COMMITTEE'S REPORT ON STUDY OF THE FEASIBILITY OF ALLOWING LIFE INSURERS TO OFFER INDEMNITY BASED HEALTH POLICIES.

Dr Subhash C Khuntia, Date 28th September 2020
Chairman
Insurance Regulatory and Development Authority of India
Hyderabad

Dear Sir,

Committee's report on the Feasibility of allowing Life Insurers to offer Indemnity based Health Policies.

A committee was constituted by IRDAI vide order Ref: No. IRDAI/HLT/ORD/MISC/050/02/2020 dated 25.2.2020 to study the feasibility of Life insurers to offer Indemnity based Health policies.

We are pleased to submit the committee's report on the above topic. We thank you for entrusting this opportunity to the committee. The report contains the committee's deliberations and recommendations which we feel will be useful to IRDAI for taking a decision.

Yours Sincerely

G Srinivasan	M R Kumar
Chairman	Co Chair

Members
Mr. M N Sarma
Mr. S N Bhattacharya
Mr. A V Girija Kumar
Ms. Vibha Padalkar
Mr. Ritesh Kumar
Dr S Prakash
Ms. Jayashree Sridhar (Convener)

ACKNOWLEDGEMENTS

At the outset we would like to express our gratitude to Dr Subhash Khuntia, Chairman, IRDAI for believing in us and providing an opportunity to study the feasibility of allowing the life Insurers to offer indemnity based Health Insurance Products.

We would like to thank all the committee members for contributing to the report by way of their deliberations, inputs and suggestions.

The opportunity given to the committee to study the feasibility of allowing the life Insurers to offer indemnity-based Health Insurance Products was a great chance for learning. We would like to thank all the industry experts who shared their opinion on the topic with the committee. The inputs provided by them were of immense help in formulating the report.

G Srinivasan
Chairman

M R Kumar
Co Chair

Executive Summary

It is more than three decades since the first ever structured standalone health insurance product was introduced in the Indian market by Public Sector General insurance companies. Since then we have seen the gradual evolution of Health insurance Market in India. It has come a long way to become one of the fastest growing segments of the Indian insurance sector.

Today, the Health Insurance market is filled with not only numerous health insurance products covering hospitalization protection in the conventional indemnity based 'mediclaim' , but also benefit oriented covers like critical illness and daily hospital cash. The desire to give customers various options was one of the main drivers for the opening up of insurance industry to private sector. The tremendous growth and the availability of immense untapped opportunity in the Indian economy for several years too has had a positive impact on the insurance landscape in general, benefiting all stakeholders in the insurance business.

Life insurers in India had been selling indemnity-based Health insurance policies till 2016. But, the Changes in Health regulations in 2016 had prohibited Life insurers to issue indemnity based health policies. Where Life Insurers offer fixed health **benefit products** such as Critical Illness, Hospital Cash and Cancer cover, General and SAHI companies offer **Indemnity based health policies** which works in either reimbursement basis or cashless basis in addition to benefit covers. The advantage of an indemnity based health policy is that it covers a wide range of treatments and illnesses which attracted large number of customers.

The committee apart from internal deliberations had the opportunity of taking the views of the industry leaders on the subject. The deliberations clearly brought to focus the divide between the two sectors on the subject of allowing life insurers to reenter indemnity health space. While life insurers felt that this would allow more choice for the customer, facilitate more innovation in the space and lead to better insurance penetration, the Non-life /SAHI insurers were of the view that they have developed this segment over the years, brought in focus and specialization in Health Insurance space. They also contended that the changes were made only a few years back and any change now could impact negatively the companies, its investors and the sector. The various points are incorporated in our report.

The committee has come out with some interesting suggestions which could help in the objective of deepening the Health insurance penetration and these suggestions have been elaborated in the report.

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25th February 2020

Re: Committee on studying the feasibility of allowing life insurers to offer indemnity-based health policies.

Insurance Act, 1938 vide Insurance Laws (Amendment) Act 2015 recognized Health Insurance as a separate class of business. Historically Health insurance is recognized as one of the important elements of health care and health insurance premiums have been registering a significant CAGR of around 20% in the preceding 10 years in India. IRDAI (Health Insurance) Regulations 2016 allows Life Insurance Companies to offer Benefit based health insurance products only. Representations have been received from Life Insurance Companies to allow them to offer indemnity products as well.

1. In order to examine the feasibility of allowing life insurers offer indemnity-based health policies, the competent Authority has decided to set up a committee with the following members:

Sr. No.	Name	Designation	Organization	Chairperson/ member
1. 2.	Mr. G. Srinivasan Mr. MR Kumar	Director Chairman	National Insurance Academy LIC of India	Chairperson Co-Chair
3.	Mr. M N Sarma	Secretary General	GI Council	Member
4.	S N Bhattacharya	Secretary General	LI Council	Member
5	Mr. A V Girija Kumar	CMD	Oriental Insurance Co. Ltd.	Member
6.	Ms. Vibha Padalkar	MD & CEO	HDFC Life Insurance Co. Ltd.	Member

7.	Mr. Ritesh Kumar	MD & CEO	HDFC Ergo General Insurance Co. Ltd.	Member
8	Dr S Prakash	MD	Star Health and Allied Insurance Company	Member
9	Ms. Jayashree Sridhar	Faculty Member	NIA, Pune	Convener

2. The committee shall review the following aspects:

   a. Feasibility and the business scope for Life insurance companies to offer indemnity based health insurance products;

   b. Extant statutory provisions that are applicable in this regard;

   c. Any other matter as permitted by the chairperson

3. The Committee shall meet as often as required and submit its recommendations within two months of issue of this order.

Suresh Mathur,

Executive Director

CHAPTER I

INTRODUCTION

1.1 Background, Healthcare sector & Health insurance in India

The Population of India has been growing steadily and is expected to become the largest populated country in 2025 with the projected population of 150 crores (UN Report). With the increasing population with changing demography, the scope for health insurance is expected to grow exponentially. The Indian health care system has become one of the advanced markets leaping with innovation that develops and broadly delivers advanced, life-enhancing treatments and offers a wide set of choices to the consumers with better health care.

Growth of Indian Health care sector has been rapid in the past 10 years. The Health sector continues to expand faster than the rest of the Economy. As per IBEF report (June 2020) Indian healthcare sector is expected to reach Rs 19.57 lakh crore (US$ 280 billion) by 2020. Rising income level, greater health awareness, increased precedence of lifestyle diseases, and improved access to insurance would be the key contributor of growth in this sector.

Healthcare services in India: Health Care and Education are the two most vital interventions a country should tirelessly pursue in order to promote and develop its human resource capabilities and the economy. Ever since Independence, the country has made significant progress in all the vital parameters of health care indices i.e Reduced Infant Mortality Rate, Maternal Mortality Rate and improved Life Expectancy etc., Impressive as these achievements are, other health issues such as increase in the incidence of life style diseases, lack of adequate infrastructure in rural areas, reducing disease burden, addressing malnutrition and a host of other such challenges beleaguer the health care industry.

Indian health care industry is characterized by the preponderance of the private sector. Though the Government has done commendable work in achieving many social development goals, the geographic and demographic challenges that the country faces are so varied and complex, that apart from government intervention, private sector too had to play a significant role in addressing the health care needs of the population. Nearly two thirds of the health care services are being provided by the private sector. But this service comes at a cost, unlike most of the Government services which are available for free. This has resulted in considerable burden on the population, which had to bear these expenses from their meagre resources.

Such a situation eventually led to the emergence of insurance as a major instrument of health care funding. Concurrently, governments started to address the expectations of the people for Government funded health care schemes. While some States had administered their own schemes but few States have utilized the insurance mechanism to operationalize these schemes.

Health Insurance sector gained Momentum due to the rise in out of pocket expenses in India. Gross direct premium income of health insurance business underwritten by insurance companies has been growing steadily with the CAGR of 25% to 30% during the last 5 years and it has contributed to Rs 51,637.84 crore (US$ 7.39 billion) during the Financial Year 2019 -20.

An overview of the Indian Healthcare Industry is given below;

Private sector has emerged as a vibrant force in India's healthcare industry, lending it national and international repute. It accounts for almost 74 per cent of the country's total healthcare expenditure. In the present Scenario, Telemedicine has become one of the fast emerging health care channel in India. Major hospitals (Apollo, AIIMS, Fortis and Narayana Hrudayalaya) have adopted telemedicine services and have entered several public-private partnerships (PPP). Further, presence of world-class hospitals and skilled medical professionals has strengthened India's position as a preferred destination for medical tourism.

Indian medical tourism market is growing at the rate of 18 per cent annually and is expected to reach US$ 9 billion by 2020. The value of merger and acquisition (M&A) deals in hospital sector has grown to a record 155 percent at Rs 7,615 crore (US$ 1.09 billion) in FY19.

Government of India has approved the continuation of National Health Mission with a budget of Rs 34,115 crore (US$ 4.88 billion) under Union Budget 2020-21. National Nutrition Mission is aimed to reduce the level of stunting by 2 per cent, under-nutrition by 2 per cent, anemia by 3 per cent in the coming years.

Government Health Insurance Schemes i.e. The Ayushman Bharat-Pradhan Mantri Jan Arogya Yojana (PMJAY), the largest Government funded healthcare program targeting more than 500 million beneficiaries, has been allocated with a fund of Rs 6,429 core (US$ 919.87 million) under Union Budget 2020-21. As of November 2019, nearly 63.7 lakh people had received free treatments under PMJAY.

Under Pradhan Mantri Swasthya Suraksha Yojana (PMSSY), a fund allocation of Rs 3,000 crore (US$ 429.25 million) has been made under Union Budget 2020-21. Intensified Mission Indradhanush (IMI) 2.0 was launched by the Ministry of Health and Family Welfare from December 2019 to March 2020.

Under Union Budget 2020-21, Rs 65,012 crore (US$ 9.30 billion) and Rs 2,100 crore (US$ 300.47 million) has been allocated to the Ministry of Health and Family Welfare and the Department of Health Research, respectively.

The Government's expenditure on the health sector has grown to 1.6 per cent of the GDP (Gross Domestic Product) during the Financial Year 2019-20 from 1.3% in 2015-16. The Government is planning to increase its public health spending to 2.5 per cent of the country's GDP by 2025.

The introduction of Health insurance schemes by the Government has certainly given a push to Indian Economy.

Evolution of Health Insurance in India.

The health insurance sector in India is only a few decades old. After independence, primary health care was given importance and seen considerable improvement. Three major milestones identified mark the evolution of health insurance industry in India.

1. Employees' State Insurance Act (ESI) 1948: Employees' State Insurance Corporation (ESIC), is an autonomous corporation under Ministry of Labour and Employment, Government of India. It was introduced as an umbrella of social security for blue-collar workers of the organized sector. It provides health care services through a network of dispensaries and hospitals that is empaneled with ESIS. The coverage under ESIS includes **OPD and IPD** expenses and cash benefits to compensate for the loss of pay and other medical contingencies. This scheme is still prevailing and financed mainly through the contribution of employers and employees. This is a self-financing social security and health insurance scheme where the fund is managed by the Employees' State Insurance Corporation in accordance with the rules and regulations stipulated in the ESI Act 1948.

2. Central Government Health Scheme (CGHS): The Central Government Health Scheme (CGHS) is a health care facility scheme for the existing and former employees of the Central Government of India. The scheme was introduced in the year 1954 by the Ministry of Health and Family Welfare, Govt. of India and the CGHS has enrolled over 12.65 lakhs members and provided medical facility to over

37 lakhs beneficiaries. It was a contributory health scheme to provide comprehensive healthcare services, especially to the central government employees and their families. The government of India and central government employees also contribute a nominal amount per month based on their pay scale. Central Government Health Scheme provides comprehensive medical care to not only Central Government employees but also to the pensioners enrolled under the scheme. CGHS caters to the healthcare needs of eligible beneficiaries covering all four pillars of democratic set up in India namely Legislature, Judiciary, Executive and Press. CGHS is the model Health care facility provider for Central Government employees & Pensioners and is unique of its kind due to the large volume of beneficiary base, and comparatively most economical health care treatment.

3.Mediclaim Policy: In 1986, India's First Mediclaim policy was launched by PSU General insurance companies with standard terms and conditions. It was a voluntary health insurance scheme covering hospitalization expenses with exclusions like pre-existing diseases, pregnancy, childbirth etc. Initially, the scheme was operative on reimbursement basis. However lately cash less was introduced in the claim settlement process after the entry of TPAs into the market.

However, with the opening of insurance sector to private insurers, the health insurance sector started gaining popularity in India. At present, health insurance is one of the fastest growing segments in India with the CAGR of 25% to 30%. There are different stakeholders like insurance companies, IRDAI, TPA, and Health care service providers who actively participate in this ecosystem. The sector has come out with numerous innovative health insurance products catering to the changing needs of the customers.

1.2 Objectives

The Health Insurance market in India is one of the highly competitive markets and quick to adopt to the new health care practices and emerging health care needs. Health insurance traditionally covers only hospitalization expenses. A recent publication on healthcare expenditure in India suggests that outpatient healthcare expenditure has increased by almost fifty percent in the past decade. A large portion of this expenditure is spent on drugs, diagnostics and doctor fees. Keeping with the expectation of the market, insurance companies have started covering outpatient as well as domiciliary expenses, although these covers have been offered to corporate sector and also to the retail customer segments in a limited way.

The total per capita government spending on healthcare has nearly doubled from ₹1,008 per person in the year 2015 to ₹1,944 in Financial Year 2019-20 but is still very low as compared to the total out of pocket expenses incurred by individual towards Healthcare treatments.

The total expenditure spent on Health care by the Centre and states for FY2020 is 1.6% of GDP, including establishment expenditure comprising salaries, gross budgetary support to various institutions and hospitals and fund transfers to states under centrally sponsored schemes such as Ayushman Bharat.

As per latest OECD report (June 2020), India's total healthcare spending is **3.6% of GDP,** which is comparatively lower than that of other countries. The average health care expenditure for OECD countries in 2018 was 8.8% of GDP. Developed nations (OECD Countries) —the US (16.9%), Germany (11.2%), France (11.2%) and Japan (10.9%) spend much more than the average cost on health care. India spends the least among Non OECD countries: Brazil (9.2%), followed by South Africa (8.1%), Russia (5.3%), China (5%).

At present, the individual's health care spending in India is one of the highest in the world. This is primarily due to meagre health insurance coverage and a low government spending on health care cost. Health spending is negatively related to the economic condition of the household and can even adversely affect the financial health of the households.

While the health care demand has been increasing in recent times due to various factors like increased health consciousness, improved awareness about diseases, increase in per capita income, changing lifestyles, demand for modern healthcare facilities etc. However, increasing cost of health care is one of the key challenges encountered by the customers due to lack of adequate financing. In order to address this precarious imbalance between demand and affordability, it is imperative for the customers to utilize one of the most important financing avenues – **Health Insurance.**

Experience from other emerging markets highlight the availability of huge untapped potential for health insurance in India. However, the current level of low insurance penetration in general and Health insurance can be attributed to various reasons such as, lack of education, awareness among customers, affordability, and the complicated access.

On the other hand, there is definite demand for widening the net for Healthcare in view of increasing cost of treatment and also emerging diseases due to modern fast lifestyle. Hence, it is important that all the insurance players – General Insurers, Health Insurers and Life Insurers, can be encouraged to tap the available market potential addressing the need for Healthcare support of general masses.

Presently Life insurance companies can sell only Fixed benefit health plans, while Non-life and standalone health insurers can sell both fixed benefit as well as indemnity-based plans. In fixed benefit policies, insurers pay a fixed amount which is the sum insured following a claim. In indemnity-based policies, popularly known as Mediclaim insurance plan, insurers reimburse the cost of medical treatment incurred by the customers. The regular individual health plans or family floater plans are mostly available under indemnity plans.

The advantage of an indemnity-based based health policy is that it covers a wide range of treatments and illnesses and most policyholders prefer buying such a cover. These plans may also have a deductible & a fixed amount paid by the policyholder (Co pay) for hospitalization expenses and the rest of the treatment cost is paid by the insurer.

Even though, both Life and GI/SAHI companies offer health insurance products, but the basic coverage provided towards Health differs. The Life Insurers offer fixed health **benefit products** such as Critical Illness, Hospital Cash and Cancer cover, etc., General and SAHI companies offer **Indemnity based health policies** either on reimbursement basis or cashless basis.

Based on the context stated below, Life insurers in India approached IRDAI (Regulator) seeking permission to write indemnity based health insurance products

1. The underlying risk remains the same in both the policies as health insurance remains a logical growth path for a both the type of insurances. Since life insurance company also being the risk managers for a longer term (have access to the clients data on health and morbidity) and life insurers have a natural advantage over health / general insurers to offer a better value proposition to the clients in order to meet their healthcare.
2. It is observed globally, that same insurer (mostly life) is responsible for both life and health insurance covers. If we see from the client's perspective, it can be clearly noticed that approaching a single insurer for all the benefits like, savings-linked product structures, terms insurances, critical care benefit insurance and indemnity based health insurance is a much preferred choice.

The Regulator (IRDAI) after having internal discussion on the above matter, has formed a committee vide order dated 25.2.2020 with the following objectives;

a. Feasibility and the business scope for Life insurance companies to offer indemnity-based health insurance products;

b. Extant statutory provisions that are applicable in this regard;

c. Any other matter as permitted by the chairperson

The committee has been asked to examine all the relevant aspects relating to the above objectives to study "**the feasibility of allowing life insurers to offer indemnity-based health policies" in the Indian Market'.**

In this regard, the committee is authorized to carry out the discussions based on the facts & ideas and to come out with the recommendations on the objectives given above.

1.3 Health Insurance Scenario

a. International Scenario

United States of America: Health insurance in the United States is a program that helps pay for medical expenses, whether through privately purchased insurance, social insurance, or a social welfare program funded by the government. Synonyms for this usage include "health coverage", "health care coverage", and "health benefits". In a simpler way term "health insurance" is described as any form of insurance providing protection against the costs of medical services. This usage includes both private insurance programs and social insurance programs such as Medicare, which pools resources and spreads the financial risk associated with major medical expenses across the entire population to protect everyone, as well as social welfare programs like Medicaid and the Children's Health Insurance Program, which both provide assistance to people who cannot afford health coverage.

State and Federal Regulation: Historically, health insurance has been regulated by the states, consistent with the McCarran-Ferguson Act. The state can decide what Health policy they could sell. Of course with a variety of laws and regulations Model acts and regulations promulgated by the National Association of Insurance Commissioners (NAIC) provide some degree of uniformity state to state. These models do not have the force of law and have no effect unless they are adopted by a state. They are, however, used as guides by most states, and some states adopt them with little or no change.

However, with the Patient Protection and Affordable Care Act, effective since 2014, federal laws have created some uniformity in partnership with the existing state-based system. Insurers are prohibited from discriminating against or charging higher rates for individuals based on pre-existing medical conditions and must offer a standard set of coverage.

Insurance Industry in the United States is divided into life and health insurers on the one hand, and property and casualty insurers on the other:

1. Life, Health
    - Health (dental, vision, medications, others)
    - Life (long-term care, accidental death and dismemberment, hospital indemnity)

- Annuities (securities)
- Life and Annuities

2. Property and Casualty (P & C)

- Property (flood, earthquake, home, auto, fire, boiler, title, pet)
- Casualty (errors and omissions, workers' compensation, disability, liability)

We see that the entire Health insurance industry in US is managed by either Life insurers or standalone Health insurers. During 2019, the U.S. population overall was approximately 330 million, with 59 million people 65 years of age and over covered by the federal Medicare program. The 273 million non-institutionalized persons under age 65 either obtained their coverage from employer-based (159 million) or non-employer based (84 million) sources, or were uninsured (30 million). During the year 2019, 89% of the non-institutionalized population had health insurance coverage. Separately, approximately 12 million military personnel (considered part of the "institutional" population) received coverage through the Veteran's Administration and Military Health System.]

China: The **China Insurance Regulatory Commission** (**CIRC**) is an agency of China authorized by the State Council to regulate the Chinese insurance products and services market and maintain legal and stable operations of insurance industry. It was founded on November 18, 1998, upgraded from a semi-ministerial to a ministerial institution in 2003, and currently has 31 local offices in every province.

On **17 March 2018**, the 13th National People's Congress announced a plan to overhaul China's financial regulatory system. The China Insurance Regulatory Commission (CIRC), and the banking regulator, the China Banking Regulatory Commission (CBRC), were merged into the China Banking and Insurance Regulatory Commission (CBIRC) with an aim to resolve problems such as unclear responsibilities and cross-regulation. The CBIRC was officially established on 8 April 2018.

Licensing requirements for domestic companies in China:
Insurance companies and branches in China are licensed either **for life or Non-life business**. Composite insurers are not permitted. However, from 2003 onwards Non**-life insurers have been allowed to write personal accident (PA) and short-term health insurance of up to 1 year.**

Insurance business was categorized into **"basic" and "extended" groups for Non-life insurers:**

1. The basic category includes the following classes of business: motor, property, engineering, liability, marine hull/cargo/transport, **and short-term accident and health. (One year policy)**
2. The extended category includes: agriculture, credit, special risks (aviation, nuclear) and investment-linked products. –

Singapore: The Insurance Act 1966 amended 2002 primarily governs the licensing and regulation of insurance business, insurers, insurance intermediaries and related institutions in Singapore. Insurers can carry on insurance business in Singapore either as licensed insurers or foreign insurers. Licensed insurers can carry on direct life and/or general business, life and/or general reinsurance business or captive insurance. Foreign insurers carry on insurance business in Singapore under a foreign insurer scheme.

According to Section 2 of insurance act (amended) 2002 –

2.—(1) for the purposes of this Act, insurance business shall be divided into 2 classes —

(*a*) **life business,** which means all insurance business concerned with life policies, long-term accident **and health policies**, or both; and

(*b*) **General business**, that is to say, all insurance business which is not life business, and shall include the effecting and carrying out by any person, not being a person licensed, approved, designated or otherwise regulated under the Monetary Authority of Singapore Act

As per Section 3 / 1(B) --Any person licensed by the Authority under this Act to carry on insurance business as an insurer in respect **of life business may carry on general business relating to short-term accident and health policies while being so licensed**, and

(a) **The person need not be licensed as an insurer** in respect of general business in order to carry on general business relating to short-term accident and health policies; and

(b)The general insurance business relating to short-term accident and health policies carried on by the person shall be treated as part of the person's life business.

As per section 3/(1C) An insurer licensed to carry on both life business and general business may treat its short-term accident and health policies as part of its life business or its general business.

MAS is the integrated regulator and supervisor of financial institutions in Singapore. MAS establishes rules for financial institutions which are implemented through legislation, regulations, directions and notices. Guidelines have also been formulated to encourage best practices among financial institutions. The Health Science Authority or HSA is the Singaporean regulatory agency for health products.

United Kingdom: In 2013, the government implemented wide-ranging reforms to the way the financial services sector – including insurance – is regulated. The body which regulated the UK financial services industry, the Financial Services Authority (FSA), was replaced by two new regulatory bodies. This is known as the 'twin peaks' system of regulation:

- The **Prudential Regulatory Authority (PRA),** which is part of the Bank of England, promotes the safety and soundness of insurers, and the protection of policyholders
- The **Financial Conduct Authority (FCA)** regulates how these firms behave, as well as more broadly the integrity of the UK's financial markets.

As per Part III , Chapter 7 Annex 11.2 of FCA handbook , there are two class of business defined;

a. CLASSES OF LONG-TERM INSURANCE BUSINESS

Life and annuity	Capital redemption
Marriage and birth	Pension fund management
Linked long term	Collective Insurance
Permanent health	Social Insurance
Tontines	

b. CLASSES OF GENERAL INSURANCE BUSINESS

Accident	Motor vehicle liability
Sickness-Indemnity	Aircraft liability
Land vehicles	Liability for ships
Railway rolling stock	General liability

Aircraft	Credit
Ships	Suretyship
Goods in transit	Miscellaneous financial loss
Fire and natural forces	Legal expenses
Damage to property	Assistance

UAE: Establishment of the Insurance Authority & Organization of its Operations was done under Federal Law by Insurance Authority, Abu Dhabi, United Arab Emirates. The provisions of the law apply to the insurance companies incorporated in the State and the foreign companies licensed to perform the activity in the State including the companies engaged in the operations of cooperative insurance and takaful insurance or the operations of reinsurance provided for in the law herein and the insurance professions related thereto. However, these laws does not apply to the companies operating in the free zones in the State unless specifically provided for in the law.

As per Article (3), of the Executive regulation of Federal Law (6) of 2007 on establishment of the insurance Authority and organization of its operation, the **direct insurance operations** is divided into three types:

1. **Life assurance and funds accumulation operations**

2. Properties insurance

3. Life liability insurance

Article 4 of the Law defines the Types **of Insurance of Persons and Funds accumulation Operations**. It includes the following:

- Life assurance of all types including among others all insurance operations designed to pay certain amounts of money in case of death, disability, reaching certain age or life assurance associated with investment vehicles
- **Health insurance of all types**
- Personal accident insurance associated with life assurance (all insurance operations against personal accidents done by the company in favor of the individuals holding life assurance policies of the same company)
- Funds accumulation operations (all operations the purpose of which formation of a capital to be paid in a specified date against a premium or periodic premiums without linking the same to life or death probabilities

Article 5 of the Law defines the Types of Property and Liability insurance which include

- Fire insurance and the allied perils.
- Land transport, marine and air cargo insurance and the related liabilities.
- Marine hull, machinery, and equipment insurance and the related liabilities.
- Aviation hull insurance and the like and their machineries and equipment and the related liabilities.
- Satellites, balloons and spaceships insurance, and their machineries and equipment and the related liabilities.
- Railway locomotives and coaches insurance and the related liabilities.
- Land vehicles insurance and the related liabilities.
- Engineering insurance and the related liabilities and insurances normally associated thereto.
- Oil insurance including the insurances which are normally considered oil insurance.
- **Health insurance of all types**.
- Miscellaneous accident insurance

In UAE, Health insurance can be offered by Life as well as Non-life insurers

Summary: Countries offering Health indemnity insurance under Life / General Segment;

Country	Life/ General Insurer
Australia	Health insurer/ General Insurer
Bangladesh	General insurer
Canada	Life Insurer
Czech Republic	Life insurer
Thailand	Life and General insurers
Kenya	General insurers
UK	General insurer
USA	Life insurer/ Health Insurer
Singapore	Life / General Insurer
China	Life/General (for short term policies)
UAE	Life / General insurer

b. Indian Scenario

1 Insurance Act 1938, vide Part I, Definitions 2 identifies the following business of insurance;

(*6A*) "fire insurance business" means the business of effecting, otherwise than incidentally to some other class of insurance business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risks insured against in fire insurance Policies;

(*6B*)"general insurance business" means fire, marine or miscellaneous insurance business, whether carried on singly or in combination with one or more of them.

(11) "life insurance business" means the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any

Insurance Act, 1938 was amended, vide Insurance Laws (Amendment) Act, 2015 to recognize health insurance as a separate class of business. Section (6C) was added to define health insurance.

(6C) "health insurance business" means the effecting of contracts which provide for sickness benefits or medical, surgical or hospital expense benefits, whether in-patient or out-patient travel cover and personal accident cover.

Insurance regulatory and Development Authority (Health Regulations) 2013, defines the <u>scope of Health Business</u> by Life insurance companies, General Insurance companies and Standalone Health insurance companies.

Schedule II of (Health Regulations) 2013 dwells on administration of Health plus Life Combi Products, which will be promoted by Life and Non-Life insurance companies.

A Combi Product is defined as a combination of pure term life insurance offered by life insurance companies and health insurance offered by non-life insurance companies including standalone health insurance companies. There was no bar on Life Insurance companies to sell Indemnity based Health policies

c. IRDAI (Health Insurance) Regulations, 2016 dated 12.7.2016 disallowed life insurers from offering indemnity based health insurance products with immediate effect.

The regulator also stopped life insurers from offering single premium health insurance products under unit-linked platforms. The new health insurance regulations, 2016 helped differentiate the product offerings by life and health insurers for the first time.

The regulator allowed life insurers to offer long-term individual health insurance products for a term period of five years or more. It, however, stipulated that the premium for such products should remain unchanged for at least a period of every block of three years and the premium might be reviewed and modified as necessary. General and standalone health insurers could offer individual health products with a minimum tenure of one year and a maximum tenure of three years, provided that the premium remained unchanged for the tenure.

With the introduction of 2016 Health regulation , it was clear that Life insurers can sell benefit based health policies and General insurer can sell both indemnity as well as benefit policies under Health.

Definition of Health policies based on indemnity

"These type of policies are offered by general insurance companies including standalone health insurance companies where the actual expenses incurred by the insured as a result of hospitalization due to any illness or disease covered under the policy are reimbursed, subject to the sum insured stated under the policy. The policy can either be an individual sum insured based policy or a floater sum insured policy"

The premium of Health insurance policies offered by Life, General & SAHI companies are as below;

Health insurance premium for three years (Premium In lacs)			
	Health premium by Life insurers	**Health premium by General insurers**	**Health premium by SAHI Companies**
2016-17	**90608**	**2485400**	**553200**
2017-18	**116366**	**2919800**	**786100**
2018-19	**105880**	**3419100**	**1068100**

1.4 Evolution of Health Insurance regulations in India

A comparative tabulation of the changes in Health regulations 2013 and 2016 is as below

<table>
<tr><th>Year</th><th colspan="4">Details</th></tr>
<tr><td rowspan="7">2013 Health regulations</td><td>Definition of Health insurance business</td><td></td><td>Health insurance or Health cover means the effecting of insurance contracts which provide for sickness benefits or medical, surgical or hospital expense benefits, including benefits and long-term care, travel and Personal accident cover</td><td>Defines Health Insurance for the first time</td></tr>
<tr><td rowspan="2">Applicable to Life Insurer</td><td>1</td><td>May offer long term products but premium for such products remain unchanged for at least a period of three years, there after premium may be reviewed and modified.</td><td rowspan="2">1. Long term health products were permitted -- three year 2. Annual Gr Health policies permitted 3. No bar in selling indemnity health products</td></tr>
<tr><td>2</td><td>Group Health products may be issued by any Life / Non-life or SAHI, one-year renewable contracts</td></tr>
<tr><td rowspan="4">Applicable to Non-Life Insurer</td><td>1</td><td>Non-life and SAHI could offer Health products with minimum one year tenure and maximum three year. No change of premium for the tenure.</td><td>Long term Health policies were permitted for Non-Life and SAHI</td></tr>
<tr><td>2</td><td>Group Health products may be issued by any company, one year renewable contracts.</td><td>Annual Gr Health policies permitted</td></tr>
<tr><td>3</td><td>Non-life and SAHI may offer Gr PA for less than one year also</td><td>SHORT TERMS PA POLICIES ALLOWED</td></tr>
<tr><td>4</td><td>OMP or Domestic travel insurance may be offered by only Non-Life and SAHI either as Standalone or as an Addon under existing Health policy</td><td></td></tr>
</table>

<table>
<tr><th>Year</th><th colspan="4">Details</th></tr>
<tr><td rowspan="7">2016 Health regulations</td><td rowspan="2">Applicable to Life Insurer</td><td>1</td><td>May offer long term Individual Health products i.e. for 5 years or more but premium for such products remain unchanged for at least a period of three years, there after premium may be reviewed and modified.
Life insurers may not offer Indemnity based Health insurance products either individual or Group</td><td>1. Long term health products - benefit based were permitted -- three year as per 2013 regulations, the period NOW enhanced to 5 years or more
2. All the indemnity based products offered by Life insurers were to be withdrawn by giving a prospective date of closure not later than three months from date of notification</td></tr>
<tr><td>2</td><td>Group Health products may be issued by any Life insurers subject to above</td><td>Annual Gr Health policies on benefit based only permitted</td></tr>
<tr><td></td><td>3</td><td>No single premium health insurance products to be offered under Unit Linked Platform</td><td></td></tr>
<tr><td rowspan="4">Applicable to Non-Life Insurer</td><td>1</td><td>General Insurers and SAHI were allowed to offer individual Health products with minimum one year tenure and maximum three year. No change of premium for the tenure.</td><td>Same as 2013 regulation - no Change</td></tr>
<tr><td>2</td><td>Group Health products may be issued by any insurer, one year renewable contracts, except credit linked products, but General Insurer and SAHI can offer Credit linked Gr PA policy for maximum 5 years</td><td>Credit linked Gr PA is permitted for maximum 5 years.(loan period) by SAHI and GI</td></tr>
<tr><td>3</td><td>Non-life and SAHI may offer Gr PA for less than one year also</td><td>Same as 2013</td></tr>
<tr><td>4</td><td>OMP or Domestic travel insurance may be offered by only Non-Life and SAHI either as Standalone or as an Add on under existing Health policy</td><td>Same as 2013</td></tr>
</table>

1.5 Methodology Used

First meeting of the committee was scheduled for 16.3.2020, but it could not be held and was cancelled due to the pandemic Covid 19. In view of the Lockdown w e f 26.3.2020, first virtual meeting was held on 15.5.2020. In the meeting, one member each from Life, General and SAHI Company had made their presentations and various points relating to the agenda covering both in favor and against the objective were discussed. At the end of the first virtual meeting, the following outcomes were concluded;

1. 15 Key points related to the topic of discussion were summarized and agreed upon.
2. Opinion for two more life insurers, two more General insurers and one SAHI company was to be taken in the next scheduled meeting i.e. on 9.6.2020.

Accordingly, the following insurers were called for the second meeting held on 9.6.2020 to give their opinion relating to the agenda.

Mr Atul Sahai – CMD New India Assurance
Mr N S Kannan – CEO ICICI Prudential life insurance
Mr Mahesh Kumar Sharma- CEO SBI Life Insurance Company
Mr Bhargav Das Gupta - CEO ICICI Lombard General insurance Company
Anuj Gulati – CEO Religare Health Insurance Co.

The second meeting was held on 9.6.2020. The opinion from the above members were heard in the first part of the meeting and in the second part of the meeting conducted only for the committee members, the 15 key points identified in the first meeting were discussed.

Subsequently, individually all the members were requested to give their final brief on the points.

Final Meeting of the committee members was held on 20.8.2020.

Chapter 2

Arguments in favour of opening up

Life insurers have a deep and better understanding of Indian customers and their needs. At the same time it cannot be denied that the penetration of Health insurance in India is the least. Life insurers are better positioned to offer health insurance as they are already in the business of offering Mortality covers.

The various factors which can be summed up in favour of allowing life insurers to offer indemnity based policies by IRDAI are as below;

a. **Customer's perspective**: Customer cannot distinguish between Life and Non-life, all that they care is protection against health. There is a great demand for Indemnity based health policies from customers. When life Insurers offer protection through their other products such as Term, Cancer, and Cardiac cover, etc., customers are least bothered about the legality of getting license to issue indemnity based health policy vs non-indemnity products.
   If the market is open to Life insurers to offer Health indemnity policies, it will help in getting the missing key that is offering comprehensive health policy including savings, term, health plans and indemnity plans.
b. **Heavy out of pocket expenses**: The out of pocket expenses in India towards health care is as high as 74% which is the highest as compared to other developing countries and there is an urgent need to increase health insurance penetration.
c. **Product Innovation**: There ~~will~~ is a huge scope available for the Life insurers to bundle indemnity-based health products with other life and health products, thus providing more innovative and a wider coverage offerings to customers and thereby helping to improve health insurance penetration in the market..
d. **Existing Huge Distribution Network**: Life insurers have a strong distribution network of 21.9 lakh individual agents, **866** corporate agents (with over **240** banks), and **437** brokers which will help deepen penetration. 70-75% of indemnity based health premium is sourced by individual agents. Life Insurers can provide an incremental workforce of 12-16 lakh agents who are currently not available to GIs and SAHIs i.e Untapped potential of the individual agent network of life insurers can be utilized.

e. **TPA**- Availability of huge infrastructural readiness: Life insurance companies can make use of the existing TPA infrastructure in their initial years of operation. Of course with time, Life insurers will be able to manage the claims and other servicing issues by developing their in-house mechanism.
f. **Underwriting Expertise**: Life insurance companies offered indemnity based health products till 2016. Life insurers have the ability to handle large volumes of policies. The Life insurers had an indemnity product (which was long term) till 2013. Approximately 21,000 policies were sold per annum till 2013. Even now, the Life companies offer critical illness products. Life insurers have expertise in policy issuance. The Life insurers are even now capable of issuing Health policies in greater quantity each year with built-in system controls which address fraud, anti-selection, etc. Not only Life insurers engage with their customers by taking a long term view and have working knowledge of taking health risks and health riders into consideration for the right pricing.
g. **Operational capabilities**- Handling claims: Life insurers also have the ability to handle **large volumes and frequency of claims** with a highly scalable, **robust IT infrastructure** to match the needs of such a setup. Life insurers can handle the large volumes either through their in-house teams or through **TPAs**. Most of the Life insurance companies have a well-established setup to handle health claims and currently has an in-force book of health indemnity polices**.** Since the long term policy was issued till 2016, life insurance companies receive hospitalization and critical illness claims every year with around 25% of them through cashless facility.
h. **Strong Actuarial support**: Life insurance companies have a huge distribution network which augments the penetration of Health insurance business due to Excellent Actuarial support. This will greatly help in correct pricing of the new products in Indemnity health sector for Life insurers.

Chapter 3

Arguments against opening up

Health insurance premium procured during the financial year 2019-20 was Rs.51800 Crores and the total number of health insurance policies sold were 2.07 crores in the year 2019-20. Even though both life insurance and health insurance companies cover uncertainties, they are intrinsically different. Claims in life insurance are straightforward, but in the case of health insurance, the claims are more frequent and not so simple. There are lot of complexities involved in servicing the huge numbers and the customers will be confused if services are not proper.

The supportive points against opening up of the indemnity-based health policies to Life insurers are as below;

a) The changes in the Health regulations were done only in year 2016. It is too short a time to think of changing the regulations again. Frequent changes in health regulations are not advisable as new investors will not trust Indian insurance sector and they will find it difficult to make entry in Indian market.

b) Promoters of 14 Life Insurance companies have their General insurance and/ or Standalone insurance companies and they can think of expanding the pie through them.

c) Allowing Life Insurance companies to offer indemnity-based health policies will cause significant **loss to the GI and SAHI companies**, impacting all their policyholders. Foreign institutional investors will be rattled by a drastic shift in the industry without clear motivators. It is detrimental to the interest of the nation, industry, investors, and regulator.

Given the investments done by the general insurers in health segment and the significant share that the health segment has, any change would impact the overall viability/delicate balance of the sector and also have an impact on other products offered by GI industry. The impact only gets compounded for the **SAHI companies**. Significant investment has been done by the GI and SAHI Companies on building the health expertise over the past years and they have taken losses to invest for the future. Changing the regulation would put the existence of these companies to grave risk.

d) **Expertise of Non-life insurers in health segment: Health Insurance underwriting requires special skill**. Health insurance business requires investment in specialist capabilities – e.g. product development and actuarial expertise, morbidity underwriting, dealing with complex ecosystem of providers (Hospitals, Clinics, Diagnostics, etc.), managing high frequency of claims, higher intensity of services, information security to manage protected health information, etc.

e) **Allowing LI companies to offer indemnity based health policies will potentially increase the risk of mis-selling and customer grievance.** There is a degree of overlap in selling Health insurance products by various channels like Agents and Banks. Agents of life insurers who are interested in offering Health Insurance on indemnity basis to their customers already can do so with either a GI or SAHI company, Banks offer insurance products via three Life, three General, and three SAHI companies. Thus Banks already can offer health products of 6 insurers. Considering the above and when it comes to open architecture intermediaries, it will only add to the confusion, and could lead to mis-selling.

f) **The ability to cross subsidize health** products by Life insurers will result in rate cutting and price war in near future and destabilization of General and Health insurance companies in the long run.

g) More options – choice paralysis: At present 31 Non-life insurers are soliciting Health Indemnity products. If 24 Life insurers are also allowed then 55 insurers with multiple products will create 'choice paralysis' for customers and may result in mis-selling particularly when bundled with savings component.

h) It is of significance that from FY 2014 till FY 2019, the individual new business contribution from agency channel has reduced from 41% to 24% for private Life insurers. The growth of agency force has been in single digits while there has been a shift in focus largely towards Bancassurance led business. In the past few years with the increased awareness of Health Insurance, most of the Life Insurance agents have associated either with a SAHI or General Insurer or both, as IRDAI allows an agent to be associated with a Life Insurer, SAHI and General Insurer. Hence the chances of huge addition of agents immediately or progressively for selling Indemnity policies from Life insurers is quite low.

i) **Product innovation** is an offshoot arising out of thorough understanding of the market, special needs of each segment and expertise which General and Health insurers alone can do by virtue of their exposure for long in this field.

j) **Geographical distribution spread of Life insurers vs Non-life insurers:** Life Insurers all together have 11,279 offices whereas Non-life insurers have a total of 11,492 offices, 10,609 offices for general insurers and 883 offices for SAHI respectively. It is evident from below table that there might not be any additional geographical distribution that can be offered by Life insurers to enhance penetration of health insurance

Chapter 4

Summary/ Comparisons

Key Points	LI Players	GI / SAHI Players
1.Opening health indemnity products to Life insurers would help in better penetration, better customer service, and product innovation	Agree, as Increase in the number of participants from X to 2X will lead to higher penetration, more minds working will lead to more product innovation.	1. Disagree, as need for specialization has created all the positive benchmark for the industry. 2. Better customer service is questionable as Indemnity based Health insurance services requires specialization which is lacking in Life insurers
2. Life and health products can be packaged and a single solution can be conveniently given. Globally in many countries health and life sectors go together,	Agree, as it will be very convenient for the customers to approach one insurance company which can provide, Life, term, benefit and Indemnity based product.	Healthcare services is a different scenario in India. The level of training, practices, the differential cost, lack of standardization & lack of proper regulation in India is totally different from the western world and hence it requires specialized attention and focused servicing.
3. No threat to GI and SAHI insurers as the potential is very big and pie is expanding. Only small portion of Life insurance agents are selling health.	-Agree as Only few of the Life insurance companies based on their capabilities, will be doing Indemnity based Health insurance business after the sector is opened up -The scenario will be bad if all the life insurance companies starts selling indemnity product immediately. -Moreover GI and SAHI are there in the field for long and are having a strong hold on their	-General insurers sell more Health policies than standalone health companies, and so they cannot be ignored. -SAHI companies make their living by selling only Health insurance policies, and with increase in participants from 31 to 55, there will certainly be a threat to SAHI companies. - For GI companies also, 30% of the premium comes from Health, by introducing an element of competition,

	customers and the perception that, Life insurance companies agents will reallocate the business by porting from one company to another will not happen so easily.	there will certainly threat to the GI companies. - IRDAI has not allowed the same agent to sell policies of multiple insurance companies because It will lead to confusion for Agents and potential mis-selling to customers. -Porting of policies from SAHI & GI companies will happen in a big way, if Life insurers are allowed to sell indemnity based health policies
4. Life insurers have the capability to handle indemnity health insurance with their experience in benefit products.	Agree. Two companies, ICICI Pru and HDFC life were selling Indemnity policy earlier also and have the expertise in handling the claims arising from them.	Do not agree with the statement as Life insurers have great expertise in handling term, pension, investment and actuarial product, but have no expertise in handling indemnity based Health insurance products.
5. Customers have enough choice. Many insurers, many innovative products are there even now. Agents of life insurers and other intermediaries interested in health insurance are already doing business for GI/ SAHI players.	Since GI/ SAHI companies are already doing the business and have more products in market, allowing life insurance also to provide indemnity based products will certainly not be a threat to them.as they are already established. From Customers angle, this will be a welcome decision as they have more choice to choose from.	There are already 33 companies in the market and there is no dearth on supply side. Customers may vote in favour assuming that premium rates may come down in the cut throat competition.

6. Health is a very complex line with many challenges like product development, actuarial expertise, morbidity underwriting, dealing with providers, high frequency of claims, information security & Frauds are very big. Only specialization can ensure a viable business model and good customer experience.	- Even after IRDAI permits all the LI to write indemnity based Health products, all Life insurers will not do the Health insurance business. Only those who want to do it, will do it - Selling and servicing indemnity-based Health policies is not so complex. Life insurance companies will put in the systems in place. They will deliver what is required to do. Also the fact remains that they have done it in past also.	Yes, very true as there is a need for specialization in providing Indemnity based Health insurance policies in India. Life insurers do not possess that expertise.
7. Regulation was changed only four years back earmarking indemnity business for GI/ SAHI players. It is too short a period to contemplate changes as Investors have put in money based on this regulation. Any change will affect investment in insurance sector and FDI into insurance. Is it fair to go for change within short span of time	- Insurance industry has to go through the changes due to regulatory changes, and here also if the regulator feels that by changing the regulation once again will bring better business penetration and product innovation which is good for the customer, we should support that as this is a part of expansion. -No Business model is good enough if it is based on protectionism. The argument of General insurers in stating that the proposal would be against promise of reasonable	Proposal would be against promise of reasonable certainty of Regulations, basis which shareholders have invested in health business. Lack of reasonable regulatory certainly would have knock on effects on General Insurance and Life insurance. At a time when the Government is contemplating increase in foreign shareholding in insurance and IRDAI wants insurers to adopt IPO route, this could be step in the wrong direction.

	certainty of regulations to new investors is not agreeable.	
8.For Life insurer , Health is a small component of the total business , whereas for the SAHI it is a very large line of business Impact of this going to be very high on SAHI companies	-Yes there will be an immediate impact, but not a very huge impact. -All the insurers will scramble to reinvent the business model. -SAHI has lead in the market and have connect with the customers and hence do not think they will have any impact	Yes, There will be an impact, as mentioned earlier, SAHI companies make their living by selling only Health insurance policies, and with increase in participants from 31 to 55, there will certainly be a major impact as most of the policies will be ported from SAHI to Life insurers.
10.If life insurers are allowed there will be no level playing field. Remuneration to Agents, intermediaries, expenses of management permitted, and such other areas can cause distortion	The commission payable by life insurers on health insurance products to be at par with general insurers / standalone health insurers. There is no level playing field right now.	-There is a possibility of escalation in marketing cost owing to the payout pattern of Life insurance companies. --Life insurers have the opportunity to cross subsidize Health insurance policies. -This will not allow level playing and competitive intensity will grow. Market conduct issues will worsen the overall economics
11. This is also an important point, how to establish the level playing field, because the remuneration pattern of Life insurers is generally different and expenses of management, solvency and capital requirements are also different. Could there be cross subsidization of life	EOM is within the preview of regulator. It is observed that General and SAHI are allowing 15% commission every year which makes it more attractive in selling HI policies than a lower level of commission that Life insurance companies are allowed to pay.	The very fact is that there is no level playing field. Life insurer's pays 40% commission on the first year policies which the general insurers are not allowed to pay. Agents and Brokers will be tempted to port the policy to Life insurers and there will be no level playing field

products, health products? How do we resolve it if regulator decides to open up?	-As far as Life insurers are concerned, they have to be very efficient in order to be competitive in the market. -Level playing field in various areas can be created.	
12. Life insurers had all the opportunity to grow indemnity health insurance till the regulation was changed in 2016. But they could not do much because of the inherent challenges they have in doing indemnity business.	There were no challenges in Health insurance space, it was relatively doing fine and Life Insurers sold around 2 lacs policies.	Life insurers could not make any breakthrough in the indemnity health space though they were allowed to do.
13-. Most of the big life insurers (14 of 22 other than Sahara and LIC) have General Insurance and SAHI companies in their group who are doing indemnity health insurance. There is therefore no need to allow life insurers also to enter this space.	Life insurance companies tried doing the same through GI and SAHI companies- which did not work out. Regarding starting a separate company, Life insurers were not allowed to do so by the regulator.	All life insurance companies were allowed to sell benefit policies .Out of total Rs 518132 crores of premium generated for the year 2018-19 , they could sell only 0.16% ie. Rs 827 crores of benefit policies. Although they are allowed to sell benefit policies , they are not able to create a big milestone ,and hence their selling capabilities is highly questionable
14. Combi products have not made headway as the offering is clunky with buying journey not being seamless due to regulations and underwriting	Combi policies is already there in market , but is not so successful as -Two different companies and two different products are involved,	Agree, If life insurers are allowed to do Health insurance, they can generate combi products. - Similarly, General insurers are allowed to do Life

requirements. Currently Life insurers can join hands & do some Health insurance business through Combi products. It did not work well due to regulatory issues.	-even if anyone company of them withdraws the product, the other company cannot sell it and vice versa.	insurance, they can also innovate Combi products. - At least Term Insurance should be opened to General insurers so that General insurers and SAHI can also render services to the customer under one roof.
15. Health insurance is a short tail business. ALM and investment management are very different. This requires investment and changes in process and technology. Life insurers can as well do this through separate company. Will this fit with Life insurer's business pattern?	It is not seen as a hindrance by Life insurers - Insurers should have a) Capital, b) Actuarial ability to be able to do ALM for a 15, 20 or a 30 year product. -In term of short tail products the life insurers can easily do ALM as they have experience in group credit products where the tenure is 12 to 18 months. This certainly fits in Life insurers business pattern	No comments.

Chapter 5

Recommendation / Conclusions

The committee could not come to a consensus view on the following aspects:

- Should life insurers be allowed to manufacture and distribute indemnity health products including Arogya Sanjeevani health product.
- Should life insurers be allowed sell indemnity health at least as a rider to Life insurance policies

The committee was vertically divided on the above questions. The Members from Life insurance sector were of the view that Life insurance industry should be permitted entry into the indemnity health insurance space at least in one of the above methods.

- This will ensure better health insurance reach
- There will be greater customer service as life and health can be sold together. In fact customers are looking for this.
- Innovation in products and processes will happen in a big way
- Life insurers have adequate capabilities to handle the indemnity health space

The members from GI and SAHI sector did not favor opening up the indemnity health space to life insurance companies.

- GI / SAHI companies have contributed to huge market growth and should not be deprived of the benefit of their efforts,
- They have developed expertise and specialization in indemnity health space which is complex and beset with lot of issues like managing hospitals network, containing frauds , managing claims and providing great customer service
- The regulation was changed only in 2016 and many investors have invested keeping the new regulation in mind. Any change is not justified in such a short time and would send negative signals to the investing community.
- Life insurers have not delivered in benefit health space and even in indemnity space when they were allowed.
- Many of life insurers have GI/SAHI companies in their group and hence can do indemnity health insurance through them.

The committee after deliberations found a middle ground and makes the following recommendations. The committee is conscious of the fact that some of these recommendations could involve changes in regulatory provisions. However, these recommendations will go a long way in increasing the health insurance penetration and improving customer satisfaction in a big way. The committee would be glad to assist IRDAI in implementing these recommendations.

1. Life insurers be permitted to distribute products of GI and SAHI indemnity health products. This could be through Corporate Agency model or any other model. Open architecture be allowed in respect of tie-ups both from Life insurers as well as GI/ SAHI perspective.
2. COMBI products which is a combination of health and life insurance products is being allowed for many years now. However the concept has not succeeded due to various issues in the regulatory construct.

   The committee would like to make set of recommendations to revamp COMBI products as per attached schedule.

3. Health insurance is emerging as a very specialized line of business. The expansion of health insurance market and increasing complexities in the healthcare sector of India call for huge focus and developing adequate skill sets in this space. The standalone insurance companies have been able to bring the specialization to the table. In order to encourage this it is recommended that Life insurers and General insurers be allowed to set up stand down subsidiaries in health business. The committee is of the view that this does not violate any legal provisions as health is allowed line of business both for Life and General Insurers.

Strengthening Sales of 'Life + Health' Combi Products

Existing Scenario	Proposed Changes
1. Tie-ups between one Life and one Non-Life Insurance Companies	
-Currently a tie-up is permitted between one life insurer and one Non-life insurer only. This restriction limits the choice of buying both life and health cover under a single product, as it is not possible to have combination of the life cover offered by different life insurers with the health cover offered by different non-life insurance companies. Once a tie-up is formed the customers are restricted to buy Combi Products only of the specified life insurer and non-life insurer.	-The tie-ups should be allowed between any life insurer and any Non-life/ SAHI insurer. This will allow multiple choices to the customer. Insurance companies can decide on the tie-ups they want to enter into depending on the commonalities in the target customer segment, geography, distribution channels, synergy in operations and processes and feasibility of integration of the IT infrastructure. -The Authority may decide to allow each LI or GI /SAHI company to tie up with more than one partner.
2. File & Use Approach	
The Combi Product is to be filed at the stage of integrating for getting File & Use approval irrespective of the earlier approval of either of the products. This requirement arises from the Authority's desire to ensure that the benefits arising from the leveraging of common strength of both the insurers is passed onto the policyholders and also ensuring that the Authority is apprised of the proposed approach for policy servicing/claim settlement etc. - However, the above requirement creates a constraint in offering *'Combi Products'* with the latest version of the individual products. When the individual products are modified or revised for compliance with changes in regulations, the modified version is available for sale as a standalone product immediately post approval by the Authority. However, it can be offered under the Combi platform only after the *'File and*	**-**The Authority's requirement of ensuring that the benefits of the combined offering are passed on to the policyholders can be checked the first time that the two individual products are integrated, when a File & Use application can be mandated. -Subsequently if there are any changes in the underlying individual products either through the File & Use approach or through the Use & File route, the revised versions should be allowed to be offered under the '*Combi Product'* with only a change in the UIN of the '*Combi Product'*. This will facilitate immediate availability of the latest version of the products whether it is on a stand-alone basis or on a Combi basis and also no time will be lost in getting business under the '*Combi Product'*.

<table>
<tr><td>Use' of the 'Combi Product' is again filed with the Authority. Even if the stand-alone version is revised using the 'Use and File' guidelines, the Combi version needs to follow the File & Use approach. This not only results in delay in offering the latest versions under the Combi platform but also implies that no business can be written till the new Combi version is approved, as the existing Combi version has an older version of the individual products.</td><td></td></tr>
<tr><td colspan="2" align="center">3. Product Structure</td></tr>
<tr><td>The 'Combi Product' structure requires that both Life and Health guidelines are followed, resulting in Combi Products being sold with restrictive features.

For e.g. if the Life Product has a minimum Policy Term of 5 years and Health Product is annually renewable for life, then Combi product has to have a minimum Policy Term of 5 years thus losing out on sale to customers who want Health Cover of shorter tenure.

Features like premium payment frequency, options to alter the benefits, revive the policy etc. get constrained due to the need of alignment with both the product features.</td><td>-The product structure can be flexible and certain parameters can be kept aligned to one of the products and not necessarily both the products, and adjustments may be allowed subject to internal certification by the Appointed Actuary.</td></tr>
<tr><td colspan="2" align="center">4. Commission Payment</td></tr>
<tr><td>The guidelines mandate that the Commission shall be paid by the respective insurers only i.e. life insurer for the life insurance premium and non-life insurer for the health premium.

This results in the distribution channel that sourced the business to be dependent on two insurers for getting the commission payment, though the sale is initiated on the basis of distribution arrangement with one of the insurers.</td><td>It would be preferable if the insurance intermediary got the total commission from the main insurer for that intermediary. The processes regarding commission payment, rewards etc. would be aligned with what the distribution partner is familiar with. The lead insurer and secondary insurer would have a bilateral arrangement to reconcile their books periodically. The same would be done in a transparent manner, maintaining full audit trail for transparency.</td></tr>
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5. Rewards and Recognition	
Each insurer conducts their own R&R program, and there is no linkage between the plans of the LI and GI company.	The two companies may be allowed to develop a joint R&R program for Combi products that exist as a subset of their own individual programs.
6. Training of Composite Agents	
Currently, the GI and LI companies conduct their own training for Agents. There is overlap in the training of the companies	It is suggested that each company be allowed to train and certify the Agent of the other company for Combi products.

Chapter 6

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