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Impact of recent regulatory changes in Health insurance – Survey findings

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Caveats and limitations



- This presentation is a part of the “16th Current Issues Seminar on Health Care Insurance” organized by Institute of Actuaries of India (IAI) held on 6th December 2024.
- The purpose of this presentation is to provide a brief summary of the findings of the survey assessing the impact of recent regulatory changes in health insurance introduced by the IRDAI. This presentation aims to provide insights into how these changes are perceived by actuaries across the industry, highlighting areas of alignment, challenges, and potential implications for health insurance practices and policyholder protection.

Note

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- All the information contained within this presentation has been obtained from the survey responses. Milliman is not responsible for the accuracy of this information.

Agenda

01 **About the survey**

02 **Key regulatory changes**

03 **Results of the survey**

04 **Conclusion**

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About the Survey

About the survey



Purpose of Survey

- To understand the impact of recent regulatory changes introduced by IRDAI in the Master Circular on Health Insurance.
- Focus on how these changes affect pricing, product development, customer experience, and operational adjustments across the health insurance industry.

Key Regulatory Changes Covered in the survey

- Reduction of the moratorium period for pre-existing diseases.
- Extension of the free look period for individual policies.
- Reduction of the waiting period for pre-existing diseases.
- Updates on the No Claim Bonus (NCB) discount options.
- Removal of the short-term cancellation grid.
- Inclusion of group policies in port and migration guidelines.
- Changes in premium collection and claims settlement processes.

Survey Participants and Responses

- The survey was shared with 30 appointed actuaries from insurance companies selling indemnity-based health products in India.
- We received 23 responses out of 30, providing insights on industry feedback and adaptation strategies.

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Key regulatory changes

Key regulatory changes covered in the survey

Reduction in Moratorium Period

The moratorium period has been reduced from 8 years to 5 years for pre-existing diseases, after completing 60 continuous months of coverage.

Change in Free Look Period

The free look period for the new individual health insurance policies has been extended to 30 days from the date of receipt of the policy document. During this period, policyholders can review the terms and conditions and cancel the policy if they disagree, receiving a refund of the premium paid, subject to certain deductions.

Reduction in Pre-Existing Disease (PED) waiting period

The definition of pre-existing disease (PED) has been updated to any condition diagnosed or treated within 36 months prior to the policy commencement date from the earlier 48 months.

Other changes related to premium collection and claims settlement

Insurers cannot collect premium before the decision to accept the policy is taken.

Turn-Around-Time (TAT) has been reduced for the cashless claims, and it must be computed from the claim intimation date rather than last document received date.

No claim bonus (NCB) discount in lieu of bonus

Insurers may reward policyholders who do not make claims with a No Claim Bonus (NCB). This can be in the form of a cumulative bonus (addition to the sum insured without an increase in premium) or a discount on the renewal premium, based on the policyholder's choice.

Removal of short-term cancellation grid

The short-term cancellation grid has been removed under the new regulations. Policyholders can now cancel their policies at any time and receive a proportionate refund of the premium for the unexpired policy period, provided no claims have been made.

Port and migration guidelines inclusion of Group

Portability and migration guidelines now include group policies. Policyholders can port their policies from one insurer to another, including from group to individual policies.

In addition, pursuant to intimation of the claim, insurers and Third-Party Administrators (TPAs), shall collect the required documents from the hospitals directly. Policyholders shall not be required to submit the documents. Claim cannot be rejected or closed for want of documents or delayed claim intimation.

3

Results of the Survey

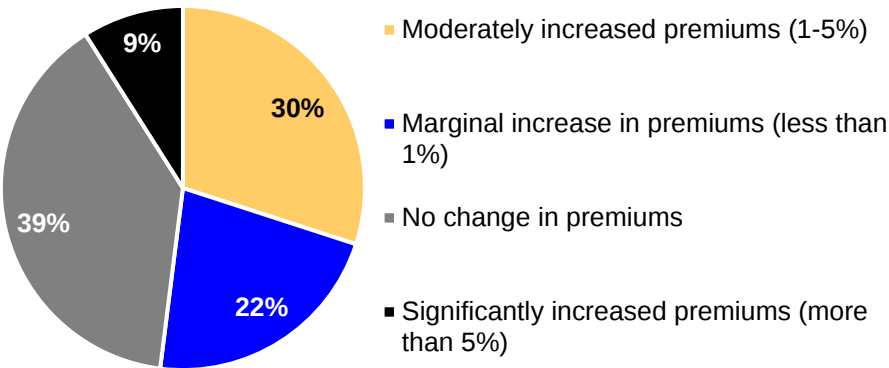
3.1

Impact of reduction in moratorium period

Section 1: Reduction in Moratorium Period

The moratorium period has been reduced from 8 years to 5 years for pre-existing diseases, after completing 60 continuous months of coverage.

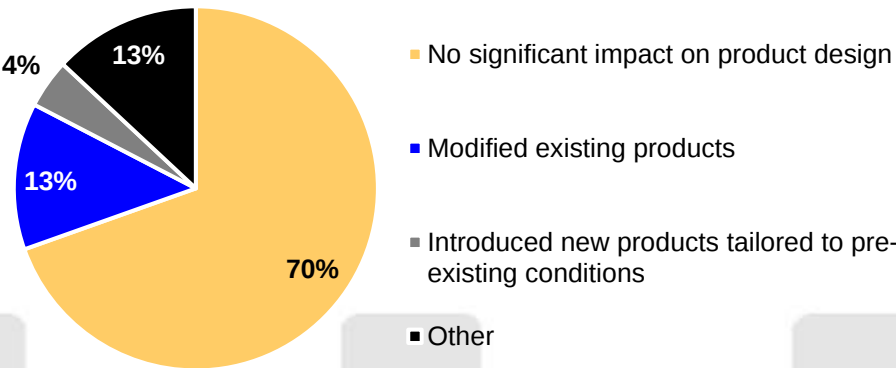
Q1. How have the regulatory changes in the moratorium period affected your pricing?



The reduction in moratorium period has reported no major affect in the pricing:

- 12 out of 23 respondents reported marginal to moderate premium increases.
- 9 out of 23 respondents noted that the recent changes have had no observable impact on pricing.
- This suggests that while a significant proportion of insurers observed marginal to moderate premium increases, a considerable segment reported no change in pricing despite the regulatory adjustments.

Q2. How has the reduced moratorium period influenced your product design and development?



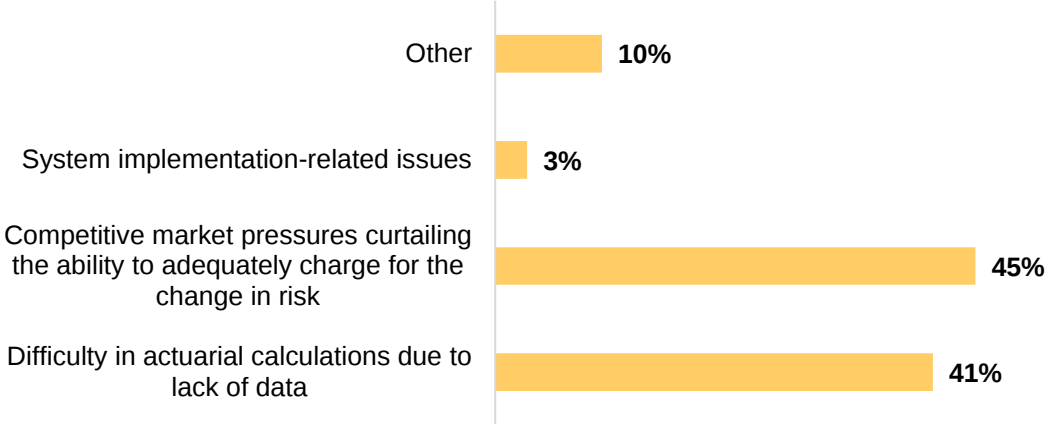
The reduced moratorium period is expected to have limited impact on product design:

- 16 of 23 respondents reported no significant impact on product design, suggesting the change is manageable within existing frameworks.
- 3 respondents modified existing products, while only 1 reported introduction of new products.
- Other responses highlighted the increased importance of underwriting, particularly in the port business, or revisiting underwriting guidelines and modifying policy conditions to align with the change for both new and existing products.

Section 1:
Reduction in
Moratorium
Period

The moratorium period has been reduced from 8 years to 5 years for pre-existing diseases, after completing 60 continuous months of coverage.

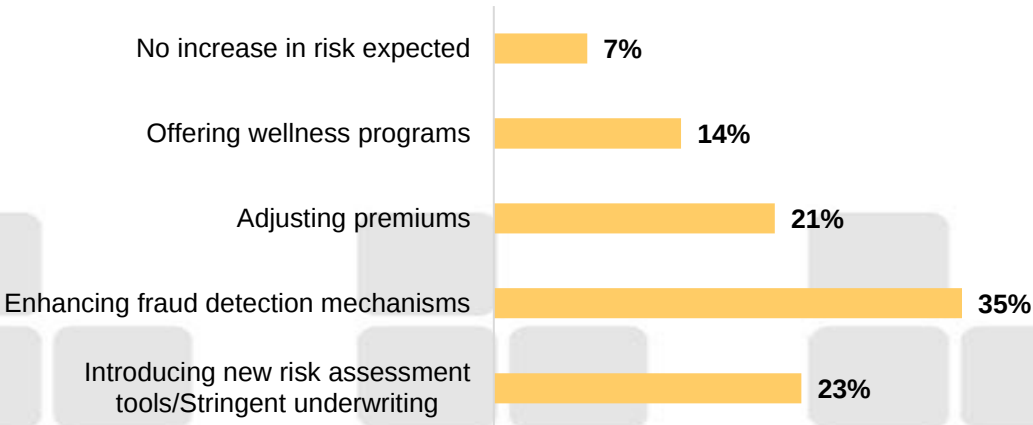
Q3. What are the primary challenges you faced in change in risk due to the reduced moratorium period?



The main challenges insurers faced due to the reduced moratorium period include:

- Competitive market pressures leading to difficulty in charging adequately for increased risk and insufficient data for actuarial calculations.
- System implementation related issues were reported to be minimal, Suggesting that pricing and data continue to be the key areas of concern.
- Other challenges reported were concerning to increased fraud and abuse that will be challenging to price.

Q4. What strategies are you employing to manage the change in risk (if any) associated with the reduced moratorium period?



To manage the reduced moratorium period risk, most respondents are focusing on proactive strategies:

- Majority are focusing on enhancing fraud detection, adapting new risk assessment tools or stricter underwriting and adjusting premiums.
- Few are going for wellness programs, while only a few responded as no increase in risk.



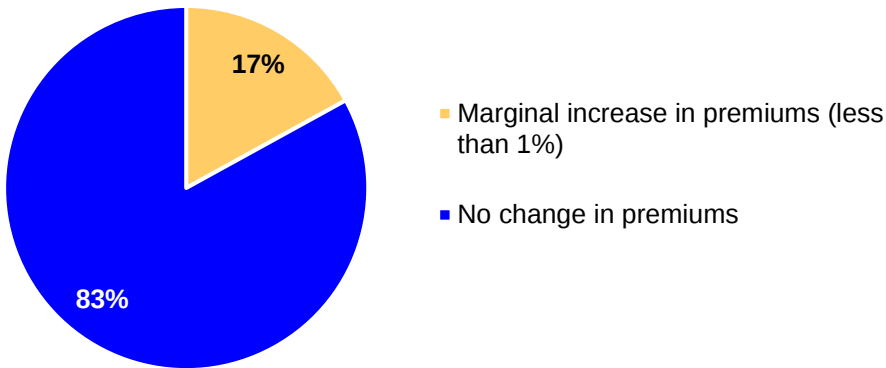
3.2

Impact of Extended Free Look Period

Section 2: Extension of Free Look Period

The free look period for new individual health insurance policies has been extended to 30 days from the date of receipt of the policy documents. During this period, policyholders can review the terms and conditions and cancel the policy if they disagree, receiving a refund of the premium paid, subject to certain deductions.

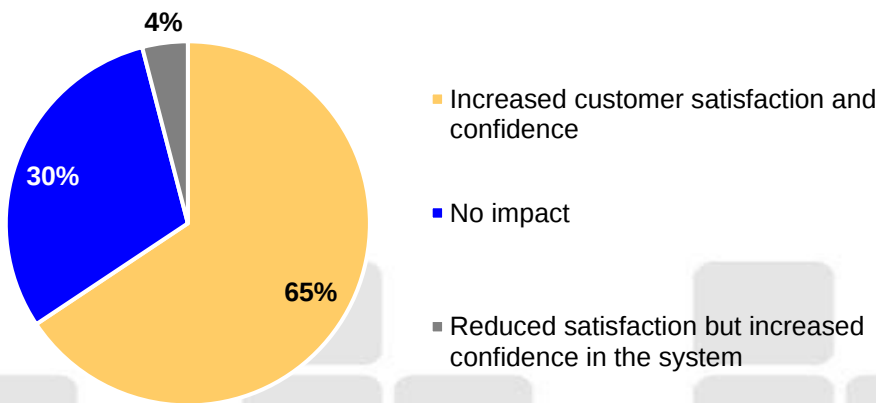
Q1. How has the change in the free look period affected the premiums?



The extension of the free look period has reported to have minimal impact on premiums:

- 19 out of 23 respondents reported no change in premiums, while only 4 respondents observed a marginal increase of less than 1%.
- This suggests that most of the insurers do not perceive the change as significantly affecting their pricing.

Q2. How has the change in the free look period expected to affect customer satisfaction and policy cancellations?



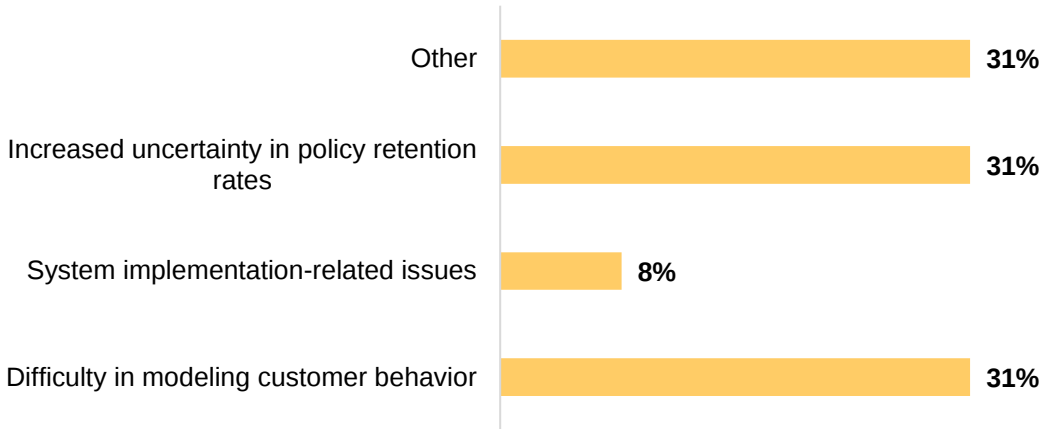
The change in free look period is expected to positively impact customer satisfaction:

- 15 out of 23 respondents expect the change to increase customer satisfaction and confidence. However, 7 of them noted no impact.
- Overall, the expectation is that the change will positively influence customer trust in the system.

Section 2: Extension of Free Look Period

The free look period for new individual health insurance policies has been extended to 30 days from the date of receipt of the policy documents. During this period, policyholders can review the terms and conditions and cancel the policy if they disagree, receiving a refund of the premium paid, subject to certain deductions.

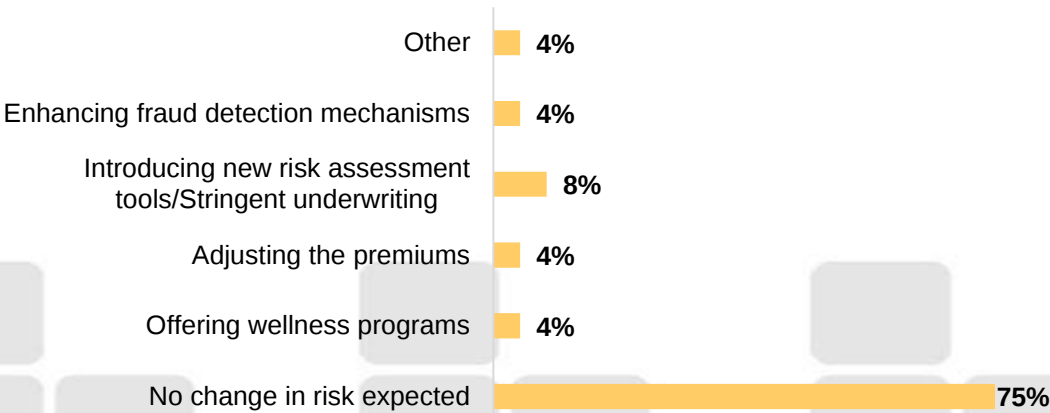
Q3. What are the primary challenges you faced in adjusting premiums and actuarial calculations due to the extended free look period?



The primary challenges due to the extended free look period are centered around uncertainty in customer behavior:

- Most of respondents cited difficulty in modeling customer behavior and increased uncertainty in policy retention rates while few highlighted that they faced system implementation-related issues.
- Other challenges reported were changes needed in the free look reserving process and issues related to mis-selling of policies.

Q4. What strategies are you employing to manage the change in risk (if any) associated with the change in the free look period?



The extended free look period is not expected to substantially alter the risk landscape for 18 out of 23 respondents. The few that foresee a change in risk are adapting strategies like:

- Adjusting premiums or offering wellness programs to mitigate any potential impact.
- Enhancing sales processes and improving underwriting guidelines further to reduce likelihood of such cancellations.

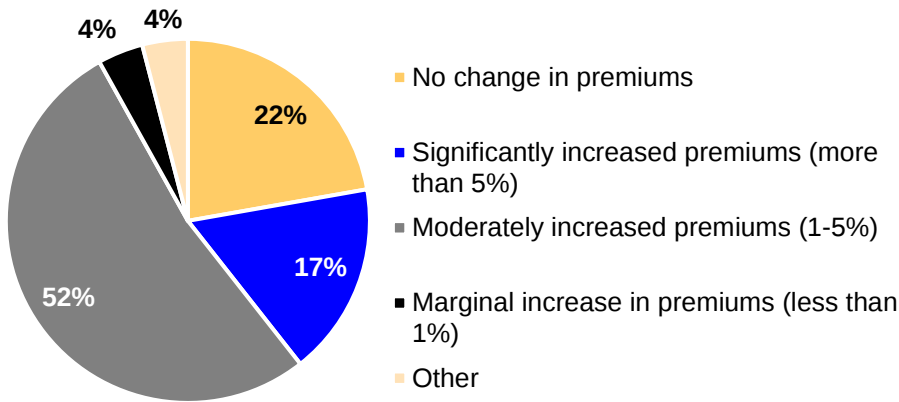
3.3

Impact of Reduced Pre-Existing Disease (PED) Waiting Period

Section 3: Reduction in Pre-Existing Disease (PED) waiting period

The definition of pre-existing disease (PED) has been updated to any condition diagnosed or treated within 36 months prior to the policy commencement date from the earlier 48 months.

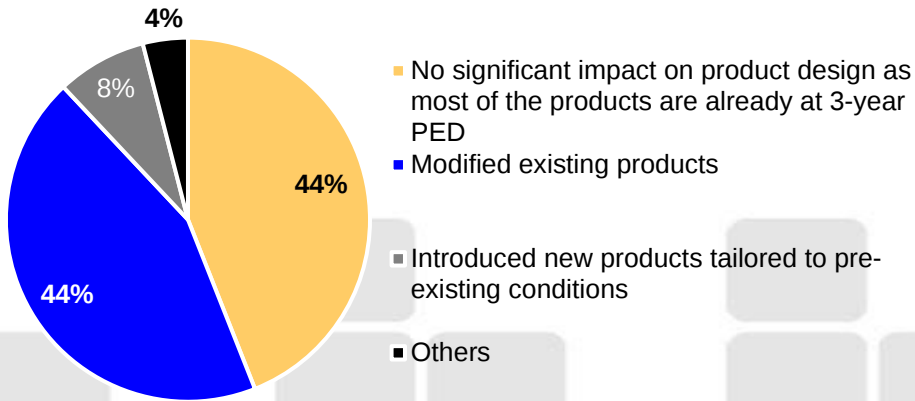
Q1. How has the reduction in the pre-existing disease (PED) waiting period affected your pricing?



The reduction in the PED waiting period has notably impacted premium structures across the industry:

- Most insurers have implemented moderate premium increases of 1-5% to reflect the expanded risk from the shorter waiting period.
- Some insurers reported more significant premium hikes of over 5% due to the increased likelihood of earlier claims.
- A few respondents reported no change is expected, as most of their products already offered a 36 months PED, and the products with 48 months PED options are being withdrawn.

Q2. How have the regulatory changes influenced your product design and development?



In terms of product design:

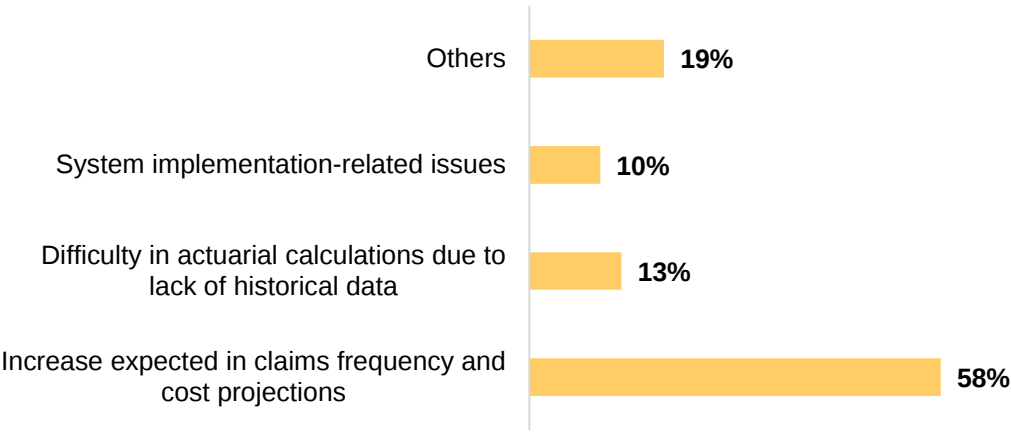
- 11 out of 23 respondents reported modification in existing offerings, while the other 11 made no significant changes as their products were already aligned with the new PED definition.
- Additionally, 2 out of 23 respondents introduced new products specifically tailored to pre-existing conditions.



Section 3:
Reduction in
Pre-Existing
Disease (PED)
waiting period

The definition of pre-existing disease (PED) has been updated to any condition diagnosed or treated within 36 months prior to the policy commencement date from the earlier 48 months.

Q3. What are the primary challenges you faced in adjusting premiums due to the reduced PED waiting period?

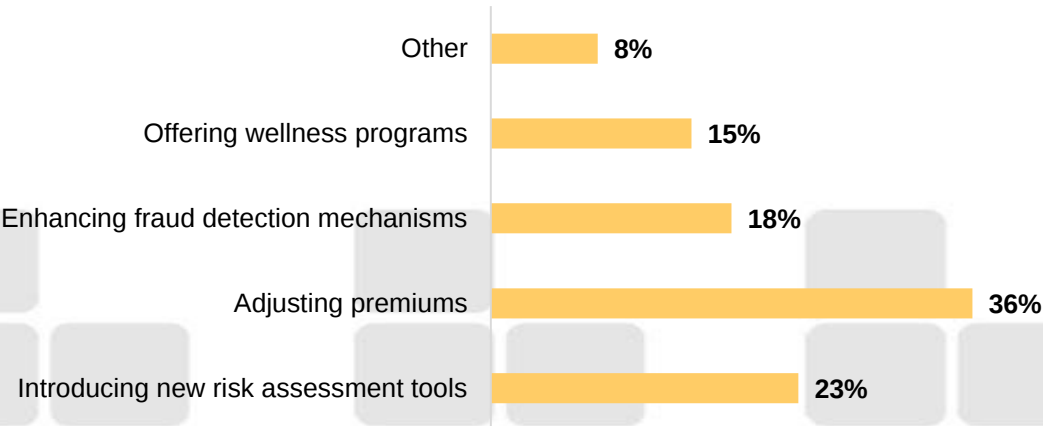


The primary challenges faced by insurers are:

- Increase in claims frequency and cost projections due to the reduced PED waiting period.
- A few respondents also mentioned difficulties with actuarial calculations due to a lack of historical data.
- While few respondents added that the premium adjustment due to the reduced PED waiting period requires some moderate upward adjustment.



Q4. What strategies are you employing to manage the change in risk associated with the reduced PED waiting period?



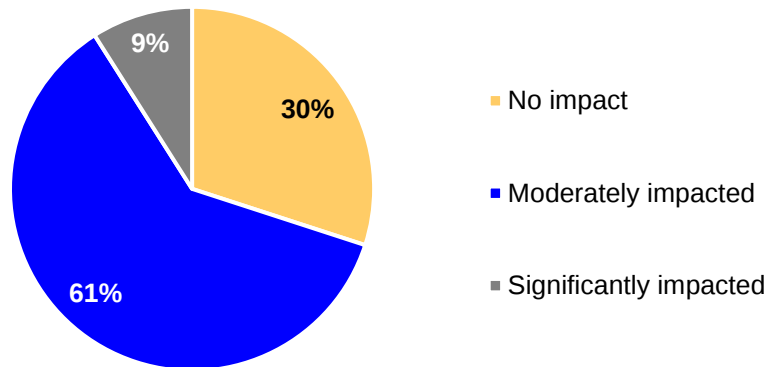
To manage the change in risk, most respondents are focusing on practical strategies:

- Majority respondents reported adjusting premiums as a primary strategy.
- While other strategies include enhancing fraud detection mechanisms and offering wellness programs.
- Some respondents indicated specific measures like withdrawing PED plans longer than 36 months and noted that most existing products already have a PED waiting period of 3 years.

Section 3: Reduction in Pre-Existing Disease (PED) waiting period

The definition of pre-existing disease (PED) has been updated to any condition diagnosed or treated within 36 months prior to the policy commencement date from the earlier 48 months.

Q5. How has the updated definition of PED affected your underwriting and claims processes?



The updated PED definition has reported to have a moderate impact on the insurers as:

- 14 out of 23 responded moderate impact on underwriting and claims processes.
- While 7 out of 23 noted no changes, indicating that their processes were already aligned with the new definition.
- Only 2 reported some significant impacts.

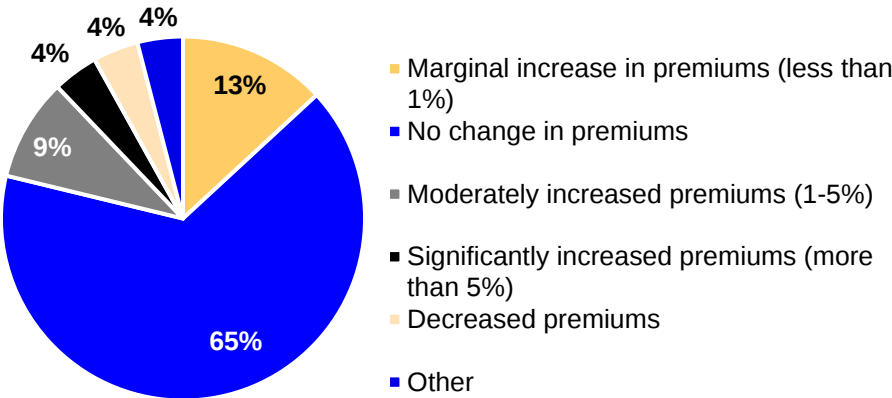
3.4

Impact of No claim bonus (NCB) discount in lieu of bonus

Section 4: No claim bonus (NCB) discount in lieu of bonus

Insurers may reward policyholders who do not make claims with a No Claim Bonus (NCB). This can be in the form of a cumulative bonus (addition to the sum insured without an increase in premium) or a discount on the renewal premium, based on the policyholder's choice.

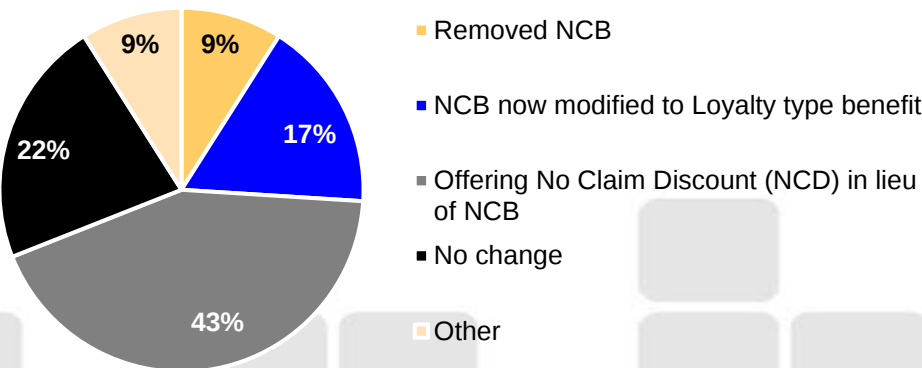
Q1. How has the No Claim Bonus (NCB) discount policies in lieu of the Bonus affected your pricing?



The change in NCB discount is reported to have almost no impact in the premiums:

- 15 out of 23 reported no change in premiums due to the NCB discount policies.
- While 3 respondents observed a marginal increase, 2 respondents noted a moderate increase, and 1 respondent reported a significant increase.
- One response indicated that they don't offer NCB features in most products, and in cases where they did, NCB features have been removed.

Q2. What are the changes you have implemented owing to the alteration in NCB discount application?



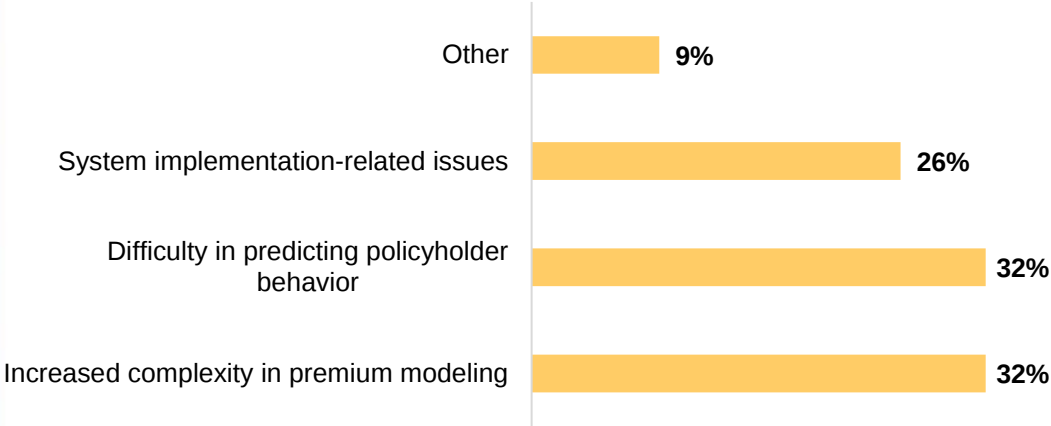
Insurers have employed different approaches in response to the regulatory change in NCB discount:

- Majority of respondents (10 out of 23) have shifted to offering No Claim Discounts (NCD) in lieu of NCB.
- While some companies have removed NCB features altogether.
- A few companies have adapted by modifying NCB into a loyalty benefit.

Section 4: No claim bonus (NCB) discount in lieu of bonus

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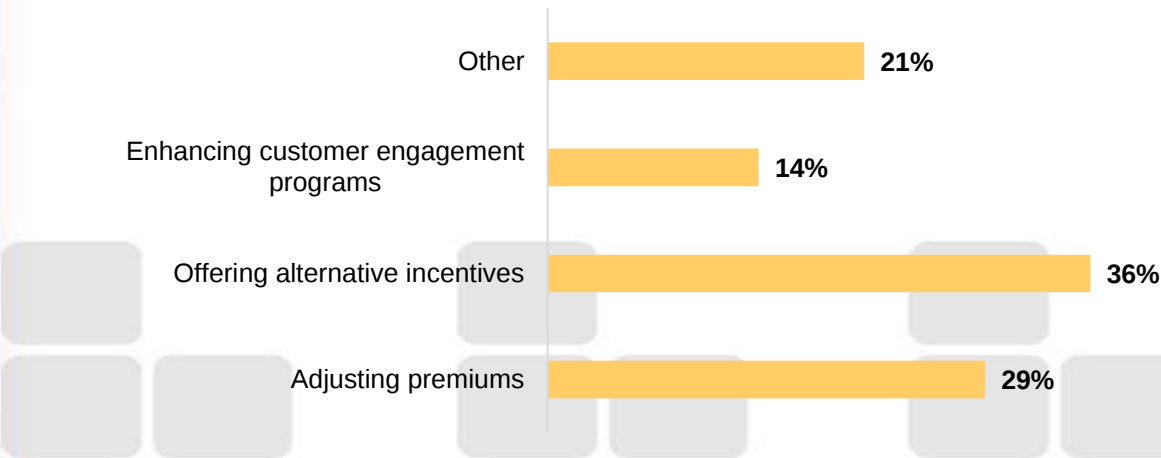
Q3. What are the primary challenges you faced in adjusting premiums and actuarial calculations due to the NCB changes?



The primary challenges faced by insurers are:

- Majority of respondents identified challenges in predicting policyholder behavior and increased complexity in premium modeling.
- Some reported system implementation-related issues as a challenge.
- Others highlighted that there were no challenges faced by them.

Q4. What strategies are you employing to balance the impact of NCB changes on premiums and claims costs?



To manage the effects of these changes:

- Majority of insurers have adopted strategies such as adjusting premiums, offering alternative incentives, and enhancing customer engagement programs.
- While few insurers have adopted strategies such as building disincentive, adjusting underwriting guidelines to better assess risk and balancing potential NCB impacts.

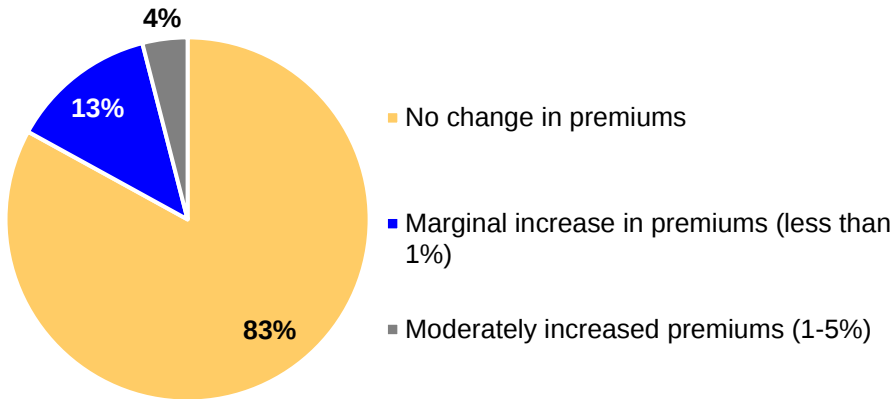
3.5

Impact of Removal of Short-Term Cancellation Grid

Section 5:
Removal of
short-term
cancellation
grid

The short-term cancellation grid has been removed under the new regulations. Policyholders can now cancel their policies at any time and receive a proportionate refund of the premium for the unexpired policy period, provided no claims have been made.

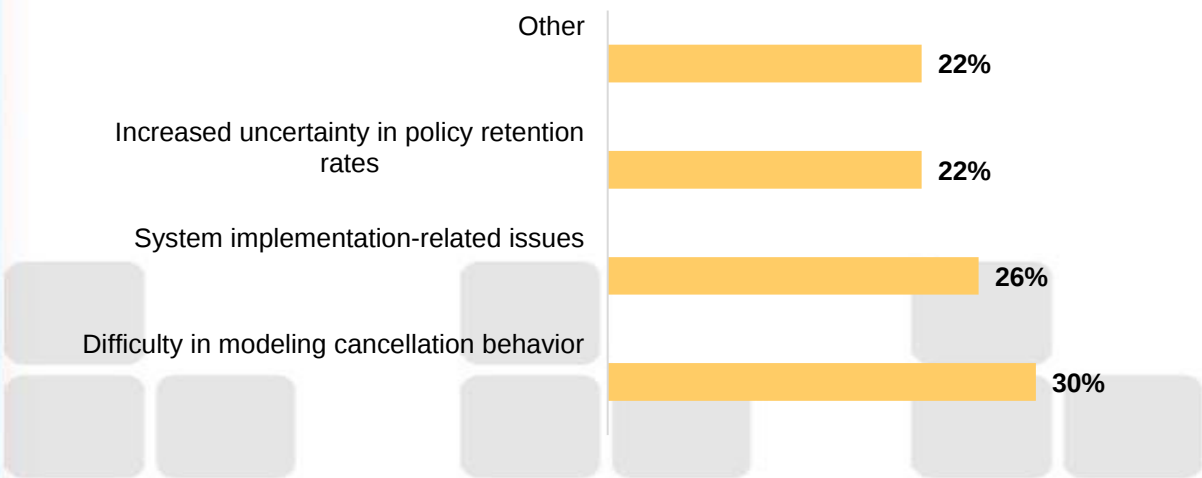
Q1. How has the removal of the short-term cancellation grid affected your pricing and premium calculations?



The removal of short-term cancellation grid is reported to have little impact on overall pricing, with only a small portion of insurers making slight adjustments:

- Majority (19 out of 23) of respondents reported no change in premiums.
- Only 3 respondents observed a marginal increase (less than 1%)

Q2. What are the primary challenges you faced in adjusting premiums due to the removal of the short-term cancellation grid?



The primary challenges faced by insurers are:

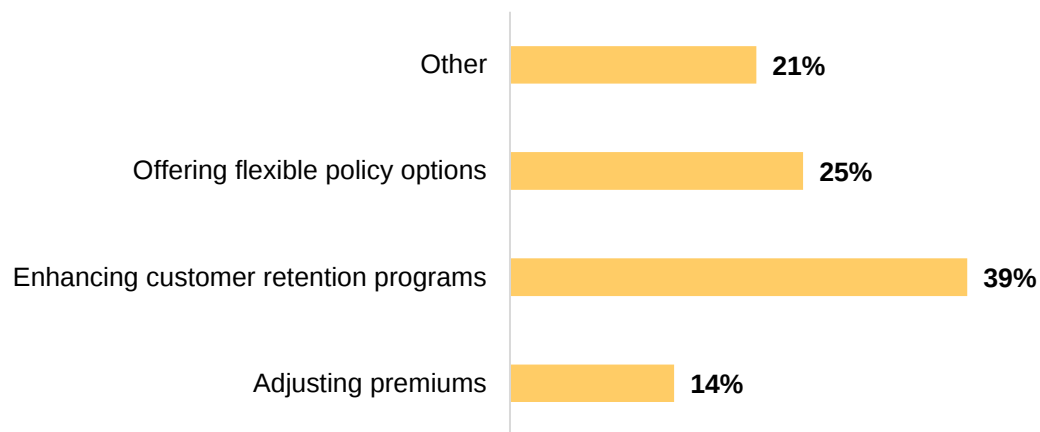
- 8 out of 23 of respondents identified challenges in modeling cancellation behavior.
- 6 respondents highlighted increased uncertainty in policy retention rates as a challenge.
- While 7 respondents faced system implementation-related issues when adjusting premiums.
- Some respondents noted that no material change is expected, while others mentioned that cancellations are minimal, and renewal retention is more difficult.



Section 5: Removal of short-term cancellation grid

The short-term cancellation grid has been removed under the new regulations. Policyholders can now cancel their policies at any time and receive a proportionate refund of the premium for the unexpired policy period, provided no claims have been made

Q3. What strategies are you employing to manage the change in risk associated with the removal of the short-term cancellation grid?



To manage the effects of these changes:

- Majority of insurers are focusing on enhancing customer retention programs.
- While others are focusing on adjusting premiums to manage the change in risk associated.
- Some insurers are offering more flexible policy options as a strategy.

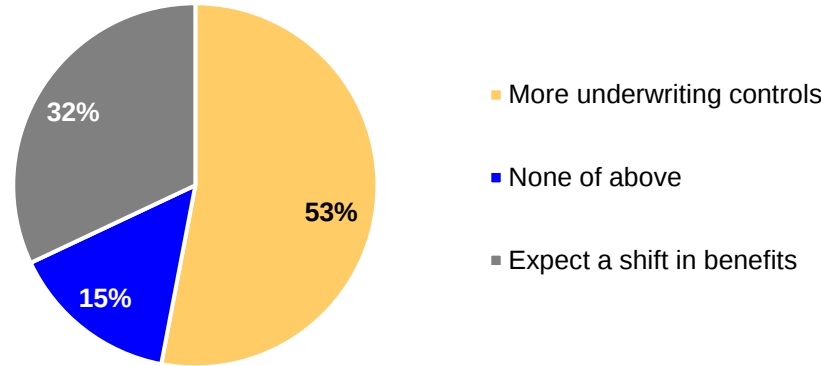
3.6

Impact of Portability and Migration Guidelines on Group and Retail Products

Section 6: Port and Migration Guidelines inclusion of group

Portability and migration guidelines now include group policies. Policyholders can port their policies from one insurer to another, including from group to individual policies

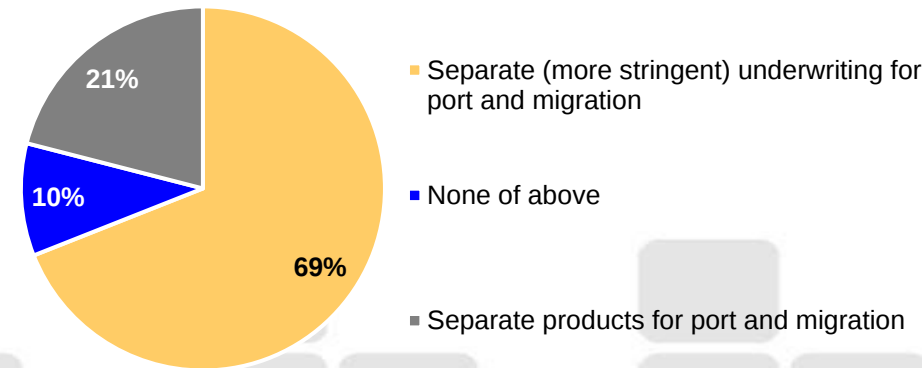
Q1. What are the key changes expected by you in group indemnity offerings?



Insurers expect several changes in their offerings in response to the inclusion of group policies in portability and migration guidelines:

- Majority respondents anticipate more underwriting controls.
- Some of them expect a shift in benefits, whereas 5 of them don't expect any change.

Q2. What are the key changes expected by you in retail products?



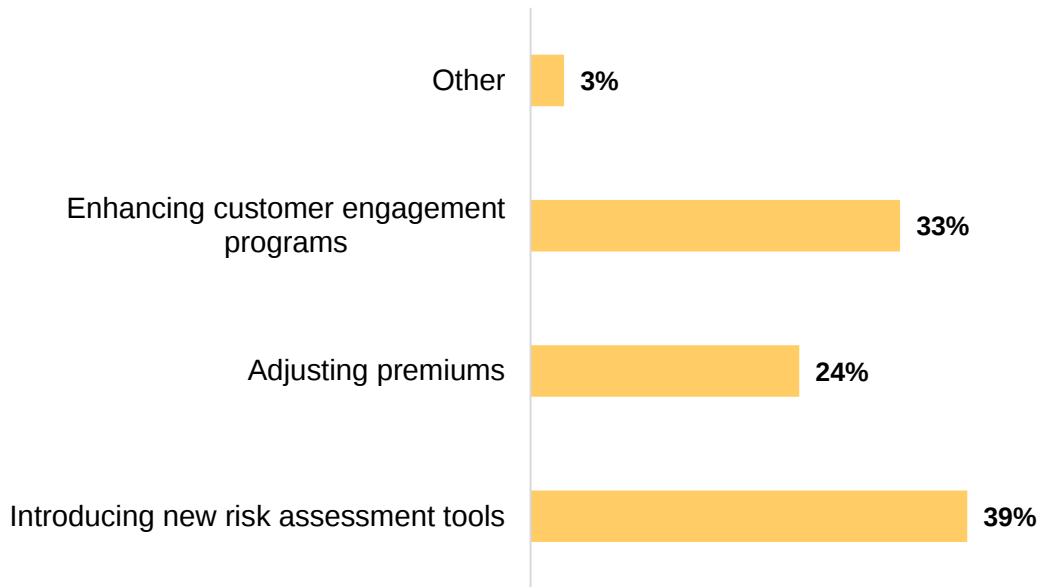
Similarly, in retail products:

- Many insurers foresee more stringent underwriting for portability and migration, with several planning separate products to address these needs.
- The general consensus is that insurers will need to adopt more stringent measures to effectively manage the impact of these guidelines on their products and customer segments..

Section 6:
Port and Migration
Guidelines
inclusion of
group

Portability and migration guidelines now include group policies. Policyholders can port their policies from one insurer to another, including from group to individual policies

Q3. What strategies are you employing to manage the change in risk associated with the new port and migration guidelines?



Insurers are adopting a multi-layered approach to manage the risks arising from the new portability and migration guidelines:

- Many are enhancing their risk management capabilities by introducing new risk assessment tools.
- Some are adjusting premiums to account for the potential risk transfer.
- Additionally, there is a strong emphasis on customer engagement, with several insurers implementing programs aimed at improving customer retention and ensuring a smooth migration process.
- While one insurer responded that stricter underwriting process would manage the change in risk.



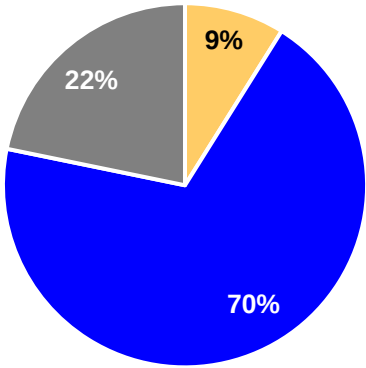
3.7

Impact of other changes related to premium collection and claims settlement

Section 7: Other Changes

Insurers cannot collect premium before the decision to accept the policy is taken. Turn-Around-Time (TAT) has been reduced for the cashless claims, and it must be computed from the claim intimation date rather than last document received date. In addition, pursuant to intimation of the claim, insurers and (TPAs), shall collect the required documents from the hospitals directly. Policyholders shall not be required to submit the documents. Claim cannot be rejected or closed for want of documents or delayed claim intimation.

Q1. What are the key changes expected (if any) in the underwriting processes due to the changes related to premium collection?

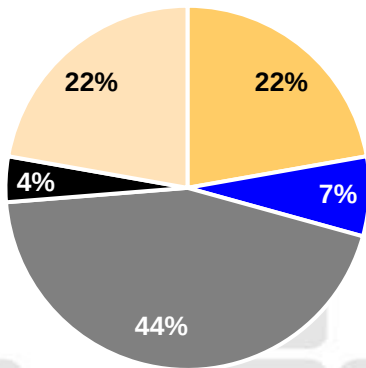


- No significant changes expected
- Challenges related to recovery of cost of the medical test in case of policy decline
- Impact on underwriting workflow

The regulatory changes in premium collection and claims settlement present challenges in underwriting as:

- 16 respondents reported that the main concerns are the difficulty in recovering medical screening costs when policies are declined.
- While 5 said that this has impacted underwriting workflows.

Q2. What are the key changes expected (if any) in the claims settlement processes due to the changes related to claims settlement?



- Increase in claims due to inability to adjudicate claims based on the documents provided
- No significant impact on the current processes
- Operational challenges related to the document collection directly from the hospital
- No significant impact on the claims
- Increase in cost of interest penalties due to the changes related to computation of TAT (now linked to claim intimation date)

For claims settlement:

- The changes to Turn-Around-Time (TAT) and direct document collection from hospitals create operational issues as mentioned by 12 respondents.
- While others highlighted challenges with managing documentation, potential increases in claims, and higher interest penalties, requiring insurers to adjust processes and manage increased operational burdens.



4

Conclusion

Conclusions



- Insurers were in general able to assess the increased risk and make changes to their existing processes, products, and premiums where required. The overall premium increase was in the range of 0.5% to 2% as reported.
- Lack of historical data, inability to assess behavioral aspects, significant changes in current claims and underwriting processes, and in some cases competitive market pressures with respect to premium were reported as the key challenges to implement these changes.
- Insurers will continue to monitor the emerging trends and strengthen their current risk assessment and risk selection processes to ensure profitability of their portfolios and enhanced customer experience. However, tightening of underwriting controls may lead to reduced access to health insurance.

Recap - 1

Reduction in Moratorium Period

- Some insurers reported slight premium increases while others are observing stability.
- The change is manageable within current product design with some underwriting revisions.
- Key challenges include competitive market pressures, difficulty in pricing for increased risk, and insufficient data for actuarial calculations.
- To manage risk, most insurers are enhancing fraud detection, adopting new risk assessment tools, stricter underwriting, and adjusting premiums.

Change in Free Look Period

- Most insurers do not see this change as significantly affecting pricing.
- The change is expected to positively impact customer satisfaction.
- Primary challenges include difficulty in modeling customer behavior and increased uncertainty in policy retention rates.
- Insurers are coping to the risk change by adjusting premiums, offering wellness programs, enhancing sales processes, and improving underwriting guidelines to reduce cancellations.

Reduction in Pre-Existing Disease (PED) waiting period

- Most insurers see moderate premium increases of 1-5% reflecting the expanded risk.
- Some insurers modified the existing product design or introduced new products specifically tailoring to PED.
- Insurers face increased claims frequency, and actuarial calculation difficulties due to limited historical data.
- Strategies include adjusting premiums, enhancing fraud detection, offering wellness programs, and withdrawing PED plans longer than 36 months.

No claim bonus (NCB) discount in lieu of bonus

- The change in NCB discount has had minimal impact on premiums.
- Some insurers shifted to no claim discounts (NCD) or removed NCB features. While some changed NCB into loyalty benefits.
- Challenges include predicting policyholder behavior and complex premium modeling along with system implementation issues.
- Insurers are adjusting premiums and underwriting guidelines, offering alternative incentives, and enhancing customer engagement programs.

Recap - 2

Removal of short-term cancellation grid

- The removal of the short-term cancellation grid has had minimal impact on pricing.
- Insurers faced issues with modeling cancellation behavior and policy retention rates along with system implementation challenges.
- Strategies employed include enhancing customer retention programs, adjusting premiums and offering flexible policy options.

Port and migration guidelines inclusion of Group

- For group policies, most insurers expect to tighten underwriting controls.
- For retail products, most insurers plan stricter underwriting, and some are developing separate products for these needs.
- Risk management strategies include adjusting premiums to handle potential risks, using new risk assessment tools and focusing on customer engagement and retention programs.

Other changes related to premium collection and claims settlement

- Most insurers are concerned about underwriting challenges such as recovering medical screening costs when policies are declined.
- Most insurers face issues with documents management and increased operational efforts due to changes in Turn-Around-Time (TAT) and direct document collection from hospitals.

Q&A