International Health Briefs

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Pre-Existing Condition Exclusions Around the World

Dear Client,

The pre-existing condition (PEC) exclusion clause, long a staple of health insurance underwriting, has undergone a measure of change and evolution in several countries, due to rising health care costs and customers wanting affordable, high-quality coverage. This Health Brief reviews PEC language and governance in a selection of countries, provides information about a few recent updates, discusses administration challenges for policy language for PEC exclusion clauses, and outlines how claims assessors can most effectively adjudicate cases when this exclusion becomes applicable.

Best wishes,

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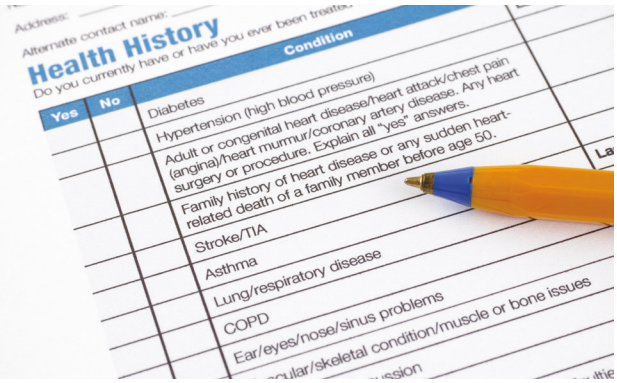
Language that excludes pre-existing conditions (PECs) from health insurance coverage is common today to almost all individual health products around the world. Although not always popular with consumers, especially in markets that practice re-underwriting at claim time, it does enable coverage to remain affordable by minimizing anti-selection risk which, in turn, lowers underwriting and premium costs.



What is a PEC?

The simplest definition of a PEC is: a health condition that existed either at the time of or prior to an individual's purchase of a health insurance policy.

When evaluating whether a condition should be deemed pre-existing, insurers normally look to prove either of two qualifying elements:

- At the time of application, the claimant was undergoing treatment for, and/or had been treated previously for, a medical condition.
- At the time of application, the claimant was aware of the medical condition for which the claim had been submitted. The awareness was due to symptoms experienced by the claimant that are associated with the claimed-for condition – symptoms for which a prudent individual would have sought medical treatment or advice.

Variations by Country

In some countries, such as Hong Kong, Italy and Mexico, insurers are free to design their own PEC exclusion clauses and administer them in accordance with their own claim philosophies and guidelines. The guidelines generally cover how to deem conditions as pre-existing, listing the impairments, the levels of severity, and the permissible periods of time prior to application submission that a qualifying impairment was first medically investigated. The guidelines also cover how to incorporate language in the clauses that clarifies how long a condition would have to have existed to be considered pre-existing (e.g., whether conditions suffered since birth would be pre-existing, or only those experienced within the past X years). In other countries, including Malaysia, the U.K., Singapore, South Korea, Australia, the U.S. and Dubai, insurers do not have the same freedom. Either local regulatory authorities or self-policed best market practices govern insurer treatment of the PEC exclusion, including policy language and guidelines for the application.

Malaysia insurance regulator Bank Negara Malaysia is currently revising its PEC exclusion clause guidelines.

The revised language (which is already being used by several insurers doing business in Malaysia), states that a PEC is:

> Disability that the Insured Person/Covered Person has reasonable knowledge of, before the commencement or reinstatement of this Policy/Certificate.
>
> The Insured Person/Covered Person is considered to have reasonable knowledge of a pre-existing illness if:

- The person had received or is receiving treatment for that disability.
- The person has been advised for further medical investigations, diagnosis, care or treatment.
- Clear and distinct symptoms of the disability were evident.
- The condition would have been apparent to a reasonable person in the circumstances.

The **U.K.**'s Association of British Insurers (ABI) has a Statement of Best Practice to which insurers voluntarily adhere. Within the Statement is language that not only regulates how insurers treat pre-existing conditions, but also provides a common definition for PECs for insurers to use in policies.

The common definition states a PEC is:

> Any disease, illness or injury for which:
>
> - The person has received medication, advice or treatment; or
> - The person has experienced symptoms; whether the condition has been diagnosed or not in the **xxx** years before the start of cover. (The same period is not common to all insurers.)

Singapore's Ministry of Health launched its new national health insurance scheme, MediShield Life (www.medishieldlife.sg), on November 1, 2015. This new scheme, which replaces the older MediShield scheme, provides to all Singapore citizens and permanent residents lifetime protection against large medical bills, regardless of age or health condition (including those with PECs). Those with PECs are subject to additional premium, depending on the specific condition and its severity, but the Singapore government is providing these individuals with a range of need-based premium subsidies and support measures.

In **South Korea**, the PEC exclusion is a standard provision, regulated by the government under the Health Insurance Act. The exclusion clause language states:

- In cases where an insured was treated or diagnosed with a disease associated with the pre-issue declaration obligation on an application form (limited to material parts) in the past (the period for disclosure on an application form), benefits related with the disease among benefits listed under "types of benefits and claim reasons" shall not be paid.

- A disease diagnosed before the application date will, however, be covered after five years (including a case after five years from auto-renewal) after the application date as defined within the policy, if additional diagnosis (excluding screening medical exam) or treatment for the condition was not done for the five years.

In **Australia**, "best practice" regulatory guidelines govern how PEC clauses are to be applied. The guidelines (http://www.phio.org.au/facts-and-advice/the-pre-existing-conditions-rule.aspx), which were developed by representatives from health funds, medical practitioners, private hospitals, the Office of the Private Health Insurance Ombudsman, consumer representative organizations and the Department of Health and Aged Care, set out the responsibilities of health funds when assessing pre-existing conditions and the advice that should be provided to an insured member once the assessment is finalized. The guidelines define signs and symptoms, and provide an assessment form to assist appointed doctors in making a clear determination of whether or not the condition is pre-existing. Australia's National Health Act also specifies that assessing whether a condition is pre-existing or not must always be done from the claimant's individual

circumstances. Only the medical practitioner appointed by the health fund has the authority to assess pre-existing conditions.

U.S. insurer treatment of PECs changed markedly with the 2010 passage of the Patient Protection and Affordable Care Act (PPACA, or Obamacare). Initially, PEC exclusions were prohibited only for children under age 19, but by January 2014, all insurers providing coverage under Obamacare had to provide cover for pre-existing conditions. Insurers are also required to offer the same premium price for products to all applicants of the same age and geographical location, regardless of gender or most pre-existing conditions.

Dubai introduced a compulsory health insurance mandate on January 1, 2014. The mandate, which is administered by the Dubai Health Authority, requires that insurers cover PECs for expatriate workers after a maximum period of six months, although the amount payable can be capped.

Considerations

If PEC exclusion language is not required by your country's health insurance regulations, insurers are recommended to have clear, reasonable policy wordings and internal guidelines for administration of this clause.

Guidelines should include unambiguous definitions of the "signs and symptoms" for which an insured either had or had not seen a doctor, to establish if the insured had an awareness of the condition (or symptoms leading to the condition) before policy issuance.

If no questions related to the claimed condition were asked in the policy application form, an insurer should not penalize a claimant when there was no opportunity of disclosure (e.g., the wrong questions were asked).

In addition, if a condition or treatment was fully and accurately disclosed during the application period and no specific pre-existing exclusion was imposed, insurers should not repudiate a claim due to it being a pre-existing condition.

Conclusion

Given the fast-rising costs of healthcare worldwide and consumer demands for full and affordable medical protection, it would be prudent to undertake a review of your company's PEC definitions and administration practices to ensure the best balance of affordability and risk.