2016 ALUCA TurksLegal Scholarship - 1st Runner-up

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Question

MENTAL HEALTH UNDERWRITING AND ANTIDISCRIMINATION

According to mental health charity and advocacy group SANE Australia, around 20% of adults are affected by some form of mental illness every year and almost half of the population will experience a mental disorder at some stage in their lives.

Mental illness takes many forms. Anxiety disorders are the most common followed by depression, which SANE Australia says affects around 6% of the adult population every year. Some people are also affected by substance abuse disorders, psychotic illnesses such as schizophrenia, personality disorders, and other conditions and many people have more than one diagnosis.

The Australian travel insurance industry has recently had to reconsider the way it approaches mental health risks when a tribunal in Victoria found that a general exclusion targeting mental health related conditions infringed anti–discrimination laws.

The life insurance industry does not approach underwriting mental health risks in quite the same way but the recent Victorian decision still has implications for our industry.

The industry responds to the underwriting of mental illness in a variety of ways. We would like you to look at the way companies across the industry go about seeking underwriting evidence in relation to mental illness and evaluate the various approaches. Do insurers ask the right kind of questions to get the information they need? Are underwriting responses sufficiently fact based and flexible?

Could we make better underwriting decisions? If so, how?

INTRODUCTION

Today, together with the rest of the nation, there is no doubt that the life insurance industry is also battling against the rising pandemic of mental disorders and its burden of cost. As the life insurance industry manages its risk tolerance towards mental disorder risks and its mental disorder claims, it is also faced with increasing pressures from mental health advocates who believe that the insurance industry is discriminating against people with a mental disorder. They believe that there is insufficient actuarial or statistical data that exists to justify the underwriting outcomes.

The drafted Life Insurance Code of Practice highlights that underwriting decisions will be evidence based and the underwriting decision making processes will be regularly reviewed. The author would expand that there is a call for more objectivity in underwriting approaches to demonstrate not only our assessment approach to the Applicant's risk profile but to outline an understanding of the type of mental disorders and the effectiveness of prevention, intervention and recovery specific to the Applicant.

The purpose of this paper is to achieve the following objectives:

a) Determine the disease burden of mental disorders in the general population and insured population
b) Explain the underwriting mental disorders milestones at industry level
c) Provide the current underwriting practices in the Australian life insurance industry
d) Evaluate the effectiveness of current underwriting practices
e) Explore the underwriting opportunities to improve underwriting practices and outcomes

A. The Disease Burden of Mental Disorders

General Population

The most recent Global Burden Disease Study 2010 [1, 2] reported that mental and substance disorders ranked as one of the leading causes of disease burden in 2010. When compared with the Global Burden Disease Study 1990, the absolute Disability Adjusted Life Years (DALYs) [a] for mental, neurological and substance use disorders increased by 41% between 1990 and 2010 (from 182 million to 258 million DALYs).

The 2010 Study reported that mental and substance disorders ranks the 5th leading cause of DALYs and the leading cause of YLDs [b] (Table 1). The same result is observed in Australia (Figure A).

Table 1 Source: Whiteford HA et al (2015) [1]

	Proportion of total DALYs (95% UI)	Proportion of total YLDs (95% UI)	Proportion of total YLLs (95% UI)
Cardiovascular and circulatory diseases	11·9% (11·0–12·6)	2·8% (2·4–3·4)	15·9% (15·0–16·8)
Diarrhoea, lower respiratory infections, meningitis, and other common infectious diseases	11·4% (10·3–12·7)	2·6% (2·0–3·2)	15·4% (14·0–17·1)
Neonatal disorders	8·1% (7·3–9·0)	1·2% (1·0–1·5)	11·2% (10·2–12·4)
Cancer	7·6% (7·0–8·2)	0·6% (0·5–0·7)	10·7% (10·0–11·4)
Mental and substance use disorders	7·4% (6·2–8·6)	22·9% (18·6–27·2)	0·5% (0·4–0·7)
Musculoskeletal disorders	6·8% (5·4–8·2)	21·3% (17·7–24·9)	0·2% (0·2–0·3)
HIV/AIDS and tuberculosis	5·3% (4·8–5·7)	1·4% (1·0–1·9)	7·0% (6·4–7·5)
Other non-communicable diseases	5·1% (4·1–6·6)	11·1% (8·2–15·2)	2·4% (2·0–2·8)
Diabetes, urogenital, blood, and endocrine diseases	4·9% (4·4–5·5)	7·3% (6·1–8·7)	3·8% (3·4–4·3)
Unintentional injuries other than transport injuries	4·8% (4·4–5·3)	3·4% (2·5–4·4)	5·5% (4·9–5·9)

DALYs=disability-adjusted life-years. YLDs=years lived with disability. YLLs=years of life lost.

Table: Proportion of YLDs, YLLs, and DALYs explained by the ten leading causes of total burden in 2010

[a] Disability-Adjusted Life Years (DALYs) is the measure of overall disease burden, expressed as the number of years lost due to ill-health, disability or early death [3]
[b] Years Lost due to Disability (YLDs) [3]

Figure A Source: AIHW (2016) [5]

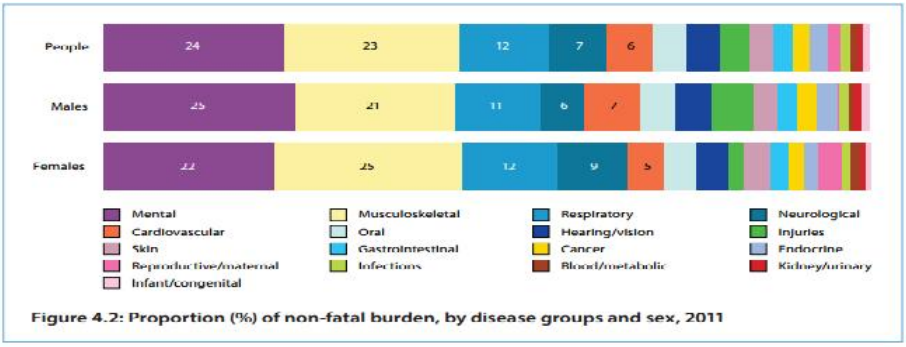
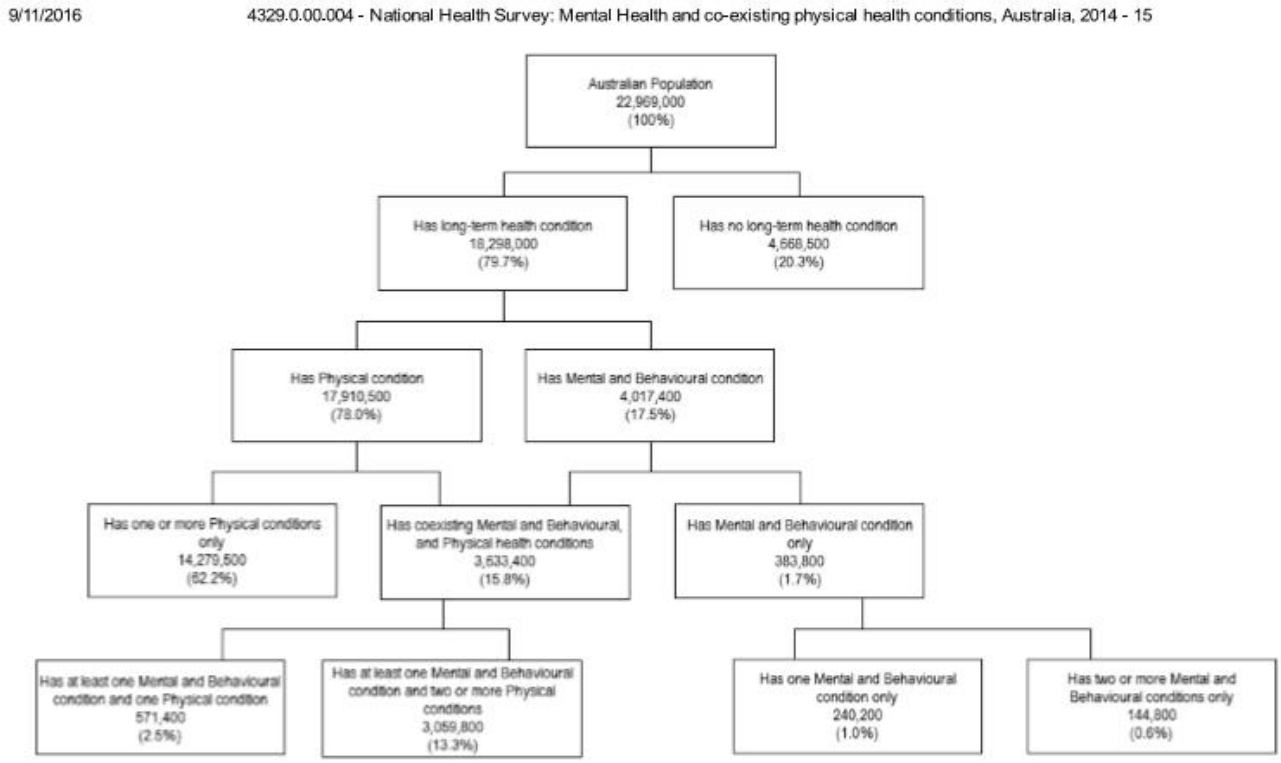


Figure 4.2: Proportion (%) of non-fatal burden, by disease groups and sex, 2011

The Australian National Health Survey: Mental Health in 2014-2016 reported that there are 4 million Australians (17.5%) who reported having a mental or behavioural condition. The results also showed that out of the 4 million people, 90% of them (3.6 million people) who reported having mental and behavioural conditions have co-existing physical health conditions[4]. The data suggests a high correlation of mental disorders and physical health conditions (Figure B).[4]

Figure B Source: ABS 2014-15 [4]



Insured Population

According to an industry report on mental disorder claims analysis,[6] a total of 2,668 open Income Protection/ Group Salary Continuous claims and 605 Total Permanent Disablement claims were related to mental disorders across 13 companies in 2009. The table below illustrates a comparison with surveys done in 2009, 2006 and 2003.

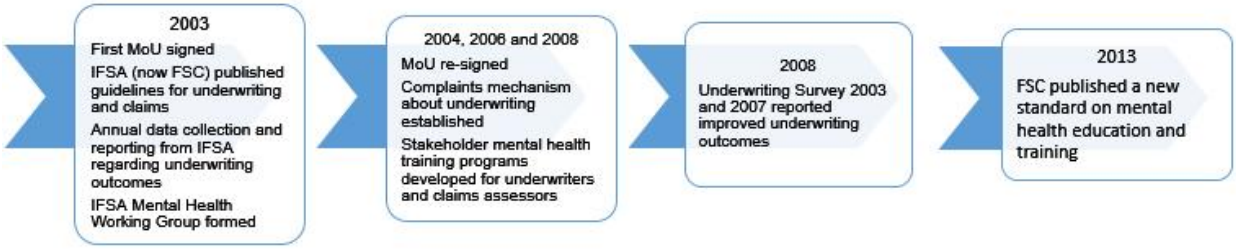
Type of Claim	Results from 2009	Results from 2006	Results from 2003
Income Protection (IP)/ Group Continuous Salary (GSC)	18.9%	17%	16%
Total Permanent Disablement (TPD)	10%	16%	13%

In the last 5 years, there has been several news articles reporting poor disability claims experience due to increasing mental health claims. In 2015, KPMG Australia and the FSC released industry claims data where they reviewed over 30,000 claims made during 2007 and 2011 from 10 insurers. It was highlighted that the new data showed rising mental health claims due to a worsening economy and job losses from the global financial crisis[7].

The SuperFriend[c] industry research reported that 13 superannuation funds covering more than 30% of Australia's workforce has incurred costs of $201.5 million from suicide claims between 2007-2011, and $147.9 million in claims for total and permanent disablement associated with mental illness. Mental health conditions account for 10% of all insurance claims with superannuation[8].

Several reports from various insurers have reported millions of dollars paid each year in disability benefits for mental disorders. Usually, when claims experience rises, life insurers will review their underwriting practices to find ways to mitigate the risk.

B. Underwriting Mental Disorders Milestones



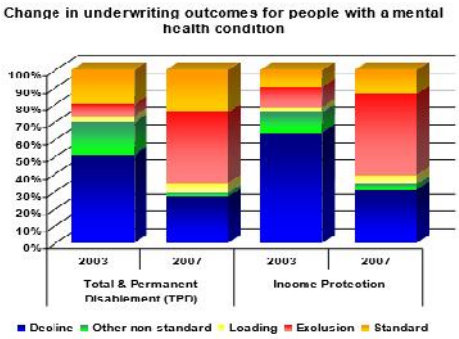
The figure above illustrates the key milestones impacting underwriting from an industry level. Since the implementation of new underwriting guidelines in 2003 across the industry, there has been a significant improvement of underwriting outcomes in a period of 5 years[9].

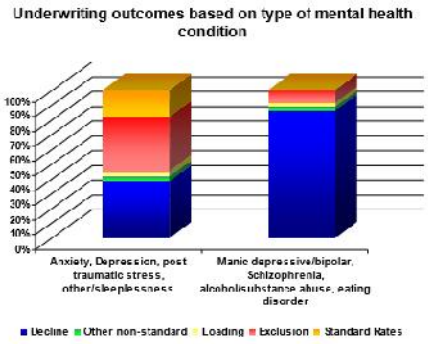
Key findings include:

- The number of declined applications were halved since 2003.
- A majority of cases were accepted with mental illness exclusions compared to 2003.
- The number of cases accepted at standard rates for both TPD and IP increased compared to 2003.
- The overall result suggests an underwriting practice that stratified risks according to the types of mental disorders and their severity and a shift of underwriting outcomes to accept risks with better understanding of the disease process, its treatment and prognosis.

[c] A Nonprofit Mental Health Foundation SuperFriend is a national initiative improving the mental health and wellbeing of all profit for member superannuation fund members, employers and staff.
[d] Investment and Financial Services Association (IFSA)
[e] Mental Health Council of Australia (MCHA)

Figure C [9]





C. Current Underwriting Practice (A Survey)

A survey with 5 participating insurers in Australia conducted in September 2016. The survey was conducted via phone interviews with either the Chief Underwriter, Underwriting Manager or Technical Underwriter. The survey was developed by the author evaluating the following areas

a) Underwriting Guidelines
b) Underwriting Practice
c) Communication of Underwriting Decision
d) Claims Experience and Learnings
e) Training on Mental Disorders

NB. Please note that this survey has some limitations i.e. 5 insurers participated

The following is a summary of the survey results:

a) Underwriting Guidelines

Insight: The internal guideline developed by various insurers in the industry suggest the level of risk tolerance in accepting mental disorder risks. This approach may be triggered by their own claims experience. All insurers have a set of evidence based underwriting guidelines to follow which promotes consistency and fairness in stratifying the severity of risks.

- 2 of the 5 insurers have their own internal guidelines which address specific underwriting scenarios. This is supplemented by their reinsurer's manual where a broader guideline is established with severity risk classification, favourable features and unfavorable features.

b) Underwriting Practice

Insight: There is no significant change of underwriting practice in mental disorder risks

- There is an observation that some insurers are willing to accept risks with a mental health exclusion based on the disclosure by the Applicant (these are applicable for mild to moderate risks).
- Applications are assessed based on the Applicant's specific risk profile and the guidelines that stratifies the severity of the risks
- GPs are not required to complete specific mental health questions as most insurers now obtain the Applicant's medical file notes from the GP.
- Some insurers are offering discounted premiums when a mental health exclusion is applied
- There is no or little discussion with GPs regarding the Applicant's mental health history except either the reliance on the Applicant's disclosure or medical file notes.
- Complex mental health applications are discussed with CMOs or referred to reinsurers.
- All insurers have similar mental disorder exclusion wording which includes a wide range of mental disorders.

c) Communication of Underwriting Decision

Insight: No special consideration made when communicating underwriting decision on mental disorder.

- Some insurers communicate substandard decisions directly with Applicants.
- Some insurers do not need to communicate any decisions to Advisers as the underwriting decision is uploaded onto the Adviser's system.
- One insurer stated that they communicate their underwriting decision to the Advisers unless it is an exclusion, following which the system directs the underwriting decision via an email to the Applicant. If it is a mental health exclusion, the underwriter will call the Applicant.
- Upon request from the Applicant, some insurers will write to the GP explaining the basis of their underwriting decision.

d) Claims Experience and Learnings

Insight: There is generally no or limited feedback to underwriting regarding mental disorder claims analysis. Most insurers stated that they were unaware of any mental disorder claims analysis.

e) Training on Mental Disorders

Insight: There is some training specific to mental disorders

- All insurers are compliant with the standardized FSC training module on mental health education.
- Other training is more specific to soft skills, customer specific training and some workplace mental health training through partnerships with organizations such as SuperFriend.
- Some insurers have adhoc training specific to underwriting guidelines on mental disorders.

D. Evaluate the effectiveness of current underwriting practices

Currently, mental disorder risks are assessed like any other conditions by obtaining the following:

a) Applicant's disclosure
b) Usual GP's report (or file notes)
c) Psychiatric or Psychologist's report (if applicable)

Each of these risks is assessed based on the Applicant's specific medical history. The Applicant's risk profile is stratified based on a set of favourable and unfavourable factors which classifies the risk according to its severity. These risk classifications are evidence based on observed large pools of excess mortality and morbidity risks associated with disease population or insured population analysis that highlights risk factors that are observed in mental disorder claims.

From a risk management perspective, it is unclear if current underwriting practice successfully mitigates mental disorder risks and promotes sustainable pricing. It is unclear if these mental disorder claims had pre-existing mental disorder or if the mental health exclusion restricts benefits successfully.

These questions will test the effectiveness of our current underwriting practices namely:

1. Are underwriters obtaining sufficient information to assess accurately the Applicant's mental health risk? If no, what other innovative approaches should underwriters seek?
2. Are underwriters utilizing various validated tools or assessments that will provide objectivity to assess the risk in a holistic approach based on the Applicant's risk profile?
3. Are underwriters analyzing their underwriting behavior when assessing mental disorders?
4. How much collaboration exists between risk assessors (underwriters and claims professionals) to provide an end to end risk insight analysis?

5. How much underwriting or claims learnings and insights do we utilize to review the risk appetite and the underwriting guidelines?
6. How flexible is our underwriting approaches in accepting mental health risks?
7. Can decline cases be accepted based on innovative methodology or limited benefits?
8. How competent and capable are underwriters in assessing mental health risks?

E. Explore the underwriting opportunities to improve underwriting practices and outcomes

Based on this review, the author has identified the following:

1. **Issue:** Limited feedback mechanism between underwriting and other key risk management stakeholders (i.e. claims, actuaries and product) for better risk stratification.

   Opportunities: There is an opportunity for insurers to review their risk management framework in managing mental disorder risks. The author acknowledges the enormous work in various disciplines such as claims implementing rehabilitation for claimants to return to work, actuarial pricing to promote sustainable pricing model, underwriters to effectively stratify risk for better claims experience and product researching better product specifications and benefits. Instead of working within each discipline, what are the possibilities of sustainability if all risk key stakeholders would collaborate to produce a feedback mechanism that will provide insight from an end to end risk management.

   Taking it to the next level, how can all insurers in the life insurance industry collaborate to build a resilience framework that will promote community, family and individual well-being?

2. **Issue:** Mental health advocates are calling for more accountability and transparency to justify the basis of the evidence based underwriting decisions and recommends a holistic approach that includes social context.

   Opportunities: The question raised for underwriting to consider a holistic approach assessment. No doubt that underwriting considers this approach. Can underwriters increase the objectivity of their assessment to assist in classifying the complexity of this risk? There are several validated tools available that provides an understanding of the Applicant's mental health status and its resilience such as the Biopsychosocial model, Kessler Psychological Distress Scale questionnaire and social factors that promote mental health.

3. **Issue:** The challenge to underwrite mental disorders due to the subjectivity and variation of mental disorders in individuals depending on the type of disorder, its severity and chronicity, and response to treatment, factors that triggers a recurrence. Diagnosis made by GPs is another challenge as these cases may not necessarily fit into the criteria outlined by diagnostic classifications (i.e. DSM V, ICD-10) and they are not necessarily evaluated by psychiatrists or psychologists.

   Opportunities: What factors should underwriters look beyond a diagnosis of mental disorder? Can underwriting increase their understanding of the Applicant's mental health history by increasing their engagement with the GPs through accurate understanding of the medical history? How do we work together with the GPs and Applicants to ensure availability of cover? Instead of declining cover, are there factors that will position underwriters to review if certain criteria are met?

4. **Issue:** Underwriting approaches are restricted to applying higher premiums, imposing a broad range of mental disorders exclusion, declining covers and altering policy benefits.

   Opportunities: The 'Lien Clause' is a methodology used in some countries that cover a percentage of the full benefit with increasing coverage over time.

E.g. Policy: Income Protection is $10,000mb. In the event of a claim,

- 1st year of policy – 10% of the monthly benefit will be paid,
- 2nd year of policy - 20% of the monthly benefit, and subsequently reaching to the full monthly benefit payable.

This methodology can be used to cover minimal monthly benefit (with incentive to return to work) until the risks reduces to standard risk. Premiums are paid fully for the monthly benefit of $10,000 from the policy onset.

5. **Issue:** Consumer survey [10] showed that individuals with experience of mental illness had difficulties when seeking insurance products due to possible insurer's misconceptions about mental disorders (not limited to life insurance). The survey has highlighted some valid learnings.

   Opportunities: In the last few years, many insurers have focused in promoting customer satisfaction in their services. Acknowledging these ongoing efforts, the author would like to address the call to underwriting professionals to explore the opportunity to increase customer engagement through better understanding and education of the underwriting outcome to all relevant stakeholders (i.e. Applicant, GPs, Financial Planners etc.)

Conclusion

The year 2030

Sitting in a coffee shop, as an underwriter, reading the ABS publication recently released reported a history low prevalence rate of 1% of Australians having a mental condition. The author smiles to the achievement of the life insurance industry and recalled how it all started in the year 2016 where we played a part in this success.

The life insurance industry has the greatest potential and opportunity to be part of the solution to work collaboratively with other stakeholders by creating a resilient framework that supports the ongoing wellness of an individual. The issues raised in this paper are not new, but there is a pressing need for leaders in underwriting or in our industry to rise higher to the calling to do something that will increase the confidence of our promise and trust for our consumers.

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