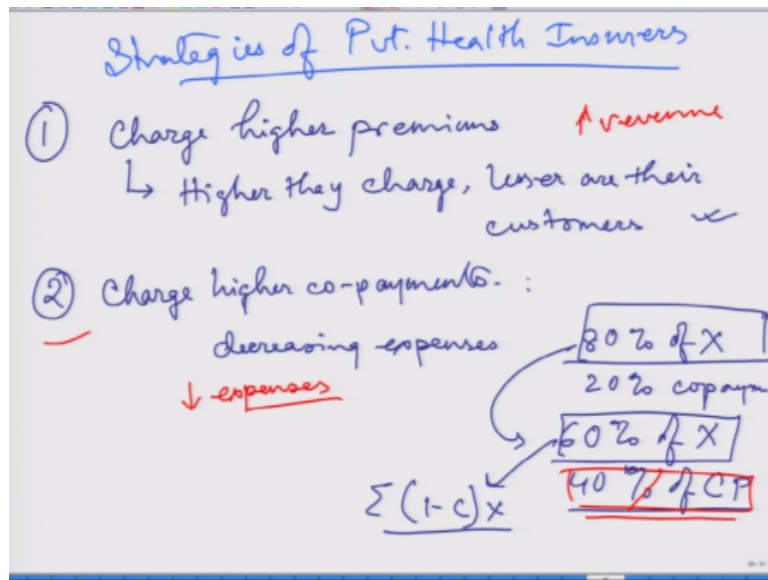


**Economics of Health and Healthcare**  
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**Lecture - 30**  
**Strategies for Private Health Insurance Companies**

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Okay so the private insurance has certain you know to gain the profit. Private insurance are the profit making firms you know they are not doing it for the charity. So if the private insurance companies are into the business, so they have certain incentives yes and to be in the competition they have to follow certain strategies. Now what are those strategies? So strategies of private health insurance companies or I will write private health insurers.

Strategies of private health insurers, so what are the strategies they play, number 1 is they will charge higher premium and they understand that higher the charge lesser are their or fewer are their customers but they do not mind. Even if they have fewer number of customers they will charge high but they will say we will cover all these things you know in fact nowadays certain insurance companies are coming to your home, doing some basic health checkups at the home.

How customizing they are making, it is very, very high. The charge, the insurance premium is very, very high. They will come to your home, do the basic tests you know, all these basic

health check-up tests, they will do at the home, they will keep all the apparatus and not everybody can pay that amount you know. So they have a very less amount of customers but they do not mind, they are making their premium high.

And then altogether their revenue is high, so this is number 1. Number 2, charge higher co-payments. Charge higher co-payments, so this is one way to make your so one thing is that you are not more here and the other thing is that by charging higher co-payment you are actually decreasing your expenses.

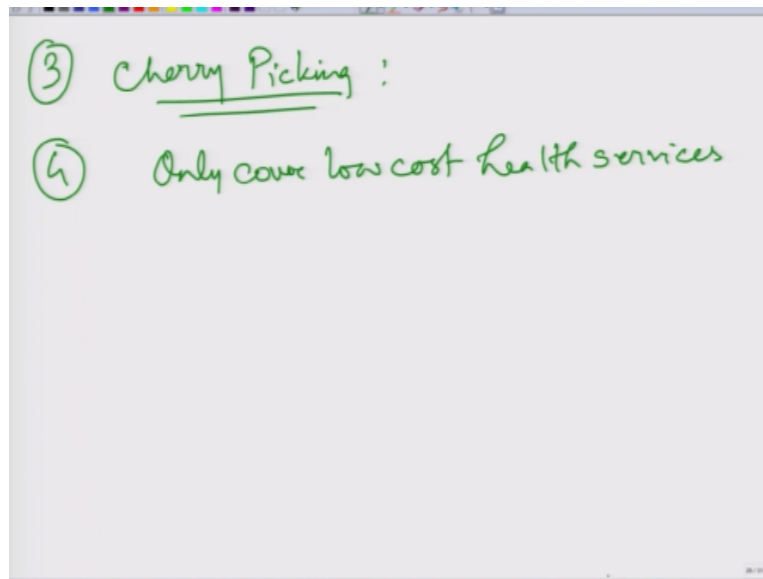
Because if  $1-CX$  so it is like decreasing expenses because if you pay 20% of you know sorry 80% of  $X$  that means 20% is co-payment is always you know always higher than if you pay only 70% or even 60% of  $X$ . That means 40% are coming from these patients of co-payment are coming from the patients. If you are paying 60% of  $X$ , your indemnity summation  $1-C*X$  is actually lower.

So your expenses is falling, so either you increase your revenue here or you decrease your expense here. So here increase revenue, here decrease expenses, both the way you are finding your way to make profits yes and the third one is so over here they will again get fewer customers but they do not mind because they will try to get those who are healthy and then they think okay fine and then they will keep the premium low here.

They can afford to keep the premium low here because in the second case yeah premium low here because by keeping the premium low they are encouraging those who are probably the healthier one, educated one, young ones and at the same time even if people look that okay as a customer I need to pay a lot when I am you know going for the claim but they also think that at this young age I am not going to a charge for you know ask for any claim.

I am not going to fall sick really, so why should I really pay a higher premium, so I will pay lower premium and as I am not paying you know I am not going to pay for any hospitalization in near future, so even if it is 40%, 20%, 60% I really do not mind because I am not actually paying anything at the end of the day. So my total premium is actually what I am paying and that is important that I am keeping it low yes. So it is a win-win situation again for both of them.

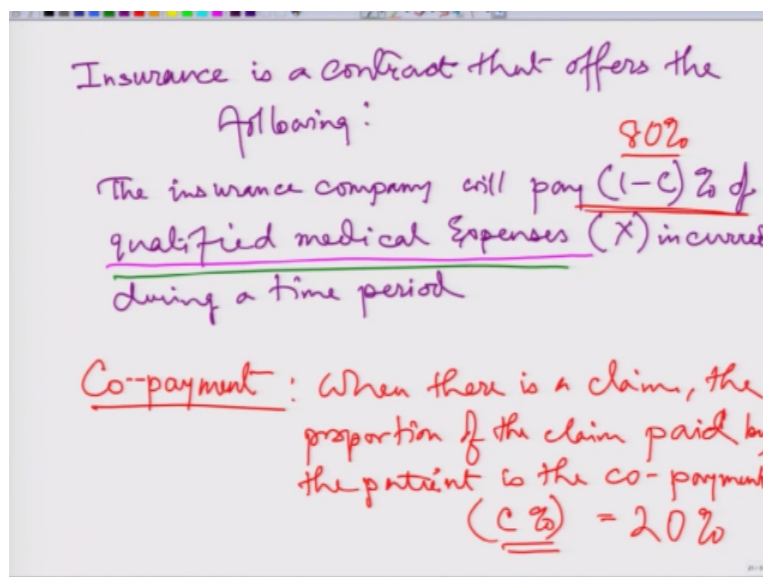
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Number 3 is cherry picking. In cherry picking, they will selectively find only those who are healthy or young or educated or working with the formal sector know, so picking like when we are given a cake will try to pick the cherry you know everybody looks at the cherry, so that is the cherry picking, so these are the people who are healthy right and then they are not really going to ask for claims in future.

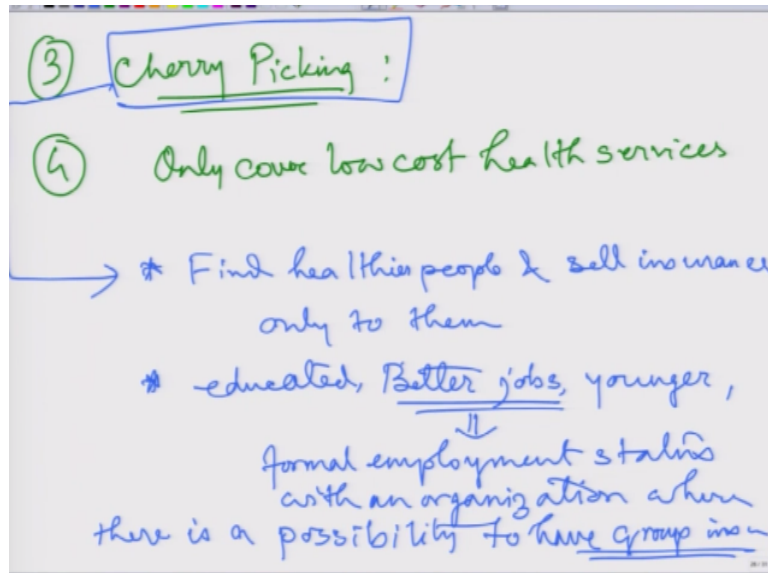
So this insurance companies they will just try to pick those cherries, those healthier people you know so that they are not going to make any indemnities but earning the premiums that is cherry picking. We will have a detailed discussion on cherry picking. 4 is they will only cover low cost health care's or health services. So when they say that we will cover. I do not know where did I write anyways.

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When they say that we will cover, it is not eligible yeah qualified medical expenses end if those qualified medical expenses, what they qualify those diseases they qualify under a particular insurance.

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If they have kept them as low cost ones, so they do not really cover the treatment costs for cancers. They really do not cover treatment cost for complicated heart surgery or a brain surgery which costs high. So their expenses again low because only they will cover for those where they will you know the claim will be some (FL) amount you know the small amount, so they really do not bother.

So these are the 4 ways where either they are increasing the revenue or they are decreasing the cost to make a way towards profit. Therefore, we will now look at this cherry picking. So what this cherry picking says. This cherry-picking says that find healthier patients, find healthier patients and sell insurance only to them to those who are healthier yes, sell your insurance okay I will write find healthier people and sell insurance only to them yes.

Next one, this is known as cherry picking. So what they do? They will find the healthier people who are educated you know better jobs, younger and well better jobs with formal employment status and with an organization where they have a possibility to do where there is a possibility to have group insurance. Now this group insurance means say they go to Infosys or TCS.

A huge number of young people walking there, all educated, young, walking with a formal employment status you know and then you approach the HR at TCS or Infosys that I want all these 200 you know 200 young people who have joined you this year, I want to insure them right, so you give a group insurance with a lower premium and all this 200 you join your customer base at one go with not much effort yes.

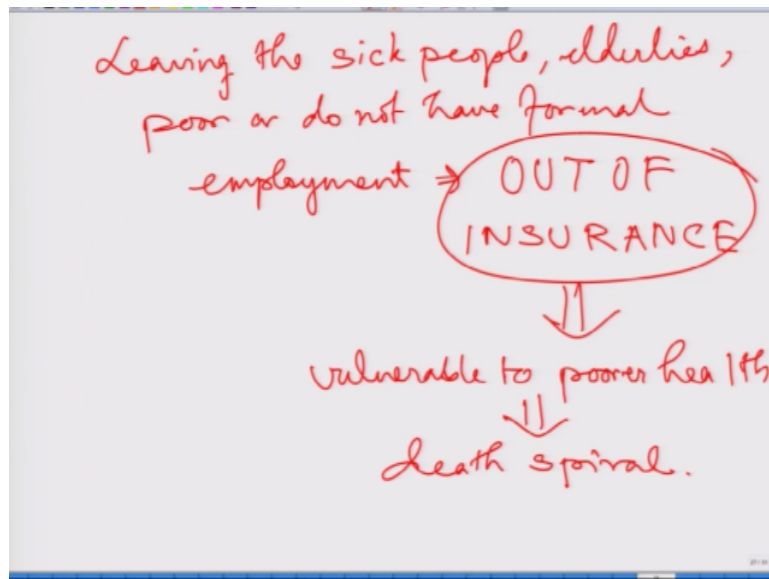
And that is you know all are cherries for you. You know look you are not going to pay for them in near future. What you can do? You can do a bargaining, you can say if the company is also paying some part on behalf of them, you can say okay we are keeping the premium low you know and eventually you can offer a lot of health services. You know under group insurance if I can go for a pregnancy coverage I cannot gain it.

I have to pay and you know when I asked that can we get a pregnancy coverage then my insurer said yes, 3 years your wife cannot be pregnant and you have to pay some 15,000, 16000 rupees and only the 4th year and that only covers those 3 days or 4 days' hospitalization or the delivery package. Often they do not cover if the child has to go for an neonatal intensive care treatment you know NICU they do not cover that or anything beyond this 3, 4, days they generally do not cover that.

Now again it differs from policies to policies but generally you know they do not cover your entire 9 months' pregnancy treatment. Only those 3 to 4 days you know and for that I am paying 45,000 rupees already, maybe with that insurance I can go to a top-class tertiary care hospital and again pregnancy is not a disease, so nobody actually bothers about that whether they will put 4 balloons in my car when I am getting my baby to home.

But this is how they are segmenting market. At the same time not everybody those are insured are being pregnant immediately, so 8 years you know if a person joins in 21, 22 at an age if a male, so 18 years they are not asking for a pregnancy coverage and if you have put some amount for that pregnancy so it is again accumulated benefit for you for that long term. Eventually doing this cherry picking, finding only healthier people, educated young people there is a serious negative you know effect.

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What is that negative effect towards the society is I am living the sick people, the elderly, poor or those who do not have formal employment out of insurance and this out of insurance is making them vulnerable to poorer health creating a death spiral yes. So and again finally but they are again profit-making institute and being a private health insurance if they do not do that then they will be paying a lot for this.

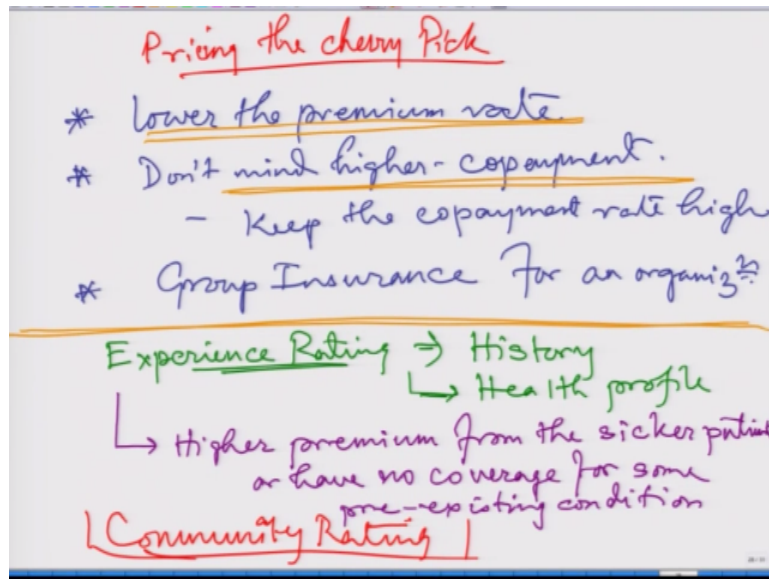
And then certain section they have to do a cherry picking and if they continue you know insuring a higher proportion of the sicker people, they are going to go out of the business because the premium they cannot keep high for those who have retired, for those who are poor, for those who are uneducated, their health seeking behavior will be poor, they will have a higher vulnerability to fall sick, higher probability to fall sick.

And then when this probability to fall sick increases, my indemnity increases and if that indemnity who will cover that, those who do not have a higher probability to fall sick, the young ones and then the best you know strategy to find those young healthier ones, educated ones is to do cherry picking. So to be in the business you have to do a bit of cherry picking. You do not have any other option.

But how I price, how I generally price this you know the cherry-picked people that I know I understand that they are healthy and they do not really expect too many things that you okay I cover you this, I cover you that, they will say I do not require them. They are young, they are healthy so they are educated, they have a better knowledge about the health system, health

seeking behavior and all this. So they will say that I do not require that, so how will you allure them?

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So the number 1, when we talk about the pricing the cherry picking then what we do the first one is lower the premium rate that okay fine you just pay otherwise I charge you know 5,000 rupees, so you just pay 3000 rupees or 2500 rupees and then they say okay fine I can pay you know nothing I do not know what happens you know this is really uncertain, accidents may occur, so I can go for your insurance if you give me a lower premium rate.

And the insurance companies also know that even if they go for individually that this people are not going to ask for any claim immediately and if it is a group insurance they can further you know decrease the premium rate. The second is that group insurance. Okay before this I will say that they do not mind higher co-payment because they are working well, they are young, so do not mind higher co-payment.

So keep the co-payment high, so keep the co-payment rate high yes and third can be group insurance yes for a formal, group insurance for an organization yes. So to cherry-pick what we do? Lower premium rate and higher co-payment, this is how we fix the price of a particular cherry-picked customer. In order to do cherry picking, we have to do one thing just to reduce you know my probability to pay them higher you know just to have a better idea about the profile of my potential customers.

Often in terms of group insurance, these health insurance companies will pay the organization or the HL or will pay themselves for the health check-ups. So every year there will be an additional health checkup which will be paid by this health insurance company. So that health check-up is known as experience rating, very important yes. By this, they learn that history or the medical history or the health profile that how healthy that person is.

Even nowadays with the sedentary lifestyle with higher prevalence of drinking alcohol, smoking you know not much of exercise, too much of fat consumption, ready-made food, we have moved to a sedentary lifestyle and then what is happening with this kind of nutrition transition where our diet has really shifted from cereal to you know kind of this fat based sugar and salt based diets.

We are more prone towards this over nutrition or lifestyle oriented diseases that these cardiovascular diseases, cancer, type 2 diabetes you know. So this you know at a very young age so the health checking of a health profile is very required even if we are going for a well to do this young person and then once we are doing this health profile or experience rating how does it help us?

It gives us that the discretionary power where we can charge a higher premium from the sicker patient where I can cover my risk towards paying that patient higher in near future as I was expecting otherwise or have no coverage for some pre-existing condition that okay I already have cholesterol, so they may not consider some of the diseases related to cholesterol. I have a high obesity, so they may not consider.

And the insurance systems are allowed to experience rate they will if they are but in all the cases the government sometimes they say that the insurance companies are not allowed to do experience rating, in that way because the insurance companies will leave the sicker people out of the insurance, they would not sell the insurance to them. So the government in some cases they can pass a bill that the insurance companies are not allowed to experience rating that is illegal or logically wrong.

So the government can insist for a community rating that rather than rating individual patients or individual customer, you can experience it for a particular community based on their 1-



year profile or 5 years profile for that geographical location for that socio-economic condition. Thank you.