

**Economics of Health and Healthcare**  
**Prof. Deep Mukherjee**  
**Department of Economic Sciences**  
**Indian Institute of Technology – Kanpur**  
**Prof. Angan Sengupta**  
**Department of Management, Amirtha Vishwa Vidyapeetham, Bangalore**

**Lecture - 31**  
**Types of Health Insurance and Death Spiral**

Hello everyone. In this session, we will start with the different types of insurance and the insurance mechanisms. So we will talk more about insurance markets, insurance mechanisms, different insurance stakeholders, how do they work, operations as well. So generally if we look at the insurance market overall there are 3 kinds of insurance, one is private insurance.

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	Public insurance	Pvt. insurance	Employers sponsored HI
Type of insurance			
When to enrol			
When coverage starts			
Cost			
Health care providers		MCO PPO HMO POS	

So the first thing can be the public insurance, private insurance and employer sponsored health insurance. As the name suggests, so the public insurance are those which are supported by the government. Private insurance are those which are generally individual level and employer sponsored health insurance are those which generally are funded by the employers or the organizations one individual one person is working for.

Now when we look at these you know the differences across all these. So the first thing will be the type of insurance. So when we talk about the type of insurance, it is basically say private insurances are voluntary, public insurances are not really voluntary but you know the government wants to cover all the sections of the population depending upon the schemes you know objective.

So one particular scheme may be they are targeting the below poverty line people, one particular scheme they are targeting the pregnant ladies, one particular scheme maybe they are targeting the elderly you know and there is you know it is kind of a mandatory or a particular scheme for a particular section of population who are working for the government. So it is a kind of employer sponsored health insurance but coming from the government.

So the coverage intended is 100% and you know if the person is tracked or you know if they are convinced then they are going for the health insurance but there is nothing such voluntary whereas private insurance is absolutely voluntary that the agent or the third party administrator will learn about that shortly. So they will approach the individual customers or potential customers and they will try to sell their insurance you know as a commodity as a good insurance as a market good.

They will try to sell them whereas employer sponsored health insurance it is often mandatory that when I join an organization, I take an insurance. I can you know kind of a bargaining with this health insurance the organization; with my organization that I do not want this health insurance because I have already got maybe one or two or multiple you know health insurances. So that is a different story all together which happens in the personal level.

But when you know I am joining an organization in a formal setup for the formal temporary I am sorry permanent employees, they have to have an insurance. So this is the basic differences in terms of type of insurance. Second can be when to enroll. When we talk about when to enroll it is like say both public and private insurances are generally you know enrollment happens throughout the year.

Private insurances are of course you know they will approach you, they will come and once if it is a renewal then there is a time period that before you know the policy get exhausted I have to renew that, so there is a time period a window but otherwise for a new enrollment there is no such window.

The agents or the third-party administrators of the insurance companies they will approach us and we are getting the insurances depending upon our feasibility, our affordability and all this. Whereas for public insurances in certain cases you know it is of course throughout the

year but in certain cases if the insurances are you know being given to some section in a particular village for a particular section of the population through some health camps and all.

Then the enrollment will take place only during those health camps and you say in my village the government brings a health camp, they will do our basic checkups and they will forward you know us in insurance scheme so and I get enrolled in that insurance scheme when this opens up and the employer sponsored health insurance generally opens up during a particular time period that is what these employers are going to decide that when they are going to open that particular window.

And when you know when this coverage starts? In terms of when the coverage starts, the coverage in case of public or private insurances it starts immediately, whereas in employer you know employer sponsored health insurance it depends that what the health insurance scheme is offering and you need to talk to the employer that when my coverage starts and how it is starting and you know all the nitty gritty.

So that probably you do not have any idea about that and then the employer is actually dealing with the health insurance organization or the third party administrator and then you need to talk to them, whereas the private and public insurance generally you know they have a mandated time period that just after this or immediately yeah the health insurance is activated.

The fourth point can be the cost. Now this cost depends upon several factors you know. When these public insurances in several cases they are completely you know paid by the government, the insurance is paid, the premiums are paid by the government. In some cases, the insured people also need to pay a small amount of money. In some cases, the total claim if it is within a certain range say 60,000 then the insured person do not have to pay.

If it is more than 60,000 then they may need to pay certain amount of that extra you know 40,000 or something say if they now have to pay 1 lakh. So over 40,000, they need to pay certain amount. So that is differing with the scheme to scheme in public insurances, whereas private insurances it is mandated, it is mentioned in this health insurance policy that what is the co-payment that how much is the co-payment that the patient needs to pay when they claim the insurances benefit.

And at the same time what is the premium they are paying. In public insurances, most of the cases they do not have a direct premium payment mechanism whereas in employee sponsored health insurances you need to ask that how much is being you know deducted from your salary towards this health insurance, how much the employer is giving. So again it differs from the employer to employer.

It differs from the insurance companies with whom the employer is registered with and it also depends upon your own you know experience setting which is done by the insurance company or your employer based on your age, your designation, your health profile and all this. So again it varies from case to case you know. The third thing can be I mean the fifth thing can be health care providers, which are the health care providers, who are associated with each of the schemes.

Health care providers, you know in public insurances most of the cases all these government hospitals are impaneled with these schemes. In certain cases, say in India in terms of public-private partnership, several private hospitals are also or charitable hospitals also coming forward to help the government to release its load because with these schemes the health seeking behavior have improved.

And then the lot of patient flow towards these public health setups and then it is finding it difficult to manage and then several private hospitals have you know joined hands and then are trying to help the government hospitals and so these are the health care providers. In certain cases, you know say in CGHS Central Government Health Schemes, so they have got their own dispensaries, own hospitals or ESIS.

So they have their own clinics all these things, so the healthcare providers are different in terms of public health insurance and when I go to the private health insurance they clearly mention which are the hospitals impanelled with a particular private health insurance. So all these hospitals lists have to be there and you have to be very sure that you know the nearby hospitals before you meet with an accident or an emergency period.

You have to know that which are the hospitals impaneled are closer to you with your health insurance scheme which you are you know registered with and then you can decide that

whether which one will you choose but when you have say 3 hospitals near to you but none of them are registered with your health insurance schemes and in during emergency you do not know where to go and which are the hospitals you just assume that they are there.

You went there and then unnecessarily lost time, so private insurance are you know very, very clear about which are the hospitals they are impaneled with, which are the hospitals which give you cashless benefits, which are the hospitals which give you the benefits in terms of now you pay and then you get the payment back you know I mean the money back from the health insurers.

And next is that employee sponsored health insurance, again you need to ask it from your employer that which are the health insurance companies are registered under my health insurance because most often you do not have this you know even if you have the card but you do not have entire document with you. So you need to ask and check it with your HR manager and to be sure that you have proper idea about the health care providers which is a very, very important component of the health insurance of any health insurance.

So however, there are certain you know and in terms of private health insurance there is one more point while we talk about health care providers because there is a concept of PPO and MCO, preferred provider organization and managed care organization or health maintenance organizations, PPO and HMO together are known as MCO.

Health maintenance organization, preferred provider organizations and points of services, together they are known as managed care organizations, a very popular framework in US Healthcare Systems. So in these private health insurances, these are basically private health insurances while HMO is well supported by the government by the federal government in US.

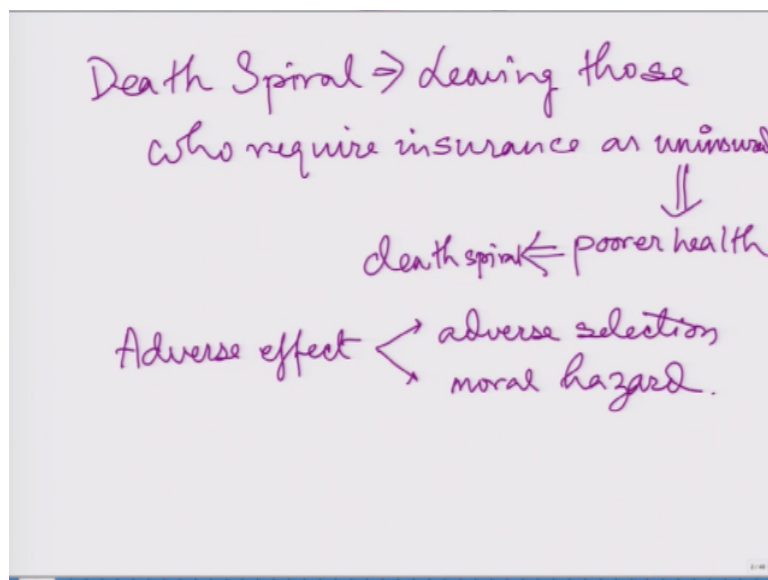
Otherwise what happens that these are generally form an umbrella under which they bring the medical practitioners I mean the doctors, the hospitals, the diagnostic centers, the insurance, the pharmaceuticals everybody together right. Again that is a private health insurance and in that if you are a registered member of such organization, preferred provider organizations or health maintenance organization then you have a clear idea that which are the hospitals or providers you can go to.

And it is your choice in most cases you know immensely in PPO but not in HMO. We can have a detailed discussion over this. Anyways in terms of problems what we find in case of private insurance that private insurances are the profit-making agencies. So when in order to make profits, they generally follow what we learned, they follow several you know 4 mechanisms.

Charge high premium or charge low premium or charge high premium low customer base, low premium target high customer base but keep a high copayment you know or you do cherry picking. So all these things you know you have to figure out as a private health insurances insurer but at the same time there are certain negative aspects in it, while we do cherry picking we form our death spiral that well we select only the healthy people, only the educated people, only the people who are employed with the formal education.

Then, we are living out the sick, the poor people who basically desperately need health insurances where we are ending up giving insurance to them who do not require at that point of time.

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At the same time, this will create a death spiral because in that while we are doing this cherry picking, in that scenario we are actually keeping the; we are leaving those who require insurance as uninsured. Uninsured that means now, not having insurance has poorer health. Many people with poorer health is a poor society and we are causing a death spiral right.

Now in this death spiral what eventually happens in that, everybody every; you know competitive individual health insurance organization are competing with each other.

And then they are trying to cherry-pick and trying to find the best of the population or the lived population with lowest risk to be insured under them. The more they cherry-pick, the stronger is the death spiral yes. While everybody tries to cherry-pick not actually having a nice mix of healthy as well as unhealthy people. Then, all these uninsured people are basically poor, old, and unhealthy.

And this finally has an impact as an adverse effect you know. One is the moral hazard and another one is adverse effect or adverse selection. Therefore, in terms of adverse selection, so two adverse effects. One is adverse selection and another one is moral hazard. Now adverse selection is while everybody is trying to get the best of the you know trying to cherry-pick or get the healthy people insured.

Then, many of them in search for more and more larger and larger customer base. What they are doing? They are actually ignoring the experience rating. Once they are ignoring the experience rating, they are in a risk, falling in a risk that they are finally insuring people who are lying to them that they are healthy but eventually they are not healthy right. So while again it is a competition, everybody is being desperate.

Therefore, that particular health insurance company has actually misunderstood an unhealthy person as a healthy person and then estimated their probability of sickness as wrong. Once they have estimated the Ps probability of falling sick wrongly, they are estimating their expected payout lower and may fall into and they are best on their expected payoff, they are estimating their premium which is now they are charging less.

And they may fall into a trap where they are making loss. So that is that one adverse selection and when the insurance companies are making loss then they are not interested. They lose interest either they will move out of the business or they will lose interest you know to do any charity or you know they will move out of this ideology they also need to insure unhealthy people. The second one is moral hazard.

I briefly spoke about that that when people have insurance they will also go to the doctor to have their nails trimmed that means that if might you know for a minor problem say it has happened, I have personally seen that case that a person has broken her arm and then she has went to a hospital or nursing home to have her you know elbow plastered. They said that do you have health insurance.

Having a positive reply, they said do not worry you stay back you know you just get hospitalized, get admitted and then this cost will be covered and she estimated that the cost is eventually lower if she stays back with the hospital right and that is moral hazard from both the sides because when hospitalization is not required but the person is getting admitted, moral hazard from the patient's part or the trimming of nail can be done by themselves.

And then it is an extreme example does not happen like that but still they are still going to the doctor. At the same time, when the nursing home or the hospital is indulging that you know you stay back and then because they will earn a lot of money out of that and then it is a win-win scenario for both the patient as well as the hospital but who is losing out is the health insurance company.

So these are the two basic problems with the private health insurance what we find often. The problem with the public health insurance in a country like as big as India as diverse as India is to target them. The people mostly they do not have awareness about this health insurance programs or the schemes and even if they are enrolled with the schemes you know the hospitals or the health centers are so far away that they cannot actually avail that so.

Even if the affordability now insured, being insured by the governments, the accessibility has remained a problem and slowly it takes time and eventually there are government schemes like say government schemes likeESIS where they give money for the transportation, in CGHS they are trying to give money for the transportation that till 30,000 coverage. If they come, then they will be paid 100 rupees something like that you know.

So that the other costs apart from this health care treatment costs, the opportunity cost, the transportation cost, opportunity cost of not going to a job you know because they are mostly daily wage earners. So these are being covered so that the health seeking behavior is



improved. So that is how we end of course with the employer's health insurance schemes. I do not know what kind of a health insurance I have with my employer.

So we never bother to ask them. We know that we have a health insurance but we never know that whether that insurance will really work out or not and so this has remained a problem. Even for private health insurance, there has been a problem in terms of this awareness because we do not know which are the hospitals. You know even you ask most of this educated people they do not have idea. I did not have idea few months back maybe. Thank you.