Swiss Re

# Pre-existing disease cover: Learnings from Other markets

Presentation for Capacity Building in Health Insurance, 26th August 2015

# Pre-existing disease cover - Learnings from Other markets: Contents

# [1] Pre-existing conditions are too big to be ignored

# Imagine a world (1)...

- No underwriting at all – guaranteed issue, no premium loadings
- Covering the pre-existing conditions from Day 1 of the policy
- Does this happen in voluntary markets – Where insurance purchase is not mandatory?

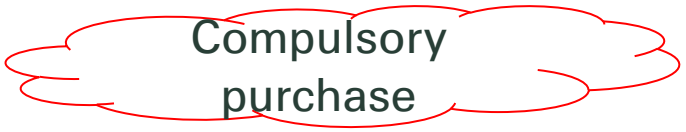
Do we have any such markets?

# So how much does it cost to cover Pre-Existing Conditions?

| | Food and health bearue | Pre-Existing Conditions Insurance Program(USA) | Hypothetical policy in India |
|---|---|---|---|
| Country and participants | • Hong Kong<br>• Individual medical insurance coverage | • USA – Citizens<br>• Denied Health care coverage<br>• Uninsured for > 6 months | • PEC Company<br>• Tag line: Cover PEC from Day 1 |
| Waiting Periods | • No Waiting periods | • No Waiting periods | • No Waiting periods |
| **Relative impact** | Top 2% claims cost = 660% of Bottom 80% claims cost | 5x IP Admissions of Standard portfolio 1.5x for (IP +OP). Burn Cost = 10 X Standard lives | Can we cost for this? |

▶ In voluntary purchase of health insurance, it is near impossible to derive reasonable premium loadings for coverage of Pre-Existing Conditions policies alone

# Imagine a world (2)...




- No underwriting at all – guaranteed issue, no premium loadings
- Anti-selection risks controlled by
  - general initial waiting period
  - longer initial waiting period for specific conditions
  - general exclusion for pre-existing conditions – limited in duration
- Long-term viability of medical insurance supported by
  - compulsory purchase of medical insurance
    strong incentives to purchase / strong disincentives not to purchase
  - risk equalisation mechanism to spread the cost of chronically ill / elderly lives and other high-risk lives across all insurers

▶ Such markets exists in countries like Australia, Belgium, Ireland, Germany, Netherlands, Switzerland, USA etc

# [2] Framework for covering Pre-existing conditions

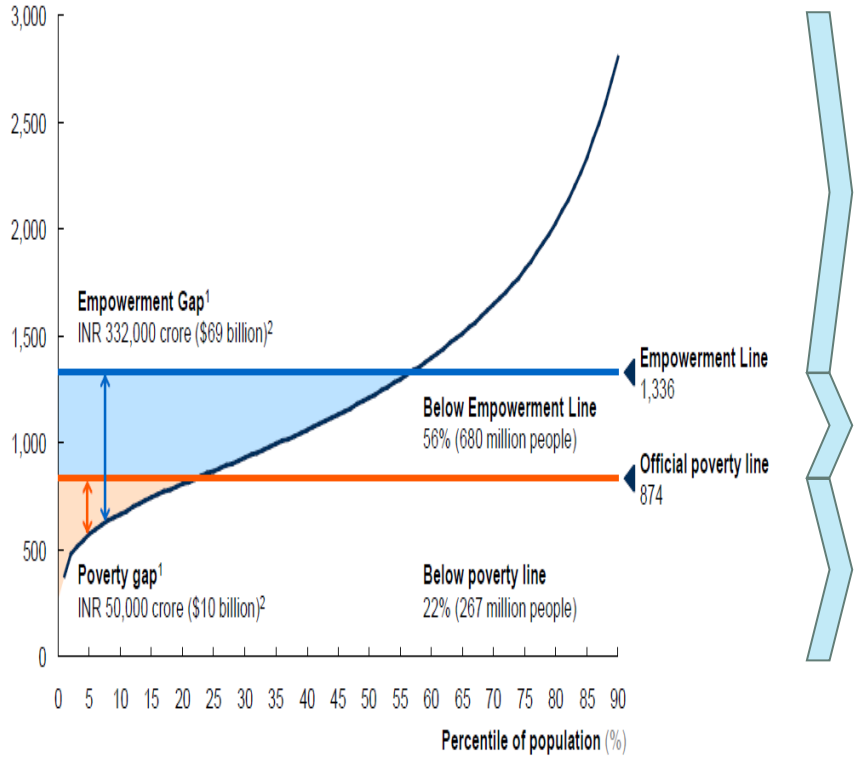
# Waiting periods to handle PEC is part of all the models. A pre-existing condition is a medical condition...

- ...for which
  in-hospital treatment was received...
  medical treatment was received...
  advice was received from a medical practitioner/health professional...
  a reasonable/prudent person would have sought advice/treatment...
  signs and symptoms were present...
- ...in the x months/years prior to policy inception...
  ...prior to policy inception...
- ...which leads to
  medical treatment at any time after policy inception
  medical treatment in the y months/years after policy inception
  (in which case the exclusion becomes permanent)

# Countries follow different health insurance coverage model but still fall within the following model frameworks

| | Health Insurance – Human Right (Accessibility) | | Risk Selection |
|---|---|---|---|
| | Mandatory PMI | Voluntary PMI | Voluntary PMI |
| Enforce | Incentivize policy purchase<br>Penalize no insurance | Provide safety net care<br>Rationing the Claiming process<br>MI is voluntary to access preferred care | PMI is voluntary<br>Strong selection UW and pricing<br>Hard / soft and awareness levels |
| UW and Pricing | WP may still apply<br>Lifetime Community Rating | Community rating<br>Guaranteed issue with waiting periods<br>Pricing is sometimes constrained | Full UW with Accept / decline / loading / exclusions etc.<br>Risk based pricing |
| Funding and Care | Risk equalization mechanisms between insurers | Government hospitals care highly subsidized<br>Risk equalization mechanisms<br>High risk pools | Self funded<br>Can be tax deductible insurance premiums |
| Country | Switzerland, Singapore, US OBAMA Care | Ireland, Australia, South Africa, Prev Hong Kong | Previous US care, UK , Current HK, India |

# Health Insurance coverage model in India is still fluid and government efforts are underway...




Mainly covered by GHS and PMI
General and Specific waiting periods
Full UW and risk based pricing
Pre existing conditions exclusions apply
Regulations on portability and PEC

Very limited coverage in few states and not empowered enough to buy insurance

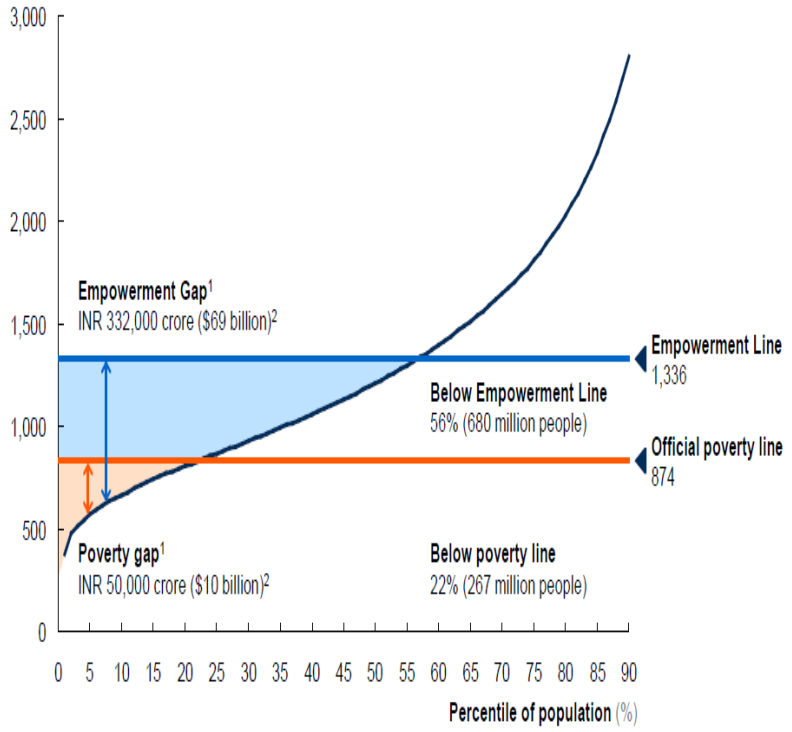
BPL population covered by Government sponsored schemes like RSBY, TNCM, AP etc.
SI vary from 30K to 200K, (Secondary +) care
Non-mandatory and No UW, WP and PEC

Gaps identified: PMI declined due to PEC, Limited OP and drugs coverage, Low portability awareness, Insurance awareness levels and coverage reach

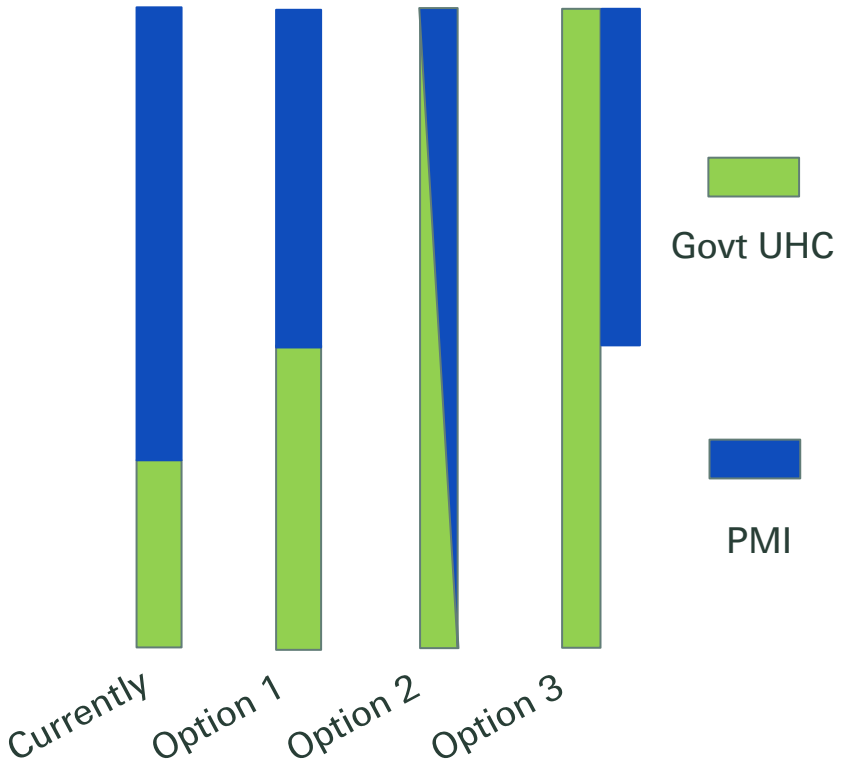
Average Monthly consumption expenditure. INR per capita per month 2011-12 in 2011-12 prices.
SOURCE: National Sample Survey Office survey, 68th round; McKinsey Global Institute analysis

# PEC considerations in policy making provides an insight into UHC benefit designs

So, What is a possible UHC insurance structure?




Possible benefit Designs

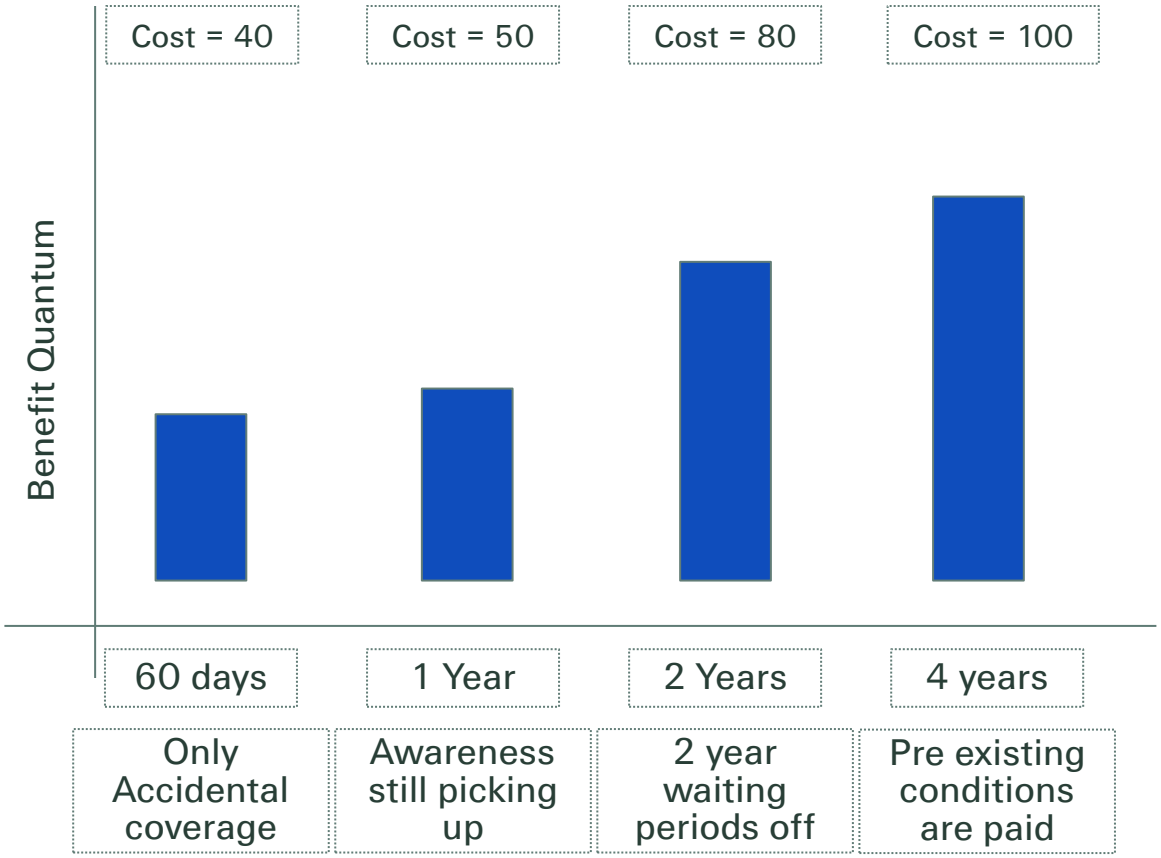



Should Government UHC has WP considerations as well?

Average Monthly consumption expenditure. INR per capita per month 2011-12 in 2011-12 prices.
SOURCE: National Sample Survey Office survey, 68th round; McKinsey Global Institute analysis

# [3] Measuring PEC impacts in portfolios

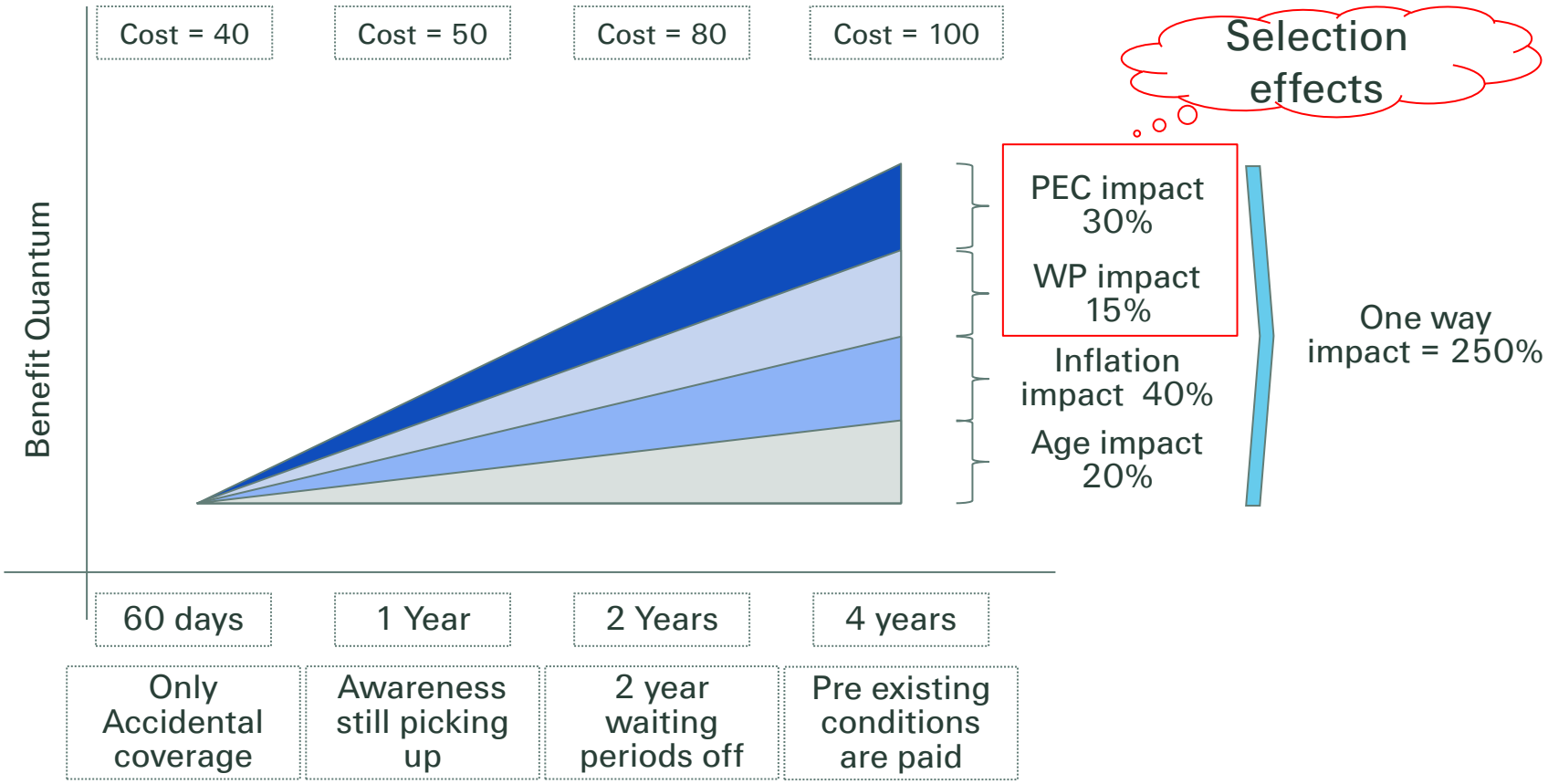
# To policy holder: Medical Insurance as a safety net grows stronger and reliable over longer durations




- Policy is fully functional only @ the end of 4 years
- Insured ages through at the same time
- Inflation catches and have impact on average claims cost

Is this making the pure PEC impact quantification difficult with one-ways?

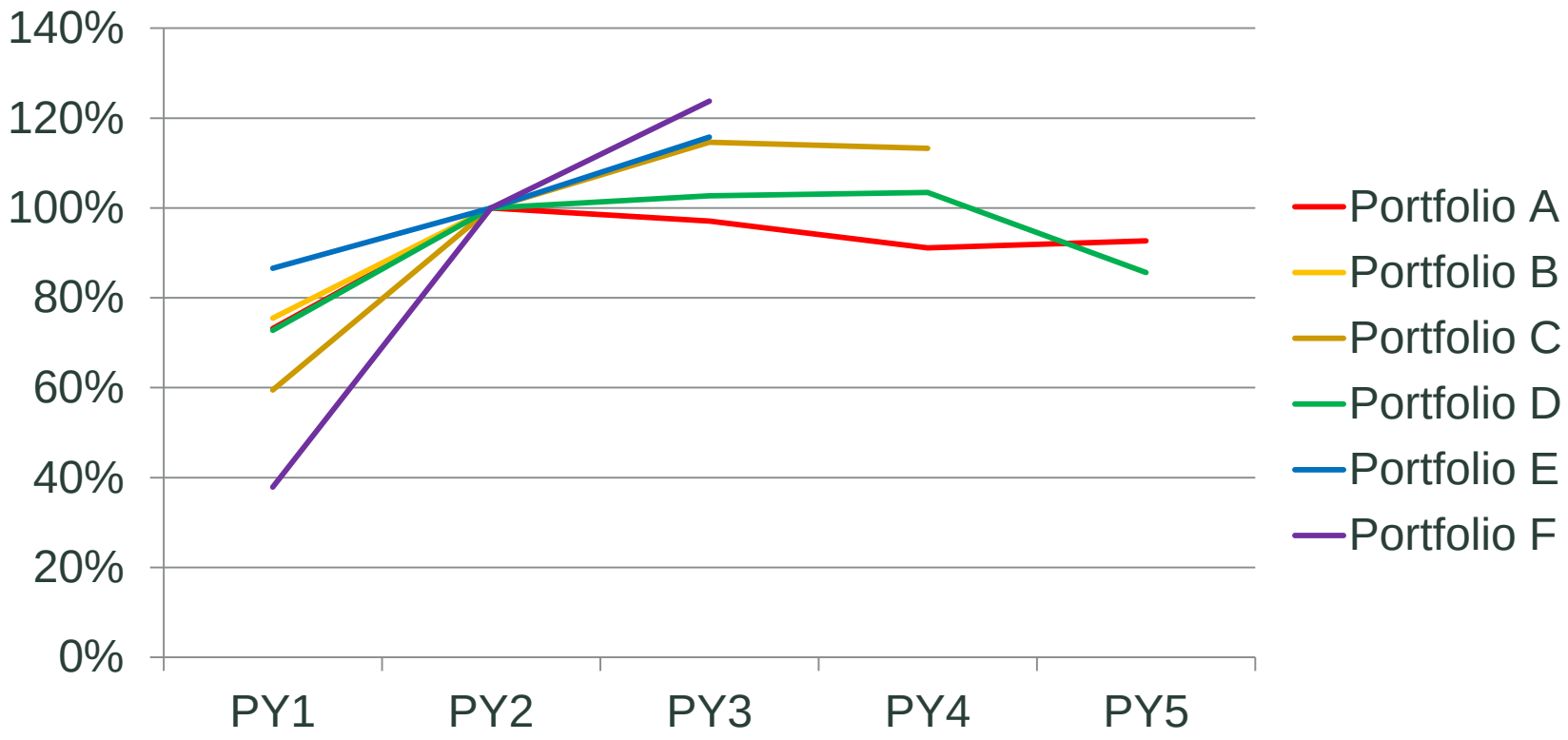
# Ability to isolate the contributing factors to increased cost gives a better understanding of the selection effects




GLM but not One-way analytics gives understanding of the selection effects

# [4] Understanding the determinants for PEC impacts

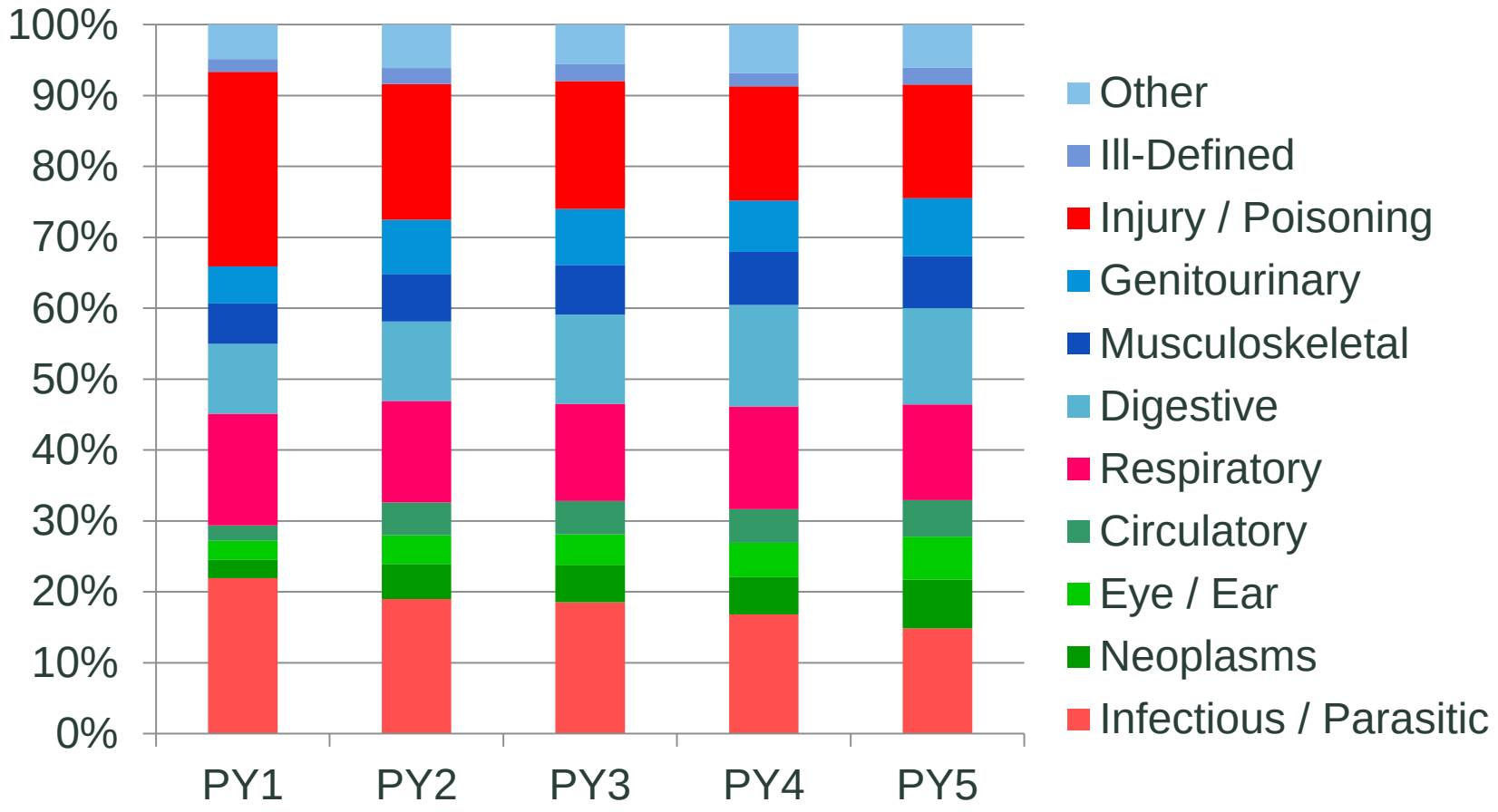
# Different portfolios exhibits different selection effects. Claims Experience by Policy Duration (Annual) (Policy Year 2 = 100%)



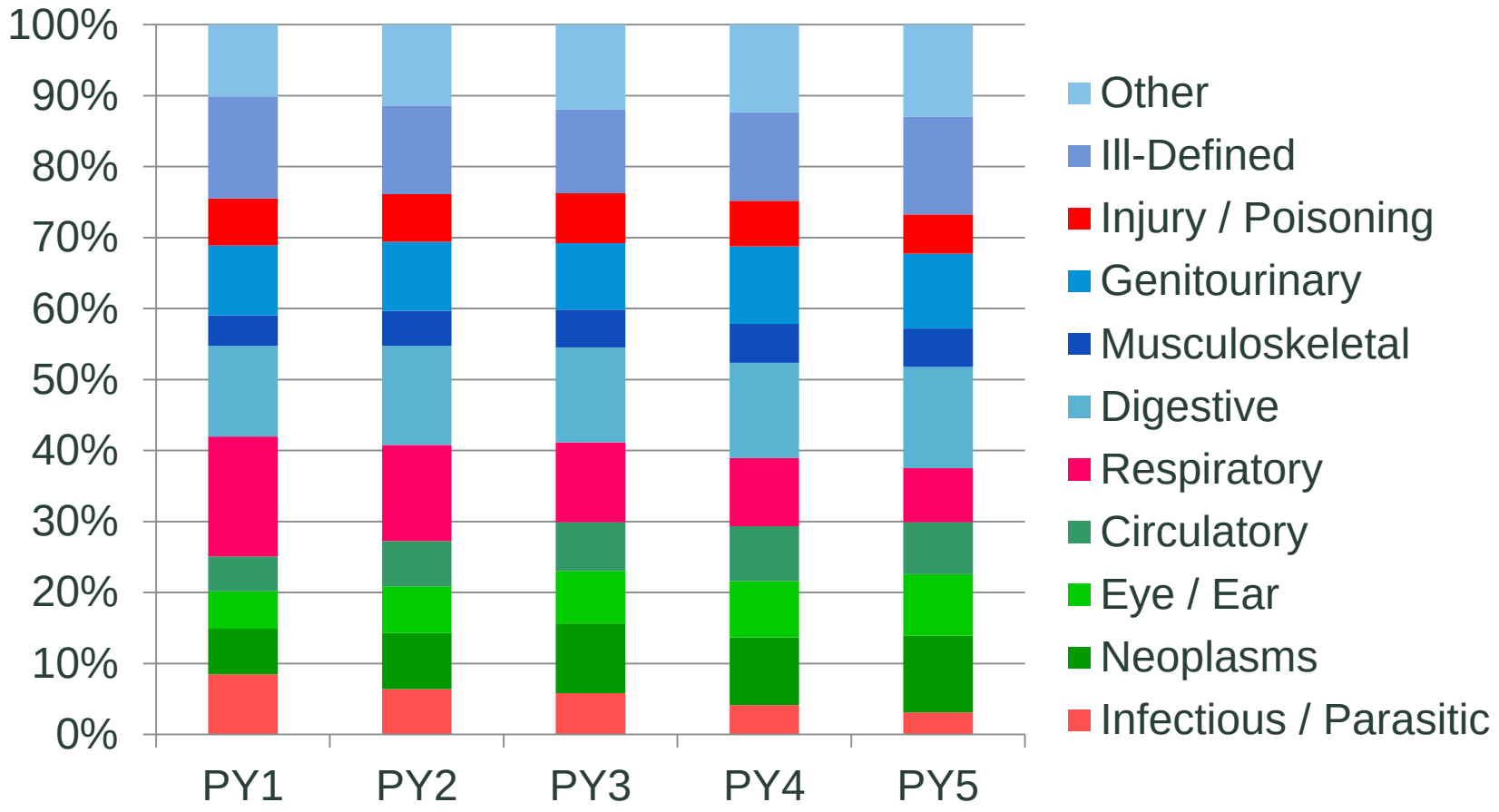
# What factors drive selection effects?

- Distribution quality
- Underwriting and Claims quality
- Stand Alone vs Rider
- Age Mix
  - larger selection effects for older entry ages
  - little or no selection effects for juveniles and children
- Cost-Sharing and Deductibles
  - larger selection effect for policies with deductibles
- Exclusions
  - waiting periods
  - pre-existing condition exclusions

# Cause of Claim Analysis – Portfolio A



# Cause of Claim Analysis – Portfolio D



# What diseases drive selection effects?

- High Early Claims (little or no selection)
  - Injury / Poisoning
  - Infectious Diseases
  - Respiratory Diseases
- Low Early Claims (significant selection)
  - Eye & Adnexa
  - Ear & Mastoid
  - Circulatory Diseases
  - Neoplasms
- Other Diseases (milder selection)

# So how much does it cost to cover Pre-Existing Conditions?

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# What Pre-Existing Conditions would be covered?

- 2009 Hong Kong Thematic Household Survey (THS)
  - previously diagnosed conditions and admissions to hospital in last 12 months

| Health Condition | Relativity to people with no health conditions - by hospital admissions | Number of insured people with indicated health condition | Number of uninsured people with indicated health condition |
|---|---|---|---|
| Cancer | 16.3 | 10,362 | 53,007 |
| Diseases of the Nervous System | 12.9 | 1,345 | 16,653 |
| Complications of Previous Injury | 12.5 | 0 | 10,503 |
| Heart Diseases | 11.4 | 14,389 | 121,539 |
| Kidney or Reproductive System Disease | 11.2 | 8,820 | 46,272 |
| Stroke | 10.9 | 462 | 37,293 |
| Liver Disease | 6.5 | 15,503 | 35,783 |
| Mental Disorder | 6.3 | 6,858 | 72,381 |
| Respiratory Diseases | 6.2 | 11,082 | 44,610 |
| Stomach & Intestinal Disease | 5.9 | 15,159 | 72,823 |
| *Sub total* | | **83,978** | **510,864** |
| | | | |
| Any Health Condition | 4.2 | 376,782 | 1,448,714 |
| No Reported Health Conditions | 1.0 | 1,428,427 | 3,384,007 |

# [5] Pulse check

# How do you feel about excluding pre-existing conditions for Medical Insurance?

1. Absolutely necessary, even when we do full underwriting – you never know what we might miss
2. Only necessary if we do little or no underwriting – to compensate for not being able to properly underwrite the risk
3. Can be useful to reduce early claims and mitigate non-disclosure, but it's not the end of the world if we don't have these exclusions - the actuaries can price for it
4. It doesn't matter because we can never enforce the exclusion anyway
5. Don't know / no opinion

# PED regulations Interpretation is key for effective UW implementation for stronger selection effects

- Regulations define PED as: Any condition, ailment or injury or related condition(s) for which you had signs or symptoms, and / or were diagnosed, and / or received medical advice / treatment within 48 months to prior to the first policy issued by the insurer.
- Life Insurers can define norms for applicability at reinstatement.

Can we reject a claim based on PED regulations after 48 months?

Are the PED norms different for life and non-life insurance companies?

# [6] Key takeaways

# Enforcement of Pre-Existing Conditions Exclusions

- Key challenges
  - Tracing an individual's medical history, especially in relation to outpatient consultations
  - Medical claims are usually very small, which can make it uneconomic to do investigate pre-existing conditions
  - Establishing a linkage between a pre-existing condition and subsequent medical treatment can be difficult
  - Regulatory and reputational bias towards paying the claim if there are any "grey" areas
- Possible mitigation
  - Single medical history or single set of medical records
  - Accessible central database of medical insurance records (National Health or Industry Claims)
  - Require explicit declaration of pre-existing condition by the applicant which would trigger specific exclusions

# Implications for Product Design

- Pre-Existing Conditions that are difficult to enforce should if possible be applied as Waiting Periods or General Exclusions
  - treated on an outpatient basis only
  - easy to self-diagnose
  - chronic conditions
- Sample Waiting Period List (120 days) from Malaysia
  - Hypertension, diabetes, cardiovascular disease
  - Tumours, cancers, cysts, nodules, polyps, kidney and biliary stones
  - Ear, nose and throat conditions
  - Hernia, haemorrhoids, fistulae, hydrocele, varicocele
  - Endometriosis and reproductive diseases
  - Vertebro-spinal disorders (including disc and knee conditions)

# Implications for Pricing

- For individual voluntary purchase of health insurance, it is near impossible to derive reasonable premium loadings for coverage of Pre-Existing Conditions that adequately cover the additional risk
  - In order to be feasible, most of the cost of covering Pre-Existing Conditions must be borne by Healthy Lives
  - Pricing for coverage of Pre-Existing Conditions is extremely challenging in a voluntary Private Health Insurance market
  - Countries mandating coverage of Pre-Existing Conditions operate a Risk Equalisation mechanism to spread the risk of high risk lives across the industry or provide additional government funding support
- Pre-Existing Conditions may be priceable in an environment where medical insurance is compulsory and the underlying population is healthy (ex: employer group medical business)

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