Don't see medical inflation reversing for now, says Future Generali chief

Currently, nobody is regulating the rates hospitals charge: KG Krishnamoorthy Rao

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The last fiscal saw a turnaround of sorts for Future Generali India Insurance Company. KG Krishnamoorthy Rao, MD and CEO, explains the steps taken to return the company to profits once again, including a restructuring of the portfolio, focussing on disciplined underwriting of risks and avoiding exposures where the pricing was not profitable. He also provides an overview of the challenges that confront insurers in different segments of this growing industry. Excerpts from the interaction:

THE BL INTERVIEW

How is your health portfolio growing so fast? (It grew about 33 per cent to ₹204 crore last year).

The health segment for the general insurance industry is showing a 20 per cent growth every year. One, awareness is increasing. Two, hospital costs are increasing. Medical inflation is on an average around 15 per cent.

If the hospital room rent is around ₹4,000 today, it rises to ₹4,500 or more six months later. Everything else is connected to that — from doctor's fees to tests.

Is there a chance of medical inflation reversing?

No. As of now, nobody is regulating the rates hospitals charge. The Indian Medical Council (IMC) is a self-regulatory body — it doesn't have enforcement authority.

We need a new regulator who will help bring standardised procedures, rating of hospitals, prescribe benchmarks, etc., so that there is accountability and questions can be asked. Today, although there are rack rates based on which insurance companies and third-party administrators negotiate discounts, we don't know if the rates are justifiable in the first place.

In the West, it is the insurer who decides a particular treatment pattern and can question the line of treatment. But in India, insurers do not have that expertise or the clout. The number of people who are insured is only around 20 per cent of the treated population. When the majority get insured, then insurers will have some say.

What has been your experience with crop insurance?

We did it for four years, of which, we had two good years and two bad. Last year was very bad. We had a bad experience in Rajasthan, particularly in one district which was badly drought-affected.

We wanted to see how the new crop insurance scheme pans out in 2017-18 and then take it forward. We were doing about ₹150-200 crore business and felt that it doesn't make sense at that level. This is a tender-driven business. The one who is the lowest bidder gets the business — which is a cluster of districts — of which at least one may have been badly affected in the previous year.

So, your profitability depends on the cluster you get and luck plays a part. India is very dependent on monsoon.

In 2016-17, you achieved a turnaround of sorts, moving from a loss in the previous year to profits. How was that done?

We had a loss in the previous fiscal (2015-16), due to two things — the Chennai floods and the Hudhud cyclone as well as motor losses. We did some corrections in the second half of the last fiscal. We pulled out of some States such as Punjab, Haryana, some regions of Delhi (NCR) and did a major restructuring of our portfolio.

Now our portfolio is more healthy and behaving well. What we have seen is that in some places, because of competitive intensity, the prices have dropped so much that there is no sense in writing such business.

Hasn't IRDAI been giving you regular premium hikes to make up for third-party motor losses?

They have been doing that but the premiums in the third-party segment is not much. In the private cars segment, it is the own damages portion which accounts for a significant chunk of the premium.

Here, following de-tariffing, the discount levels in some segments are in the 60-70 per cent range. Vehicle repair costs increase every year. Manufacturers keep increasing the repair costs and spare-parts charges but the premium keeps coming down. Beyond a point, it becomes difficult to do business at those rates.

What about the use of telematic devices in cars? Won't they help improve the health of the motor portfolio — by giving you a better idea of driver behaviour?

No insurer has as yet done significant amount of business with telematic devices. Today, the discount levels are already so high and there is no distinction between a good driver and a bad driver. So, why will any customer go for this device?

Besides, the customer is also not inclined to add to his expenses by buying a device which costs around ₹2,500 or so.

The health segment for the general insurance industry is showing a 20 per cent growth every year

KG KRISHNAMOORTHY RAO
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