STATE OF ISRAEL

Ministry of Finance – Capital Market, Insurance & Savings Division

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Principles for changing health insurance rates for existing insureds - draft version

1. General

Health insurance plans, including those for critical illnesses and long-term care, are long-term plans, and as such an insurance company has some difficulty in committing itself to a premium that remains unchanged over time, partly due to the limited data available and the uncertainty regarding future developments that may affect the risk level. Consequently, within the context of the insurance policy, the insurance companies have the option of not committing to a set premium throughout the policy period, and they may change the table of premiums for existing insureds, subject to the approval of the Commissioner of Insurance.

It should be emphasized that the purpose of allowing the premiums to be changed does not allow the insurance company to adjust premiums that were determined unprofessionally, and without considering the relevant risk factors, for example, experience, underwriting and so on. Furthermore, one of the concerns in pricing health policies is that the insurance company may set premiums that are too low relative to the insurance risk due to marketing considerations. These are designed to encourage a large number of insureds to apply at low prices, with the intention or assumption that the premiums may be increased in the future, once the insured are already enrolled in the policy and some have no possibility of purchasing alternative insurance due to their age or medical condition. Unprofessional pricing, whether due to poor professional skills or based on marketing factors, is undoubtedly unfair to the insureds, and they should therefore not be expected to bear its consequences.

Consequently, since changes in the insurance premiums may be inherent in this type of insurance, and assuming that the original premiums were set fairly and professionally, following are the underlying principles for reviewing requests submitted to the

Commissioner regarding premium changes for existing insureds.

2. Reviewing requests for changing the insurance premiums

A. Submitting a premium for approval:

1) The insurance company must conduct a review, at least once every five years, from the day on which the last premium is approved, of the need to revise the premiums (both increase and decrease).

2) Regarding insurance policies that were submitted as of 1.1.2003 - an application to change the premium may only be filed if, when the original premium was introduced, the insurance company submitted a full actuarial appendix to the Commissioner, detailing the pricing model and including all the existing assumptions in this model, in accordance with the provisions of Section 2 of Circular no. 2002/10 on the subject of a new health plan.

3) Regarding policies that were marketed up to 1.1.2003 - an application to change the premium may only be filed if, when the original premium was introduced, the insurance company submitted an actuarial appendix to the Commissioner that included the pricing model for the plan.

4) The insurance company shall submit a full actuarial appendix to the Commissioner in accordance with the provisions of Section 3 of Circular no. 2002/10, the subject of which is changing the premiums in an existing plan. The actuarial appendix shall be submitted based on the best estimate of the future and outstanding claims. If the outstanding claims reported in the balance sheet do not correspond with those that appear in the actuarial appendix, the actuary must account for the reasons for these differences.

5) Where a reinsurer is involved in pricing the new rate, this must be reflected in the specific data in the actuarial appendix.

6) The actuary shall state in the actuarial appendix that "the new rates submitted to the Commissioner of Insurance are fair and based on established actuarial rules, and were determined in accordance with the provisions of Circular no. …… ".

B. Principles on which the rate is based:

7) The determination of a shekel load amount in respect of each insured shall be considered, to be added to the rate after the risk premium has been changed. This sum may vary from one insured to another.

8) The possibility of changing the scope of the insurance cover shall be considered.

9) If a substantial change in the rate is requested, a gradual change may be recommended.

10) For products with an accumulated reserve, the actuarial appendix must show the impact of changes in the rate on the reserve and the method whereby the reserve is taken into account when computing the change in the rate.

11) When revising the rate, profit and loss in respect of the past shall not be offset.

C. Claims:

12) The different loss ratios shall be computed on the basis of the approved premiums (including underwriting extras) and not according to the premium actually collected.

13) The loss ratio shall be computed according to the net premium and gross premium (including loads). If the premium is fixed, the reserve in the denominator shall be deducted on the basis of the assumptions for calculating the net premium and not according to the assumptions for computing the reserve.

14) Where there is a lack of claims experience, claims from policies with similar risk features may be compiled in order to obtain more extensive claims experience. Such information shall be only be compiled for the claims and not for the premiums (the premiums to be considered for the exposure of those policies with similar risk features shall be based on the premiums for the policy that the company wishes to approve, and not the actual premiums of these policies).

15) IBNR claims shall be computed on the basis of actual experience.

D. Premiums:

16) The new rate shall be take credibility factors into account. The greater the company's statistical experience, the greater the weight that will be given to experience, with less weight attributed to the rate that existed before the change, and the reverse. Characterization groups with varying morbidity rates (characterization by: age, sex, smoking status, and the like) shall receive a different basis of exposure when calculating the degree of credibility. Where the resulting credibility varies between the different age groups, the change in premium will be reviewed for age groups with high level of credibility only.

17) The premium rate may take existing and future medical developments into account, as well as contemporary international research and other trends in the claims experience that may affect the rate. The studies may also be based on data and experience from overseas.

18) There shall be no cross-subsidization between different groups of insureds (such as by: age, sex or smoking status), although age groups of up to ten years may be batched together. In age groups where the number of years can be limited - they should be reduced accordingly.

E. Disclosure:

19) Disclosure for existing insureds: The insurance company shall inform the insured in writing, 60 days in advance, of any change approved in the insurance plan, providing full disclosure of any anticipated increase or decrease in the scope of the insurance cover.

20) Disclosure for new insureds: The insurance company shall specify, as part of a fair disclosure appendix attached to the health policy, any changes in the premiums it has made in similar policies during the ten years preceding the insured's enrollment in the insurance.

3. Application

The provisions of this circular shall apply to personal health insurance policies, including P.H.I., and shall not apply to foreign workers' insurance, overseas travel

insurance and dental insurance.

4. Commencement

The provisions of this circular shall apply from its date of publication.

Eyal Ben-Chelouche
Commissioner of Insurance