# A Study On Consumer Perception With Reference To Third Party Administrators (TPAs)

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## ABSTRACT

TPA stands for a Third Party Administrator. The TPA is an intermediary between the Insurer and the Customer. TPA's were introduced by the Insurance Regulatory and Development Authority of India (IRDA) in the year 2001. It defines TPA as a, " Third Party Administrator who, for the time being, is licensed by the Authority, and is engaged, for a fee or remuneration, in the agreement with an Insurance Company, for the provision of health services."

Since the TPA is performing a task traditionally handled by the company providing the insurance, it can also be seen as outsourcing of the claim settlement process. Customers can directly deal with TPAs at the time of claim and the TPA will help with all the processes of claim settlement. A TPA renders a variety of services like networking with hospitals, arranging for hospitalization, claim processing and settlement. With the advent of so many TPAs in the market, it became very difficult for Insurance companies to choose between them so that they can offload their Claim related work. The study here gives us a comprehensive idea regarding the parameters on which customers prefer any TPA. The study would also help Insurance Companies as well as TPAs to align their resources in such a way so that they can proactively give more impetus to the services which are deemed most important by the customers.

Keywords: Third Party Administrator (TPA), IRDA, Mediclaim, Cashless Facility, Claim Ratio, Settlement Gap

## INTRODUCTION

TPA stands for Third Party Administrator. TPA is an intermediary between an Insurer and the Customer. TPA's were introduced by the Insurance Regulatory and Development Authority of India (IRDA) in the year 2001. It defines TPA as a, "Third Party Administrator who, for the time being, is licensed by the Authority, and is engaged, for a fee or remuneration, in the agreement with an insurance company, for the provision of health services." It can also be "a company that provides administrative services to health plans or self-funded health plans, but that does not have the financial responsibility for paying benefits".

Since the TPA is performing a task traditionally handled by the company providing the insurance, it can also be seen as the outsourcing of the claim settlement process. Customers can directly deal with TPA at the time of claim, and the TPA will help with all the processes of claim settlement. A TPA renders a variety of services like networking with hospitals, arranging for hospitalization, claim processing and settlement. With the advent of so many TPAs in the market, it became very difficult for Insurance companies to choose between them so that they can offload their claim related work. The study here provides a comprehensive idea on which parameters customers prefer any TPA.

## LITERATURE REVIEW AND RESEARCH GAP

Palmer, Allaway, D'souza, and Ellinger (2011) described the pre-launch, launch & adoption history of a new Net based Customer Service System (NCSS). The NCSS was offered to dental offices by a moderately sized insurance and Third Party claims Administrator (TPA) in a southeastern US state. Research studies indicate that new internet technologies are not always accepted by target users. Taking this view in mind, the researchers assessed the consumers' perception regarding the TPA as a mediator between the insurer and the insured, and conducted the study to find out which factors were given more prominence by the target customers.

Sillup and Klimberg (2011) provided a background about healthcare expenditure and its impact on self- insured organizations. They assessed the impact of customers' preferences on the cashless facility that is provided by the TPAs.

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The preference starts with the awareness of the TPA among the population, and this was found out by Kumar, Rangarajan and Ranganathan (2011). Their study examined the Indian Health Insurance market by empirically observing the provider's perception and its relationship with the insured, the insurer and the TPAs. The study tried to find out the awareness level among the insured population and their attitude towards treatment costs. It then examined the role of the TPAs. The researchers of the present paper have taken it further from the above-mentioned studies to establish the most important factors- which customers choose - to give their preference tag to any TPA.

## HEALTH SETTLEMENT CLAIM PROCESS

The Insurance companies appoint a Third-Party Administrator (TPA) for claims processing. It means, once the health insurance policy is sold, the insurer passes on the baton to the TPA. In case of a claim, the insured has to get in touch with the TPA for all verification and formalities.

There are 2 ways by which health insurance claims are settled:

❖ **Cashless :** In order to avail cashless treatment (only at authorized network hospitals), the TPA has to be notified in advance (for planned hospitalization) or within the stipulated time limit (for emergencies). The insurance desk at hospitals usually helps with all the paperwork. The claim amount needs to be approved by the TPA, and the hospital settles the amount with the TPA/ Insurer. Typically, there will be exclusions and such an amount will have to be settled directly at the hospital.

❖ **Reimbursement :** Reimbursement facility can be availed at both network and non-network hospitals. Here, the insured avails the treatment and settles the hospital bills directly at the hospital. The insured can claim reimbursement for hospitalization by submitting relevant bills/ documents for the claimed amount to the TPA. The TPA mode of claims settling has its own problems. The TPAs are instructed to limit insurance claims and they are not the one's who sell the policy. There are many cases where the insured have had a tough time to settle the claims for his/her hospital expenses. So, before taking health insurance, it is useful to check who and how good the TPA is when it comes to claims processing. Internet search and a friendly chat with the hospital staff can give you good insight on the insurer/ TPA. There are also some health insurance providers who do not employ TPAs and carry out claims settlement directly (this is called in - house TPA) . However, the flip side is that many of the hospitals tend to charge more when they know that the person is insured.

❖ **The Growth Story of TPAs :** With the expansion of the private health insurance sector, health insurance has become a booming business, with a growth rate of 25% per annum in the last few years. TPAs as participants in the health insurance delivery chain reflected a similar performance.

❖ **Challenges Faced By TPAs :** The authority continued to engage actively with various industry bodies and stakeholders, with a view to further streamline the health insurance services in the country. Particularly, with reference to the functions of the TPAs, certain formats and documents for communication and processing are proposed for standardization to bring in uniformity and to smoothen the processes. A number of measures aimed at improving the customer service orientation of the industry as well as to improve transparency in the system were initiated during recent years. However, despite being a mediator who is profitable for all, soon, it was observed that it was the TPAs that lead to the overcharging from the patients by the hospitals. It was also found that many people are dissuaded when they are told that their claim form has been lost, which leads to injustice during claim settlements. The Authority maintains a separate system for handling grievances with respect to TPAs from policyholders, providers, and other stakeholders. During 2009-10, the Authority received 312 complaints, of which 305 were disposed and 7 complaints were outstanding as on March 31, 2010.

## OBJECTIVES OF THE STUDY

❖ To develop and standardize a measure for evaluating consumer preference for selection of the TPA (Third Party Administrator ).

❖ To identify the underlying factors for preference of a TPA by the consumer.

❖ To provide an insight to insurers on what factors they should concentrate upon so that they can have the best possible TPAs for their customers.

| Table 1 : Table of Total Correlation | | | |
|---|---|---|---|
| Items | Coefficient of Correlation | Consistency | Accepted/Dropped |
| 100% Cashless Facility Provided | .837 | Consistent | Accepted |
| Cashless Facility | .172 | Consistent | Accepted |
| Acceptance of Online Claim | .866 | Consistent | Accepted |
| Claim settled in Totality | .870 | Consistent | Accepted |
| Branches in the Country | .811 | Consistent | Accepted |
| Renewal Gap | .462 | Consistent | Accepted |
| Availability of Call Centre | .582 | Consistent | Accepted |
| Tie Up With Multi Insurer | .699 | Consistent | Accepted |
| No. of Hospitals Attached | .681 | Consistent | Accepted |
| Supportive TPA Staff | .183 | Consistent | Accepted |
| TPA Card | .173 | Consistent | Accepted |
| Time Taken To Provide Cashless Facility | .609 | Consistent | Accepted |
| Time Taken To Settle Claim | .297 | Consistent | Accepted |
| Claim Ratio | .746 | Consistent | Accepted |
| Source: Authors' Research | | | |

## RESEARCH METHODOLOGY

❖ **The Study And The Sampling Design :** The study was explorative and was done in the month of September 2011. The population included patients who got in touch with TPAs for the claims or who availed cashless facility. The sampling technique was purposive, and the sample size was of 270 respondents.

❖ **Tools For Data Collection :** A self- designed questionnaire was used to identify the factors responsible for the customers giving preference to any TPA. The data was collected on a Likert type scale, where 1 stands for minimum agreement and 5 stands for maximum.

❖ **Tools For Data Analysis :** Items to total correlation were applied to check the internal consistency of the questionnaire. Factor analysis was applied to identify the underlying factors responsible for consumers preferring a particular TPA over another. The data was entered into the data editor of SPSS 17.

❖ **Analysis Of Consistency :** The consistency of the factors which were included in the questionnaire was computed by applying Total Correlation to all items. Correlation of each item was measured, and the computed value was measured with the standard value (0.159 ). If the computed value was found to be less than the standard one, then the whole Item was dropped, however, if the value was more than the specified value, then the statement was termed as consistent. As seen in the Table 1, all the items of total correlation are found to be above the standard specified value (0.159 ) and hence, are found to be consistent.

## RELIABILITY MEASURE

The Reliability Test was carried out using SPSS, and the measure is given in the following Table 2. The Cronbach's Alpha is more than 0.700 in the reliability test. So, the Questionnaire is considered to be reliable.

| Table 2 : Reliability Statistics | |
|---|---|
| Cronbach's Alpha | N of Items |
| 0.0721 | 14 |
| Source: Authors' Research | |

| Table 3 : Communalities | | |
|---|---|---|
| Items | Initial | Extraction |
| No. of Hospitals Attached | .970 | .625 |
| Cashless Facility | .775 | .347 |
| 100% Cashless Facility Provided | .961 | .866 |
| Branches In The Country | .968 | .774 |
| Availability of Call Centre | .999 | .953 |
| Claim Settled In Totality | .976 | .911 |
| Supportive TPA Staff | .832 | .322 |
| Acceptance of Online Claim | .922 | .410 |
| Renewal Gap | .969 | .785 |
| Time Taken To Provide Cashless Facility | .939 | .476 |
| TPA Card | .954 | .360 |
| Claim Ratio | .987 | .837 |
| Time Taken To Settle Claim | .988 | .843 |
| Tie up With Multi Insurer | .995 | .858 |
| Extraction Method: Principal Axis Factoring | | |
| Source: Authors' Research | | |

| Table 4 : Total Variance Explained | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Factor | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 6.357 | 46.409 | 46.409 | 6.357 | 46.409 | 46.409 | 4.931 | 36.220 | 36.220 |
| 2 | 2.284 | 16.318 | 62.727 | 2.284 | 16.318 | 62.727 | 3.793 | 20.953 | 56.173 |
| 3 | 1.731 | 11.343 | 73.190 | 1.731 | 11.343 | 73.190 | 1.870 | 11.069 | 66.442 |
| 4 | .943 | 5.734 | 80.823 | | | | | | |
| 5 | .904 | 7.457 | 87.281 | | | | | | |
| 6 | .584 | 4.970 | 91.451 | | | | | | |
| 7 | .427 | 3.049 | 94.499 | | | | | | |
| 8 | .356 | 1.744 | 97.043 | | | | | | |
| 9 | .223 | 2.796 | 97.639 | | | | | | |
| 10 | .097 | .592 | 99.331 | | | | | | |
| 11 | .056 | .498 | 99.729 | | | | | | |
| 12 | .022 | .260 | 97.889 | | | | | | |
| 13 | .014 | .305 | 97.991 | | | | | | |
| 14 | .001 | .109 | 100.000 | | | | | | |
| Extraction Method: Principal Axis Factoring. | | | | | | | | | |
| Source: Authors' Research | | | | | | | | | |

## Figure 1 : Scree Plot



Source: Authors' Research
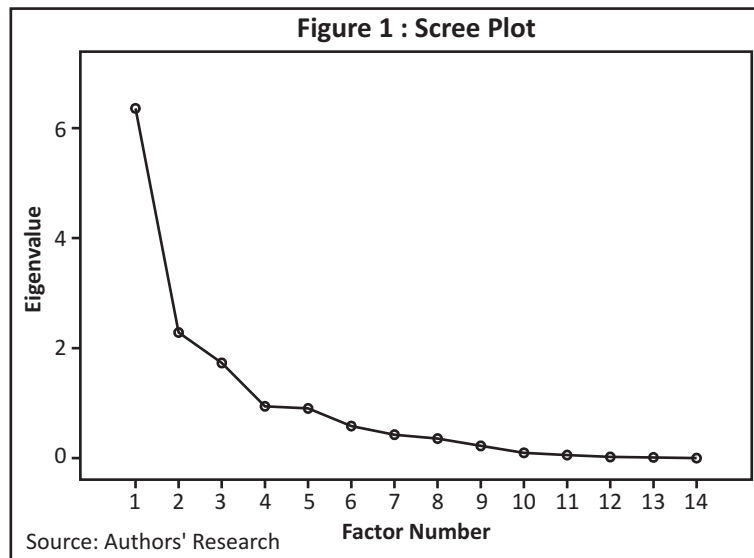
| Table 5 : Factor Matrix[a] | Factor | | |
|---|---|---|---|
| Items | 1 | 2 | 3 |
| Claim Settled In Totality | .871 | .099 | -.367 |
| Tie up With Multi Insurer | .855 | .219 | -.172 |
| Availability of Call Centre | .849 | .460 | -.043 |
| Time Taken To Settle Claim | .853 | .357 | .088 |
| Branches In The Country | .827 | .299 | -.009 |
| No. of Hospitals Attached | -.787 | .129 | .125 |
| Claim Ratio | -.756 | .556 | .055 |
| 100% Cashless Facility Provided | -.693 | .645 | .046 |
| TPA Card | .511 | .188 | .261 |
| Supportive TPA Staff | .442 | -.026 | .411 |
| Cashless Facility | .054 | .555 | .176 |
| Time Taken To Provide Cashless Facility | -.456 | .482 | .188 |
| Renewal Gap | .425 | -.435 | .645 |
| Acceptance of Online Claim | .156 | .046 | .616 |
| Extraction Method: Principal Axis Factoring. | | | |
| a. 3 factors extracted. 15 iterations required. | | | |
| Source: Authors' Research | | | |

| Table 6 : Rotated Factor Matrix[a] | Factor | | |
|---|---|---|---|
| Items | 1 | 2 | 3 |
| Availability of Call Centre | .975 | -.016 | .153 |
| Tie Up With Multi Insurer | .872 | -.244 | .054 |
| Time Taken To Settle Claim | .862 | -.064 | .276 |
| Branches In The Country | .854 | -.125 | .184 |
| Claim Settled in Totality | .830 | -.436 | -.114 |
| No. of Hospitals attached | -.614 | .468 | -.135 |
| TPA Card | .453 | .030 | .328 |
| 100% Cashless Facility Provided | -.274 | .876 | -.221 |
| Claim Ratio | -.364 | .802 | -.212 |
| Time Taken To Provide Cashless Facility | -.172 | .662 | -.022 |
| Cashless Facility | .252 | .438 | .138 |
| Renewal Gap | .023 | -.403 | .746 |
| Acceptance of Online Claim | .033 | .142 | .617 |
| Supportive TPA Staff | .269 | -.140 | .513 |
| Extraction Method: Principal Axis Factoring. | | | |
| Rotation Method: Varimax with Kaiser Normalization. | | | |
| a. Rotation converged in 5 iterations. | | | |
| Source: Authors' Research | | | |

| Table 7 : Factor Transformation Matrix | | | |
|---|---|---|---|
| Factor | 1 | 2 | 3 |
| 1 | .836 | -.435 | .298 |
| 2 | .510 | .828 | -.139 |
| 3 | -.183 | .230 | .958 |
| Extraction Method: Principal Axis Factoring. | | | |
| Rotation Method: Varimax with Kaiser Normalization. | | | |
| Source: Authors' Research | | | |

## FACTOR ANALYSIS

In order to find out the reasons for a customer choosing a particular TPA and to group the factors, Factor Analysis was conducted using Principle Axis factoring method. The analysis considered 14 items, and all of them were accepted. The data of the item was punched in SPSS version 17 software, and then the analysis was carried out.

## DESCRIPTION OF THE FACTORS

The Tables 2 - 7 present a detailed report of the Factor Analysis on the data.

The initial and extracted communalities information helped the researchers in identifying the variables which were very important for the Factor Analysis.

The Table 3 summarizes the total variance explained by FA and gives an indication about the number of useful Factors. The First part - Initial Eigenvalues provides the variance explained by all possible factors. The second part, Extraction Sums of Squared Loadings provides information for factors with Eigenvalues greater than 1. These values were calculated after the extraction. The figure under cumulative% indicates that the three extracted factors explain 73.19 % of the variance. Three Factors with eigenvalues greater than 1 suggest a Three- Factor solution. 46.40% variance is explained by Factor 1(Cashless Service) ; 16.31% by Factor 2 (Infrastructural Support System ) ; and 11.34% by Factor 3 (Claims).

**1)** Cashless Service affects the preference criteria of customers with Eigen Total of 6.35 and variance of 46.40%. The items included in this factor are Cashless facility, Time taken to provide cashless facility, 100% cashless facility, and TPA Card.

**2)** Infrastructural Support System is another important factor with the Eigenvalue of 2.284 and variance of 16.318%. The items included are No. of Hospitals Enrolled, Supportive Staff, Branches in the Country, and No. of Insurers.

**3)** Claim is also one of the important Factors with Total Eigen value of 1.731 and 11.34% variance. The items included are Online Claim settlement, Renewal gap, Claim ratio, and Time taken to settle the Claim.

## CONCLUSION

❖ Cashless facility has to be revamped, making it easier for consumers to utilize the same. The analysis shows that Cashless Service affects the preference criteria of customers, with an Eigen Total of 6.357 and variance of 46.41%.

❖ More and more hospitals need to be enrolled with TPAs so that patients can avail cashless facility at their preferred location. The analysis shows that Infrastructural Support System got an Eigenvalue of 2.284 and variance of 16.318%.

❖ The time taken to clear authorization needs to be reduced so that it minimizes anxiety on the part of the patient about the Cashless facility. The Factor got a total Eigenvalue of 1.73 and 11.35% variance, thus supporting the researchers' claim.

## SUGGESTIONS

It becomes imperative for the Insurance companies to choose TPAs who can provide facilities for which the patients have shown preference. Further, TPAs also need to ensure that they have to pay more attention to Cashless Facility and have to enroll as many hospitals as possible so that the facility can be provided across a wide spectrum. First point of contact and faster claim settlement process are also considered important factors and if handled properly, they can really boost the business of insurance companies and TPAs .

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