LETTER

# Health Insurance: Drawing inspiration from chit funds to pool health risks efficiently

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The provision of government-funded public health services in India is grossly inadequate and 48.2% of "total health expenditure" for India is paid "out of pocket" [1]. When the total health expenditure in a household exceeds 10% of the annual income, it is considered catastrophic health expenditure (CHE) [2].

It is estimated that 3.3% of Indians are impoverished by CHE every year [3]. Hence, one can easily understand the allure of health insurance. Insurance companies pool the risks and make payments more predictable for individuals.

## The problems with health insurance

The cost of insurance is relatively high. In India, for a 40-year-old healthy individual, insurance cover of Rs 500,000 costs approximately Rs 13,000/annum [4]. The individual insured must also reckon with the deductibles and co-pays mentioned in the small print.

People at greater risk of ill health tend to seek insurance coverage and this adverse selection inflates the insurance premiums for everyone. Also, insured people are insensitive to the cost and value of healthcare [5]. When their policy is about to expire, people who haven't made any claims are tempted to recover their expenditure by getting needless investigations and "Executive Health Check-ups". Hospitals often undertake unnecessary investigations and procedures because a third party is footing the bills. A World Bank report on state-sponsored insurance schemes details how even programmes like the Rashtriya Swasthya Bima Yojana resulted in "unnecessary healthcare" in the form of needless surgeries for removal of the uterus and ovaries and appendectomies [6]. All these factors contribute to inflating the annual premiums, which tripled for individuals between 2010 and 2015 [7].

Ultimately, hospitals that charge with impunity and the insurance companies that build their profit margins into the premium benefit most from insurance. The health risks of being subjected to unnecessary procedures are borne by the insured individual.

Two conclusions follow. There is a real spectre of CHE from which the public need to be shielded, but health insurance can do more harm than good, due to its inherent inefficiencies.

## Chit-fund-inspired risk pooling

The solution to risk-pooling can take inspiration from the Chit Fund — the rotating saving and credit association (ROSCA) scheme that has evolved in India and was legislated under the Chit Fund Act of 1982 [8]. The scheme requires participants to contribute periodically to the chit fund, for a duration depending on the number of investors. The collected amount is auctioned among group members, every time it is collected.

In the context of health coverage, a group of individuals could contribute each month an amount equal to the monthly instalment for a health insurance cover of say Rs 500,000. This can be accumulated in a joint savings account. Anyone who falls ill can count on the fund to defray their expenses up to the limit covered. If a person does not claim for illness, his/her contributions at the end of the term accrue to them with interest, as in a savings scheme. This removes the perverse incentive to make unnecessary health insurance claims. The person is likely to seek the best cost-benefit options in both the public and private healthcare sectors, and this enables market forces and competition to drive down costs and promote improvements in services.

## Need for life insurance

Chit funds are usually drawn to cover expenses in business or for domestic needs, and the repayment capacity of the member is not impeded by the activity for which the chit money is withdrawn. In the case of ill health, there is the risk that illness may impede the borrower's ability to pay future subscriptions. There is also the risk of death following the illness. The scheme must consider this and it may take some form of unemployment/life insurance for its members.

## Employer run scheme

Employers may run such schemes with automatic deductions being authorised by the employees. This reduces the risk of a payment default. Employers who pay the group health insurance premiums of their employees can instead invest in this scheme. Employees who maintain good health can be incentivised by being paid a bonus, with the health insurance money accumulated in their account, when they

leave the establishment. All this can be afforded by the management at little or no extra cost.

## Conclusion

Private health insurance often does more harm than good. This modest proposal looks to mitigate the risks of CHE through small self-help groups modelled on the Chit Fund, which evolved and thrives in India.

***Jacob M Puliyel*** *(puliyel@gmail.com), Visiting Professor, International Institute of Health Management Research, New Delhi 110 075, INDIA*

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