

Genetic disorders can no longer be excluded. What does that mean for insurers?

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Introduction

In India, the Delhi High Court's decision in February 2018 to restrict insurance companies from rejecting genetic disorder claims has sparked worry among insurers.

This move was driven by the trial court's verdict on the case filed by a policyholder whose claims for the genetic disorder "hypertrophic obstructive cardiomyopathy" were honoured in 2004 and 2006 but rejected in 2011. The reason cited by the insurance company for disapproval of the latest claim was that genetic diseases are not payable as per the genetic exclusion clause under the renewed policy.

The court ruling indicates that policyholders with genetic disorders have been denied payment for treatment under health insurance in the past. However, the Delhi High Court upheld the decision of the trial court on covering the treatment for genetic disorders because the original policy did not have any such exclusions. In the court's opinion, the insurance company did not ensure effective communication to the policyholder on the changes made in the policy wording over the period of insurance.

The verdict of the court stated that it is unlawful to discriminate in health insurance on the basis of genetic disposition in the absence of genetic testing and unclear policy terms and conditions. It also pointed out that the exclusion clause for genetic disorders was too broad, ambiguous and discriminatory. This violates Article 14 of the Constitution of India that prohibits any kind of discrimination.

The court reviewed the following facts, including regulations on genetic disorders and insurance globally to reach its decision:

- Several medical conditions could be partially attributable to genetics, but these conditions could also be attributable to several other factors, such as lifestyle, environment, dietary habits, etc. In the absence of detailed genetic testing, it would be impossible to determine the cause of the condition.
- Different types of genetic disorders and common diseases like diabetes and cardiac diseases are likely to be included in the broad definition of genetic disorders, leaving a large proportion of the population uninsured for these conditions.
- Without doing genetic testing, which in itself is a complex and expensive process, applying a general exclusion for genetic disorders would be unreasonable.

IRDAI guidelines on genetic disorder exclusion

The Insurance Regulatory and Development Authority of India (IRDAI) guidelines on standardisation in health insurance, dated 20 February 2013, had specific exclusions in respect of "pregnancy, infertility, congenital and genetic conditions". However, the term "genetic conditions" was not defined in the guidelines. IRDAI allowed insurance companies to use this exclusion clause for denial of payment for genetic conditions. The 2013 guidelines have now been superseded by guidelines dated 29 July 2016, wherein only "congenital anomalies" have been defined and there is no mention of genetic conditions. Thus, "genetic conditions" can no longer be excluded.

In response to the Delhi High Court decision, IRDAI issued a circular dated 19 March 2018 to all companies offering health insurance. The circular states that:

- Claims related to genetic disorders shall not be rejected for any existing health insurance policy.
- Insurance companies can no longer use genetic disorder as an exclusion on their new and existing health insurance policies.

Impact on insurers

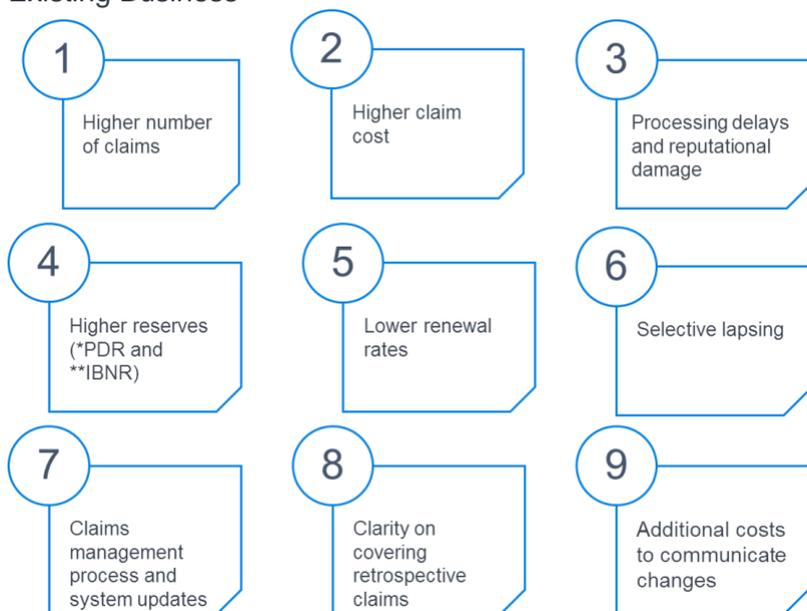
Following the High Court decision and issuance of the IRDAI circular, all insurance companies offering health business will now have to honour any claims related to genetic disorders. However, the impact on insurers' financial positions is likely to depend on the following factors:

FACTORS	ISSUES	CONSIDERATIONS
Type of conditions	Insurers will need to identify conditions that are genetic in nature and their impact on the premium rates and reserves.	The significance of the impact will depend on the benefit cover offered under the current portfolio of products.
	Insurers will also need to identify conditions where it is difficult to ascertain the cause of the condition as genetic.	Most genetic disorders are "multifactorial inheritance disorders" caused by a combination of inherited genetic mutations and environmental factors. These include heart disease, diabetes and some types of cancer.
	Researchers are also studying genetic links to other common conditions like alcoholism, obesity, mental illness and Alzheimer's disease to establish the genetic nature of these conditions.	Insurers will need to keep themselves informed about such research and regularly review the quantification of the impact in light of any new information.
Medical advances	Significant clinical development is taking place in the area of gene therapies for the treatment of rare diseases, 80% of which are genetic in nature.	These newly developed therapies are quite expensive. The impact of these developments needs to be factored in because these may increase future claims cost significantly.
Underwriting practices	Insurers will need to revise their underwriting practices to accurately assess the risks they are taking on in their books.	This may require strengthening underwriting rules and collecting more information at the proposal stage to better assess the likelihood of the prospect having a genetic disorder.
Claims management and pricing	Background of the court case suggests that the genetic disorders exclusion clause was added at a later stage. There was no such exclusion in the earlier years of the policy.	Implications of this policy change are likely to depend on any modifications made to claims management policies and pricing assumptions in the past. Insurers that did not make any modifications when the regulations changed to allow for genetic disorder exclusion are likely to see less impact on future claims costs. This is because claims related to genetic disorders will already be reflected in their pricing bases.

This policy change is likely to bring more policyholder awareness and therefore have a significant impact on claims costs of the existing and new business. Figure 1 shows how this change may affect the existing and new business.

FIGURE 1: IMPACT ON EXISTING AND NEW BUSINESS

Existing Business



*PDR – Premium deficiency reserve
 **IBNR – Incurred but not reported

New Business



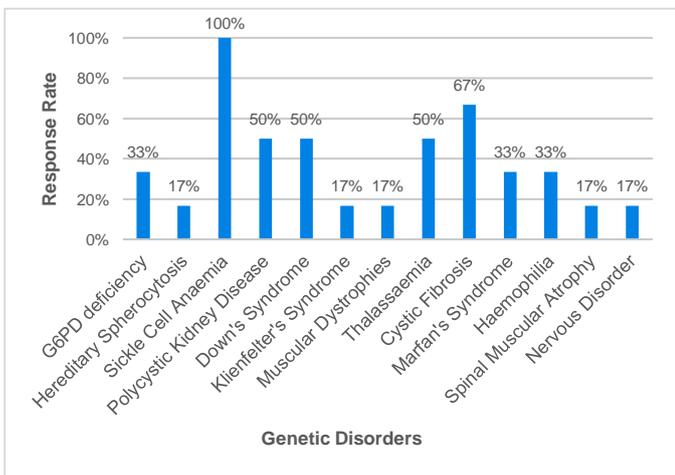
Quantification of impact

We conducted a small survey to gather the opinions of health underwriters in the industry to assess the top genetic disorders that are likely to have a significant impact on the expected claims costs and the magnitude of that impact. The results of the survey are based on six responses.

TOP CONCERNS ON GENETIC DISORDERS FOR UNDERWRITERS

All respondents listed “Sickle Cell Anaemia” as one of the top genetic disorders that would have an impact on the expected claims costs. Other major genetic conditions that respondents flagged that could have some bearing on the expected claims costs included “Cystic Fibrosis”, “Polycystic Kidney Disease”, “Down’s Syndrome” and “Thalassaemia”. The graph in Figure 2 shows the response rate for the genetic disorders flagged in the survey.

FIGURE 2: GENETIC DISORDERS SIGNIFICANTLY AFFECTING THE EXPECTED CLAIMS COSTS

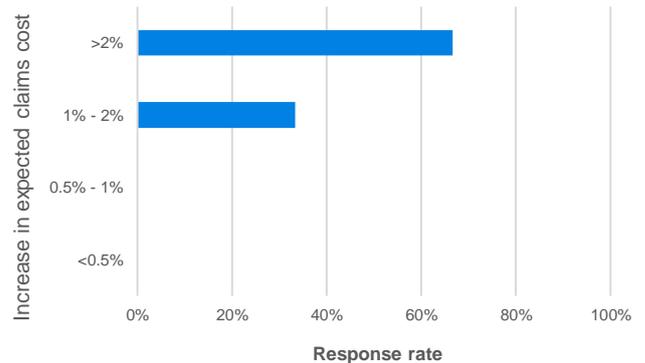


The responses reveal that congenital anomalies attributable to genetics are likely to be the top concerns for insurers.

LEVEL OF IMPACT

The survey also asked about the level of impact this policy change would have on the expected claims costs. About two-thirds of the respondents believe that covering genetic disorders is likely to increase the expected claims cost by more than 2%, implying that this could be a major cause of concern for the insurers. The graph in Figure 3 shows the respondents’ views on the anticipated level of impact on the expected claims costs based on the survey.

FIGURE 3: IMPACT OF COVERING GENETIC DISORDERS ON EXPECTED CLAIMS COSTS



Conclusion

With this change in the regulation, insurers should regularly monitor the claims to quantify the impact of covering genetic disorder claims and build it into future pricing. Regular monitoring of claims will help insurers assess the actual experience against expected, identify key risks and develop and implement risk mitigation techniques to limit the impact of such changes. Reviewing claims denied in the past due to genetic conditions is a good starting point for the quantification of impact. A cost-benefit analysis of revising the underwriting guidelines will help achieve the right balance required between the need for the robustness of underwriting practices in terms of cost and keeping the premium rates competitive. Insurers also need to make sure that policyholders are aware of the policy benefits and exclusions, and are regularly apprised of any policy changes on renewals.

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