

41st India Fellowship Seminar

Date: 13th and 14th June, 2024

Adapting to Health Insurance Changes: Pricing, Reserving and Solvency Insights

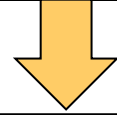
Presented By :

1. URMI JAIN
2. MAHESWARAN SUBRAMANIAM
3. ARCHANA ANJAY AGARWAL

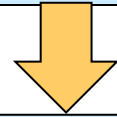


Agenda

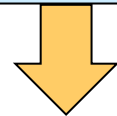
✓ Background of Case Study



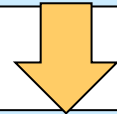
✓ Health Insurance Industry - Overview



✓ Brief description of applicable Regulations



✓ Impact on Pricing, Reserving and Solvency



✓ Conclusion

Background of Case Study

Removal of 65
years age clause

Reduction in PED
waiting period

Reduction in
moratorium period

Cashless claim
facility in all
hospitals

Introduction

Irdai sets 3-hr limit to settle health claims

Insurance regulator Irdai has issued new norms that will require insurers to approve cashless claims within hour and provide final discharge

As the Insurance Regulatory and Development Authority of India (IRDAI) enters its 25th birthday year on Friday, the regulator is busy overhauling its regulatory framework. A key move would be a three-hour turnaround time for cashless claims, which will be effective from May 1, 2024. This move is part of a series of reforms aimed at making the insurance industry more transparent and efficient. The regulator is also working on a new regulatory framework for health insurance, which will be implemented by April 1, 2024.

IRDAI marks 25th anniversary with slew of regulatory reforms

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The Insurance Regulatory and Development Authority of India (IRDAI) is celebrating its 25th anniversary with a series of regulatory reforms. The regulator has issued new norms for health insurance, which will be effective from May 1, 2024. This move is part of a series of reforms aimed at making the insurance industry more transparent and efficient. The regulator is also working on a new regulatory framework for health insurance, which will be implemented by April 1, 2024.

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The new rule will be effective from April 1.

NEW DELHI: In a major relief to customers buying health insurance policies in 2024-25, the insurance regulator has reduced the maximum waiting period for pre-existing diseases (PED) from 36 months to 30 months, effective from April 1, 2024. This move is part of a series of reforms aimed at making the insurance industry more transparent and efficient. The regulator is also working on a new regulatory framework for health insurance, which will be implemented by April 1, 2024.

The waiting period in a health insurance plan is the duration before that certain specific diseases would not be covered by the policy. PED is an acronym for pre-existing diseases. However, IRDAI's new guidelines mean that a further reduction in the waiting time, experts said.

"Waiting period for pre-existing diseases (PED) for the person to be insured, shall be maximum up to 30 months of continuous coverage under the health insurance policy. Insurers must endeavour to serve better pre-existing disease waiting period and specific waiting period in the health insurance products, IRDAI said in a media release.

According to the new definition, PED means "any condition, illness, injury or disease as that is not diagnosed by a physician not more than 30 months prior to the date of commencement of the policy issued by the insurer, in which the insured individual was not recommended by a physician, or received from a physician, not more than 30 months prior to the date of commencement of the policy."

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TO IMPACT SALES, INVESTMENTS AND COMMISSIONS

Irdai Changes Key Rules for Insurers

Joel Rebellio
@timesgroup.com

Mumbai: The Insurance Regulatory and Development Authority (IRDAI) has made important changes to rules governing sales, investments and commissions charged by insurance companies as part of the ongoing deregulation agenda. The changes were passed at the regulator's board meeting earlier this week and are likely to be implemented by the end of the quarter, two people familiar with the decisions said.

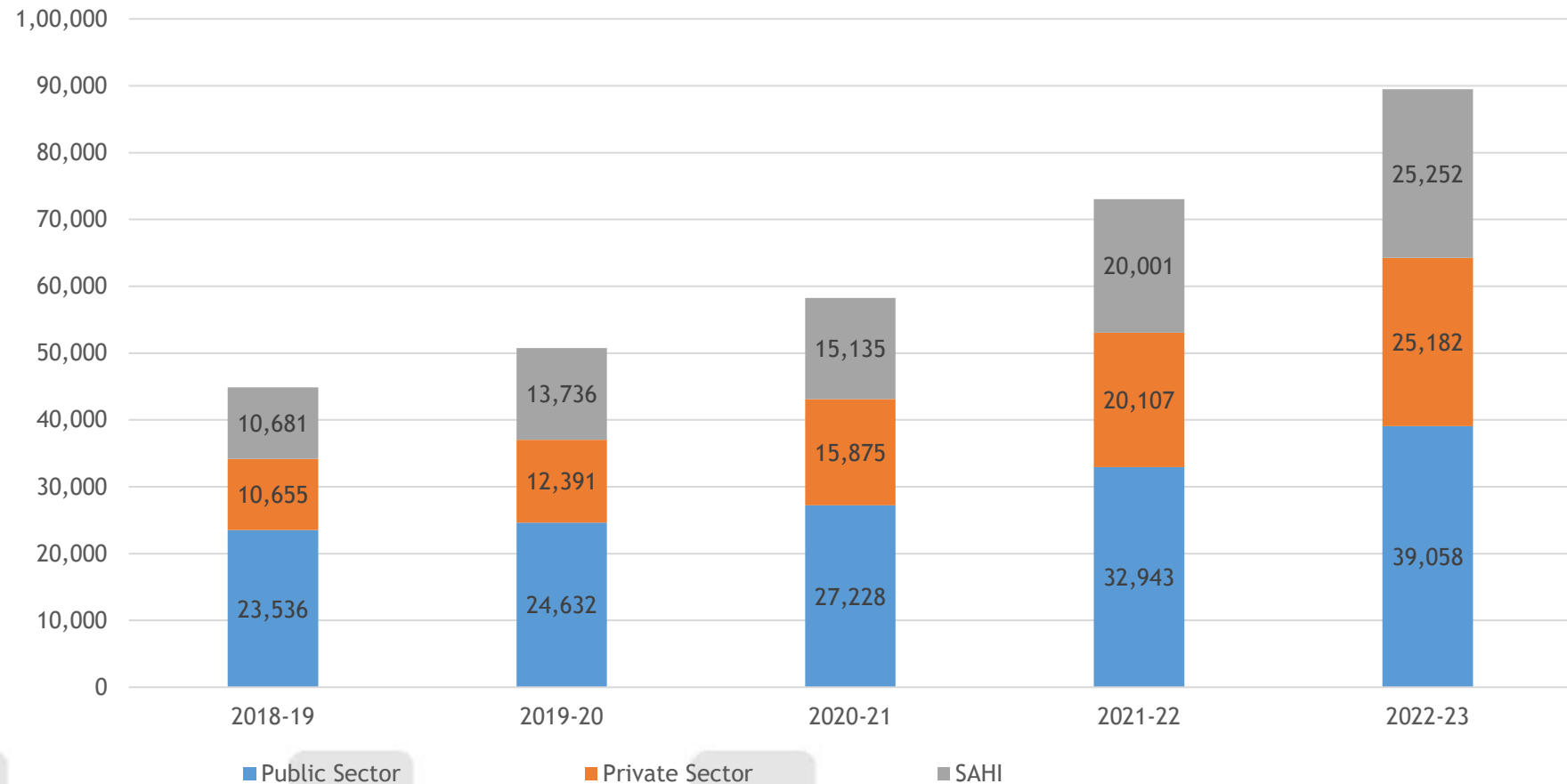
Among the decisions is allowing banks to sell insurance policies of up to nine insurance companies, the biggest distribution reform since the regulator allowed corporate agents like banks to sell policies from three insurance companies as part of the open architecture policy implemented since April 2016.

The IRDAI measures are likely to be implemented in the next few days and changes are likely to be implemented in the next few days and changes are likely to be implemented in the next few days.

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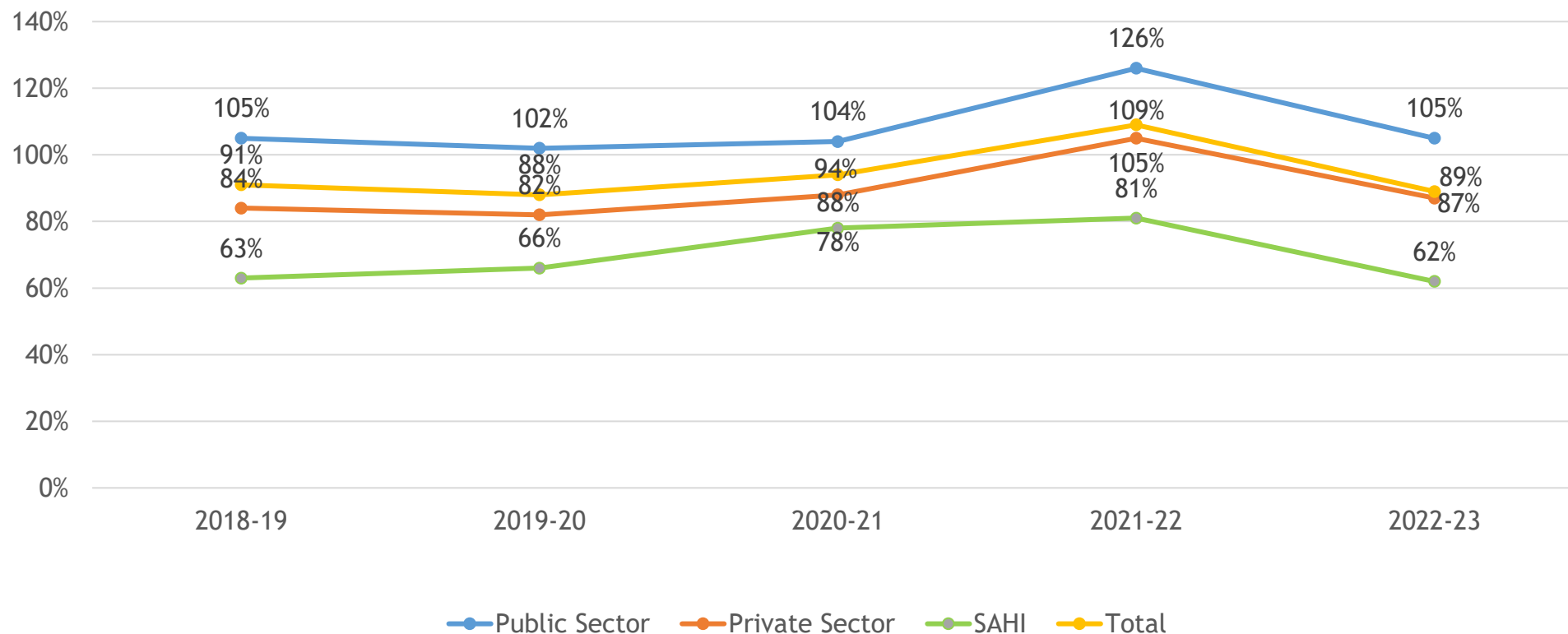
Gross Written Premium (Rs. crore)



Source of the data: Annual Report of IRDAI

The above graph shows the trends in the Gross Written Premium for the Health Industry.

Trend in Incurred Claims Ratio

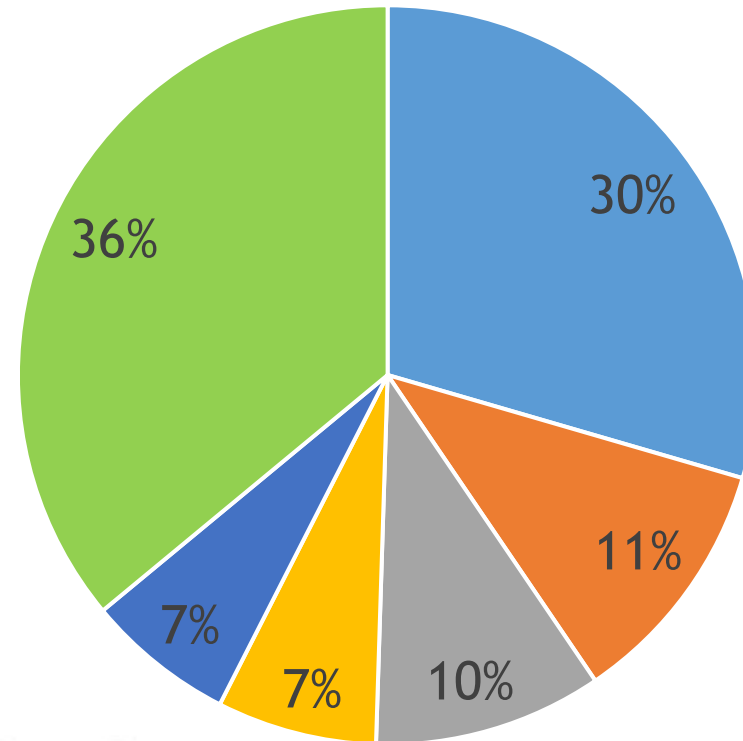


Source: Annual report of IRDAI

The above graph shows the trends in the Incurred Loss Ratio for the Health Industry.

Proportion of Gross Written Premium of Health Business (Financial Year 2022-23)

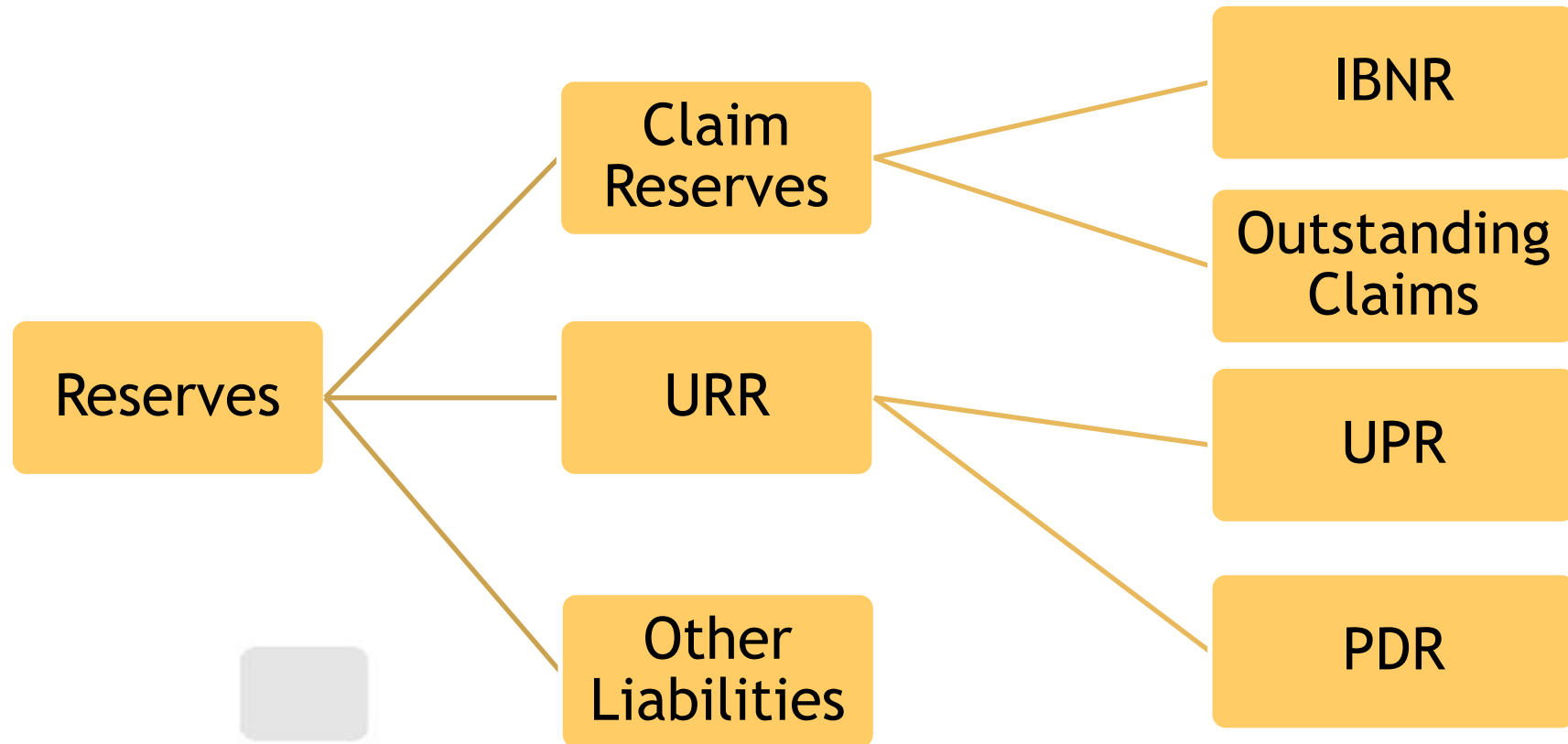
- Maharashtra
- Karnataka
- TamilNadu
- Gujarat
- Delhi
- Rest of India



Source: Annual report of IRDAI

Provisions under IRDAI (Actuarial, Finance and Investment Functions of Insurers)

Regulations, 2024:



URR- Unexpired Risk Reserve
UPR- Unearned Premium Reserve
PDR-Premium Deficiency Reserve

Provisions under IRDAI (Actuarial, Finance and Investment Functions of Insurers) Regulations, 2024:

Solvency:

$$\text{RSM 1} = 20\% * \text{Max} \{ \text{Gross Premium} * \text{Factor A}, \text{Net Premium} \}$$

$$\text{RSM 2} = 30\% * \text{Max} \{ \text{Gross Incurred Claims} * \text{Factor B}, \text{Net Incurred Claims} \}$$

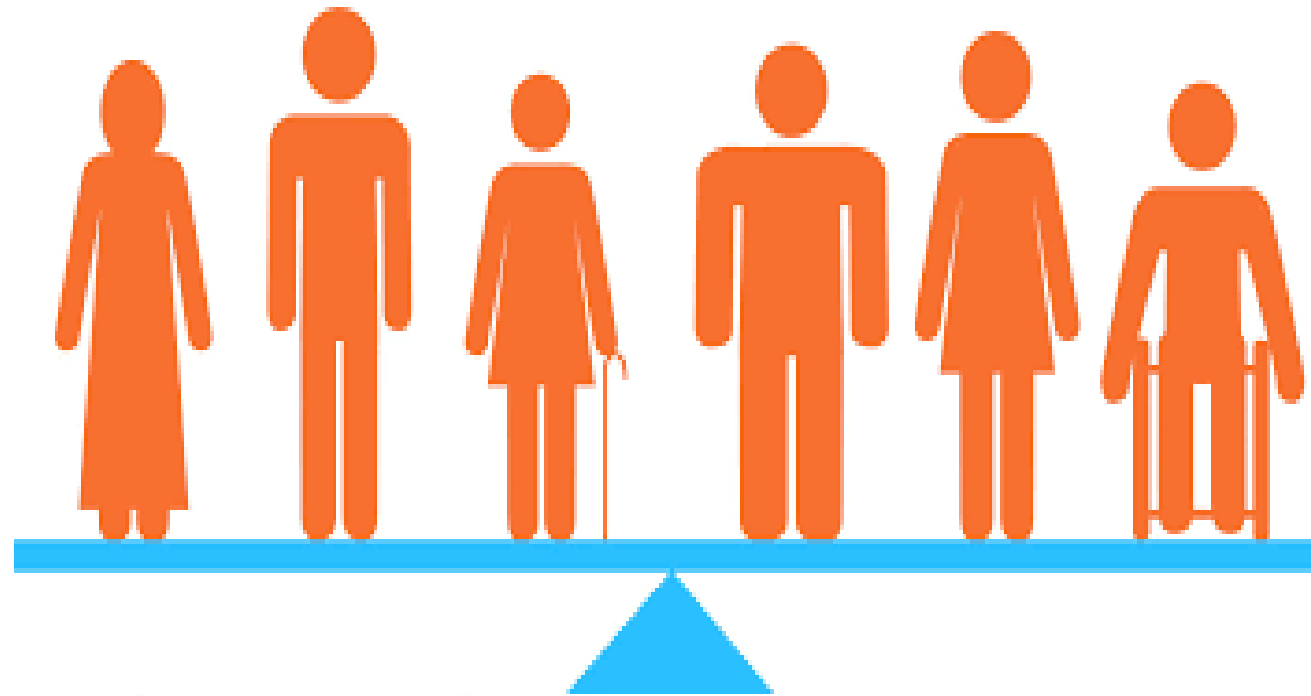
$$\text{RSM} = \text{Max} \{ \text{RSM 1}, \text{RSM 2} \}$$

Factor A & B for Health = 0.75

$$\text{Solvency Ratio} = \text{Total ASM} / \text{Total RSM}$$

Control level of
Solvency Margin
(150% of RSM)

Removal of 65 years age condition



Regulatory change

IRDAI (Health Insurance) Regulations, 2016

12. Entry and Exit Age
i. Except as provided for in regulation 17(i), all health insurance policies shall ordinarily provide for an entry age of at least up to 65 years

IRDAI (Insurance Products) Regulations, 2024

6.1 Insurers shall ensure that they offer health insurance products to cater to all the age groups.
6.2 Insurers may design products specifically for senior citizens, students, children, maternity and any other group as specified by the Competent Authority.

Age Criteria - Impact on pricing

- Innovative products
- Better Underwriting
- Fair premium
- Data
- Prudent Assumptions
- Morbidity rate
- Expected business volume
- Reinsurance
- Product design

Age Criteria - Impact on reserving

- Data issue
- Impact on IBNR
- Change in the Reserving Methodology
- Increase in Risk Margin
- Impact on Premium Deficiency Reserve
- Scenario Analysis

Age criteria - Impact on solvency

Premium (+) ↑	Reserves (-) ↑	ASM ↔
Premium (+) ↑	Claims (+) ↑	RSM ↑

Other factors-

- Reinsurance
- RSM 1 or RSM2
- Net claims is considered as maximum of 1 or 3 years data
- Increase in Liquid Assets

Reduction in PED Waiting period

- Decreased from 48 months to 36 months



Regulatory change

**Master Circular on
Standardization of Health
Insurance Products dated 22nd
July, 2020**

Subject to product design the
number of months, not exceeding
48 months, shall be specified

**IRDAI (Insurance Products)
Regulations, 2024**

Waiting period for pre-existing
diseases disclosed by the persons
to be insured, shall be maximum
up to **36 months**

Change in PED Definition

Reduction in PED Waiting Period - Impact on pricing

- Impact on existing products
- Anti-Selection
- Early Claims cost
- Higher Underwriting cost
- Higher Premium
- Reduced Customer Affordability
- Marketability

Reduction in Moratorium period

- Decreased from 96 months to 60 months



Regulatory change

**Master Circular on
Standardization of Health
Insurance Products dated 22nd
July, 2020**

After completion of eight
continuous years under the
policy no look back to be
applied. This period of eight
years is called as moratorium
period.

**IRDAI (Insurance Products)
Regulations, 2024**

Moratorium (applicable for
health insurance policies issued
by general and health insurers):
After completion of sixty
continuous months of coverage
(including portability and
migration) in health insurance
policy, no policy and claim shall
be contestable by the insurer...

Reduction in Moratorium - Impact on pricing

- Impact on existing products
- Non-disclosure
- Anti-Selection
- Early Claims cost
- Higher Underwriting cost
- Higher Premium
- Reduced Customer Affordability
- Marketability

Reduction in PED Waiting Period/ Moratorium - Impact on reserving

- Increase in the Claim Reserves
- Claims uncertainty may increase
- Data issue
- Monitoring
- Scenario Analysis

Reduction in PED Waiting Period/ Moratorium - Impact on solvency

Premium (+) ↑	Reserves (-) ↑	ASM ↑↓
Premium (+) ↑	Claims (+) ↑	RSM ↑

Other factors-

- Reinsurance
- RSM 1 or RSM2
- Net claims is considered as maximum of 1 or 3 years data
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Cashless claim facility across all the hospitals in the country

- Only about 63% of customers opted for cashless claims for FY 2022-23; others go for reimbursement.



Source: Annual report of IRDAI

Master Circular on IRDAI (Insurance Products) Regulations 2024 - Health Insurance

- **Achieve 100% cashless claim settlement**
- **Ensure reimbursement are minimum**
- **Prescribed TAT for initial and final authorization**
- **Help Desks in hospitals to assist cashless requests**
- **Insurers shall also provide pre-authorization to the policyholder through Digital mode**

Cashless - Impact on pricing

- Reduced Fraud and Abuse
- Increased Administrative and System Cost
- Negotiated Rates with Providers
- Enhanced Data Quality and Timeliness
- Dynamic pricing Models
- Premium
- Enhanced options to choose medical service providers
- Increase in customer confidence

Cashless - Impact on reserving

- Reduction in fraudulent claims
- Reduction in Estimation Error
- Shorter Tail
- Reduction in IBN(E)R
- Claim Handling expenses
- Re-opened cases may increase
- Capital Allocation
- Experience analysis

Cashless - Impact on solvency

In short run		
Premium (+) ↑	Reserves (-) ↓	ASM ↑
Premium (+) ↑	Claims (+) ↓	RSM ↔
In long run		
Premium (+) ↓	Reserves (-) ↓	ASM ↔
Premium (+) ↓	Claims (+) ↓	RSM ↓

Other factors-

- Reinsurance
- RSM 1 or RSM2
- Net claims is considered as maximum of 1 or 3 years data

Conclusion

- Customer Centric Approach
- Business Volume
- Uncertainty
- Underwriting
- Reinsurance
- Administrative System
- Change in Methodology
- Monitoring and Feedback
- Impact

Thank You