

FEBRUARY 20, 2018
ISSUE NO: 69, FY18**HEALTH IS WEALTH: HOW MODICARE CAN
BENEFIT INDIA**

Government has announced a new scheme named National Health Protection Scheme (NHPS). This will be the world's largest government funded health care programme and adequate funds will be provided for smooth implementation of this programme.

We believe, the new initiative taken by Government was the need of the hour as many developed and developing countries have already started the Universal Healthcare in early 1940s of twentieth century (e.g, Japan 1938, Germany 1941, Belgium 1945 etc). Out of the 33 developed countries, 32 have universal health care.

Interestingly, in May 2015, Government launched 2 low cost insurance schemes under the name of Jan Suraksha. Both the policies were term insurance and renewable every year, through auto debit facility in the bank accounts. The demand for Jan Suraksha policies got a huge response by all the strata's of the society, primarily due to the low premium and Government Backed. As on date, there are around 19 crore policies enrolled under Jan Suraksha scheme that is amazingly higher than 18 crore new policies that have been issued by all the insurance companies in the country. This shows the success of any Government backed insurance scheme and from such a angle the proposed healthcare scheme will be a success if implemented properly through a proper institutional mechanism.

In fact, our estimates suggest the initial cost under Modicare will be less than the market estimate of Rs 12000 crore (Government has already provided Rs 2000 crore in budget and Rs 11000 crore is proposed to be mobilized through cess) because the claim ratio in the first few years will be low as it generally takes time for awareness to increase. For example, Net incurred Claim ratio in RSBY, was low in the initial years. From 87% incurred claims ratio in 2012-13, it has now gone up to 122% in 2016-17.

Importantly, the pricing of this scheme should vary from state to state as otherwise it may lead to cross subsidisation. Additionally, as the scheme gets running we can even think of rolling it out to a large population through a 2-tier system where the Government may provide insurance based healthcare services to people who can afford, thereby mitigating the Govt fiscal cost.



MODICARE: HEALTH INSURANCE FOR ALL

- ◆ Government has announced a new scheme named National Health Protection Scheme (NHPS) in the Budget FY19 as a part of "Ayushman Bharat" programme to address health holistically, in primary, secondary and tertiary care system covering both prevention and health promotion. The scheme is aimed to cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage upto 5 lakh rupees per family per year for secondary and tertiary care hospitalization. This will be the world's largest government funded health care programme and adequate funds will be provided for smooth implementation of this programme.
- ◆ A lot of debate and discussion is going on in the public domain regarding its fiscal burden, feasibility, coverage and successes. Some experts are arguing that the cost will be as high that it will increase the fiscal deficit by 10-15bps. We believe, the new initiative taken by Government was the need of the hour as many developed and developing countries have already started the Universal Healthcare in early 40s of twentieth century (e.g, Japan 1938, Germany 1941, Belgium 1945 etc).

Cross Country Experience

- ◆ Out of the 33 developed countries, 32 have universal health care. They adopt one of the following three models. In a single-payer system, the Government taxes its citizens to pay for health care. Twelve of the 32 countries have this system. The United Kingdom is an example of single-payer socialized medicine. Other countries use a combination of Government and private service providers.
- ◆ Six countries enforce an insurance mandate. It requires everyone to buy insurance, either through their employer or the Government. Germany is the best example of this system. The nine remaining countries use a two-tier approach. The Government taxes its citizens to pay for basic Government health services. Citizens can also opt for better services with supplemental private insurance. France is the best example.

State wise experience

- ◆ At present, India has the Rashtriya Swasthya Bima Yojana (RSBY) that was envisaged to provide health insurance coverage to families of Below Poverty Line families. It provides cover for hospitalization expenses upto Rs. 30,000/- for a family of five on a floater basis. The beneficiary families under RSBY scheme in 2017 were close to 3.65 crore covering only 61% of the total eligible household. Both amount and its coverage wise, the present scheme was inadequate.

- ◆ Not all states participate in RSBY. Andhra Pradesh did not adopt RSBY as it already provides a generous health insurance scheme (Rajiv Aarogyasri Scheme). The states of Jammu & Kashmir and Madhya Pradesh are officially participating in the scheme, but as of September 2016, none of their districts had enrolled households into RSBY. In two other states (Karnataka and Tamil Nadu), RSBY has been rolled-out in only a few districts, with other districts being covered by their respective state financed

Statewise Health Insurance Scheme				
State	Scheme	Year of Launch	Coverage Amount	Beneficiaries
Andhra Pradesh	Rajiv Aarogyasri Scheme	2006	Rs 200,000	All BPL Families
Tamil Nadu	Kalaignar Kappeettu Thittam	2009	Rs 200,000	Annual income up to Rs 72,000
Gujarat	Mukhyamantri Amrutam Yojana	2012	Rs 200,000	Incoep to Rs 250,000, reporters and fix pay employees of class-3 & 4 also included
West Bengal	Swasthya Sathi	2016	Rs 150,000 - Rs 500,000	Self-Help Groups, Civic Police, Gram Panchayat, and Disaster Management Team
Maharashtra	Rajiv Gandhi Jeevandayee Arogya Yojana	2012	Rs 150,000	22.3 million ration card holders
Rajasthan	Bhamashah Swasthya Bima Yojana	2015	Rs 30,000 - Rs 300,000	People below poverty line
Karnataka	Aarogya Bhagya	To be launched	No medical cap	The entire state population

Source: SBI Research

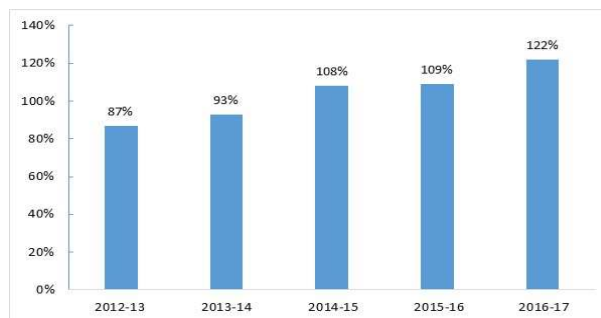
health insurance schemes. These state-specific schemes provide a more generous benefit package and cover a broader population group than RSBY.

- ◆ States, which have to provide for 40 per cent of Modicare’s costs may not run both schemes together and there could be a chance of duplicity of beneficiaries. Apart from this, States may not favour of merging their own schemes with Modicare, as the latter is restricted to a limited section of poor population. For instance, the Centre’s new scheme is only meant for the poor identified under the Socio-economic Caste Census, 2011. But Gujarat provides benefit to all with an annual income below Rs 250,000, under its Mukhya Mantri Amrutam Yojana.

Some Unanswered Questions

- ◆ Regarding the choice of ownership and service delivery mechanism, whether Government will set up a trust who will carry out the role of insurance company or Government floats a tender and select insurance company based on the bidding process or it will leave to respective States is still a matter of discussion.
- ◆ Regarding pricing we believe it depends on several factors. If maternity, pre-existing diseases and waiting period are waived off to avoid anti selection, the pricing may further go up.

Net Incurred Claims Ratio under Government Sponsored Schemes including RSBY



Source: IRDA

Top 4 states in Health Insurance Premium under RSBY & Other Govt. Sponsored Schemes in FY17		
States	Amount	%Share
Maharashtra	77311	25
Tamil Nadu	65723	21
Karnataka	8091	3
Gujarat	5152	2
Rest of India	152774	49

Source: IRDA

- ◆ Regarding State wise premium amount, we believe, if there will be one premium for all states, then there could be problem of free rider where some states have to overpay than other. This will lead to cross-subsidisation. For example, States like Maharashtra and Tamil Nadu who have larger share among all states in total premium under RSBY may get benefitted from one premium for all State approach.
- ◆ In May 2015, Government has launched 2 low cost insurance schemes under the name of Jan Suraksha. Both the policies were term insurance and renewable every year, through auto debit facility in the bank accounts. The demand for Jan Suraksha policies got a huge response by all the strata's of the society, which may be due to the low premium and Government Backed. As on date, there are around 19 crore policies enrolled under Jan Suraksha scheme while 18 crore new polices have issued by all the insurance companies in the country. This shows the success of any Government backed insurance scheme!!!

- ◆ In fact, our estimates suggest the initial cost under Modicare will be less than the market estimate of Rs 12000 crore (The Government has already provided Rs 2000 crore in budget and Rs 11000 crore is proposed to be mobilized through cess) because the claim ratio in the first few years will be low as it generally takes time for awareness to increase. For example, Net incurred Claim ratio in RSBY, was low in the initial years. From 87% incurred claims ratio in 2012-13, it has now gone up to 122% in 2016-17.

Arithmetic of Modicare Policy				
	Scenario I@ Rs 3/day	Scenario II@ Rs 4/day	Scenario III@ Rs 5/day	States Average
Premium Per Family	1095	1460	1825	1200
Premium for 10 Crore Family	10950	14600	18250	12000
Centre@60%	6570	8760	10950	7200
States@40%	4380	5840	7300	4800

Source: SBI Research

- ◆ We constructed three scenarios, and the calculated cost on centre we found even if we take the average of the premium across states then the cost comes to Rs 12,000 crores per year.

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of “tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis”.

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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