

# Underwriting Policy



## **Corporate Office:**

Narayana Health Insurance Limited  
261/A Bommasandra, Industrial Area Anekal,  
Bommasandra Industrial Estate,  
Bangalore South, Karnataka  
India-560099

*© This document is a sole property of **Narayana Health Insurance Limited**. All rights reserved. No part of this document shall be reproduced or utilized in any form without permission of issuer of the document. **DOWNLOADED AND/OR HARD COPY UNCONTROLLED**. Verify that this is the correct version before use.*

<b>Underwriting Policy</b>	<b>Version</b> : 1.0
	<b>Date</b> : 21 <sup>st</sup> -May-2024
	<b>Page</b> : Page 2 of 13

## Table of Content

1. Definitions .....	4
2. Underwriting Philosophy .....	4
3. Underwriting Policy.....	4
4. Product Offering.....	5
5. Selection of Risks.....	5
6. Risk Management .....	6
7. Pricing Approach.....	6
8. Compliance.....	10
9. Ayush Products.....	10
10. Reinsurance Protection.....	10
11. Technology.....	10
12. Delegation of Underwriting Authority.....	10
13. Review Mechanism.....	10
14. Responsibilities under the File and Use and procedure for effective functioning of the Compliance Officer, Moderator, and Appointed Actuary.....	11
15. Review of the Policy.....	13

<b>Underwriting Policy</b>	<b>Version</b> : 1.0
	<b>Date</b> : 21 <sup>st</sup> -May-2024
	<b>Page</b> : Page 3 of 13

## UNDERWRITING POLICY

Narayana Health Insurance Limited being in the business of Health Insurance considers underwriting as one of the most crucial process of its business, that plays a vital role in determining the risk and profitability of providing health insurance coverage to individuals, families, or businesses. The importance of underwriting for the Company can be summarized as follows:

- **Risk Assessment:** Assessment of the risk involved while evaluating a proposal for insuring an individual or business on the basis of factors such as age, health, occupation, and other relevant information, in order to determine the likelihood of a claim(s) under the contract(s) and the potential cost of such claim(s).
- **Premium Pricing:** Determination of premium on the basis of risk assessment, that an individual or business must pay for obtaining the coverage. This is to ensure that the Company is not over-exposed and is able to maintain a sustainable business model.
- **Coverage Eligibility:** Deciding whether to accept or decline a proposal for coverage based on the risk assessment. This is to ensure that only those who are deemed eligible for coverage are provided with the desired insurance protection.
- **Policy Terms:** Determination of the terms and conditions of the contract (policy), including the coverage limits, deductibles, and exclusions.
- **Industry Standardization:** Standardization of the products of the Company with the contemporary health insurance industry, in order to ensure the business of the Company is duly streamlined with the Industry.
- **Investment and Resource Allocation:** Identification of high-risk areas for the purpose of allocating resources more effectively and for making informed investment decisions.
- **Regulatory Compliance:** Complying with regulatory requirements and industry standards, with a view to operate in a fair and transparent manner.
- **Customer Protection:** Protection of customers by ensuring that they are provided with accurate and transparent information about their coverage options and the risks involved.
- **Business Sustainability:** Sustainability of health insurance business by maintaining a stable and profitable business model.

This Policy is intended to establish the Underwriting Philosophy of Narayana Health Insurance Limited to govern underwriting of health insurance contracts in its ordinary course of business.

### 1. Definitions:

- 1.1 **‘Authority’ or ‘IRDAI’** "Authority" or 'IRDAI' shall mean the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 c

<b>Underwriting Policy</b>	<b>Version</b> : 1.0
	<b>Date</b> : 21 <sup>st</sup> -May-2024
	<b>Page</b> : Page 4 of 13

the Insurance Regulatory and Development Authority Act, 1999, as amended from time to time;

**1.2 'Board'** The "Board" shall mean the Board of Directors of Narayana Health Insurance Limited.

**1.3 'Company'** "Company" for the purpose of this Policy shall mean the Narayana Health Insurance Limited including its constitution and operation at its Registered office, Corporate office branch office, or any other place where Narayana Health Insurance Limited shall be considered to be carrying on its business.

## 2. Underwriting Philosophy.

The underwriting philosophy of the Company is aimed at building a profitable book of business through prudent selection of risk as well as meeting the objectives of the customers.

The Company shall target different market segments inside the country such as Retail, Small and Medium Enterprises, Corporates, and Government insurance schemes involving the public.

Each market segment shall be tapped within the framework of the underwriting philosophy of the Company. The key characteristics of underwriting philosophy shall be as under:

- 2.1 Offering optimal health insurance services to the insuring community at a reasonable cost and paramount convenience.
- 2.2 Adoption of innovative service propositions with the deployment of state-of-the-art techniques.
- 2.3 Achieving growth with underwriting profits.
- 2.4 Deployment of effective technology for optimal risk management for the Company and for its customers.
- 2.5 Devising and offering need-based health insurance services to the rural and economically weaker sections of society.

## 3. Underwriting Policy.

The underwriting policy of the company shall be based on the following principles:

- 3.1 Product offering to be in line with the customer requirements and policy documents to be simple to understand and unambiguous.
- 3.2 To put in place a meticulous process for selection of risks to be underwritten to ensure absorption of quality risks.

3.3 To follow the best practices for evaluation of risks.

3.4 To follow a consistent, equitable, risk-based pricing approach with varying underwriting profit expectations to ensure incentivization of better risks while mitigating other risks and/or treating them differently.

3.5 To ensure compliance with all relevant legislation including IRDAI Regulations. and directives, industry practice, and the set underwriting policy guidelines.

3.6 To have adequate reinsurance protection arranged with approved reinsurance companies for optimal risk retention.

3.7 To leverage technology for underwriting and ensure faster and more accurate evaluation and rating of risks.

3.8 To have a defined system for delegation of underwriting authority and take all necessary steps to ensure its compliance.

3.9 To have in place an appropriate review mechanism to update the underwriting policy and underwriting systems on a regular basis.

#### **4. Product Offering.**

Products offerings by the Company shall be carried out through:

4.1 Innovating product concepts based on the need analysis of individual entities as well as different market segments.

4.2 Deriving from the best practices being followed by the Insurance ecosystem of the Country and Reinsurers worldwide while designing the products.

4.3 Simplifying and packaging products to de-mystify them for customers.

4.4 Protecting the interest of the policyholder while designing the products

4.5 Catering to the requirements of economically weaker sections of the society and the rural population

#### **5. Selection of Risks.**

Selection of Risks by the Company shall be carried out through:

5.1 Laying out the guidelines for the selection of physical risk.

5.2 Circulating to all the operating offices

5.2.1 General Underwriting and rating manual for all routine proposals for their guidance and implementation.

<b>Underwriting Policy</b>	<b>Version</b> : 1.0
	<b>Date</b> : 21 <sup>st</sup> -May-2024
	<b>Page</b> : Page 6 of 13

5.2.2 Guidelines for dealing with special proposals, where the decision-making rests with nominated underwriters.

5.3 Tracking accumulation of risk and limiting exposures, if necessary.

5.4 Developing a list of caution patterns of risks in terms of combinations of nature of risk, product/peril, and geography for which careful underwriting is required.

## **6. Risk Management.**

Risk Management by the Company shall be carried out through:

### **6.1 Risk evaluation and mitigation.**

6.1.1 Conducting prior risk evaluation through different techniques as a part of the risk evaluation process taking into consideration certain set standards.

6.1.2 Building expertise on risk management / mitigation tools and techniques, relating to the products of the Company and detailed evaluation of the risks proposed under such products.

6.1.3 Building minimum risk assessment capabilities in each of the underwriters based on a pre-defined objective assessment standard to be used for underwriting.

6.1.4 Making proactive alliances with the customers, wherever feasible and desired, on various measures relating to a variety of risk management tools and techniques during pre-underwriting and post-underwriting phases.

6.1.5 Segregating persons and entities with dubious reputations as per the public information available and categorizing them as high-risk customers. Conducting enhanced due diligence with respect to such cases, before the issuance of any policy.

### **6.2 Risk Management.**

6.2.1 Incentivizing the customers for undertaking measures that improves their risk profile.

6.2.2 Incorporating appropriate conditions to ensure compliance with risk-mitigating factors.

## **7. Pricing Approach.**

The following norms would be followed in rating of products:

### **7.1 Product Classification.**

Classifying the entire product portfolio into the following categories of products for the purpose of pricing:

**7.1.1 Class rated products.**

7.1.1.1 **Standard Products:** Standard products that can be sold by any of the offices of the insurer with the rates, terms, and conditions of cover, including choice of deductible where applicable, as set out in an internal Underwriting Manual.

7.1.1.2 **Packaged or customized Products:** Products specially designed for individual customers or class of customers, in terms of scope of cover, basis of insurance, deductibles, rates, and terms and conditions of cover.

**7.1.2 Individual-rated products.**

7.1.2.1 **Individual experience rated products:** Determination of rates, terms, and conditions of cover by reference to the requirements of and the actual claims experience of the insured concerned.

**7.1.3 Innovative or new products.**

Products that offer features and benefits that are new to the business segment or cover insured risk segments which are hitherto not covered. Reliance may be placed on reinsurance support for the development of such products.

**7.2 Risk Rating Approach.****7.2.1 Company rated products.**

7.2.1.1 Doing elaborate classification and segmentation of risks

7.2.1.2 Designing rating structures internally in the Company by use of actuarial tools wherever adequate data is available and class rating or experience-based rating is applicable. In case the available data is inadequate, the Company shall use benchmarks such as reinsurance rates, and/or practices being followed by other Insurers to arrive at the rates.

7.2.1.3 Defining methods of assessment of risks in the Company Rates, including the extent of involvement of the underwriters and necessity for risk evaluation, depending on the size and nature of the risk.

**7.2.2 Packaged or customized Products.**

7.2.2.1 Drawing parallels with the internal Company-Rated products, if feasible, in the design and rating of customized products.

<b>Underwriting Policy</b>	<b>Version</b> : 1.0
	<b>Date</b> : 21 <sup>st</sup> -May-2024
	<b>Page</b> : Page 8 of 13

7.2.2.2 Using actuarial tools to arrive at the pricing, if adequate loss data is available.

**7.2.3 Individual experience rated products.**

7.2.3.1 Taking class rating of the product or benchmark rates as a base.

7.2.3.2 Adjusting the same, based on past loss experience as declared by the proposer.

7.2.3.3 Incorporating changes in the same, based on changes in customer requirements in the proposal under consideration and changes in external factors influencing the proposal.

7.2.3.4 For health insurance schemes of the Governments or otherwise, involving very large groups, mostly for social causes, rating based on the past loss experience of the proposal under consideration. In the absence of the same, the past loss. experience of similar risk profiles as required by the customer.

**7.3 Profit expectations.**

7.3.1 Profit and Loss are to be linked to factors as under:

7.3.1.1 The company will endeavor to price all products/ business segments to yield a profit. The product pricing will endeavor to balance risk with appropriate return expectations.

7.3.1.2 Profit and Loss will be linked to factors like portfolio, acquisition and administration cost, past experience, and future prospects of the specific client as well as the class of risk.

7.3.1.3 The profit expectation will be to yield a reasonable return for the investors in the company, while being equitable to policyholder interests and competitive market movements.

7.3.1.4 While the Company shall endeavor to avoid cross-subsidization, the pricing approach of the Company may accommodate a certain amount of cross-subsidization of one risk segment by another and one product/business segment by another.

7.3.1.5 In certain products/ risk segments the company may price a risk considering the market conditions as well as the affordability of the segment, but it will be the endeavor of the Company to price its products at all times on a sustainable basis.



7.3.1.6 Setting a minimum threshold of underwriting profit expectations from each category of business, except as mentioned below. The company expects to price its products to a 95% Combined Ratio ("CoR") on a portfolio basis to accomplish the underwritten profit expectation, subject to the above conditions.

7.3.2 The company may have to underwrite business at a loss for some period for the following causes:

7.3.2.1 To meet Rural and Social Obligations to comply with sections 32b and 32c of the Insurance Act, 1938 read with relevant regulatory prescriptions to the effect.

7.3.2.2 Development of underdeveloped markets.

7.3.2.3 To withstand competitive market movements.

The decision for such activities shall be made at an individual, group, or class of risk level by nominated underwriters. The development of claims in all such policies shall be closely monitored.

#### **7.4 Margins**

Building Margins in rates in the following manner:

7.4.1 **Management Expenses:** Uniformly approaching allocation of these across all product classes and not exceeding the limits prescribed in the relevant Policies of the Company *inter-alia* for expenses of management. An appropriate reduction in the allocated percentage shall be considered in case of group policies or for sale through distribution channels, where the cost of administration is comparatively less in view of reduced documentation and administrative work.

7.4.2 **Acquisition costs and Promotional costs:** Distribution of such costs within each class of business, based on the profile of the target segment, keeping the cost within the limits prescribed under the law and under the relevant policies of the Company, as applicable.

7.4.3

The Appointed Actuary of the Company shall be responsible for risk-based pricing and reserving in line with the defined responsibilities as per the Statutory/ Regulatory prescriptions. The rates so arrived shall be reviewed by the Appointed Actuary at a pre-determined frequency.

The Chief Underwriting Officer (CUO) or such other officer of the Company, who is responsible for carrying out this activity with whatsoever designation in the Company, shall act as a moderator of rates and terms that are quoted for products, wherein adequate statistical data support is unavailable for the rates quoted.

<b>Underwriting Policy</b>	<b>Version</b> : 1.0
	<b>Date</b> : 21 <sup>st</sup> -May-2024
	<b>Page</b> : Page 10 of 13

## 8. Compliance

Compliance with the prevailing laws pertaining to underwriting and compliance to this policy shall be achieved by the Company through the following:

- 8.1 Understanding the implication of legislation in underwriting processes and seeking appropriate expert advice, wherever necessary.
- 8.2 Documenting the processes required and ensuring such processes are in conformity with the prevailing statutory/ regulatory prescriptions and the policies of the Company.
- 8.3 Providing adequate training on applicable laws and prescriptions under the policies of the Company including this Policy to the officers and employees of the Company responsible for underwriting, Claims, Operations, Marketing functions, etc.
- 8.4 Constituting a Technical Audit team, headed by the Compliance Officer, with the responsibility of auditing compliance of underwriting with the prevalent statutory/regulatory prescriptions as well as the prevailing policies and processes of the Company.
- 8.5 The Internal audit function shall also remain responsible for auditing compliance of underwritings of the Company with the prevalent policies including adherence to the underwriting policy of the Company.

## 9. Ayush Products:

The Company shall ensure that it provides products for insurance coverage for the AYUSH treatments for all its customers. Furthermore, the Company shall ensure that the products offered for AYUSH treatments comply with the underwriting principles and the guidelines set out in this Policy, prevalent prescriptions of IRDAI and any other laws governing underwriting relevant risks.

## 10. Reinsurance Protection

The Reinsurance Protection for the risks underwritten by the Company shall be achieved by adhering to the Reinsurance Policy of the Company.

## 11. Technology

The technology deployment in underwriting by the Company shall be carried out through:

- 11.1 Defining the transactional system to suit the market requirements and underwriting requirements.
- 11.2 Collecting data with respect to risk and rating factors that are part of the underwriting and rating processes of the Company.
- 11.3 Using appropriate tools to track the accumulation of risks.

<b>Underwriting Policy</b>	<b>Version</b> : 1.0
	<b>Date</b> : 21 <sup>st</sup> -May-2024
	<b>Page</b> : Page 11 of 13

- 11.4 Building knowledge management systems for risks specific to different categories of accumulation and underwriting requirements.
- 11.5 Integrating actuarial tools with the transactional system to enable dynamic revision of rates.
- 11.6 Using Business Intelligence tools for rating, modeling of caution risks, pattern recognition, trend analysis, and predictive analysis.
- 11.7 Employing effective information dissemination tools for process efficiency, reporting requirements, and decision support.

## **12. Delegation of underwriting authority**

Delegation of Authority in underwriting shall be carried out in accordance with the following:

- 12.1 Defining the underwriting authority and rights by the categories/size of risks and classifying the underwriters into roles, based on their skill and experience:
- 12.2 Authorizing underwriting approval of special cases to specialist underwriters.
- 12.3 Imparting necessary training to the underwriters on a regular basis to upskill them and assess their skill level to decide on their underwriting authority.

## **13. Review Mechanism**

The review mechanism of this policy shall inter-alia be based on the following:

- 13.1 Analyzing the developments in the socio-economic, legal, and political environment and revisiting the basis of the contemporary Underwriting Policy to incorporate changes, if required.
- 13.2 Reviewing the experience derived from a given underwriting practice over a period continually e its impact on the risk profile for pricing and its performance against profit expectations.
- 13.3 Reviewing the risk evaluation mechanism for each class of risk in light of new technical developments in the form of tools and techniques for risk evaluation, rating factors, and emerging risks under that category of risk.

## **14. Responsibilities**

- 14.1 **Compliance Officer:** The role of the Compliance Officer under this Policy shall be to ensure that the requirements of the prevalent prescriptions of law are complied with. The following shall be the key responsibilities of the Compliance Officer:

<b>Underwriting Policy</b>	<b>Version</b> : 1.0
	<b>Date</b> : 21 <sup>st</sup> -May-2024
	<b>Page</b> : Page 12 of 13

- 14.1.1 Monitoring that the products sold by the Company are in compliance with the Underwriting policy approved by the Board and the prevalent regulatory prescriptions.
- 14.1.2 Ensuring that the rates and terms quoted by the Company for any individual risk or class of risks confirm to the prevalent regulatory prescriptions and in due observance of the approval matrix.
- 14.1.3 Complying to all regulatory prescriptions *inter-alia* with respect the regulatory prescriptions pertaining to Products and reportings with respect to the products.
- 14.1.4 A technical audit team shall be constituted that assists the Compliance Officer to ensure that the above is achieved. Technical audits shall be carried out on a quarterly basis. The Technical Audit Team shall comprise of members from multiple functions to ensure that the audit conducted provides a multi-dimensional and comprehensive account of the quality in underwriting and compliance to the underwriting and reinsurance policy of the Company.
- 14.1.5 The report of the technical audit shall be placed before the Board of Directors after the audit is carried out. The suggestions made in the report to improve the underwriting practices shall be observed by the Company with the comments of the Board in this aspect. Review with respect to implementation of such suggestions and or remarks of the Board in this aspect shall be carried out in the succeeding audit by the technical audit team.
- 14.2 **Moderator:** While reviewing the product design and rates and terms or rating risks under such products without reference to adequate statistical resources, the Moderator shall ensure that any rate charged by the Company shall be based upon reasonableness and logic. The rationale for arriving at the rates that are being proposed shall be documented while approaching the moderator for his concurrence.
- 14.2 **Appointed Actuary:** The role of the Appointed Actuary extends beyond risk evaluation and loss/claim forecasting. The following shall be the key responsibilities of the Appointed Actuary with respect to the underwriting practices of the Company:
- 14.2.1 To review available statistics to determine the rates, terms, and conditions of cover in respect of class-rated risks.
- 14.2.2 To determine the requirements for compilation and analysis of data of sums insured, premium, and claims at the stage of product design in consultation with the underwriters and provide guidance for data capture at the time of underwriting of the risk and at the time of claims processing.
- 14.2.3 Periodic review of the data to enable review of rates, loadings, and discounts for every rating factor used in the determination of premium rates and for rating risks.

<b>Underwriting Policy</b>	<b>Version</b> : 1.0
	<b>Date</b> : 21 <sup>st</sup> -May-2024
	<b>Page</b> : Page 13 of 13

14.2.4 The Appointed Actuary may also act as a moderator on the underwriting process in an area where little statistical data is present.

The Actuarial Function shall work in close coordination with the underwriting and technology functions to provide the data in the desired format and implement the suggestions of the Appointed Actuary.

**15. Review of the Policy:**

The Board and the Risk Management Committee shall review this Policy:

15.1 at least once every financial year, or

15.2 as and when the Risk Management Committee and the Board consider it appropriate, or

15.3 as and when the underlying laws governing the Policy undergo any change.

\*\*\*\*\*