F. No. G.14017/115/2011-Ins.II
Government of India
Ministry of Finance
Department of Financial Services

2nd Floor, Jeevan Deep Bldg., Sansad Marg,
New Delhi - 110 001, dated: **18th July, 2012.**

To

The CMDs of Public Sector General Insurance Companies

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

Sir(s),

In supersession of our earlier communication of even number dated 24th May 2012, based on the inputs received from the Expert Committee appointed by the National Insurance Academy, Pune, the amended strategy to be adopted in connection with underwriting Health Insurance Policies is placed below for compliance on immediate basis:

A. **Stand-alone Group Health Insurance policies where Combined Ratio is more than 100%** - No discount whatsoever shall be given in all such stand-alone Group Health Insurance policies where the combined ratio (ICR plus Management Expenses plus Agents'/Brokers' Commission plus TPA Commission and any other expenses) is more than 100%. For policies which 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 to ensure that the Combined Ratio is 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% that 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. **On Group Health segment, irrespective of the claim ratio, the acquisition cost should be reduced to 5% with immediate effect.**

D. **Health insurance as a part of the overall portfolio of a company/corporate with other profitable segment of business: Group Policies with other profitable segments of business will be evaluated on group basis and the group loss ratio would be reckoned for computing health insurance premium.** No discount in such Group Health Insurance shall be given if the combined ratio of the group as a whole with other profitable segments is more than 100%. The discount/commission/other charges shall be given only in cases where the combined ratio is less than 100%.

E. **Retail Health Insurance Policies** :The Incurred Claims Ratio in Retail Health Policies though somewhat healthier, the Combined Ratio must be less than 100% in all such policies.

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

(i) The companies shall explore the possibility of introducing Co-payment (e.g.20%) in Group Health Policies with a view to reduce the incidence of claims burden on the companies.

(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. **The Coordination Committee of the GIPSA companies will put in place a mechanism including monthly meetings to ensure that there is no competition in this segment and that any violation of this understanding will be dealt with seriously.**

(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 and other expenses with respect to **major corporate/group accounts before quoting of rates to determine the real price to be quoted and the price cutting in this segment be avoided.**

(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.

(viii) In the individual Health segment, acquisition cost may be restricted as under:-

- **For the insured below the age of 35 years - 15%**
- **Between 35 and 55 years – 10%**
- **Above 55 years - 5%**

(ix) There is greater need to monitor closely the performance of TPAs including audit of their accounts in order to reduce the ICR. Companies shall explore the possibility of revising the formula for remunerating the TPAs from revenue sharing to fee based formula. The present system of selection, appraisal and monitoring of TPAs leave much to be desired.

(x) Effective channel management to control agents placing loss making business with PSUs is an urgent necessity. IT software made to compile data of incurred loss ratio agent-wise is to be developed and implemented before 30th September, 2012.

(xi) Overseas medi-claim policy segment needs to be changed by better product design, pricing structure and introduction of Amadeus IT system. This system will enable the companies to issue policies online through travel agents' network.

3. The full details of all the Group Health Insurance Policies, (whether stand-alone or a part of the overall insurance portfolio of any company/corporate with other profitable segments of business) shall be brought to the notice of the Board every quarter without fail. This matter shall be reviewed periodically.

4. 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.

5. 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

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