INSURANCE EXAM · IC-27

IC-27 Health Insurance

Revision book

10	2	103
chapters	master tables	numbered sections

FREE SAMPLE: Chapter 1 of 10

CHAPTER 1

Introduction To Health Insurance And The Health System In India

1.1 Meaning and commercial cover
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1.5 Industry history
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MUST KNOW

1. Health insurance = pooling health-cost risk over time (pre-payment) and over people (OECD **2004**). Core cover: medical expenses.
2. **Three parties:** insurer, insured, healthcare provider. The provider decides type, amount and cost of services.
3. **Imperfect market:** information asymmetry, risk selection (cherry-picking, adverse selection), moral hazard (demand side, supply side).
4. **Out-of-pocket spend:** **48%** of health spend in **2018**-19 (Economic Survey **2022**-23); **39.4%** in **2021**-22 (National Health Accounts). Hospitalisation products dominate. Cashless cuts spare cash.
5. **1912** first Act; **1938** Insurance Act; **1956** LIC; **1973** GIC + 4 subsidiaries; **1994** Malhotra; **1996** interim regulator; **2000** statutory + private insurers (Aug).
6. ESIS **1948** (ESI Act repealed **21 Nov 2025**; now Code on Social Security **2020**); CGHS **1954**; Mediclaim **1986** (first standardised individual product).
7. **State list:** public health, hospitals, sanitation. Rural: SC 5000, PHC 30000, CHC **1.2 lakh** (hilly 3000, 20000, 80000).
8. DGHS = principal advisory body. NPPA = central drug price regulator.

1.1 Meaning and commercial cover

- **Covers all or some healthcare needs:** hospital stay, medicines, surgery, doctor visits.
- **OECD 2004:** spreads financial risk by pooling over time (pre-payment) and over people (pooling).
- Commercial = private health insurance, same thing. Public sector insurer's product is still "private": funded by private individuals.
- Contract = the policy; insured pays premium; insurer pays named services.

TRAP

Core cover is medical expenses, not accidental death, natural death or disability.

1.2 Third party

- **Other insurance:** 2 parties (insurer, insured). Health: 3rd party = healthcare provider.
- **Provider decides:** type of services, how much, cost.
- This makes it different and complex.

1.3 Imperfect market

Cause	Meaning
Information asymmetry	Each side has incomplete information; insured may not know the contract; insurer may price wrongly
Risk selection	Insurer picks low risk = cherry-picking = cream-skimming. High risk buys more = adverse selection
Moral hazard	Demand side: insured uses more. Supply side: provider advises more, costlier care

- Underwriting = acceptance and pricing rules (Chapter 4).
- **Age 20-40 less risky than above 50:** senior keener to buy (adverse selection); insurer prefers young.
- Cost containment methods reduce moral hazard.
- **Example:** Mahesh, 28: minor stomach upset, costly hospital, best room, extra tests (demand and supply side).

> **TRAP**
> Adverse selection = insured side. Cherry-picking = insurer side.

1.4 Purpose and market

- **Out-of-pocket:** **48%** of health spend in **2018**-19 (Economic Survey **2022**-23); **39.4%** in **2021**-22 (National Health Accounts).
- Hospitalisation products dominate. Two reasons: financial access to providers; preserves savings.
- **Costs rise:** healthcare, surgery, technology, new drugs.
- **Cashless:** no need to arrange cash; less surplus liquidity.
- **Health = fastest growing segment of non-life:** awareness + better marketing.
- About **70%** covered (public or voluntary private); **30%** (over **40 crore**) not covered (NITI Aayog "The Missing Middle", **2021**).

> **TRAP**
> Most common product = hospitalisation, not overseas travel, hospital cash or maternity.

1.5 Industry history

Year	Event
1912	Indian Life Assurance Companies Act: first Act to regulate
1938	Insurance Act: life and non-life under one law; still the core
1956	Life insurance nationalised: LIC
1973	Non-life nationalised: GIC with 4 subsidiaries
1994	Malhotra Committee report on reforms
1996	Interim regulator
2000	Statutory regulator; private insurers from Aug **2000**

- **Early texts:** Manu (Manusmrithi), Yagnavalkya (Dharmasastra), Kautilya (Arthasastra): pooling for fire, flood, epidemic, famine.
- Modern insurance came in early 19th century.

TODAY'S RULE

Regulator is IRDAI (old name IRDA). Insurance Act **1938** still the core law.

TRAP

1996 = interim; **2000** = statutory. Life **1956**; non-life **1973**.

1.6 Health insurance in India

Scheme	Facts
ESIS	ESI Act **1948**; blue-collar, formal private sector; own dispensaries and hospitals plus bought services; employers + employees, topped up by Centre and States; over 130 million beneficiaries (March **2021**)
CGHS	**1954**; central government civilian employees and families; partly employees, largely central government; **2023**: 15,35,750 families, 4.3 million beneficiaries
Mediclaim	**1986**; four nationalised non-life insurers (GIC subsidiaries); first standardised individual and family product; hospitalisation up to annual limit; excludes maternity, pre-existing diseases

- **Earlier commercial cover:** mostly groups, limited.
- Annual hospitalisation indemnity contract is still the most common cover; people call all private cover "Mediclaim".

TODAY'S RULE

ESI Act **1948** repealed from **21 Nov 2025**; ESI rules now in Chapter IV of the Code on Social Security **2020**. Old rules and schemes saved for now.

1.7 Health system: structure

- **State list:** public health, hospitals, sanitation. States run own systems.
- **Concurrent list:** population control and family welfare, medical education, food adulteration, drug quality.
- Centre funds National Health Programmes (e.g. National Health Mission, which took in NRHM); States carry them out.

- **Other ministries:** Women and Child Development (nutrition, ICDS); Chemicals and Fertilizers (Dept of Pharmaceuticals); Labour and Employment (ESIS); Finance (Insurance division); Jal Shakti (drinking water, sanitation); Rural and Urban Development.
- RSBY moved from Labour to Health Ministry in **2015**; merged into Ayushman Bharat PM-JAY in **2018**.
- **National:** Ministry of Health and Family Welfare (2 departments: Health and Family Welfare; Health Research). AYUSH (earlier ISM&H) is a separate Ministry since **2014**.
- DGHS = principal advisory body to the Union Government.
- **Central Council of Health:** Union Health Minister chairs; State health ministers are members.
- **State:** State Ministry; Health Secretariat (Principal Secretary or Secretary); State Health Directorate; State Director of Health Services = chief technical adviser.
- **District:** Chief District Medical/Health Officer (Civil Surgeon or Chief Medical Officer) = technical head. Municipal Health Officer for local bodies.

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DGHS advises; Central Council of Health coordinates.

1.8 Rural public health

Unit	Norm	Notes
Sub-centre	5000 (3000 hilly, tribal, backward)	Most peripheral institution
PHC	30000 (20000 hilly)	6 SCs attached; outpatient; most have 4-6 beds
CHC	**1.2 lakh** (80000 hilly)	First referral unit for 4 PHCs; at least 30 beds, OT, X-ray, labour room, lab

- **Village links:** Anganwadi workers, Trained Birth Attendants, ASHA.
- **Rural hospitals:** sub-district (sub-divisional, taluk, specialty).

FORMULA AND WORKED SUM

- **Block of 90,000 (plain):** SCs = 90,000 / 5000 = 18; PHCs = 90,000 / 30,000 = 3; 3 x 6 = 18. Hilly: 90,000 / 3000 = 30.

1.9 Private sector and drugs

- **Mixed:** voluntary, not-for-profit, for-profit, corporate, trusts, solo practitioners, labs, pharmacies, quacks.
- **Older Tenth Five Year Plan data (not current):** **77%** of allopathic doctors private; over **75%** of health spending; **82%** of outpatient visits; **52%** of hospitalisation.
- Non-profit societies and trusts give much in-patient care.
- NPPA = central price regulator; pharma under Dept of Pharmaceuticals, Ministry of Chemicals and Fertilizers. Few drugs price-controlled; rest free-priced under watch.
- State Drug Controllers manage quality and price field force.
- Drugs are the largest part of household out-of-pocket spend.
- Drug cost is small in the in-patient bill, so insurers have not focused on it.

TRAP

Older data: **82%** = outpatient; **52%** = hospitalisation; **77%** = doctors.