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# Understanding 'co-insurance' in health insurance

**C**o-insurance is a fundamental concept in health insurance that involves sharing the cost of health insurance between multiple insurers. Unlike copay, where a policyholder pays a fixed percentage of the medical bill, co-insurance splits the responsibility for covering the policyholder's medical expenses between two or more insurers. This arrangement helps distribute the financial risk and can provide greater coverage for large medical claims or high-value health insurance policies.

## What is co-insurance?

Co-insurance occurs when two or more insurance companies share the financial responsibility for covering the policyholder's health insurance. Each insurer assumes a portion of the risk, meaning they will be responsible for a corresponding share of any claims made under the policy. The percentage of the risk that each insurer

assumes is agreed upon in advance, and the insurers will each pay their portion of the medical expenses as specified.

Suppose a health insurance policy is underwritten by two insurers: Insurer A, which covers 60% of the risk, and Insurer B, which covers the remaining 40%. If the policyholder incurs a medical bill of 1,00,000, Insurer A would pay 60,000 (60%), while Insurer B would pay 40,000 (40%).

## Benefits

**Higher coverage:** Co-insurance allows for higher coverage limits, as the financial risk is shared between multiple insurers. This is particularly beneficial for large-group health insurance plans or high-value policies, where a single insurer might not bear the entire risk.

**Risk distribution:** By spreading the risk among multiple insurers, co-insurance helps to reduce the financial burden on



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any one insurer. This can lead to more stable premium rates for policyholders and better financial security for insurers.

## Lead insurer

Generally, there is a lead insurer who underwrites the risk and services the scheme. The claims are processed and settled by the lead insurer and then the followers contribute their share directly to the lead insurer. There is electronic exchange through which all the contracts and claims of coinsurance arrangements are shared between the participants.

## Who should consider co-insurance

**Large organisations:** Companies or large groups seeking extensive coverage for their members might find co-insurance arrangements appealing. Co-insurance allows them to obtain higher coverage limits by splitting the risk among several insurers, which can help secure better terms for their policies.

**High networth individuals:** Individuals who require high-value health insurance policies with substantial coverage limits may encounter co-insurance arrangements. These plans are beneficial for those looking for comprehensive protection while mitigating the risk to individual insurers.

Co-insurance offers a strategic approach to distributing financial risk across multiple insurers, making it an attractive option for large group policies or high-value insurance plans. Coinsurance works seamlessly for the customer as the customer deals only with the lead insurer, the benefits of higher coverage limits and risk distribution can make co-insurance a valuable tool for securing extensive protection. Understanding how co-insurance works is essential for anyone considering policies that involve multiple insurers, ensuring better financial security and coverage flexibility.