Health insurance portability: Moneylife Foundation's Position Paper

Prepared by Raj Pradhan, Director New Initiatives, Moneylife Foundation

The Insurance Regulatory and Development Authority (IRDA) has on 10th Feb, 2011 come out with guidelines to allow health insurance portability effective 1st July, 2011. This seeks to provide relief to policyholders who are dissatisfied with partial or full claims repudiation or delay in settlement, which constitute more than 75% of complaints that IRDA receives against insurers.

Allowing portability is only a beginning of a long exercise. There are many issues to be ironed out before it can work meaningfully. For instance, there are variations in the policies across insurers and porting to a new insurer means accepting everything the new service provider has to offer; that may mean losing out on some of the benefits available under the existing policy, more particularly the Pre-existing Disease (PED) waiting period. A common and standard mediclaim product across insurers will help customers.

While portability may sound like a great solution to empower the insured, the fact is that health insurance portability is not as simple as portability for mobile telephony. It is not a panacea for the policyholders. Costs and claims are the two most important concerns for consumers - portability does not address the issue of hefty increase in premiums by the insurer or unreasonable claims repudiation. Allowing one to change the insurer is a good step; but a quick-fix solution may lead to more chaos and subsequent grievances, if the whole issue is not carefully handled. This means addressing the many loose ends and questions about how portability will work. The Moneylife Foundation event on portability highlighted myriad issues, essentially common citizens' concerns.

Moneylife Foundation Seminar

The Moneylife Foundation conducted a seminar on health insurance portability in Mumbai on April 5, 2011. The panel included insurance industry stalwarts like M Ramadoss, Chairman and Managing Director, New India Assurance; Fali Poncha, an insurance industry veteran with three generations of experience in this field; Dr Amarnath Ananthanarayanan, CEO and MD, Bharti AXA General, Dr P Nandagopal, CEO and MD, IndiaFirst Life Insurance; Pawan Singhal, Director–legal & regulatory affairs at Max Bupa Health Insurance and Sudhir Sarnobat, CEO of Medimanage Insurance Broking. We had invited representation from IRDA, but unfortunately no one could attend. We had over 150 people representing different stakeholders who attended the seminar including a team of 10 doctors from Bajaj Allianz Health Administration Team (HAT); numerous broking firm representatives; New India

recommendations to come out with comprehensive guidelines on portability. Assurance & Star Health agents; IndiaFirst employees; Web aggregators, senior citizens, NGOs and members of Moneylife Foundation.

We submit our findings and recommendations based on the deliberations. We request IRDA to consider all the issues and Moneylife

Portability facts

To start with, the current portability guidelines are, indeed, a quick-fix. IRDA was forced to frame a set of rules because the insurance industry was unable to agree on a simple product that could be offered by all. At least one common and standardised product is seen as crucial for portability to work because it would have had to be honoured by all and, therefore, be easily portable.

The current guidelines need to be further expounded to bring clarity. They need to be debated and improved upon to remove many grey areas. The imperative need is to look at all aspects of porting. The idea of porting should be a continuation of more or less the same terms and conditions, as portability would be only due to unhappiness with the service of the old insurer. Customers will end up with fewer benefits as they have to accept a new plan the way it is. Health insurance porting is inherently more complicated than other types of insurance, like motor, with fixed no-claim bonus (NCB).

1.0 Portability issues and recommendations

1.1 Portability with loading, Portability refused

The guideline on portability says that "The accepting insurer shall provide cover, at least up to the sum insured in the previous insurance policy." It also specifies that the policy contract and promotional material like prospectus and sales literature shall clearly say that all health insurance policies are portable. How it will work in reality is yet to be seen. After all, implementing this would mean that the new insurer would have to accept the risk assessment of the previous insurer. It is unlikely that insurers can be forced to do so and that too at the same premium. Portability will come at a price. Since a lot of calculation in insurance is pure guesswork, insurers will err on the side of caution and offer portability only at a steep loading, especially for the old and less healthy, for the new insurer to accept new policyholder and cover PED is a risk.

The escape route kept for insurers is 'loading' (higher premium). According to one senior industry executive, "Insurers need to have flexibility on loading and IRDA should clear such filing requests for loading within a fixed time frame of 30 days." Clearly, insurers will use loading as the ultimate tool to keep the 'unhealthy pool' from getting in, in the name of portability.

The other tool will be the 'right to underwrite' that is the other term for 'refusal to offer insurance'. The ground reality is that the proposal and underwriting processes of insurance companies will not change due to portability. Even though the IRDA guideline specifies that the sum insured will be portable, for the new insurer, the sum insured in the expiring policy cannot be the basis of what is acceptable risk. The acceptance of risk would depend on the normal risk underwriting process. In fact, due to an already existing policy being declared for portability, the underwriting could demand additional claims history information for the past policies from the customer. Once the proposal is accepted, the PED waiting period credits should be given in the new policy. The underwriter of the insurance company should not have discretion to deny a proposal. Portability will certainly not help policyholders in the older age groups and those who suffer from PED. Such proposals are likely to be denied by the new insurance company. There ought to be adequate devises to safeguard against these eventualities.

There is a good chance of a price war to attract the younger age segment. While it is good for customers in the short run, in the long run, it is terrible for insurers and they may land in the same soup as they did when they booked comprehensive benefit group insurance at throwaway rates and had to pay out huge claims. Companies like Reliance General Insurance wanted to capture market with rock bottom premium that were hiked up to 500% last year.

Moneylife Recommendation – Portability guidelines should clarify the maximum loading that the new insurer can add for allowing porting of the policy. It should also clarify that the new insurer cannot refuse portability under the pretext of 'right to underwrite' unless there are genuine reasons which are listed/approved by IRDA on a case-to-case basis.

1.2 Sharing of medical records

According to industry experts, insurers, especially in the public sector, don't have a core system and there is no sharing of data across even divisions of the same company. So, today, it is not easy to port a policy even within the same insurer across divisions. Authenticity of the medical history data with the insurer, in some cases, may be questionable and would lead to disputes after portability. The new insurer is completely at the mercy of the existing insurer to give accurate data. In such a situation, insurance companies will have to implement the guideline which specifies that the medical details should be shared with the accepting insurer within seven days. Enormous efficiency would be required to achieve this. It calls for major changes in processes and database infrastructure to retrieve information of one customer across several years of renewal. Insurers must be directed to provide this information promptly as that will mean losing a customer.

Some policies have a four-year waiting period for PED and it has to be a claims-free period. If there is a need for a no-objection-certificate from the TPA for no-claims history, it will be an additional step for insurers to comply with in the required timeframe. TPAs may change over the period and this can result in delays.

Moneylife Recommendation – The seven-day period for sharing of medical records should be strictly enforced by IRDA. IRDA ought to enforce a penalty for any delays by the insurer/TPA to comply with the seven-day timeframe.

1.3 Absence of common databank like CIBIL

A common databank is needed to make portability work. In the absence of a common databank of customer medical information, insurers claim portability will have to operate in the dark. The existing reports of the Insurance Information Bureau (IIB) are inadequate, having too many assumptions and carrying too many errors. The group insurance policyholders' medical data has to be captured by all insurers. Some data with TPAs may be incomplete. The common database giving complete information is a must.

Portability will be a non-starter, if all the essential features of a policy are not easily portable—as there would be many impediments for the consumers'. There can be a huge issue among the insurers as well, if they cannot, and do not, easily share your data. There is no centralised insurance databank in India which is an essential step to improve the delivery of health insurance in India. The regulator should work on a system of making medical history data available in an electronic format across insurers. The system needs to be up and running at the earliest.

This calls for an agency like the CIBIL, which will run a centralised databank containing all the medical details of customers (pre-existing diseases, claims history, insurance history, coverage limits and so on). There is a need for unique customer identification number. The evolution of a common database across insurers will benefit the insurers as a risk-assessment tool to understand and access risk and charge the right premium. If an insurer has high charges, then it will lose the customer; if low, then it will suffer losses; if right, then they will get customers.

Currently, insurers sometimes play safe in underwriting with exclusions to stay out of risk. With a common database, there are bound to be less exclusions and lower premium for customers who maintain health. But a database with different attributes of records would be useless. That leads to the fact that medical data of policyholders needs to be standardised.

With databases comes the issue of data protection. In the US, the Health Insurance Portability and Accountability Act (HIPAA) strictly regulates the sharing of health information; insured

has to give written permission. For example, without insured's authorisation, medical service provider cannot part with health information to any employer, use or share your information for marketing or advertising purposes, or share private notes about health status.

Moneylife Recommendation – There is need for a common databank like CIBIL to make portability work. Data integrity and security should be accorded utmost importance.

1.4 Portability as a quick-fix solution

While portability may offer an opportunity for insurers to poach customers from other insurers, it is a threat if they poach a wrong customer. The opportunity is to attract young and healthy customers while the threat arises when accepting the old or unhealthy. It may lead to mis-selling by insurers to attract 'young and healthy' customers and offload 'old or unhealthy' customers. This can lead to public sector insurance companies being left with a larger share of customers in the older age groups. Insurers did not come up with a common product for a year and it is unlikely that they will cooperate for making portability a success. After all, portability means accepting the huge risk of PED from day one, without enjoying the fruits of premium collection for years. Portability for mobile telephony is completely different because the service provider starts getting revenues from day one and gives services against the money received.

Portability must also be seen in the context of the larger issue of redressal of claims rejections. IRDA's complaint-redressal mechanism is perceived to be slow and inadequate. A majority of the insured are not happy with the services of their Third-party Administrators (TPAs) as they are made to run from pillar to post. If this is improved, majority of the problems will be solved and there will not be any need to change the insurer. Insurance companies, with the feedback from consumers, should think about improving their own service so that the consumer will not move out of the company.

The role of the TPA is often misunderstood and also controversial. There is also a debate on whether TPAs help in claims processing or are a hindrance. There are complaints that TPAs collude with hospitals to drive up medical costs and hospitals say that TPAs hold up their money. Majority of problems faced by policyholders is related to services from TPAs and unjustified increase in premium by insurers.

Moneylife Recommendation – TPAs should be accountable for their services. Insurers should not make unjustified increases in premium. The core issue is that portability is just a quick-fix solution offered to resolve customer grievances. IRDA will have to monitor customer grievances after implementation of portability to ensure there is no mis-selling by insurers to attract 'young and healthy' customers and offload 'old or unhealthy' customers.

1.5 Need for a standard and common mediclaim product

Policyholders are already confused about policy terms & conditions, which keep changing during renewals with new sub-limits and capping. Agents are not fully trained and therefore not conversant with the changes. More information and disclosure would be a good first step. IRDA should ask all insurers to disclose the features of the mediclaim policy on the IRDA and their own websites so that customers can understand which policy is similar to (or different from) the existing policy and enable informed decision before porting.

The guideline says portability is limited to the sum insured (including bonus). NCB allows a policyholder to get an increased sum insured (usually 5%) for a claims-free year without paying additional premium. Clarity is needed if the new insurer will allow higher sum insured (bonus) without extra premium. NCB is like a loyalty dividend. Portability of NCB will certainly not amuse the new insurer. Some insurers like Bajaj Allianz have even got rid of NCB and, hence, may not be able to offer it to the porting policy. In this case, porting will mean losing NCB benefits.

Moneylife Recommendation – A standard mediclaim product across insurers will ensure transparency and allow policyholders to know what to expect for coverage, exclusions, sub-limits, NCB and other parameters. The NCB ought to be a straight deduction in the renewal premium and not a small increase in the sum insured.

1.6 Group mediclaim portability

For employees in the organised sector, portability from group insurance to individual insurance is not envisaged. People who retire from a job having group mediclaim need to have a fair and reasonable option to port from group to individual insurance. If the group insurance had a PED waiver, the guidelines need to clarify whether new insurer will waive the same after porting.

Moneylife Recommendation - Group to retail product porting across all insurers should be automatically allowed. If the group insurance had a PED waiver, the new insurer should waive the same.

1.7 Portability of fixed benefit plan to indemnity

Some 15%-20% of health insurance is sold by life insurers. There is no clarity about portability from a benefit plan to an indemnity (reimbursement) plan.

Moneylife Recommendation – IRDA needs to clarify its stand on this issue even if it disallows portability from a benefit plan to a reimbursement plan.

1.8 Waiting period

Mediclaim policies usually have a 30-day waiting period after the start of a policy wherein no claims are allowed. There is a waiting period for certain ailments during the initial years of a policy (they are not PED). The portability guideline does not explicitly talk about its waiver.

Moneylife Recommendation–Portability should not need a 30-day waiting period with the new insurer. If the policyholder has already completed the waiting period for certain ailments in the existing policy, the new insurer should credit this waiting period during porting. This should be done without loading the customer at the time of porting.

1.9 New Ailments

There may be ailments (not PED) discovered during the medical examination while porting and/or ailments (not PED) developed during the time the policyholder was with the existing insurer. There needs to be clarity whether the new insurer will allow them with no waiting period or if it will be PED for the new insurer.

Moneylife Recommendation – This should not be considered as PED for the new insurer. The number of years completed with the existing insurer should be credited while considering the waiting period with the new insurer.

1.10 Maternity benefits

When add-ons like maternity benefit (they are not PED) are part of an existing insurance plan, there is an issue about their portability. It is unclear if the new insurer allows maternity without a waiting period if the required time has already been spent with the existing insurer.

Moneylife Recommendation – Maternity should be allowed by the new insurer if the required time is already completed with the existing insurer. Of course, this is subject to the new insurer's plan offering maternity benefits.

1.11 Claims during transition period

There could be policyholder claims during the transition period of porting.

Moneylife Recommendation–The guidelines should clarify whether existing or new insurer will handle claims during the transition period of porting.

1.12 Portability during the policy year

It is unclear if porting will be allowed midway during a policy year or only at the time of renewal.

Moneylife Recommendation – The guidelines should clarify the rules applicable to porting mid-way during the policy or at the time of renewal. Porting at time of renewal is in order.