural areas and incentives for rural postings would also help to improve the availability.

Block posting of doctors could be another solution to improve the situation. For this purpose, the States may consider appointing a Chief Block Medical Officer with full powers to deploy doctors in various health facilities within his jurisdiction.

Lack of managerial support at various levels is one of the reasons for the poor performance of the public health delivery system. For the high focus States under NRHM, Programme Management Units (PMUs) comprising professionals like MBAs, Finance Managers and Chartered Accountants etc at the State and District levels have been provided for under the RCH Programme. This Ministry has helped the States to put in place 700 such professionals who are helping them in management, implementation, monitoring and timely submission of Utilization Certificates. The other States also have the flexibility to set up such units using the 6% management cost provided under the Reproductive and Child Health Programme i.e. RCH-II. In fact, it is proposed to provide 6% of the entire NRHM for meeting administrative costs.

Allotment of land on concessional rates and loans to private sectors is already in practice in urban areas. It could be replicated in rural areas also, as

shortfall of manpower in private sector exists too. The States would be requested in this regard.

The suggestion of Chairman, IRDA to utilize the amount received from Insurance agencies for improving the public system is acknowledged and as and when required the suitable decision would be taken in this regard. In this regard, it is mentioned that many State Government have permitted the hospitals to utilize the user charges received from the patients.

[Ministry of Health and Family Welfare, Department of Health O.M. No. N.23011/37/2005-Ply/HI dated 23rd November 2006]

Recommendation (Sl. No. 7) – Lack of Proper Regulations in the Health Sector

The Committee note that the unregulated mushrooming of health service providers across the country has resulted in escalation of health care prices, undependable and deteriorating quality of health care and rampant instances of under-treatment and over-treatment by doctors and hospitals / nursing homes. All these phenomena, besides being detrimental to the medical and financial welfare of the patients, also inhibit the healthy growth of health insurance sector. The Committee would like to emphasize the imperative need for fixation of standardized and properly graded pricing, evolution of uniform treatment protocols and health service provider should be made accountable for the successful functioning and healthy growth of health insurance sector in the country.

The Committee, therefore, desire that adequate steps be taken for evolving a comprehensive and stringent regulatory framework to ensure – (i) mandatory registration and credible accreditation of health care service providers like hospitals, nursing homes and clinics; (ii) the establishment of a standard clinical protocol for all treatments; and (iii) a systematized, standardized and graded pricing for medical procedures. The regulatory framework should also ensure that violations of such norms be made punishable as criminal offences. Further, the feasibility of establishing a regulatory body to oversee all these aspects be explored and progress thereof reported back to this Committee within a period of not more than 6 months from the date of presentation of this report to Parliament.

Reply of the Government

The Government is considering bringing forward a Bill viz. “Clinical Establishments [Registration and Regulation] Bill, 2006” for compulsory registration of various health care service providers like hospitals, nursing homes and clinics. The Bill will also have provisions for prescribing minimum standards for various categories of health care service providers. The Bill also provides for

imposition of find on organizations not complying with the provisions of the legislation.

In regard to accreditation, it has been felt that accreditation of health care service providers needs to be left to various accrediting bodies, which would not be under the control of the Government. There can be more than one such accrediting bodies functioning simultaneously. The accreditation will be purely voluntary. In this regard National Accreditation Board for Hospitals and Healthcare Providers [NABH] has come up with a uniform standard for the hospitals throughout the country. NABH is a constituent Board of Quality Council of India [QCI]. It has reportedly adopted its standards and accreditation process in line with worldwide accreditation practices. The formal launch of accreditation was announced in February 2006. About 20 major hospitals were reported to be undergoing accreditation evaluation.

Other organizations like Indian Confederation for Health Care Accreditation [ICHA] have also started the process of accreditation of health institutions. Financial rating organizations like ICRA have also started rating Hospitals.

Clinical establishment and accreditation is being processed in Ministry of Health and Family Welfare. Under NRHM, Indian Public Health Standards (IPHS) for public health establishments such as district hospital, sub-divisional hospital, PHCs, CHCs and Sub-centres have been formulated. The funds have also been released for upgrading CHCs to IPHS under NRHM.

[Ministry of Health and Family Welfare, Department of Health O.M. No. N.23011/37/2005-Ply/HI dated 23rd November 2006]

Recommendation (Sl. No. 8) – Lack of Product Variety

The Committee have been informed that while there are a variety of products in terms of the sum insured and premium costs, there is a serious lack of variety of health insurance products in terms of flexibility to cater to the specific needs of different segments of the population. They are constrained to note that all the health schemes currently offered by the public sector general insurance companies are standard policies covering hospitalization only. The Committee are of the view that there is an imperative need to introduce long term health insurance products, covering out-patient care, maternity care, pre-existing diseases, suitable products for the aged, abandoned women, widows, physically and mentally challenged, children and the rural poor. The Committee, therefore, desire that in addition to the existing range of standard health insurance schemes, the Government and the public insurance companies should introduce a host of flexible and client-oriented health insurance schemes including long term health insurance products, maternity and out-patient covers, specific schemes for the abandoned women, widows, physically and mentally challenged and children. The Committee also desire that feasibility of formulating a

compulsory health insurance scheme for senior citizens as recommended by a sub-Committee of IRDA be examined and steps be taken with due promptitude to evolve such a scheme. Steps may also be initiated to include pre-existing diseases in all health schemes within a reasonable period after scheme initiation, incorporating in all such schemes some measure of subsidy as deemed appropriate and required to enable the less privileged sections of society to afford the schemes.

The Committee also note that covers for most major diseases are beyond the economic means of the poor. The Committee desire that the Government and public sector companies should evolve a mechanism to make such schemes affordable to the poor. The Committee recommend that one or two hospitals in each district should be earmarked for the treatment of major diseases like cancer, AIDS, organ transplants, Bypass surgery etc. and Central / State Governments should lend adequate budgetary support to these hospitals so as to enable the poor to get themselves treated.

Reply of the Government

Commercial viability of health insurance products is a major hurdle in the introduction of low premium based insurance schemes. Companies have introduced health insurance products covering existing diseases in tailor made group polices and individual policies which are periodically renewed. With the opening of insurance sector in 2001, product diversification is taking roots, though at a lesser pace in the health sector. The companies are alive to the need for long term health insurance products with coverage starting at a younger age, products covering critical illnesses and special schemes for the vulnerable sections like abandoned women widows, physically and mentally challenged children, and senior citizens.

Copies of the report of the Committee of IRDA on 'Product innovations in Health Insurance' have been circulated to all insurers. The report was also discussed in the General Insurance Council. IRDA has been encouraging insurers to innovate on the existing Health Insurance products and come out with products and schemes that would cater to the senior citizens, the poor and other vulnerable sections.

[Ministry of Finance, Department of Economic Affairs, Insurance Division O.M. No. 12013/1/2006-Ins. IV dated 25th September 2006]

CHAPTER-III

RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation (Sl. No. 1) – Stand Alone Health Insurance Company

In a welfare state like India, it is the responsibility of the State to take care of the health of the nation. But the existing public health infrastructure is able to cater to only a very small section of the population. Supplementing the existing health system which needs rapid and large-scale improvement and modernization, an effective Health Insurance System appropriate to the country needs to be built up as early as possible.

More and more people with some kind of health insurance should be the goal to be achieved. While Government employees and organized sector employees are covered under Central Government Health Scheme (CGHS), Employee's State Insurance Scheme (ESIS), as well as employer provided schemes like in the army, railways and several public sector undertakings efforts have been made to cover the rest of the populace with commercial health schemes. The Committee, however, note that only about 10% of the country's one billion plus population comes under all these forms of health cover and of this, only about 10%, meaning about 1% of the population are covered under commercial health insurance.

The Committee feel that one of the primary reasons for limited spread of health insurance in the country is the lack of focus on this segment by insurance companies, especially the public sector general insurance companies who enjoyed a monopoly till recently and still continue to enjoy 82% of the market amongst themselves. Besides the above, tariff pricing of certain general insurance segments like fire, motor, engineering etc. has also adversely affected the growth of health insurance into an independent and sustainable business, forcing insurance companies to treat it as a miscellaneous portfolio and as an accommodation business for more profitable tariffed portfolios like fire and other property insurances. The Committee have been informed that a separate stand-alone company for promoting the health insurance would certainly help in giving the due focus and in increasing the coverage, more particularly in the rural areas. The Committee, however, find that the emergence of stand-alone health insurance companies is hindered by a number of hurdles.

The Committee note that the Insurance Regulatory and Development Authority has made certain recommendations regarding stand-alone health insurance companies. The same may be scrutinized keeping in view that the public sector has been and can play a very important role in this regard. Stand-alone health insurance companies in the Public Sector with model performance

can encourage the Private Sector to perform accordingly keeping in view the issue of affordability of large sections of the needy population and thus help create a conducive environment for spread of health insurance business.

Reply of the Government

Health insurance works best when services are available in the remote corners and when poor household can actually exercise choice. Thus the basic reason for limited spread of health insurance in the country is non-availability of proper health infrastructure. Lack of medical history of the insured population, absence of standardization of hospitals, inadequate utilization of Government hospitals etc. are the other bottlenecks coming in the way of implementation of any health insurance programme in the country. Government of India (Ministry of Health and Family Welfare) has launched the NRHM, which seeks to provide accessible, affordable and quality health care to the rural population specially the vulnerable sections of the society. The mission recognizes that in order to reduce the out-of-pocket expenditure of the rural poor, there is an imperative need for setting up effective risk pooling systems. The mission also emphasizes the need for State specific, community oriented innovative and flexible insurance policies. While the first priority of the Mission is to put the enabling public health infrastructure in place, various innovative models would be pilot tested to assess their utility.

Thought the Insurance Act, 1938 and the IRDA Act, 1999 prescribe that the regulator would encourage the setting up of health insurance business on a standalone basis, not much interest has been shown by the industry in setting up exclusive health insurance companies. IRDA has suggested some amendments in the Insurance Act 1938 to provide for a differential capital for setting up of Stand Alone Health Insurance Company with the sole objective of promoting health insurance business in India. Government has accepted this recommendation and is considering proposing amendments in the Insurance Act accordingly.

Due to lack of entrants as standalone health insurance companies, the Authority has been encouraging both life and general insurance companies, to provide rider policies offering health covers. It is gratifying to note that the new companies have seized this opportunity and many of them have gone in for riders, offering a variety of health insurance products. In addition, with the introduction of Third Party Administrators, the cashless hospitalization covers have been introduced for the first time in India.

Theoretically, a Stand Alone Health Insurance Company may be able to approach the issue in a better manner as the organizational structure of such a company can be tailor made to suit the requirements of health insurance needs of the population. The Star Health and Allied Insurance Company is the first stand-alone health insurance company, in the private sector, in India, which has

been set up very recently with a capital of Rs. 100 crores, the minimum capital prescribed for general insurance companies by the Insurance Regulatory and Development Authority Regulations, for registration of companies.

[Ministry of Finance, Department of Economic Affairs, Insurance Division O.M. No. 12013/1/2006-Ins. IV dated 25th September 2006]

Recommendation (Sl. No. 2) – Universal Health insurance scheme

The Committee note that Universal Health Insurance Scheme was introduced by the Government in 2003 with a subsidy component for people living below poverty line. The subsidy was subsequently enhanced in 2004 and the scheme was confined to the BPL segment of the population only, and in spite of it, the scheme failed to make much headway. In view of the fact that the coverage of non BPL families was much larger than that of the BPL families in the original version of the scheme, the Committee feel that the scheme ought to have been continued for the non-BPL families as well, so as to achieve the twin objective of making this scheme more attractive to the BPL segment and to cover a larger segment of the poor population under the health insurance. Besides the above, Committee note that another cause of limited success of Universal Health Insurance Scheme has been incomplete identification of BPL families. The Committee highly deplore the slipshod manner in which a laudable scheme like U.H.I.S has been implemented. The Committee desire that an exercise to identify BPL families should be initiated immediately and the entire exercise be completed within a specific time-frame and the scheme should also be made applicable to lower middle class and the people who are just above the Poverty Line.

The Committee also note that in the absence of any targets set for the PSU insurers in terms of the number of covers sold, the insurance companies did not make concerted efforts to cover larger chunks of the population under health insurance schemes. The Committee desire that Government should set ambitious targets for the insurance companies and closely monitor their performance so that they strictly comply with the targets laid.

Reply of the Government

Universal Health Insurance Scheme (UHIS) was originally launched in July 2003 with a premium subsidy of Rs. 100 per family BPL families. The Government of India felt that the access to medical care is not easily available to the poor and the ongoing UHIS scheme was considered skewed in favour of the non-poor. As a result, only a very small number of families below poverty line were covered. Further, the BPL families avoid the scheme due to their inability pay even the very low rates of premiums and hence, it was considered that the ongoing scheme may not be successful. Keeping these in view, it was decided to make the scheme exclusively for the families below the poverty line.

Accordingly, in 2004-05, the Scheme was redesigned restricting it to the BPL families only with an increase in subsidy to Rs. 200/- for an individual, Rs. 300/- for a family of 5 and Rs. 400/- for a family of 7 persons.

Ministry of Health and Family Welfare (MoHFW) sponsored NRHM is trying to carry out 'architectural correction' in the basic health care delivery system in order to meet people's needs. Exploring new health care financing mechanism and developing credible community based health insurance schemes; MoHFW has suggested the following framework/steps for developing a workable health insurance programme.

(i) To develop a range of products based on needs and specific requirements of the State/District rather than having a scheme at national level.
(ii) To have service providers from the Government and non-government sectors.
(iii) To outsource the administration of the scheme to a professional body, e.g., a TPA or an NGO.
(iv) To provide for GOI support in the form of subsidy for BPL and also some subsidy for just above BPL.
(v) To fund the scheme from the National Rural Health Mission (NRHM).
(vi) To provide GOI support for capacity building, protecting rights of poor households and ensuring service guarantees.

[Ministry of Finance, Department of Economic Affairs, Insurance Division O.M. No. 12013/1/2006-Ins. IV dated 25th September 2006]

Recommendation (Sl. No. 9) – Claims Management & Third Party Administrator System

The Committee note that the Third Party Administrators system had been introduced by all public sector insurance companies to smoothen claims management and to facilitate cash-less settlement of medical bills for the insured. The Committee, however, are dismayed that a large number of complaints have been emanating from the insuring public on the procedure of claims management and claims disposal and that there are serious malpractices involved in claims disbursement by public sector insurance companies. The Committee are also constrained to observe that an additional burden has been thrust upon the insured by increasing the premium costs by 6% to meet the cost of service rendered by TPAs.

The Committee regret to note that the Third Party Administrators in the Country have been following unethical practices in collusion with health service providers and insurance companies in settlement of claims. They also lack the competence and necessary infrastructure to fulfill the role and functions expected

of them. They also note that complaints relating to claim settlements have increased considerably after the introduction of the TPA System.

In view of a plethora of complaints against TPAs and the increase in cost of premium as also claim costs, the Committee feel that a comprehensive review of TPA system is imperative. The Committee note that a sub-committee of IRDA's Internal Working Group on Health Insurance has, inter-alia, recommended that the insurance companies should take certain concrete steps to provide clear guidelines to enable TPAs to effectively manage and settle claims. The Committee desire that the above recommendation made by the sub-committee be examined in all its ramifications and implemented so as to smoothen the system of claims management and facilitate cashless settlement of medical bills of the insured within a set time-frame.

Reply of the Government

The system of Third Party Administrators (TPA) in health insurance sector was started in the year 2002. It is still in its infancy. Various teething problems are receiving the attention of IRDA and the insurance companies. The insurance companies, under the explicit guidelines of IRDA and with the cooperation from the various service providers, are trying to streamline the working of TPAs to facilitate cash less settlement of claims.

[Ministry of Finance, Department of Economic Affairs, Insurance Division O.M. No. 12013/1/2006-Ins. IV dated 25th September 2006]

CHAPTER – IV

RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 3) – Lack of Coordination

The Committee note that various insurance schemes viz. the Employee's State Insurance Schemes, the Central Government Health Scheme and other Commercial Health Insurance schemes are being operated by three different Ministries viz. the Ministry of Labour, Ministry of Health & Family Welfare and Ministry of Finance respectively and there is no coordination amongst the three Ministries as also the IRDA in policy planning, programme implementation, monitoring and evaluation with regard to commercial health insurance thereby depriving the business of the much needed synergy which can evolve only through synchronization of individual efforts.

The Committee further note that the Ministry of Chemicals and Fertilizers has proposed, through the draft National Pharmaceutical Policy, to set up a new health insurance scheme – Rashtriya Swasthya Bima Yojana – for the poor which will be funded through a 2% health cess. While lauding the proposal, the Committee feel that an integrated approach involving all the above agencies needs to be evolved by the Government for the successful implementation of Health Insurance Schemes.

The Committee desire that a mechanism for regular cross-consultation and coordination among these agencies should be put in place to enhance the synchronization of efforts to promote health insurance in the country. The Committee further desire that a pilot health insurance scheme involving the Ministry of Health and Family Welfare, Ministry of Finance, IRDA and Public Sector Insurance Companies may be evolved and launched within a specific time-frame.

Reply of the Government

9. Ministry of Health and Family Welfare has developed a framework for developing health insurance programmes in the country. Instructions have already been issued to all the State Governments to develop innovative health insurance products. This is the outcome of a consultative process in which Ministry of Finance, Public Sector Insurance Companies and State Governments actively participated. Moreover, an Inter-disciplinary Committee has been formed under NRHM to monitor the progress periodically.

[Ministry of Finance, Department of Economic Affairs, Insurance Division O.M. No. 12013/1/2006-Ins. IV dated 25th September, 2006]

Recommendation (Sl. No. 5) – Lack of Awareness

The Committee are constrained to observe that the level of public awareness about the need, availability and benefits of health insurance in the country is still very low despite the fact that public sector general insurance companies have been operating in the field of health insurance for nearly two decades, beginning from 1986. Though efforts have been made at the Finance Minister and Finance Secretary level to solicit the cooperation of State Governments in creating awareness amongst masses and about the need and importance of health insurance, they have not yielded the desired result.

The Committee desire that concerted efforts be made to create awareness about the need, availability and benefits of health insurance schemes especially in rural areas through a multi-pronged strategy involving the public insurance companies, the central Government, the state Governments and the Panchayati Raj Institutions as well as non-governmental organizations so that more and more people come forward to adopt Health Insurance schemes.

Reply of the Government

Health being a State subject, the participation of State Governments is essential for the creation of necessary awareness. Under NRHM, the Ministry of Health and Family Welfare has developed a framework for formulating Health Insurance Programmes in the country. This framework envisages multi-pronged approach involving the public and private sector service providers, the State Governments, NGOs and other community groups. It also calls for developing State-specific and District-specific schemes

[Ministry of Finance, Department of Economic Affairs, Insurance Division O.M. No. 12013/1/2006-Ins. IV dated 25th September 2006]

Recommendation (Sl. No. 11) – Lack of Profitability

The Committee note that most health insurance schemes offered by public sector insurance companies are loss-making primarily due to their inability to insure the younger people who are relatively free from major diseases. Besides this, the absence of proper re-insurance facility for health insurance is also adversely affecting the confidence of insurance companies to underwrite health covers on a large scale. The Committee, therefore, feel that public sector insurance companies need to take concerted steps to motivate and educate the young people to take health insurance policies in their own interest. The Committee desire that the Government and the regulator, after due consultation, prescribe viable targets of health coverage to the insurance companies, both in the public and private sector, and introduce incentives linked to their performance in fulfilling those targets.

The Committee also desire that the Government may give special attention and take time-bound action to set up a viable re-insurance mechanism for health insurance.

Reply of the Government

For developing a balanced and viable portfolio, it is the need of the hour that the insurers devise innovative products. The Public Sector Insurance Companies have realized the necessity of developing long-term policies for the young people in order to address the adverse claim ratio of the health portfolio. Besides this the insurance companies are going for infallible reinsurance programmes in order to minimize the financial risks.

[Ministry of Finance, Department of Economic Affairs, Insurance Division O.M. No. 12013/1/2006-Ins. IV dated 25th September 2006]

Recommendation (Sl. No. 12) – Poverty and need for Subsidy

The Committee note that affording the premium of health insurance schemes is beyond the economic capacity of people living below the poverty line as well as for a large section of the population living just above the poverty line. The Committee also note that the only way to ensure health insurance cover for the poor is through subsidy to be provided by the Government to make the premium affordable for the poor. The only subsidized scheme at present is the Universal Health Insurance Scheme launched in 2003 and it has been confined exclusively to the BPL segments in 2004 with enhanced subsidy.

The Committee desire that subsidy for the poor and BPL segments be made available to all existing health insurance schemes and not restricted only to Universal Health Insurance Scheme. Further, the Committee desire that a system of differential subsidy for the poor and the BPL segments may be introduced across the board for health insurance schemes and service tax for providing health insurance may be abolished to increase its affordability.

Reply of the Government

Under UHIS deferential subsidy is being provided and this scheme is also exempted from service tax. Recently Ministry of H&FW has issued guidelines for developing the insurance schemes according to which the State Governments have been advised to formulate insurance schemes for rural people based on the principle of public-private participation. For BPL families, the Ministry of H&FW has proposed providing subsidy to the extent of 75% of the premium while the remaining premium may be borne by the State Government and/ or the beneficiary.

[Ministry of Finance, Department of Economic Affairs, Insurance Division O.M. No. 12013/1/2006-Ins. IV dated 25th September 2006]

CHAPTER – V

RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

Recommendation (Sl. No. 10) – Rural Penetration

As more than 68 % of India's population still live in rural area, there is no denying the fact that rural penetration of health insurance need to be accorded utmost priority. The Committee, however, note with displeasure that despite having a huge network of branches in all district headquarters and huge strength of agents, the public sector insurance companies have not been able to sell health insurance into the rural and semi-urban areas in a big way. The Committee are further constrained to observe that there is no regulation requiring the insurance companies to have a certain minimum percentage of their total business to be carried out in the rural health insurance portfolio. The Committee are of the considered view that specific regulations should be introduced to make it mandatory for the insurance companies, both in the public and private sector, to have a fixed percentage of their entire business done in the rural health insurance segment with stringent penalties prescribed for failure to meet such obligations.

The Committee also recommend that appropriate incentives should be given to the Indian operators, preferably the Public Sector Insurance Undertakings, to cater to the urgent needs of the Health Insurance Sector, particularly, in favour of the weaker sections and the Rural areas and also of the common man through innovative, attractive and purposeful schemes.

The Committee also note with concern, the lack of involvement of NGOs and other local institutions in the promotion of health insurance among the poor and in the rural segments. The Committee appreciate the initiative of the IRDA in introducing and notifying the Micro-insurance Regulations, 2005 which will facilitate the involvement of NGOs, self-help groups and micro-finance institutions in selling health cover to the rural areas. The Committee desire that the Government should take adequate steps to create awareness about the advantages under the new regulations and come up with a comprehensive action plan for capacity- building and promotion of such institutions in rural areas.

The Committee also commend the decision of the IRDA's Internal Working Group on Health Insurance to set up a separate – 'Rural Health' subgroup aimed at increased understanding of the barriers to providing health insurance to the rural poor and to create a roadmap for overcoming such barriers. The Committee desire that expeditious steps may be taken for setting up of a separate 'Rural Health' subgroup.

They also desire to see the development of a host of micro-health insurance products suited to local needs by the insurance companies in a time-bound manner.

Reply of the Government

The Rural Health Insurance subgroup proposed by the Committee on product innovation and Health Insurance has already been set up and the group has had three meetings so far. It is expected that the group will finalize its report within 2 to 3 months from now. On the matter of obligations of insurers regarding the rural and social sectors, IRDA shall look into the suggestion of fixing a minimum percentage of business to be done by insurers in the Rural Health Insurance portfolio at the time of formulating comprehensive regulations for Health Insurance.

Under UHIS the weaker sections gets subsidized health insurance. The amount of subsidy varies according to the size of the family. For an individual insurer the amount of subsidy is Rs. 200, for a family of 5 members the amount of subsidy is Rs. 300 and for a family of 7 members the amount of subsidy is Rs. 400. Under the proposed risk-pooling scheme of Ministry of Health and Family Welfare the GOI may bear 75% of the premium cost for covering poor people.

[Ministry of Finance, Department of Economic Affairs, Insurance Division O.M. No. 12013/1/2006-Ins. IV dated 25th September 2006]

NEW DELHI:
_____, 2007

RUPCHAND PAL
CHAIRMAN,
….**COMMITTEE ON PUBLIC UNDERTAKINGS**

APPENDIX - I

MINUTES OF THE 18 th SITTING OF THE COMMITTEE ON PUBLIC UNDERTAKINGS HELD ON 19th MARCH, 2007

The Committee sat from 1600 hrs to 1630 hrs.

CHAIRMAN

Shri Rupchand Pal

MEMBERS LOK SABHA

2. Shri Manoranjan Bhakta
3. Smt. Sangeeta Kumari Singh Deo
4. Shri Suresh Kalmadi
5. Smt. Praneet Kaur
6. Shri Mohan Rawale
7. Shri Ram Kripal Yadav

MEMBERS RAJYA SABHA

8. Shri K. Chandran Pillai
9. Shri Shahid Siddiqui
10. Prof. Ram Deo Bhandari
11. Shri Dinesh Trivedi

SECRETARIAT

1. Shri J. P. Sharma Joint Secretary
2. Shri N. C. Gupta Deputy Secretary
3. Shri Ajay Kumar Deputy Secretary

2. The Committee considered and adopted the Draft Report on "Action taken by the Government on the recommendations contained in the 11th Report of the Committee on Public Undertakings (14th Lok Sabha) on Health Insurance – A Horizontal Study" with minor modification.

3. The Committee then authorized the Chairman to finalise the Report for presentation.

The Committee then adjourned.

APPENDIX - II

(*Vide* para 3 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE 11TH REPORT OF COPU (14TH L.S.) ON "HEALTH INSURANCE – A HORIZONTAL STUDY."

I.	Total number of recommendations	12
II.	Recommendations/Observations that have been accepted by the Government (*vide* recommendations at Sl. Nos. 4,6,7 and 8)	4
	Percentage to total:	33.33
III.	Recommendations / Observations which the Committee do not desire to pursue in view of the Government's replies. *(vide* recommendations at Sl. Nos. 1,2 and 9)	3
	Percentage to total:	25
IV.	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee *(vide* recommendations at Sl. Nos. 3, 5,11 and 12)	4
	Percentage to total:	33.33
V.	Recommendation/Observation in respect of which final replies of the Government are still awaited *(vide* recommendations at Sl. No. 10)	1
	Percentage to total:	8.34