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Sector update

INDIA

Insurance

DRHP Analysis #3: Deep-dive into Medi Assist prospectus and insights for TPA industry in India

Insights for the health insurance industry and in particular Third Party Administrator (TPA) segment from our analysis of Medi Assist Health Services (MAHS) red herring prospectus are (1) TPAs are a play on aggregate health insurance growth including segments like pubic insurers, group health and public health schemes; 2) the choice for the last mile (claim servicing) to the insured between TPA and insurers will depend upon respective strength of hospital networks, ability to negotiate tariffs and digital capabilities; 3) the relationship between insurers, TPA and hospitals will only deepen going ahead leading to innovation in products, wider coverage and lower frauds; 4) Expected more than 20% growth in health insurance remains fundamental investment thesis for all stakeholders in the health insurance sector.

- **Market share, hospital/corporate network are key business strengths for TPAs but some insurers believe that claims management is central to customer service proposition.** Case in hand, MAHS has a pan-India healthcare service provider network, which comprises over 11,000 hospitals across 722 cities and towns in India, as at March 31, 2020. However, the industry remains split in their business strategy. As at FY20, industrywide, insurers in-house managed 40% of the total premium serviced. Rest 60% was serviced by TPAs [MAHS (17%), FHPL (9%), MDIndia (9%) and Other TPAs (24%)]. Share of in-house processing of claims is highest in retail business (53%) followed by group (33%) and public schemes (27%) as at FY20. On other hand, there have been various private insurers enhancing focus towards in-house claims processing.

- **TPA is an aggregate play on health insurance growth in India**. TPA benefits from growth in group insurance and public health schemes in addition to the retail business. It also benefits from growth in pubic insurer premiums (typically have higher loss ratios, hence are more dependent on TPAs). Hence, TPA is indeed an aggregate play on health insurance. Case in hand, MAHS has market share of 24% in group business, 8% in retail health and 18% in public schemes as at FY20. MAHS group's GDPI has grown at 18% CAGR between FY18-FY20 while retail has grown at 26.5%. However, higher working capital, periodic rate negotiation, many-to-one relationship between TPA and insurers, and increasing in-house servicing by a few leading insurers, are critical aspects of the business. Aggregate yields ('revenue earned' to 'premium under management' has marginally dipped from 4.2% in FY18 to 4.1% in FY19, 4.1% in FY20, and 3.9% in 9MFY21 (annualised). MAHS working capital days stood at 165/151 days in FY19/20. MAHS EBITDA margin stood at 25.7%/26.4% in FY20/9mFY21. RoE of MAHS improved to 18% in FY20 compared to 16% in FY19.

- **What RTA is to AMC, TPA is to health insurance – a comparative analysis between CAMS and Medi Assist**. In many ways, the analogy is valid, but relative position seems better for CAMS for the following reasons: 1) MAHS has lower than CAMS' market share of ~70% of Indian AUM; 2) higher working capital in TPA business; and 3) the many-to-one relationship of hospitals/insurers with TPA players. However, the yield decline for MAHS with growth in premium has been lower than CAMS (between FY18-FY20, CAMS' yields shrunk from 0.04% to 0.034% versus MAHS' yields decline of 4.2% to 4.1%. FY18-FY20 average RoE of CAMS/MAHS stood at 34%/18% respectively. As of FY20, in terms of FCF, MAHS reported an outflow of Rs16mn while CAMS had an inflow of Rs1.8bn.

- **How global players have performed**. We have analysed performance of TPA sections of Arthur J. Gallagher & Co, Crawford & Co, and CorVel Corp. AJ and CorVel have seen revenue CAGRs of 1% and 3% respectively, while Crawford witnessed a decline at 5% CAGR between 2018-2020. Operating margins of AJ and CorVel are stable at 14.8% and 10% respectively while that of Crawford has declined from 9.1% to 5.9% during the same period. Lower claims due to covid have impacted TPA revenues in 2020. AJ Gallagher revenue model comprises of fees generally negotiated (i) on a per-claim or per-service basis, (ii) on a cost-plus basis, or (iii) as performance-based fees.

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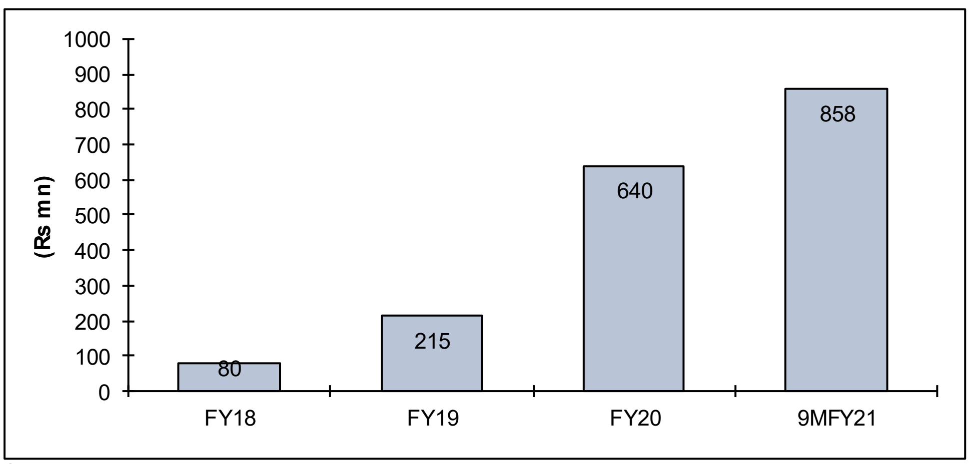
Critical aspects of the TPA business

1. **Business volume is critical to maintain business relationships with hospital network…** Inability to ensure significant volume of business for hospital networks may adversely impact ability to maintain preferential pricing arrangements. If hospitals terminate their arrangements, a TPA may be unable to replace them with alternate providers in the respective regions, which may reduce the attractiveness of services to the end customer. There have been instances where hospitals have exited individual TPA network to streamline their operations with other benefits administration entities that they are affiliated with. As such growth in industry premium share served is absolutely vital.

2. **…while hospital network and agreed upon preferential rates are drivers of business volumes.**

   - MAHS has a pan-India healthcare service provider network, which comprises over 11,000 hospitals across 722 cities and towns in India, as on March 31, 2020.
   - MAHS has also entered into preferential rate arrangements with hospitals through discounted packages, preferential rate contracts and cashless admission facility.

Chart 1: The total value of savings on account of detection of frauds and abuse (detected by MAHS)



Source: DRHP

3. **Periodic contract renewals will test pricing and business continuity.**

   a. <u>The contractual arrangements with insurance companies are usually for a term of one to five years, which may be renewed at the sole discretion of insurance companies.</u>

   b. The renewal of such arrangements depends on various factors such as the renegotiation of key terms with respect to fees and scope of services, quality of service, customer satisfaction and the reach of hospital network. The contractual arrangements also require TPAs to comply with stringent regulatory requirements, and the code of conduct prescribed by insurance companies, failing which an insurance company has the right to terminate their arrangement. In certain cases, insurance companies have the right to unilaterally terminate the contractual arrangements without cause by providing a prior notice as specified in the agreement. In addition, TPAs are required to provide a bank guarantee to insurance companies who have the right to invoke such guarantees, at their sole discretion, if the company is unable to perform the contractual obligations. Similarly, contractual arrangements with corporates are usually for a period of one year. The corporates may elect to change the benefits administrator.

4. **Concentrated insurer mix:** MAHS derives a significant portion of its revenues from a few clients and the loss of one or more such clients could adversely affect business and prospects. MAHS is dependent on a limited number of insurance companies for a significant portion of revenues. For FY18/FY19/FY20 and 9MFY21, the five largest insurance companies based on premium under management contributed 75%, 72%, 65% and 69% of revenues from operations respectively.

5. **Sectoral concentration among corporates:** MAHS is dependent on corporate accounts in certain industries for a significant portion of its revenues from operations. For FY18/FY19/FY20 and 9MFY21: i) the total premiums serviced were attributable to 50 largest corporate accounts; ii) corporate accounts in the IT/ITES sector contributed 61%, 66%, 62% and 59% respectively; and iii) corporate accounts in the BFSI sector contributed 19%, 14%, 18% and 22% respectively. Consequently, any adverse developments in such industries may affect the demand for MAHS' services and its business and results of operations.

6. **Stringent data protection laws like Personal Data Protection Bill:** In December 2019, the government of India published the Personal Data Protection Bill, 2019 (Bill), which proposes to supersede the Information Technology Act and deals with provisions relating to compensation payable by companies for failure to protect personal data. The Bill provides a framework for protecting personal data and seeks to, among others, lay down norms for cross-border transfer of personal data, determine the scope of personal data and ensure that the entities processing personal data are held accountable. Any data related to health is defined as "sensitive personal data" and the Bill provides rules for processing, storing and transferring any such data. The Bill, if passed in its current form, may require TPAs to undertake additional measures to protect the security of sensitive personal data. Failing to take reasonable security precautions or safeguard the personal information collected will lead to severe penalties, which may extend to Rs50mn or 2% of the data fiduciaries' total worldwide turnover of the preceding financial year, whichever is higher.

Revenue model of a TPA

Income from benefit administration services provided to corporate account portfolio and retail portfolio is largely generated as a percentage of premiums under management. Consequently, any decline in the premiums under management, or the percentage of premium under management charged as fees, may adversely affect future revenues and profitability. Insurance premiums will vary on account of a number of factors beyond control, such as: changes in the number of employees of the corporates serviced, change in the number of beneficiaries and nature of benefits policy, change in the ratio of incurred claims, and change in the pricing strategy of insurance companies. Hence, the revenue growth of a TPA will depend upon the performance of insurers as well as corporates.

Covid impact: On account of the covid pandemic, certain hospitals may not honor their contractual commitments for cashless settlements of claims and/or abide by the agreed rates in 2020/2021. Covid could also impact the business in the following ways:

- Decrease in the growth of corporate account portfolio on account of a decline in the number of personnel employed by the corporate accounts, a reduction in hiring and a reduction in the budget for employee benefits by the corporate accounts.
- Decrease in the income attributable to servicing government sponsored insurance schemes.

Government schemes form a sizeable business share

TPAs service government sponsored insurance schemes such as SSWS-WB, PMJAY and MJPJAY. During FY18/FY19/FY20 and 9MFY21, revenues from operations attributable to servicing government sponsored insurance schemes accounted for 19%, 18%, 18% and 16% of revenues from operations of MAHS respectively. Any delay associated with, or reduction in collection of receivables from government agencies, or change in allocation methodologies, or termination of contractual arrangements, may adversely affect the business, results of operations, and financial condition. This could also lead to higher working capital days for TPAs

Such Government scheme in turn would depend upon general economic conditions and budgetary constraints at the Central or state government levels and priority of Government policies. MAHS usually generates revenues on a fixed fee per family per year basis, or on a fixed fee per claim basis, for services under such programs. Funding for these programs depends on periodic funding from the Central or state governments and allocation of the funding through various payment mechanisms.

Many to one relationship between TPA and insurer

Insurance companies have the flexibility to choose more than one benefits administrator for processing claims and ensuring that their policyholders have access to a wide network of healthcare providers.

Acquisition-prone sector

In 2016, MAHS acquired Dedicated Healthcare Services TPA (India) Private Limited and in 2018, it acquired Medicare TPA Services (India) Private Limited. Further, MAHS may acquire an overseas entity that provides health benefit administration services to several client corporates for their employees travelling abroad.

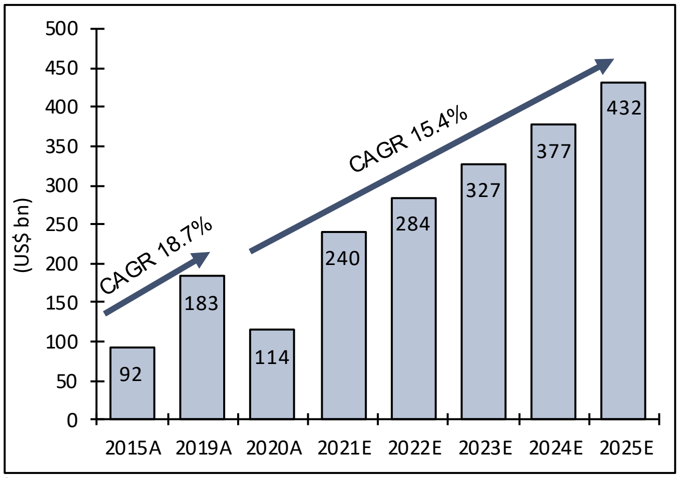
Table 1: In the last decade, the TPA industry in India has seen significant number of mergers and acquisitions

2007	Swiss Re – a global leader in reinsurance – bought 26% stake in TTK Healthcare
2017	The largest TPA company of India, Medi Assist, acquired Mumbai-based TPA Dedicated Healthcare Services.
2021	Vidal Health TPA acquired Vipul MedCorp TPA (the merged entity of Vipul MedCorp with Vidal Health is expected to be second largest TPA administrator in the Indian Insurance space. Vipul MedCorp has been a retail-focused player, while Vidal Health has considerable presence in public health schemes such as *Ayushman Bharat Yojana*

Source: DRHP

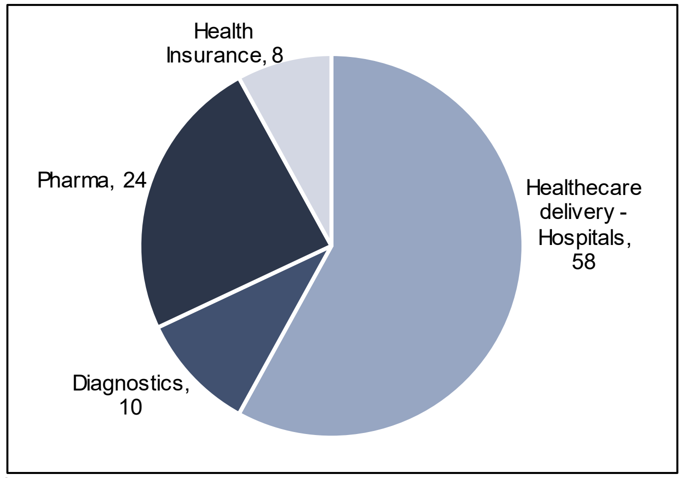
Healthcare market in India in charts

Chart 1: Indian healthcare market size, 2015-2025E



Source: DRHP

Chart 2: Indian healthcare industry mix (%) by segment, 2020

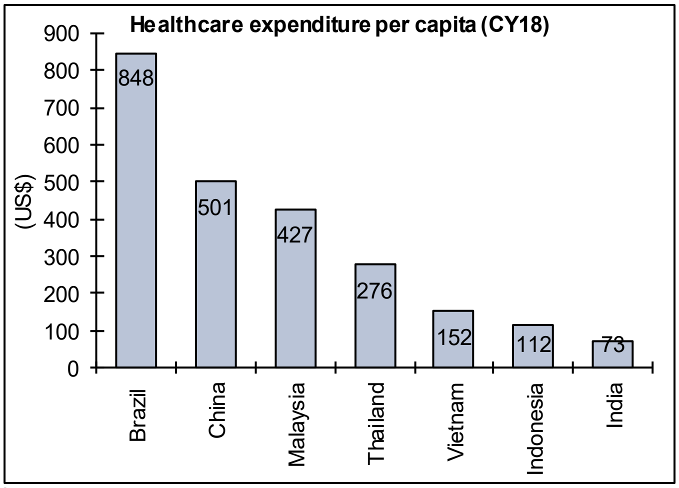


Source: DRHP

India has lower public expenditure on health compared to other countries and with Government policies boosting the health sector, this can receive a stimulus. TPAs stand to benefit from this segment as well.

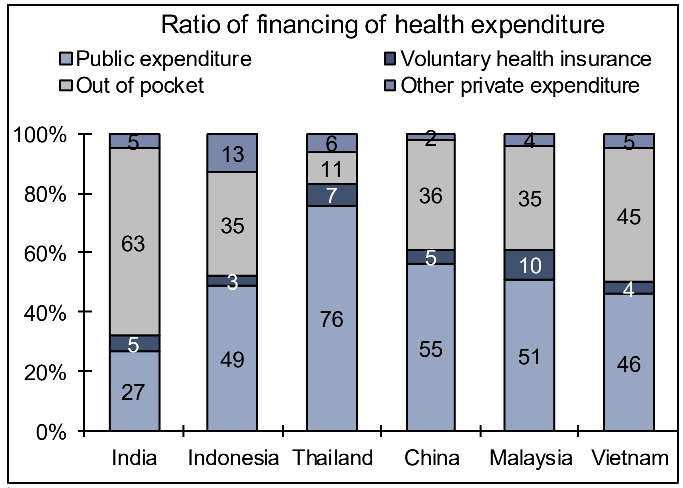
- Per capita healthcare expenditure, which is the average total spending on healthcare by an individual stood at US$73 in 2018 (sharply lower than in other Asian countries).
- Penetration levels of health insurance in terms of number of lives covered as percentage of total population stood at 36.5% in FY20 (22.2% in FY15) and in terms of total insurance premium as percentage of GDP stood at 0.38% in FY20 (0.21% in FY15).
- However, if we exclude the public schemes, total number of lives covered under health insurance schemes stood at only 10% in FY20. The contribution of public expenditure towards healthcare in India has remained in the range of 20%-27% between FY00-FY18, which is significantly lower compared to other Asian countries such as China (~56%), Thailand (76%) and Malaysia (51%).

Chart 3: Healthcare expenditure per capita, 2018



Source: DRHP

Chart 4: Breakdown of financing of current healthcare expenditure by country, 2018

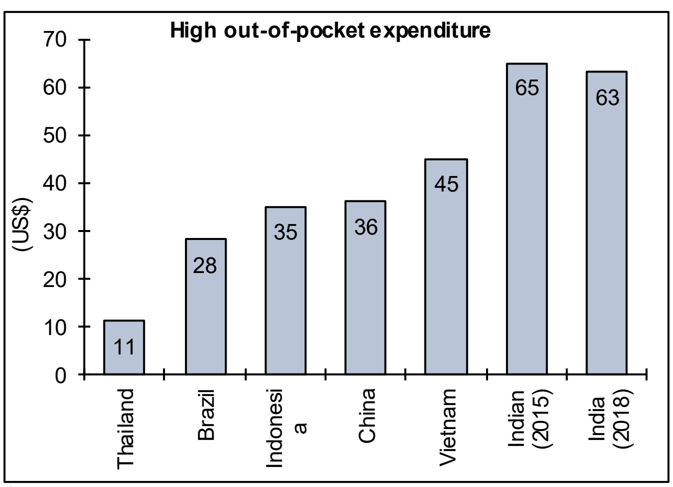


Source: DRHP

Lower public expenditure on healthcare in India reflects the dependency on healthcare finances on private means, which is further reflected in higher out-of-pocket expenditure compared to other companies. If we exclude the public schemes, total number of lives covered under health insurance schemes stood at only 10% in FY20.

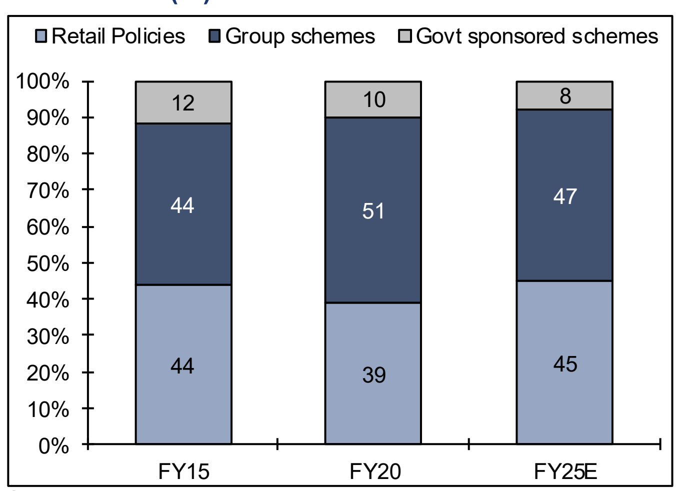
Overall out of pocket health care expenditure as percentage of current healthcare expenditure in India has reduced from 71.7% in FY00 to 62.7% in FY18. With rising awareness in the wake of covid pandemic, it is expected that more people are likely to subscribe for health insurance and also corporates will have a higher employee health focus, which will improve the penetration levels and lower the high out-of-pocket expenditure.

Chart 5: High out-of-pocket expenditure



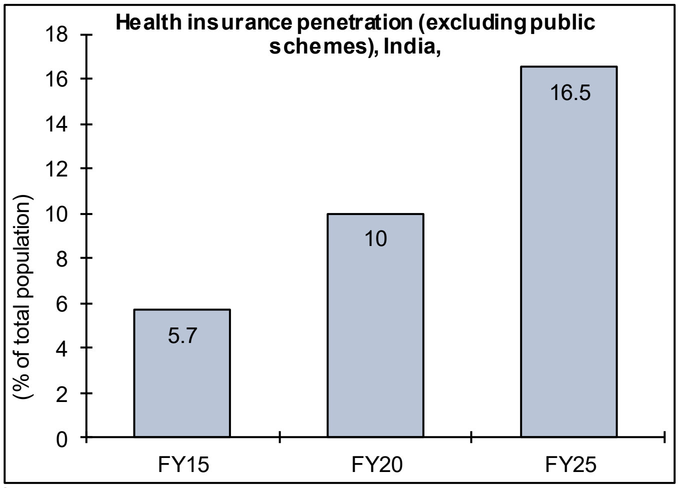
Source: DRHP

Chart 6: Premium serviced under health insurance in India mix (%)



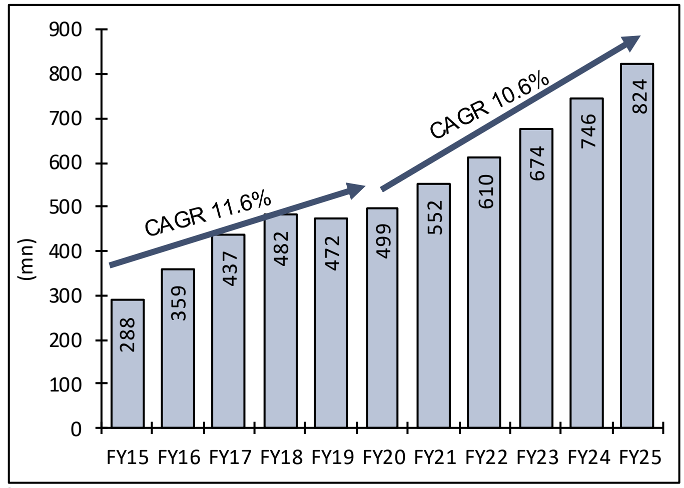
Source: DRHP

Chart 7: Health insurance penetration (excluding public schemes), India, 2015-2025 (calculated on the basis of number of lives covered as % of total population)



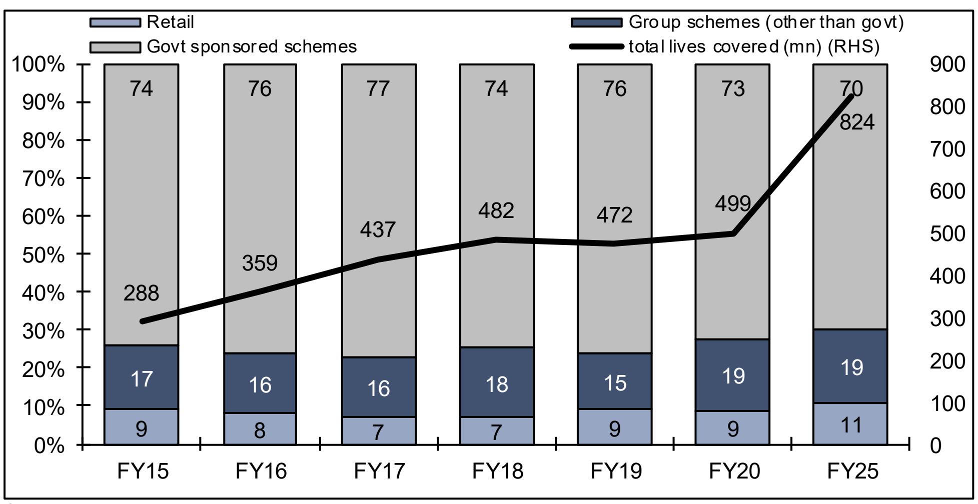
Source: DRHP

Chart 8: Number of lives covered under health insurance in India (in millions)



Source: DRHP

Chart 9: Number of lives covered (in percentage) by various health insurance businesses



Source: DRHP

Total health premiums rose at 20% CAGR between FY15-FY20 and is expected to clock 21% going forward, led by robust growth in retail policies, followed by group and ggovernment-sponsored schemes.

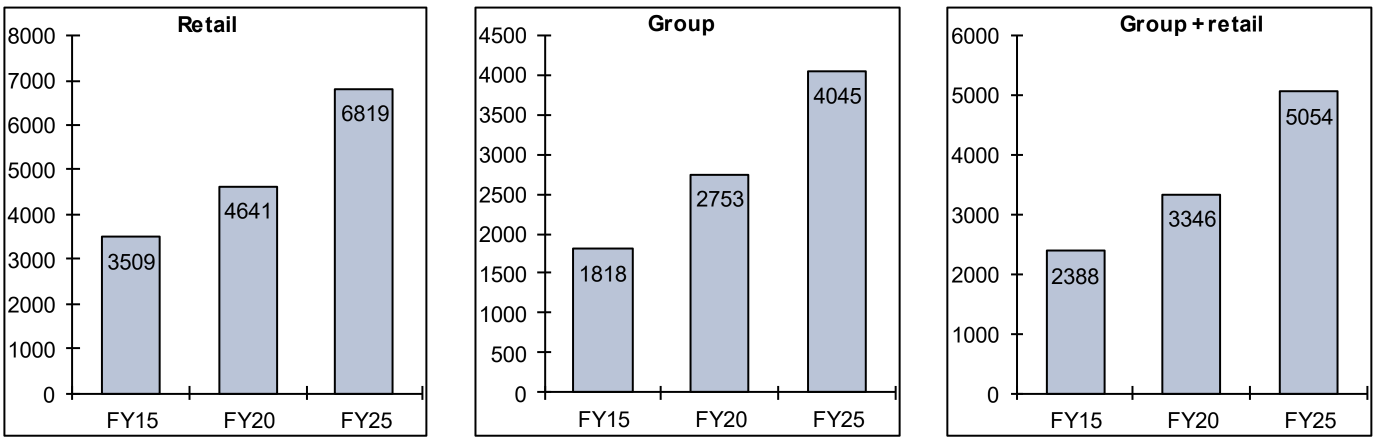
Table 2: Premium serviced by various health Insurance businesses, 2015-2025

	2014-15	2019-20	2024-25	CAGR (FY20 over FY15)	CAGR (FY25 over FY20)
Retail Policies	88	200	590	18%	24%
Group Schemes (other than Government Schemes)	89	259	612	24%	19%
Government Sponsored Schemes	24	49	101	15%	16%
Total Premiums	201	508	1,304	20%	21%

Source: DRHP

Expected growth in health premiums of more than 20% is a standout investment thesis for all stakeholders of health insurance.

Chart 10: Premium per life in retail and group health insurance business (Rs), 2015-25



Source: DRHP

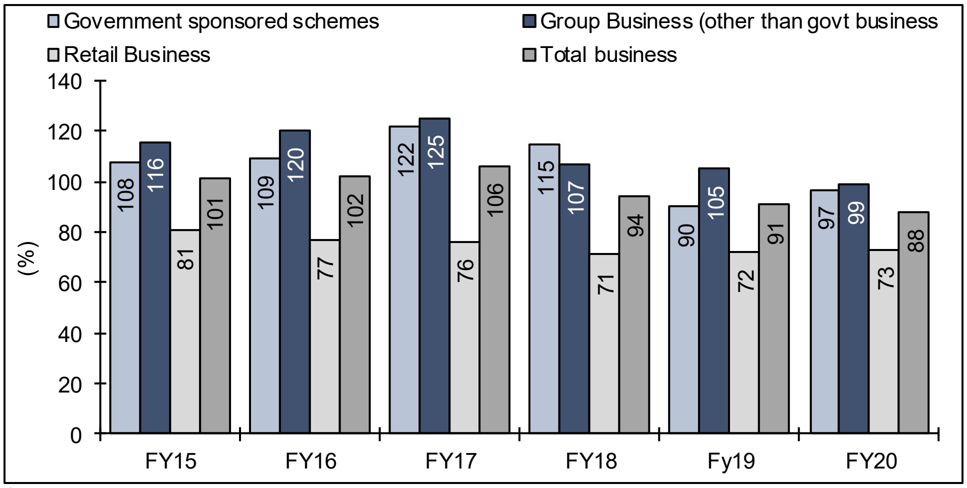
In terms of profitability, retail business has seen lower loss ratios compared to group / government schemes.

Overall loss ratios in the health insurance segment has trended lower.

Important to note here is: while high loss ratios may be negative for insurers, it still remains a valid business stream for MAHS. Underwriting results have lower impact on TPAs compared to insurers.

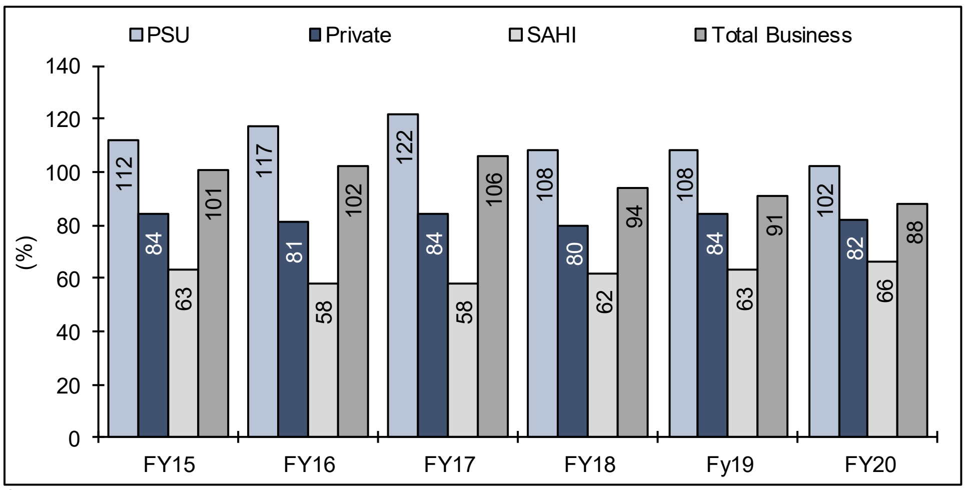
Loss ratios for PSU insurers have remained elevated (+100% between FY15-FY20), while those for SAHI and private insurers have remained stable in the range of 58-63% and 81-84% respectively.

Chart 11: Net incurred claims ratio by class of health insurance business (%)



Source: DRHP

Chart 12: Sector-wise claims ratio (health insurance) in India (%)



Source: DRHP

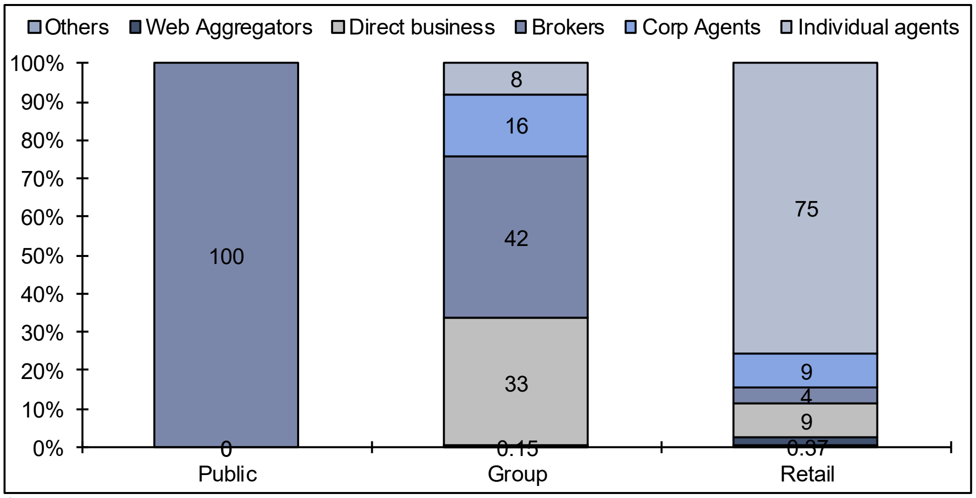
Table 3: Top insurance players by lives covered (%) in various sub-segments

	FY15	FY16	FY17	FY18	FY19	FY20
Bajaj Allianz	3%	3%	13%	13%	21%	27%
HDFC ERGO	6%	2%	26%	3%	8%	10%
ICICI Lombard	17%	33%	28%	12%	13%	14%
SBI General	1%	3%	5%	6%	2%	3%
Universal Sompo	3%	2%	1%	1%	1%	1%
Others - Private	70%	57%	27%	65%	54%	45%
Private Sub - Total (lives in million)	**63**	**68**	**75**	**87**	**116**	**120**
National	39%	31%	30%	38%	46%	46%
New India	17%	28%	28%	21%	27%	27%
Oriental	11%	4%	5%	4%	9%	12%
United India	32%	37%	37%	37%	17%	16%
Public Sub - Total (lives in million)	**211**	**277**	**347**	**376**	**320**	**334**
HDFC ERGO Health	14%	18%	20%	18%	14%	12%
Max Bupa	13%	14%	15%	13%	15%	10%
Religare	19%	8%	9%	14%	30%	29%
Star Health	53%	59%	52%	48%	33%	32%
Others – Sahi	0%	1%	4%	7%	7%	16%
SAHI Sub - Total (lives in million)	14	14	15	19	35	44
Grand Total (million)	**288**	**359**	**437**	**482**	**472**	**499**

Source: DRHP

Brokers form the major distributor mix in public insurer / group insurance business. Globally, several TPAs also have a brokerage segment, e.g. Arthur J. Gallagher & Co.

Chart 13: Distribution models of insurance companies, market share of premium by type of business, (%), 2019-2020



Source: DRHP

Indian TPA industry highlights

Key functions of TPAs

Enrolment and issuance of ID card: Post underwriting of a policy, details of the policyholder or beneficiary are transferred by the insurer to the TPA, which in turn enrolls the individual(s) to its member base and issues an ID card bearing a unique identification number.

Pre-authorisation for cashless facilities: In the event of planned or emergency hospitalisation, the patient seeking cashless treatment furnishes his or her ID card at the hospital, who then reaches out to the TPA for pre-authorisation of the claim. The TPA performs internal checks to ensure validity of the claim before authorising it for a cashless benefit.

Reimbursement claim administration: In case of the policy holder or beneficiary seeking reimbursement of expenses borne on covered treatments, he or she furnishes the bills to the TPA. The TPA then adjudicates the claim based on policy parameters and facts specific to the claim and shares the adjudication with the insurer, which eventually settles or rejects the claim.

Cashless settlement of claims prior to discharge: In order to avoid delay in hospital discharges, pre-authorisation is carried out where an initial amount has been sanctioned by the insurer along with acknowledgement that final payment will be paid subject to final bills. TPAs provide their support by giving their final nod to the hospital for it to process the settlement.

Customer support: Policyholders or beneficiaries often have enquires pertaining to, among others, the status of claims and network hospitals. Each TPA is required to operate a 24x7 customer call centre to address such queries.

Provider network management or empanelment: TPAs regularly engage with hospitals and empanel them for the purpose of administering cashless benefits to its members. Maintaining such a panel requires regular liaising with the hospitals.

Provider contracting for preferential tariffs: In addition to empanelling such hospitals, TPAs also enter into contracts with them for availing preferential rates of various healthcare treatments for its members.

Fraud and abuse control: If not properly administered, insurance claims remain vulnerable to fraud and abuse. For timely detection and prevention of such frauds, TPAs run several checks and controls as part of their adjudication process.

Data analytics and MIS: Claims data received by TPAs is a rich source of information and is used to identify and monitor healthcare trends. Digital tools have enhanced the analytics and efficiency aspects for the firms themselves.

Adoption of digital technology: Recently, TPAs have started providing digital tools such as client portals, mobile apps and claims download tools that facilitate automation. The technology-driven infrastructure and services of TPAs are integral to the operations of insurance companies, healthcare providers, insurance brokers, and insurance agents. All these are also expected to drive efficiency both internally and externally.

Corporate health management services: A few TPAs have started providing online platforms and risk assessment tools that delve upon the employee database and help the corporate to plan better health benefit plans. They offer the benefits such as preventive health check-ups, health risk assessments, doctors' advice, diagnostics and gym memberships, some wellness programmes and also provide additional benefits (that are not normally covered under health insurance plans) like curative services (such as vaccination, yoga and meditation classes) and rehabilitative healthcare services (such as physiotherapy, pre and post-natal care).

Specific activities related to public health insurance schemes include: 1) publicity and population mobilisation activities for the scheme; 2) identification and verification of the beneficiaries; 3) enrolment of members and distribution of physical ID cards for members; and 4) cashless administration of claims.

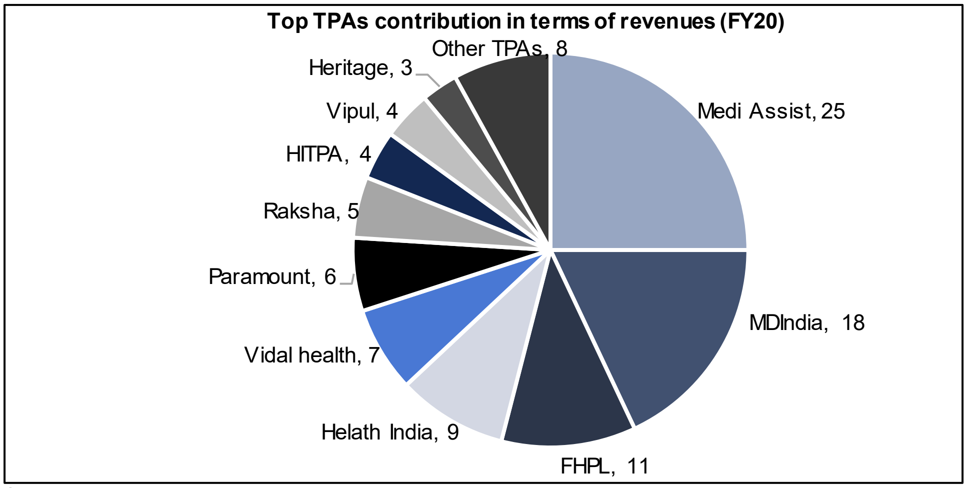
Chart 14: Types of claims handled by TPAs

Cashless Claims	Reimbursement Claims	Benefit Based Schemes	Domiciliary Claims
– Policyholder/ Beneficiary has a planned treatment – Available only in networked hospitals – Policyholder/ Beneficiary is normally required to inform TPA in advance – Required to produce the ID card issued to policyholder/ beneficiary – Settlement is made by the insurer directly to the hospital	– Policyholder/ Beneficiary pay the expenses out of pocket and get the expenses reimbursed after discharge. – Usually happens in case of non-networked hospitals with TPAs.	– Benefit-based health plans pay a fixed amount upon the diagnosis of a covered ailment. – The amount can act as a substitute for income when the policy holders are unable to work. – Such plans elevate the financial burden of the family by providing additional funds for medical expenses and treatment.	– Domiciliary claims cover covered illnesses that do not require hospitalizations, including treatment either taken from a physician or at the OPD in a hospital – Expenses incurred on domiciliary hospitalization are covered by the insurance plan only after certain criteria are met.

Source: DRHP

Revenue and operating highlights

Chart 15: Top TPAs' contribution in terms of revenues, 2020



Source: DRHP

- As at FY20, insurers in-house managed 40% of the total premium serviced. Rest 60% was serviced by MAHS (17%), FHPL (9%), MDIndia (9%) and Other TPAs (24%).

- Share of In-house processing of claims was highest in retail business (53%) followed by group (33%) and public schemes (27%) as at FY20.

Table 4: Top 10 players in Indian health insurance TPA industry (based on FY20 revenues)

	Revenue (in Rs mn)			% Share of TPA industry revenue		
	2019-20	2018-19	2017-18	2019-20	2018-19	2017-18
Medi Assist Healthcare Services	3,304	2,812	2,416	25%	22%	22%
MDIndia Health Insurance TPA Private Limited	2,410	2,210	1,891	18%	17%	17%
Family Health Plan Insurance TPA Limited	1,425	1,278	1,113	11%	10%	10%
Health India Insurance TPA Services Private Limited	1,277	1,233	868	10%	10%	8%
Vidal Health Insurance TPA Private Limited	876	892	1,005	7%	7%	9%
Paramount Health Services & Insurance TPA Private Limited	839	921	856	6%	7%	7%
Raksha Health Insurance TPA Private Limited	713	672	662	5%	5%	6%
Health Insurance TPA of India Limited	535	448	158	4%	4%	1%
Vipul MedCorp Insurance TPA Private Limited	508	449	472	4%	4%	4%
Heritage Health Insurance TPA Private Limited	449	428	443	3%	3%	4%

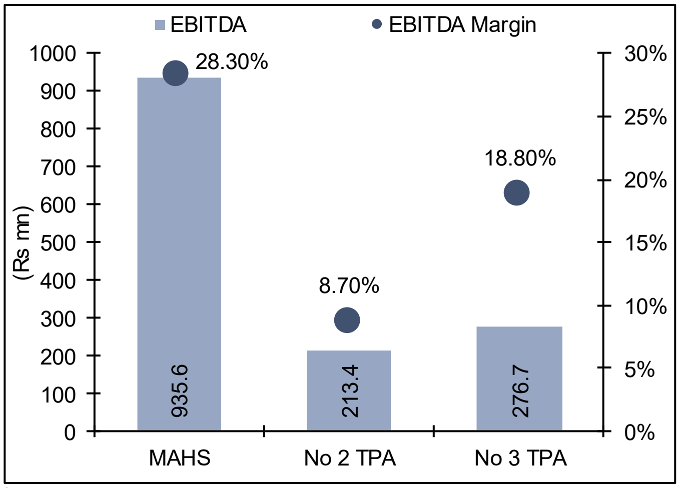
Source: DRHP

Table 5: FY20 financial and operational profiles of key TPAs

	MAHS	No. 2	No. 3	No. 4	No. 5	No. 6	No. 7	No. 8	No. 9	No. 10
Revenue	3,304	2,410	1,425	1,277	876	839	713	535	508	449
EBITDA	936	213	277	120	66	85	146	63	76	130
PAT	392	127	126	20	25	70	119	33	39	92
Total lives covered	121	97.4	46.6	5.4	44.6	41.5	72.5	2.6	2.8	54.9
Total premium serviced	87,160	44,370	47,270	10,990	15,150	23,480	19,780	12,420	11,150	10,890
Total claims processed	3.8	1.7	0.9	0.3	1.1	0.6	0.5	0.3	0.3	0.5
Total value claims processed (Rs mn)	78,990	40,360	34,250	9,390	20,970	22,910	16,020	12,310	9,480	9,790
Market share – Premium serviced (retail + group) (%)	29.30%	12%	18%	4%	6%	7%	6%	5%	4%	4%

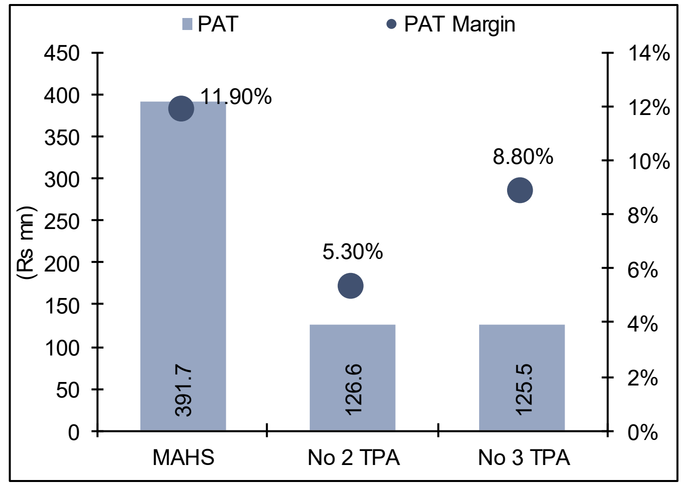
Source: DRHP

Chart 16: EBITDA for top-3 TPAs in terms of revenue (Rs mn), FY20



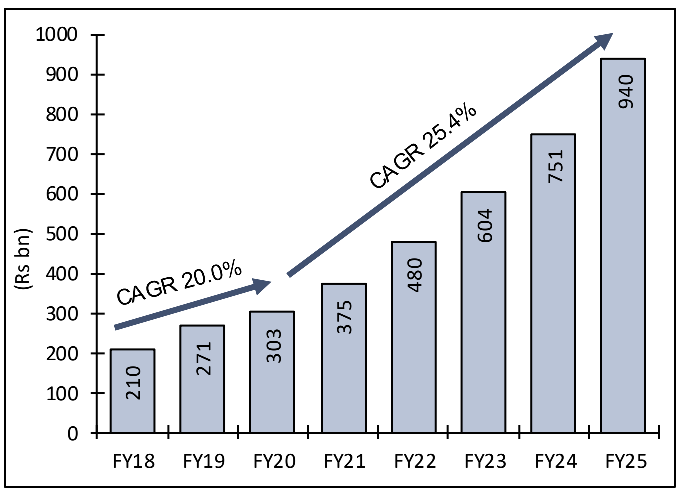
Source: DRHP

Chart 17: PAT for top-3 TPAs in terms of revenue (Rs mn), FY20



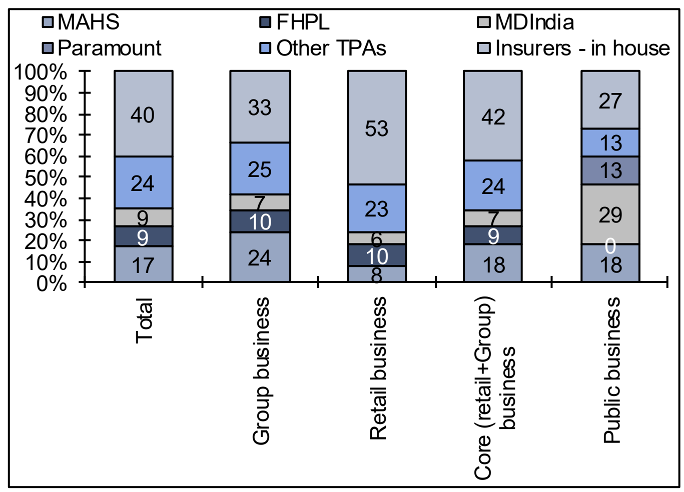
Source: DRHP

Chart 18: Health insurance premium serviced by TPAs – Group, Retail, Group and Retail business – (Rs bn), FY18-FY25



Source: DRHP

Chart 19: Total premium serviced by key TPAs as % of total health insurance premium, FY20



Source: DRHP

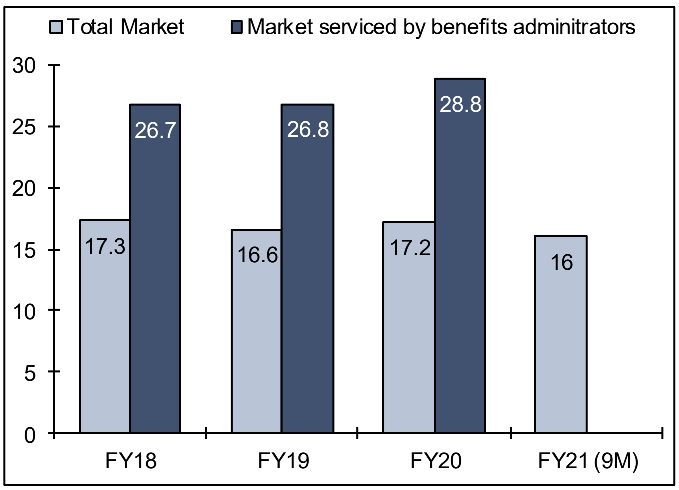
Case study: MAHS – Leading Indian TPA

Medi Assist (MAHS) has developed a diversified base of corporates whose health insurance requirements are serviced by them and has established longstanding relationships.

- MAHS has highest market share (24%) in group business, second highest in retail (8%) and public schemes (18%) as at FY20.
- MAHS group GDPI segment has grown at 18% CAGR between FY18-FY20 while retail has grown 26.5%.

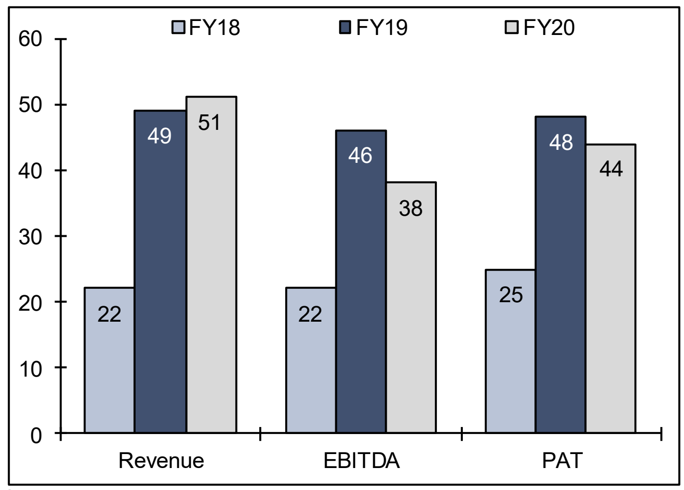
Medi Assist has been able to maintain a steady market share of premium serviced both in terms of total health insurance market and addressable market for the TPAs.

Chart 20: Medi Assist's market share – Premium serviced, FY18-FY20



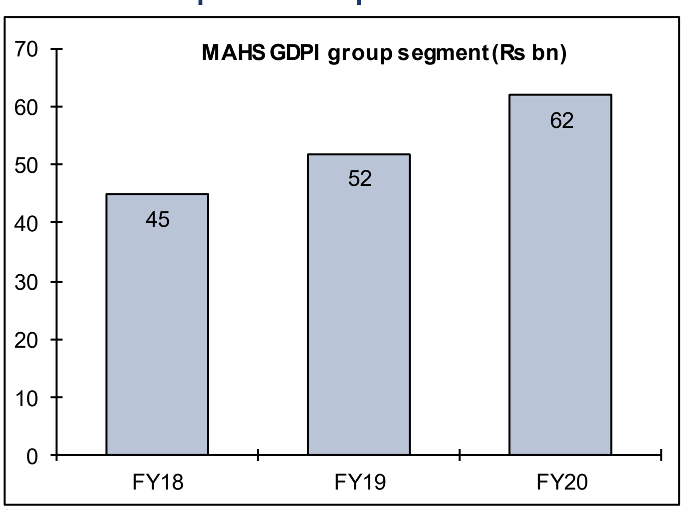
Source: DRHP
Note: Total market refers to total health insurance market and market serviced by benefit administrators refers to addressable market for TPA

Chart 21: Medi Assist's share of revenue, EBITDA and PAT pool of the health benefits administration industry, FY18-FY20



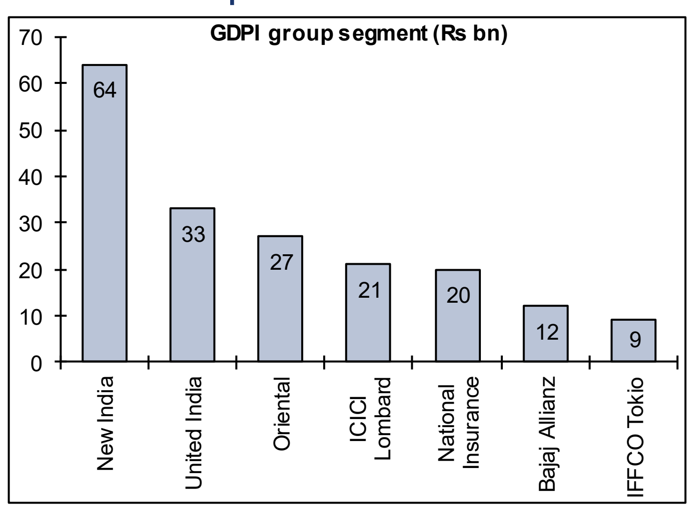
Source: DRHP

Chart 22: Group GDPI comparison of MAHS…



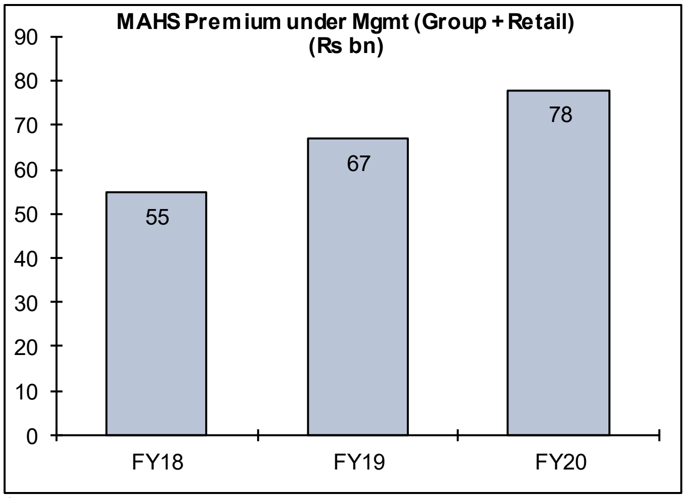
Source: DRHP

Chart 23: …vs top 7 insurers



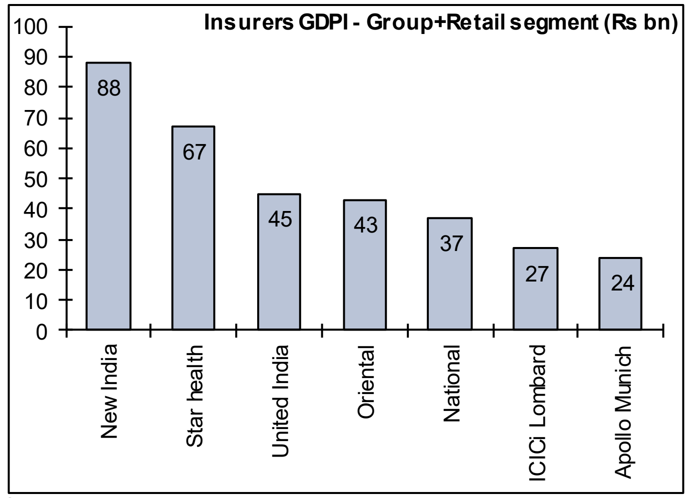
Source: DRHP

Chart 24: Group+ Retail GDPI comparison of MAHS…



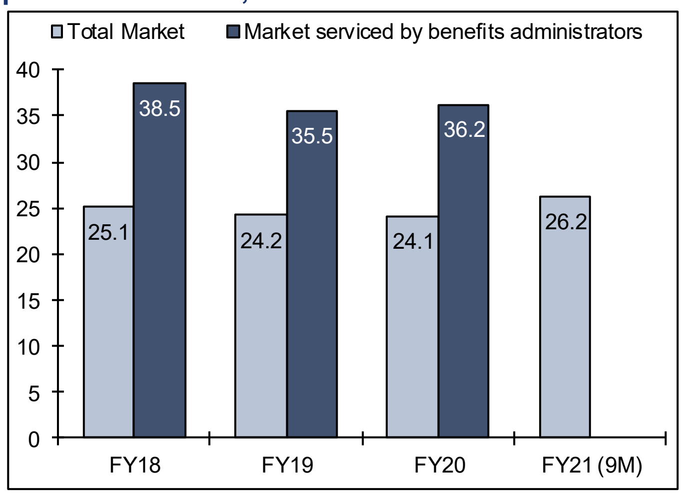
Source: DRHP

Chart 25: …vs top 7 insurers



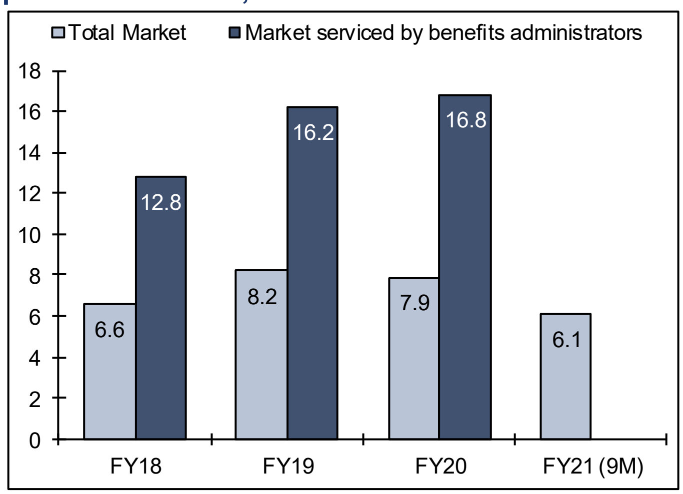
Source: DRHP

Chart 26: Medi Assist market share – Group premium serviced, FY18-FY20



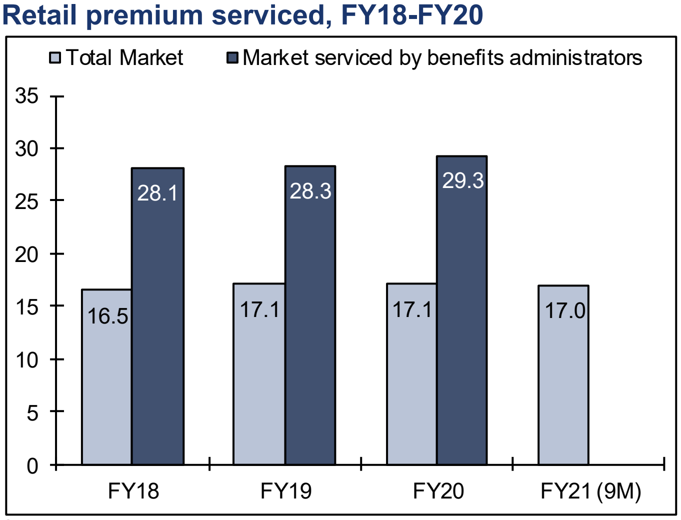
Source: DRHP

Chart 27: Medi Assist market share – Retail premium serviced, FY18-FY20



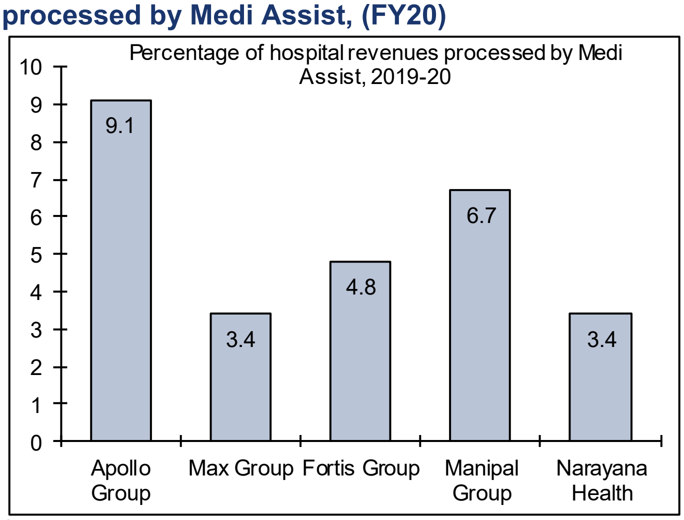
Source: DRHP

Chart 28: Medi Assist's market share – Group and Retail premium serviced, FY18-FY20



Source: DRHP
Note: Total market refers to total health insurance market and market serviced by benefit administrators refers to addressable market for TPA

Chart 29: Percentage of hospital revenues processed by Medi Assist, (FY20)



Source: DRHP

Table 6: Diversified base of corporate accounts with longstanding relationships

Index	Percentage of corporate accounts serviced
Nifty 50	50%
BSE 500	41%
Nifty Auto	60%
Nifty IT	70%
Nifty Media and Entertainment	30%
Nifty Metals	40%
Nifty FMCG	40%
Nifty Financial Services	50%
Nifty Oil and Gas	40%
Nifty Pharma	55%

Source: DRHP

Table 7: Medi Assist's relationship with insurers

		Premium under management	
Insurers	Length of relationship	2018	2020
The New India Assurance Company Limited	19	24,337	37,179
United India Insurance Company Limited	18	11,192	10,701
National Insurance Company Limited	17	6,983	6,828
The Oriental Insurance Company Limited	18	4,543	6,355
A leading private sector insurance company	5	2,746	4,104
A leading private sector insurance company	8	94	3,652
A leading private sector insurance company	16	100	2,156
A leading private sector insurance company	14	930	1,955
A leading private sector insurance company	8	417	1,188

Source: DRHP

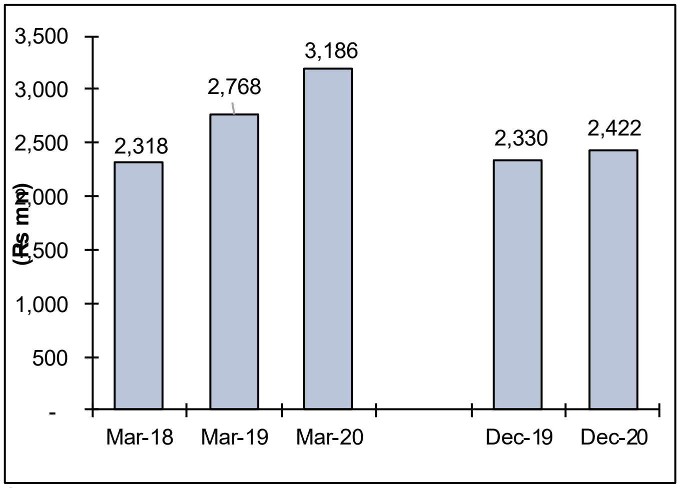
Table 8: Value of cashless claims settled by insurance companies using preferential or discounted rates for the periods indicated

(Rs mn)	FY18	FY19	FY20
Private sector insurance	1,220	3,512	5,483
Public sector insurance	10,076	11,818	11,339
Total	**11,296**	**15,330**	**16,822**

Source: DRHP

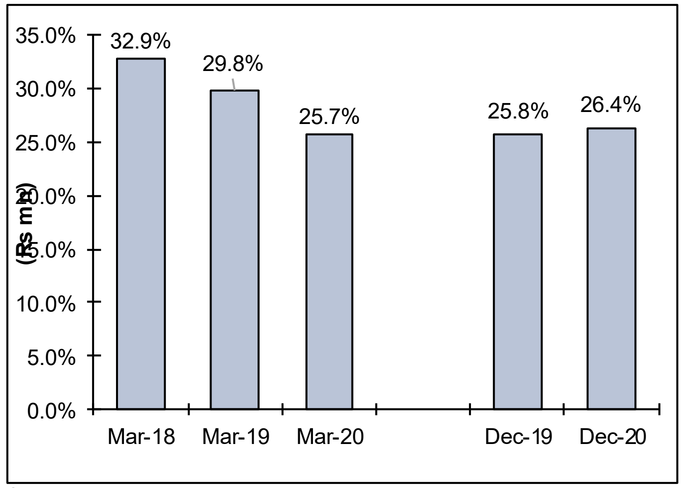
Financial highlights

Chart 30: Revenues have grown at 17% CAGR during FY18-FY20 and 4% YoY in 9MFY21



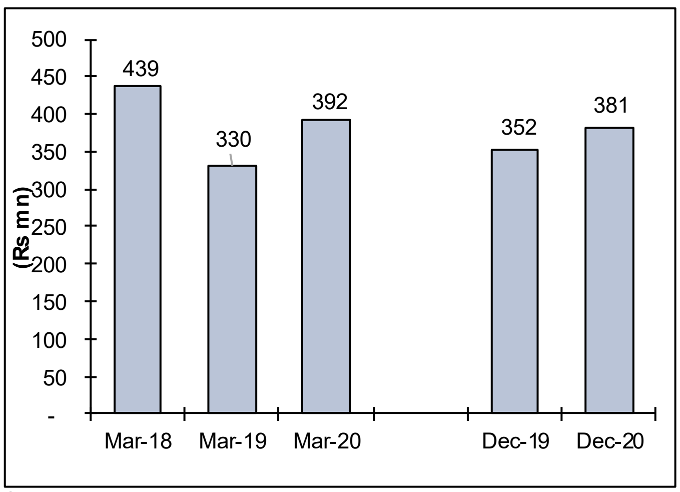
Source: DRHP

Chart 31: Margins dipped during FY18-FY20 and remained stable at 26.4% in 9MFY21 on YoY basis.



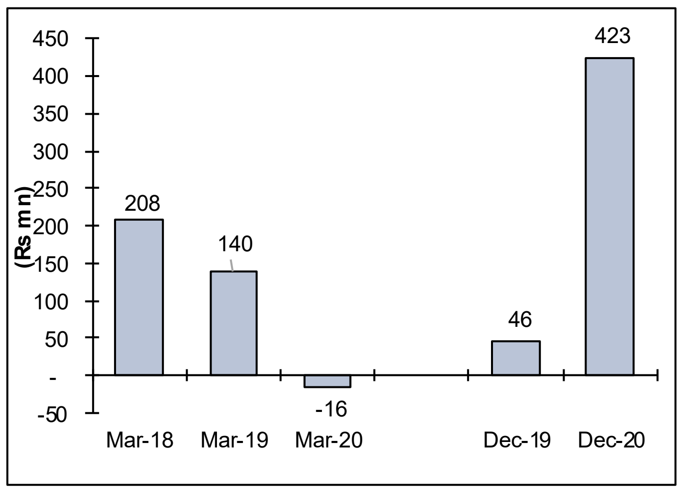
Source: DRHP

Chart 32: PAT grew 8% YoY in 9MFY21



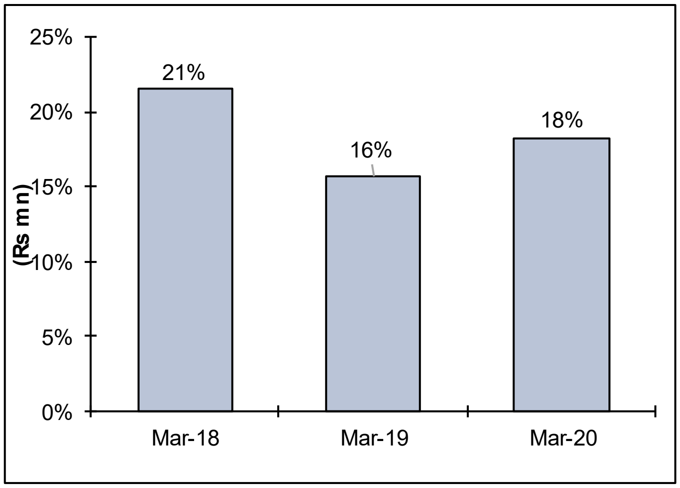
Source: DRHP

Chart 33: Rise in FCFF in 9MFY21 was largely driven by tax refunds



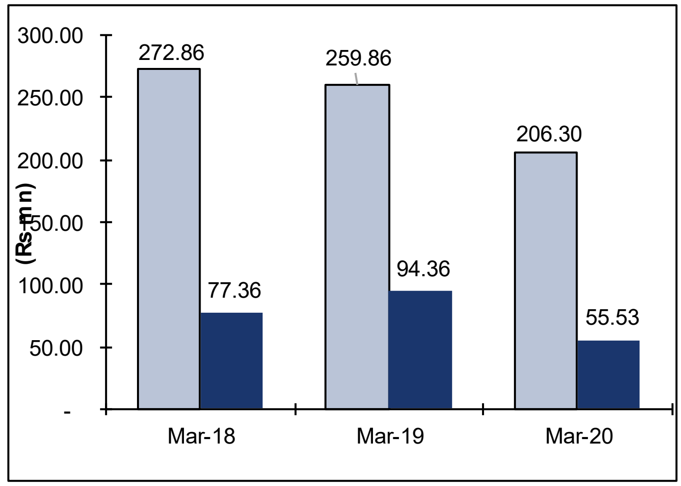
Source: DRHP

Chart 34: RoEs have remained healthy



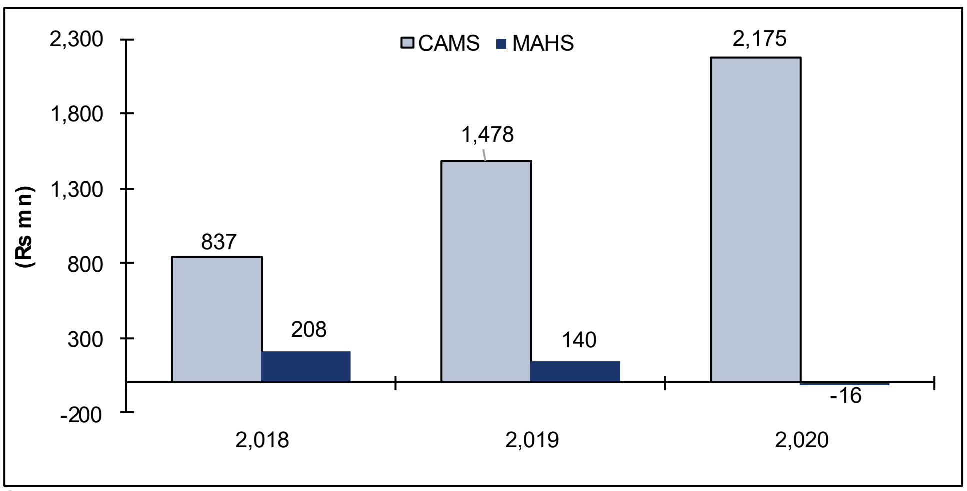
Source: DRHP

Chart 35: Working capital days is high, but has been on a declining trend



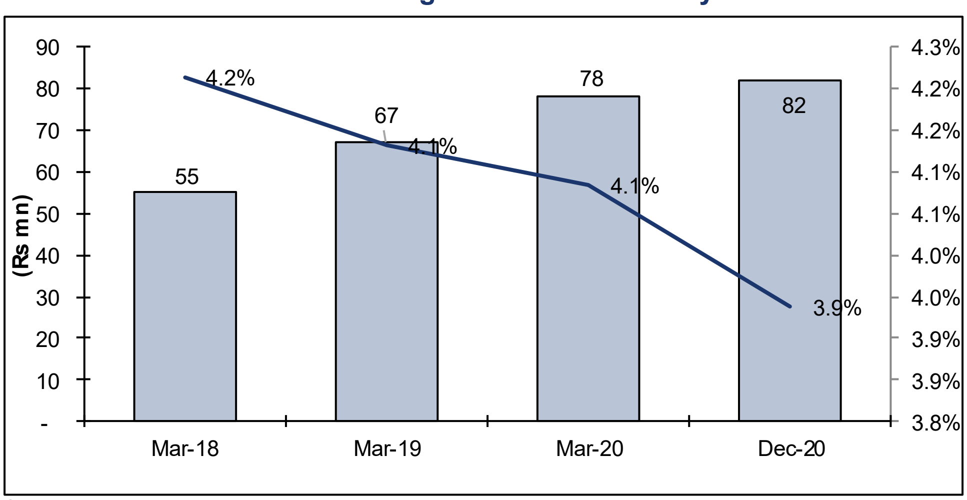
Source: DRHP

Chart 36: FCFF comparison of CAMS and MAHS



Source: DRHP

Chart 37: Premium under management and revenue yields trend of MAHS



Source: DRHP

Global case studies

Arthur J. Gallagher & Co.

Arthur J. Gallagher & Co (AJ) is engaged in providing insurance brokerage, consulting, and third-party property / casualty claims settlement and administration services.

Risk management segment:

Risk management accounted for 14% of AJ's revenues in 2020. Approximately 63% of these segmental revenues were from workers' compensation-related claims, 29% from general and commercial auto liability-related claims, and 8% from property-related claims in 2020.

AJ's third-party claim-adjusting operations are managed through a network of more than 65 offices located throughout the US, Australia, the UK, New Zealand and Canada. While this segment complements their brokerage and consulting offerings, approximately 90% of their risk management segment's revenues come from clients not affiliated with their brokerage operations, such as underwriting enterprises and clients of other insurance brokers.

Revenue model of the company

Revenues for risk management segment are comprised of fees generally negotiated: i) on a per-claim basis, ii) on cost-plus basis, or iii) as performance-based fees. The company also provides risk management consulting services that are recognized as the services are delivered.

Per-claim fees: AJ operates under a contract with their fee established on a per-claim basis; their obligation is to process claims for a term specified within the contract. Because it is impractical to recognize revenues on an individual claim-by-claim basis, they recognize revenues plus an appropriate estimate of their profit margin on a portfolio basis by grouping claims with similar characteristics. They apply actuarially-determined, history-based patterns to determine their future service obligations, without applying a present value discount.

Cost-plus fees AJ provides services and generate revenues on a cost-plus basis, they recognize revenues over the contract period consistent with the performance of their obligations.

Performance-based fees: Certain clients pay additional fee for their efficiency in managing claims, or on the basis of claim outcome effectiveness. These amounts are in excess of the fee revenues discussed above. These revenues are variable, generally based on performance metrics set forth in the underlying contracts. The company generally operates under multi-year contracts with fiscal year measurement periods. They do not receive these fees, if earned, until the following year after verification of the performance metrics outlined in the contracts. Each period, they base their estimates on a contract-by-contract basis.

The decrease in fees for 2020 compared to 2019 was primarily the impact of covid.

Table 9: Financial highlights

US$ mn	2018	2019	2020	YoY %
Fees	797.8	836.9	821	2%
Reimbursements	141.6	138.6	151.7	-9%
Total	939.4	975.5	972.7	0%
Total operating expenses	801.2	837.6	828.6	1%
EBITDA	138.2	137.9	144.1	-4%
Margin	14.7%	14.1%	14.8%	-5%
PAT	70.4	66.2	66.9	-1%

Source: Company SEC Fillings

In risk management operations, AJ began seeing a meaningful decline in new claims arising during the last two weeks of March 2020, which persisted into April. From May to December, and in the first quarter of 2021, there have been an improving trend in new claims arising; yet the current level of weekly new claims is still well below pre-pandemic levels.

A slower recovery or reversal in the number of workers employed could cause fewer claims to arise in future quarters. Organic change in fee revenues was (-)3% in 2020 and 4% in 2019.

Crawford & Company

Crawford TPA Solutions

Crawford TPA Solutions segment, which operates under the brand name, *Broadspire*, is a leading third-party administrator that provides services to the global casualty and disability insurance and self-insured markets. This segment accounted for 37.1% of the company's revenues before reimbursements in 2020.

Table 10: Financial highlights

Year-ended December 31, 2020	2018	2019	2020	YoY Change
Revenues	405.3	393.9	365.0	-7%
Direct expenses	296.1	294.2	277.3	-6%
Gross profit	109.2	99.7	87.7	-12%
Indirect expenses	72.3	72.5	66.2	-9%
Total Crawford TPA Solutions Operating Earnings	36.9	- 27.2	- 21.5	-21%
Gross profit margin	27%	25%	24%	
Operating margin	9.10%	6.90%	5.90%	

Source: Company SEC Fillings

CorVel Corporation

Patient Management Services

CorVel offers a unique approach to patient management. Services in this segment include claims management and all services sold to claims management customers, case management, 24/7 nurse triage, utilisation management, vocational rehabilitation, and life care planning. This integrated service model controls claim costs by advocating medical management at the onset of the injury to decrease administrative costs and to shorten the length of the disability. This automated solution offers a personalised treatment programme for each injured worker, using precise treatment protocols to meet the changing needs of patients on an ongoing basis. Company offers these services on a standalone basis or as an integrated component of its medical cost containment services.

Table 11: Financial highlights

Fiscal years (mn)	2018	2019	2020	YoY
Revenues	558	596	592	-0.6%
Cost of revenues	451	471	466	-1.0%
Gross profit	107	125	126	1.0%
Other expenses	59	62	65	4.7%
PBT	48	62	61	-1.3%
Taxes	12	15	13	-10.0%
PAT	36	47	47	1.4%
Operating Margin	9%	10%	10%	
Revenue split (%)				
Patient management services	56.7	61.8	65.3	
Network solutions services	43.3	38.2	34.7	

Source: Company SEC Fillings

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