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Private and Public Health Insurance System in India: Challenges and Opportunities

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ABSTRACT

The coexistence of private and public health insurance systems in India presents a complex landscape marked by both challenges and opportunities. This paper explores the intricacies of India's dual health insurance framework, analyzing the strengths and weaknesses inherent in the public and private sectors. Challenges include accessibility and affordability of healthcare services, with a disproportionate burden on public health facilities. Disparities in coverage, quality, and the urban-rural divide further complicate the scenario. The opportunities lie in leveraging the strengths of both sectors to create a more comprehensive and inclusive health insurance ecosystem. This abstract delves into policy considerations, technological advancements, and regulatory measures necessary to bridge the gaps and enhance the synergy between private and public health insurance. By examining successful models from other countries and considering the unique socio-economic context of India, the paper suggests avenues for collaboration, innovation, and reform. Ultimately, addressing the challenges and seizing the opportunities in India's dual health insurance system requires a holistic approach that integrates the strengths of both sectors to ensure universal access to quality healthcare services.

Keywords: Private Health Insurance, Public Health Insurance, Health Insurance System, Challenges, Opportunities, Healthcare Services, Accessibility, Affordability, Disparities, Urban-Rural Divide, Policy Considerations, Technological Advancements, Regulatory Measures, Collaboration, Innovation, Reform, Socio-Economic Context, Universal Access, Quality Healthcare.

I. INTRODUCTION

Insurance means a promise of compensation for possible future losses. Health insurance is a form of insurance that compensates medical expenses related to illness and treatment. It is a measure in which the risk of financial burden is spread over a group of individuals. In this way, vulnerable persons contribute a small amount to health insurance, and during illness the contributors are reimbursed for the costs of treatment.² Financial protection against the costs of

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² Aggarwal A, *Health Insurance: Innovation and challenges ahead*, Global Journal of Management and Business studies 3, 475 (2013).

illness is one of the basic goals of the health system. The concept of universal health coverage (UHC) advocates the availability and affordability of health services for all who need them without having to face financial hardship in paying for their health. An equitable health system ensures equality of access to health care.³ People living in poor and middle-income countries (LMICs) rely heavily on out-of-pocket expenditures (OPPs) to finance their health care, and therefore a key element of UHC is financial protection against out-of-pocket payments to meet quality-assured health needs.⁴

In the current scenario, the vulnerable population of our country can be protected from impoverishment and catastrophic health expenditure through a population-wide health insurance model. However, health insurance in India is still in a developing state. In this article, we have discussed the challenges and opportunities for the public and private health insurance system in India. Presently there are important challenges in the public sector as well as private sector insurance in India in terms of monitoring, data capturing, administration and oversight. It is also important to gauge the financial sustainability of the insurance programme and develop early warning systems for identification of signs of collapse.

(A) Indians are vulnerable to catastrophic health hazards:

In India, 350 million people were below the poverty line in 2009-10. Almost 70% of India's population lives in rural areas and 90% of the workforce worked in the informal sector. As a result, a large portion of India's population was vulnerable to economic strain in accessing health care. Heavy dependence on PPE expenditures has contributed significantly to household impoverishment in India. Almost half of India's hospitalized population (nearly 40%) borrowed heavily or sold assets to cover expenses, and nearly one-quarter of Indians who were hospitalized, i.e. around 39 million people, fell below the poverty line annually due to PPE spending to address hospital costs. At the other extreme, in India, to prevent such a catastrophic disease, almost 6% of the population does not seek any form of health care.⁵

(B) Healthcare system and oop spending in india:

The most important elements limiting the development of India's health care system are low public health expenditures, resulting in poor quality preventive care and the health status of the

³ Health systems: improving performance, The world health report 2010 [World Health Organization] Geneva, Switzerland, http://www.who.int/whr/2010/en/whr10_en.pdf (Last visited on Dec 11, 2022).

⁴ Health systems financing: the path to universal coverage. The world health report 2012. [World Health Organization] Geneva, Switzerland, http://www.who.int/whr/2012/10_summary_en.pdf (Last visited on Dec 10, 2022).

⁵ Krishna A, *Escaping poverty and becoming poor: who gains, who loses, and why?* World Development.32, 36 (2004).

population. According to the National Health Accounts in 2012, only 33% of health expenditure was contributed by the government and almost 67% of health expenditure was private expenditure, of which 86% was PPE expenditure. This low level of public expenditure at the country level hides heterogeneity across states. Heterogeneity is also evident at the individual level, as people with the highest health care needs are most likely to meet their health care needs due to difficult access to health care services.⁶ Moreover, the general population is forced to seek health services from the private sector as public health care is severely inadequate, which led to an increase in spending on PPE.

(C) History of health insurance in india:

The initial health insurance account in independent India started with the Employees State Insurance Scheme (ESIS) started in 1948. The Central Government Health Insurance Scheme for Central Government Employees was started in 1954. However, according to National Family Health Survey III (2005-06), only 10 % of Indians were covered by some form of health insurance. Despite the existence of insurance schemes for workers in the organized sector, providing health coverage to workers in the unorganized sector has been a problem. A formidable challenge. The total labor force in India consists of 459 million, of which about 27 million are in the organized sector (18 million distributed in the public sector and 9 million in the private sector). More recently, the Government of India and state governments have launched schemes such as the Rashtriya Swasthya Bima Yojna (RSBY) which was launched in 2008 for the disadvantaged population and to cover below poverty line (BPL) families under health insurance.⁷ State health insurance schemes have already been launched schemes which include Rajiv Arogyasri (Andhra Pradesh), Yeshasvini (Karnataka), Kalaingar (Tamil Nadu), RSBY plus (Himachal Pradesh) and the proposed Apka Swasthya Bima Yojana (Delhi). All these health insurance schemes are aimed at covering the BPL section of the respective state with wider coverage of tertiary care costs. In 2009-10, about 8% of health expenditure by the government was through state-sponsored health insurance.⁸ In addition, private health insurance for people who can pay is also prevalent in the Indian market. With economic liberalization in 1999, many private insurance companies entered the Indian market.

⁶ . Balarajan Y, Subramanian SV, *Health care and equity in India*, Lancet, (2011).

⁷ Rashtriya Swasthya Bima Yojna, National Portal, Ministry of Health and Family Welfare, Government of India. New Delhi, http://www.rsby.gov.in/about_rsby.aspx (Last visited on Dec 12, 2022).

⁸ Nagpal S, *Government-Sponsored Health Insurance in India Are You Covered?* <http://www.worldbank.org/en/news/feature/2012/10/11/government-sponsored-health-insurance-in-india-are-youcovered>. (Last visited on Dec 12, 2022).

II. CHALLENGES AND OPPORTUNITIES OF PUBLIC HEALTH INSURANCE SECTOR IN INDIA

(A) Challenges for beneficiaries in public health insurance:

Only one-tenth of India's population is covered by health insurance. Most of the insured are covered by state-sponsored health insurance, which is mainly intended for the population working in the organized sector. Enrollment Issues: The government has launched a health insurance scheme to cover a large section of India's population working in the unorganized sector. RSBY is such an initiative. People living below the poverty line (BPL) are enrolled in this health insurance scheme. Since the criteria for the BPL category are very strict in almost all parts of our country, the majority of the APL population falling just above the BPL line is not protected from the financial catastrophe of health expenditure. Moreover, there were cases where many eligible BPL families were omitted from the list and many ineligible families were included in the list. Thus, enrollment issues have always been a major challenge in covering the truly needed population. Issues related to coverage: While out-patient care and drug expenses are a major cause of impoverishment among poor Indians, most health insurance covers only secondary and tertiary care hospitalization costs, but not inpatient and outpatient care. Even expenses covered by insurance are often insufficient. A study from Gujarat showed that nearly 60% of policyholders took out PPE. Client satisfaction: Another problem with public health insurance is low beneficiary satisfaction with health services, which makes them reluctant to renew insurance. The unavailability of a network of empaneled hospitals in rural areas prevents the insurance system from effectively covering the rural population. Rural people had to travel long distances to get facilities which makes them highly dissatisfied.⁹ Service related information and feedback: Absence of proper information system about the package of services available under insurance increases the chance of PPE expenditure manifold. Because the insured will use a medical procedure that is not covered by the insurance. Absence of a proper complaint cell is also a matter of concern to get proper feedback and continuous improvement.

(B) Challenges related to the insurer in public health insurance:

- Enrollment Challenges: Public health insurance enrollment trends vary from state to state. Districts in states with poor governance have been observed to have lower enrollment rates in state-sponsored health insurance. The rural-urban disparity in enrollment also contributes to this.

⁹ Mavalankar D, Bhat R, *Health insurance in India. Opportunities, challenges and concern* (2014).

- Issues related to self-sustainability: Self-sustainability is a major concern for most government-sponsored health insurance. To address this major issue, the government must account for the allocation of funds for the initial planning and maintenance phases of the insurance system. The expansion of the system should be able to ensure coverage of the already insured and all who are eligible for subsidized benefits.¹⁰ There are also problems in creating eligibility criteria for beneficiaries, as we have already discussed the problem of BPL criteria.
- Issues related to quality control: Poor quality control and moral hazard are emerging as major challenges for government-sponsored health insurance. High attrition rates and false claims are increasing. The Government of India has already established standard treatment guidelines for a uniform treatment protocol across India. Evidence of deviation from standard treatment guidelines is quite common in India. This malpractice not only extorts extra money from patients but also exposes them to adverse drug effects.
- Challenges in provider selection: Identifying a partner or insurance company that can provide services at a competitive rate in a transparent manner through an open tendering process and creating a network of rated hospitals that agree to provide quality treatment at approved package prices are other emerging challenges in areas of the health insurance sector. Many hospitals refused chronically ill patients under RSBY. There was evidence of fraudulent insurance claims and a poor focus on quality.

(C) Opportunities for public health insurance scheme in india:

- Leveraging existing healthcare infrastructure as a platform: India already has a well-structured state healthcare system consisting of primary, secondary and tertiary healthcare facilities. Redesigning the linkage and referral system can put the entire healthcare infrastructure on a solid foundation. A government-sponsored health insurance scheme can then potentially cover the Indian population universally through this platform.
- Untapped Market: India with lower health insurance coverage provides a huge opportunity to expand the breadth and depth of the insurance market.
- Wide range of coverage: Most insurances only support inpatient care costs, while most PPE expenses are due to outpatient and medical expenses. In addition, ignorance of the early disease also pushes most to a severe stage of the disease, burdening them with high

¹⁰ Lagomarsino G, Muga R, *Moving towards universal health coverage: health insurance reforms* (2008).

hospitalization costs. Thus, insurance covering ambulatory care facilities, early diagnosis and treatment of diseases could prevent greater financial burden in the long run. A study in Andhra Pradesh discussed an integrated model where health insurance covers benefits from all levels of health care while providing greater benefits to families living below the threshold poverty.¹¹

- Utilization of existing institutes: Existing bodies like ESIC and Railways have extensive infrastructure and vast experience in health insurance which could be expanded for better risk pooling.
- Improving the quality of services: The study suggested that the government-sponsored program has scope for improving strategic purchasing, quality of care, continuous auditing and embedded evaluation. To overcome the shortage of qualified specialists and critical infrastructure, the government can purchase tertiary care for beneficiaries from the private sector. However, a robust regulatory system with regular and social audit is needed to control malpractice and standardize treatment.

III. CHALLENGES AND OPPORTUNITIES OF PRIVATE HEALTH INSURANCE SECTOR IN INDIA

(A) Challenges for beneficiaries in private health insurance:

- Affordability issues: Although there is a large disparity in the cost of medical care between urban and rural areas, existing health insurance policies do not recognize this fact, resulting in a common premium for all and the rural population often unable to purchase health insurance due to high insurance rate.¹²
- Skimming the cream: Private insurance is usually unlikely to cover the elderly and sick (skimming the cream), thereby adversely affecting the health insurance objective.
- Cost control: There is also a tendency for hospitals to increase the cost of health care for the insured by rationalizing approaches to extended stay, higher utilization of diagnostics and procedures than is justified. Health insurance, if not properly regulated, can only lead to unethical practices and further victimization of patients.

(B) Insurer-related challenges in private health insurance:

¹¹ Rao M, Ramachandra SS, *Addressing healthcare needs of people living below the poverty line* 4, 12 (2018).

¹² Arunachalam P, Mini PP, *Entry of private players in health insurance sector: Opportunities and challenges*, <http://it.mesce.ac.in/jotm/vol4/chap7.pdf>, (Last visited on Dec 11, 2022).

- Less interest from private sectors: India experienced economic liberalization 25 years ago, but private companies still contribute 30% of the health insurance market, which is almost 5 times less than the global average. Since the loss ratio for private companies is almost 100%, most insurance companies are not interested in health insurance.
- Moral hazard issues: Evidence from the Community Based Health Insurance (CBHI) model in Gujarat reported increased interest in health among policyholders. This may seem like a good sign from a public health perspective, but we cannot rule out a moral hazard that may affect the self-sufficiency of the insurance model.¹³ Second, registered physicians and medical facilities were at best lightly regulated. Hospital admission rates among the insured population were seen to be almost double the national average of hospital admissions. Another CBHI from Andhra Pradesh, Rajeev Arogyashri, based on the PPP model, also appears unsustainable due to high moral hazard from the recipient and providers. An unchecked private sector can inadvertently increase the overall cost of health care through an open fee-for-service system.
- Issues related to provider accreditation: Accreditation of physicians is another key hurdle in India and any proposed introduction of an accreditation program raises alarm from research stakeholders. The presence of a large number of unregistered doctors who do not fall under the formal system is another obstacle to ensuring a network of care and payment system.

(C) Opportunities for private health insurance scheme in india:

- Untapped market: Given the limited penetration of private insurance among the population, a tailored, personalized and flexible system can attract more people. As health care costs are relatively low in rural areas, the one-size-fits-all approach can be transformed into a differentiated rural health insurance scheme suitable for the rural population. A proper health service evaluation mechanism is needed to control provider prices. Newer schemes to meet the changing needs of society, especially insurance covering the sick and elderly population, are the need of the hour.
- Better private sector infrastructure: The private health insurance system has a financial advantage to implement a quality data collection and reporting system.
- Reducing the burden on public health sectors: Part of India's public health expenditure is consumed by the economically advanced section of our society. Lucrative and better

¹³ Supra note 11.

insurance schemes can attract them to private hospitals with better treatment facilities, which in turn will provide more opportunities for public health to spend on the economically poorer section India. So creating a differential insurance policy based on area can popularize it among the general population. So an alternative to solving this problem is cost management and a package-based approach.¹⁴

IV. CONCLUSION

Health insurance in India is in its infancy. With rising healthcare costs, the Indian population is at a higher risk of catastrophic healthcare expenditure, which ultimately leads to impoverishment. Health insurance can protect this huge potentially vulnerable population and fulfill India's desire to achieve universal health insurance. However, there are currently important challenges in both the public and private sectors in India in terms of monitoring, data collection, management and oversight. We believe that the presence of human resources in community medicine departments in medical schools across the country should address this issue. They could focus on any one or more of the components, eg data collection, treatment standardization, monitoring, quality assurance, administrative support by providing supportive supervision, the ability to conduct certain malpractice audits including overbilling. The Ministry of Health and Welfare could help organize relevant training in this regard. It is also important to assess the financial sustainability of the insurance program and develop early warning systems to identify signs of collapse. Another area where insurance programs must work is to ensure an adequate focus on primary and secondary levels of care including preventive aspects, as most currently only focus on tertiary care. Finally, the regulation of health insurance is very crucial, especially in the private sector, it can be explained as where the health insurance system was not strictly regulated, as in the United States, people were at the mercy of insurance companies who could refuse coverage or charge high premiums from the healthy and on the other hand find excuses to deny reimbursement to an insured who needed care.

¹⁴ Pandve HT, Parulekar CV, *Health insurance: Is Indian rural population aware?* (2013).