Standard health cover will help, but Irdai needs to plug the gaps

Irdai proposes a basic health insurance policy which will be comparable across companies

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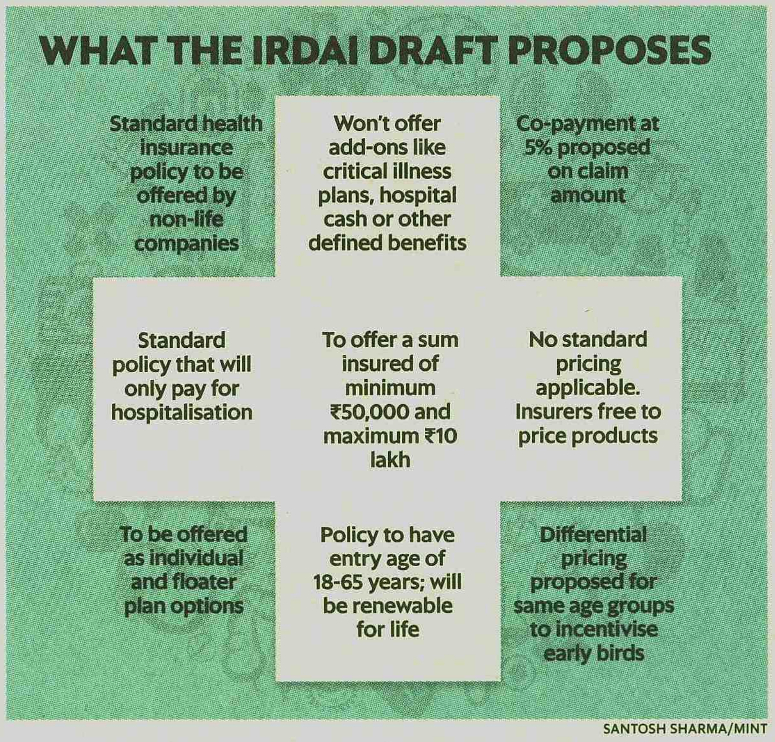
The thought is not new. The Insurance Regulatory and Development Authority of India (Irdai) has been contemplating a plain vanilla standard health insurance plan common to all non-life companies for nearly a decade. The plan never took off because standardisation would have meant stifling innovation. But with seven standalone health insurance and around 22 non-life companies offering more than 100 health insurance products, the customers are not just spoilt for choice but are often confused. Irdai's new draft, released on 19 February, addresses this confusion by proposing a basic health insurance plan, named Standard Mediclaim Policy, which will be comparable across insurers.

In rating health insurance plans for our annual Mint SecureNow Mediclaim Ratings (MSMR), we encounter the same confusion: products vary a great deal making it difficult to compare all features. We, therefore, choose to stick to basic yet essential features of a health insurance plan and rate products accordingly.

The importance of health insurance can't be stressed enough, but with so much choice and with varying policy exclusions, it's often difficult for customers to bring home a product she understands well. The regulator has picked up on the information gap—not only is it moving towards standardising policy exclusions, the current draft also aims to create a standard product to minimise confusion and maximise comparisons and understanding. You can read the draft here: *bit.ly/2EkXekk*. Here's what's on offer and what the proposals mean for you.



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STANDARD STRUCTURE

Being an indemnity policy, the product proposed in the draft will cover hospitalisation expenses. This includes room boarding expenses, doctor's fee, operation theatre charges, cost of surgical appliances, medicines and drugs. Other than this, the product will insure dental treatment and plastic surgery necessitated by an accident and will also pay for cataract but subject to a co-payment clause. Under co-pay clause, the policyholder needs to pay a portion of the claim amount.

Further, the policy will pay for listed day-care procedures where the treatment doesn't require hospitalisation and the insured person is discharged on the same day. Other than this, it also includes pre- and post-hospitalisation expenses and alternative medicine like Ayurveda and homeopathy, subject to sub-limits. "The proposed policy will be an indemnity product but features will be standardised across insurers. Health insurance plans in the market currently have varying sub-limits or different waiting period window. The proposed move will make product standard for all companies that will also help in portability," said Subrata Mondal, executive vice-president, IFFCO Tokio General Insurance Co. Ltd.

This standard policy will have a minimum sum insured of ₹50,000 and a maximum of ₹10 lakh. No-claims bonus of 5% of the sum insured up to a maximum of 50% will apply and so will a co-pay clause of 5%. This means that if your hospital bill comes to ₹2 lakh, you will have to pay ₹10,000 from your own pocket and the insurer will pay the remaining ₹1.9 lakh.

Remember that standard pricing won't apply to this product, and insurers will be free to fix the premium as per their underwriting standards. However, according to Mondal, the premiums are unlikely to vary a lot due to market competition.

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>
> **Sanjay Datta**
> Chief, underwriting and claims, ICICI Lombard General Insurance

Other than standardising product features, the draft product stands out on three counts.

Differential pricing: The draft has proposed incentivising early birds through differential pricing. "Regardless of when you buy health insurance, individuals of the same age will pay the same premium currently, but under differential pricing insurers can charge a lower premium from an old customer compared to a new customer even when both are of the same age. This is a welcome move," said Sanjay Datta, chief, underwriting and claims, ICICI Lombard General Insurance Co. Ltd. So the earlier you take a health cover, the more favourable will be the pricing for you.

The insured person will also be able to pay the premiums not just annually but in smaller instalments of half-yearly, quarterly and even monthly modes.

No add-ons: The proposed plan will remain a basic indemnity product with no add-ons. In order to differentiate themselves from others, insurers often bundle health insurance with defined benefit plans such as critical illness and hospital cash. Further, the benefits under these plans could vary, making comparisons difficult for a layman. The standard product will not allow all that.

Besides cutting out confusion, a plain-vanilla version helps when you decide to port your policy. "Motor insurance is a good example of a standard product where porting is fairly common and easy because when you move from one insurer to another you can easily take your bonus points without losing out on any product feature," said Mondal.

Preventive healthcare: Health insurance regulations have been emphasising on preventive healthcare and Irdai's draft carries the broad contours of this aspect by offering medical check-ups, rewards programme for healthy lifestyle and outpatient consultations.

The draft, however, falls short of defining and standardising these benefits. For instance, the draft doesn't define outpatient consultations in terms of the percentage of the sum insured one will be entitled to.

"Introducing outpatient consultations in a basic product may prove counterproductive. Given the lack of experience, it may get very difficult to price the cover. Also, OPD currently is vulnerable to misuse. At best one can have a very small limit of OPD," said Roopam Asthana, chief executive officer and whole-time director, Liberty General Insurance Ltd.

WHAT IT MEANS FOR YOU

A standard mediclaim policy will help because you will be able to understand the product better and it will become comparable. However, the one big drawback is that it levies a co-pay of 5% on claim amounts. "Co-pay makes premiums affordable and eliminates fraud. Given the product is targeted to bring in younger people, the idea is to make the product affordable. At the same time since the incidence of hospitalisation is low among younger people, So the co-pay impact will be minimal," said Asthana. "Customers, who are buying health insurance for the first time, find it very expensive and also a little complicated to understand. The draft product addresses both these problems," he added.

It's also important to note that unlike the basic health plan designed for the lower income group, the Pradhan Mantri Jan Arogya Yojana (PMJAY), which comes with minimal exclusions, the proposed product will be subject to standard exclusions just like a regular retail health plan. The Irdai draft doesn't specify these exclusions.

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"Standardisation should extend to policy wordings and specific features. Some aspects that should be specified are exclusion periods, room rent caps, definition of Ayush and OPD amounts. Leaving too much flexibility may reduce standardisation," said Kapil Mehta, co-founder, www.securenow.in.

The other challenge that the product may face is finding buyers. "The attempt is to introduce simplicity in product structure. But this will be one of the many health insurance products insurers will be offering. Also, given that we already have a standard product in the form of PMJAY for about 50 crore of the population, comparisons will be drawn," said Datta.

The draft product is welcome, but the policy wordings and benefits need to be clear and specific, giving little flexibility to the insurers. Irdai has welcomed feedback on the draft till 6 March. Watch this space.