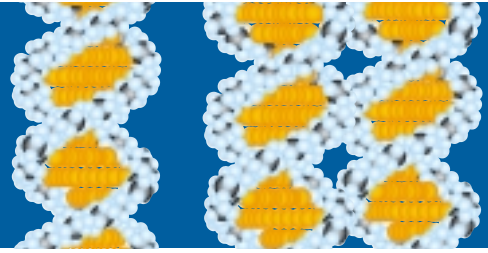


# LIFE INSURANCE AND GENETIC TESTING IN AUSTRALIA



## Introduction

IFSA is the national not-for-profit organisation representing the life insurance industry to Government, regulatory agencies, consumers and the community.

This fact sheet explains how life insurance works in Australia, and IFSA's policy in relation to genetic testing and life insurance. It also includes information on the implications of having a genetic test for future applications you may make for Life, Disability or Trauma insurance.

## Who has life insurance?

The life insurance industry in Australia has operated for over 120 years, providing financial security for individuals and families.

Currently, about 6.3 million Australians are protected by individual life, disability and trauma policies. Australians purchase life insurance because it provides an affordable way of collectively sharing risks that are too great for them to bear as individuals. Each of these risks, if not covered by some form of insurance, could cause severe financial hardship, the depletion of savings, and ultimately reliance on the government's social security safety net. A survey of 17 life insurers in 1999 showed that over \$1 billion is paid out in claims each year.

### Under the IFSA Genetic Testing Policy, IFSA members:

- Will **not require** you to undergo a genetic test when you apply for insurance.
- Will require that you make available the results of any **previously undertaken** genetic tests upon request.
- Will **not** use your genetic test information to assess another family member's risk, for example genetic test information obtained from a parent will not be used to assess an insurance application made by the son or daughter.
- Will take account of the benefits of special medical monitoring, early medical treatment, compliance with treatment and the likelihood of successful medical treatment when assessing overall risk.
- Will ensure that genetic test results are only made available confidentially to the insurer's underwriters and reinsurance companies.
- Will provide, to you or your medical practitioner, reasons for any adjustment to premiums or policy conditions after assessing your application.

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## How does life insurance work?

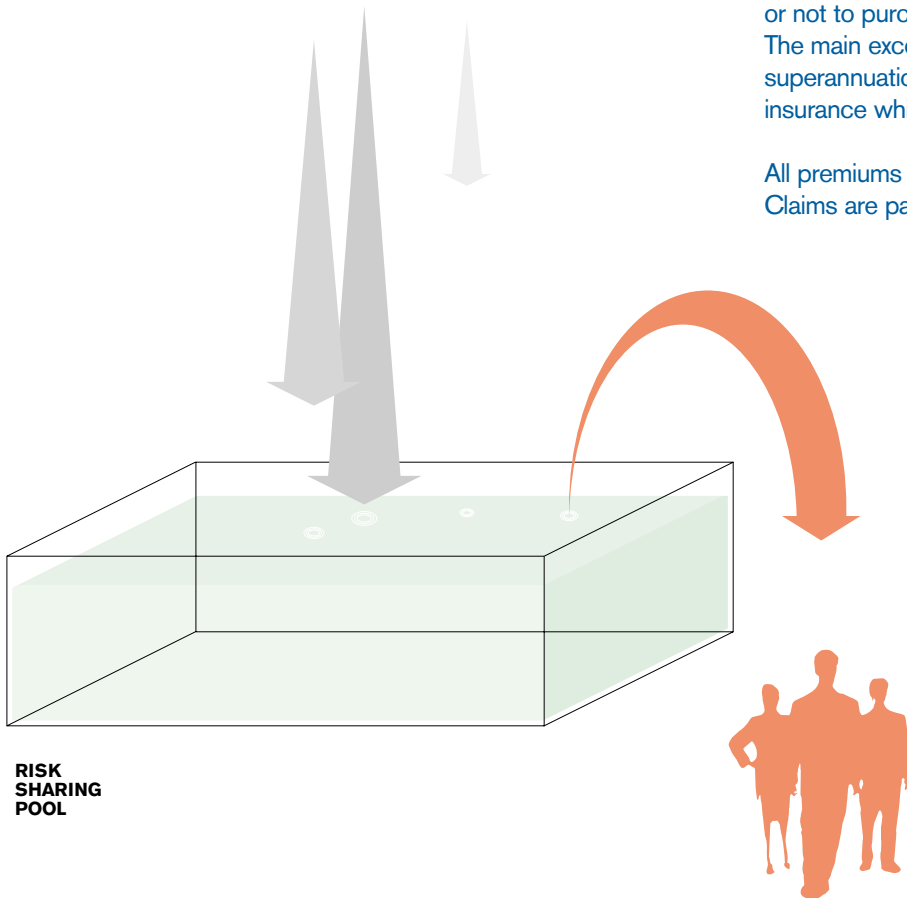


PREMIUMS  
COLLECTED

A life insurance policy is a contract that sets out the responsibilities of the life insurance company and the person who is taking out the insurance. The consumer, known as the insured, agrees to pay premium/s, and the insurance company agrees to pay out an agreed amount/s in the event of a certain event/s occurring. Please refer to the Glossary for details of the types of products available.

In Australia, life insurance is voluntary. People choose whether or not to purchase life insurance and how much to insure for. The main exception to this relates to members of some superannuation funds who obtain life insurance via group life insurance while they are working and a member of the fund.

All premiums are paid into a 'risk-sharing' pool. Claims are paid from that pool (see diagram).



RISK  
SHARING  
POOL

CLAIMS

**Under the law it is the duty of the life insurance company to give potential customers all necessary details about the products you may wish to purchase. In turn it is your responsibility to provide the life insurer with all information about you that may affect the risk you are asking them to accept.**

## How does my age and health affect the cost of my insurance?

When you apply for insurance, the insurance company may ask you to complete an application form and medical questionnaire. The medical questionnaire asks for details about your personal medical history, and as well as information about any disease or disorders that are likely to increase the probability of a claim. It also asks basic questions about your family medical history as this can indicate whether you may be at an increased risk of developing a hereditary disease.

- Age is one of the main factors used to determine how likely it is that you will make a claim. For example, older people are generally at a higher risk of death than younger people. Within any age group, the probability of claiming may be greater for some applicants than for others.
- Gender (women tend to live longer than men), smoker status and occupation are factors that also affect the chances that you will make a claim.
- Personal medical history (past and current) as well as family history are also important.

The insurance company takes into account all the information on your application form and medical questionnaire to assess your likelihood of making a claim.

The process of assessing the risk of the insured making a claim is known as underwriting. The purpose of underwriting is to ensure that the cost of insurance is proportional to the risk involved, and that people with the same or similar risk pay the same premium rates. Underwriting relies on the extensive use of statistical data and actuarial estimates.

Unlike car or house insurance, once a life insurance policy has been issued, the insurance company cannot cancel or increase the price because of deterioration in your health. Insurance companies only get one chance to fully assess the risk – that is why so much emphasis is placed on assessing your risk at the beginning of the policy.

In Australia, approximately 93 per cent of all applicants for life insurance obtain policies at standard prices. A further 5 per cent are classified as having additional risk, and therefore may pay either higher premiums or have some conditions excluded from their policy. The 2 per cent who are refused cover have serious health impairments, extremely hazardous jobs, or other high-risk factors.

To insure someone who is already quite ill or knows they have a terminal illness would be equivalent to selling home insurance to someone whose house is already on fire. The cost of paying their claim would inequitably fall on the rest of the people in the pool, without the ill person having contributed their fair share to the pool.

The percentage of applications accepted for disability insurance is somewhat lower than for death insurance as the likelihood of a claim is related to a wider range of factors and more people may be excluded from cover due to non-medical risks (eg occupational risks).

Remember life insurance is very competitive, so it is advisable for consumers to shop around for the best price. If one company declines to offer you insurance, another company may be willing to grant cover.

### Insurer's decisions on underwriting

The terms your life insurer may offer you can vary, and may include:

- Standard premium rates.
- Increase the standard premium rate by either a percentage or a flat dollar amount.
- A shorter period for the insurance contract.
- An exclusion for one or more medical conditions.
- Offer for an alternate product.

In a small number of cases, however, the insurance company may decide it is unable to offer cover at all.

The Insurance Contracts Act 1984 provides protection of your interest as a policy owner. If any application for insurance is declined, or accepted at higher than standard premium rates, the Act states that you are entitled to be given an explanation of the decision either directly or through your doctor.

The acceptance terms offered by different life insurers may vary depending on each company's premium rates and product features. Therefore it is possible that one company may charge a higher premium while another will accept you at standard premium rates.

When a policy has been issued, any subsequent changes in your health or the fact that you have a genetic test that was not previously contemplated, will not impact on the price you pay for your existing insurance contract.

### **Universal Cover – What would it cost?**

It is sometimes suggested that life insurance companies should provide insurance to all persons who seek it, regardless of their age or health. It is also sometimes suggested that everyone should pay the same price, regardless of health. What would it cost to insure everyone at the same price?

For the purpose of this example, we first assume that Australia could adopt a compulsory insurance system for all Australians, aged between 18 and 65. That is, everyone would be required to contribute the same amount, and have the same level of cover.

The Australian Bureau of Statistics Report June 2000, indicated that 128,289 people died each year. If everyone paid a reasonably small premium, say \$5/week (or \$260/year), then in order to make sure that premiums raised equalled the claims paid out, everyone could be insured for only \$37,000. In order to get \$100,000 cover for everyone, it would cost \$13.50 /week or \$702/ year.

Now assume we have a voluntary system of universal coverage; that is, everyone pays the same price regardless of health, but they decide whether to have the insurance or not.

We can safely assume that healthier people will be less inclined to purchase this insurance, and people with a high likelihood of claiming would represent an ever increasing proportion of those covered. Depending on the degree of 'anti-selection' experiences, average premiums would have to rise as high as \$382 pa in order to provide \$100,000 coverage. Compare this to the average premium of about \$255 pa per policy and you will see that the proposed premium is 50% higher.

As can be seen from this example, it is quite costly for everyone involved to carry the cost of a small number of people's large claims.

### **What about my privacy?**

Doctors treat genetic test results with the same care as any other medical information about you. This information is kept confidential as part of patient/doctor privilege. The doctor who ordered the test will not release the results unless you give written authority to do so.

Likewise, the life insurance industry has a long-standing tradition of safeguarding the privacy of its customers and their medical information which is reflected by the lack of complaints against life insurance companies for breaches of privacy. The protection of the personal information, including sensitive health information, is vital for the continued confidence of customers in the industry.

An individual's right to privacy has now been reinforced with the introduction of national privacy legislation – the Privacy Amendment Act (Private Sector) 2000 – which sets down 10 National Privacy Principles. These Principles came into effect on 21 December 2001 and regulate the collection, handling, use, disclosure, transfer and management of 'personal information' which includes medical information.

This legislation, supported by the life insurance industry, provides the added protection for consumers in respect of their own personal information across all industries and provides an additional avenue to lodge a complaint. For more information on privacy, visit the Privacy Commissioner's website at [www.privacy.gov.au](http://www.privacy.gov.au).

### **How do genetic factors influence health?**

The information that determines some characteristics is handed down from one generation to the next through our genes. The genes contain information that, for example, determines the colour of our hair and eyes, as well as, how our bodies work. If the information in a gene is altered, a disease may result. In the same way you can inherit the genes that determine your eye colour, you can also inherit an altered gene that is associated with a disease. Alterations in genes are called mutations. Sometimes the sole cause of a medical condition is being born with a mutation in one of the copies of just one specific gene eg dwarfism. This is because the altered gene copy dominates over the other correct copy of the gene. In other cases, eg cystic fibrosis, a person must be born with mutations in both copies of just one specific gene (called recessive genes). In other cases mutated genes may contribute to a disease rather than being the sole cause. For example, environment or diet might trigger a disease if certain mutated genes are present.

## What is a genetic test?

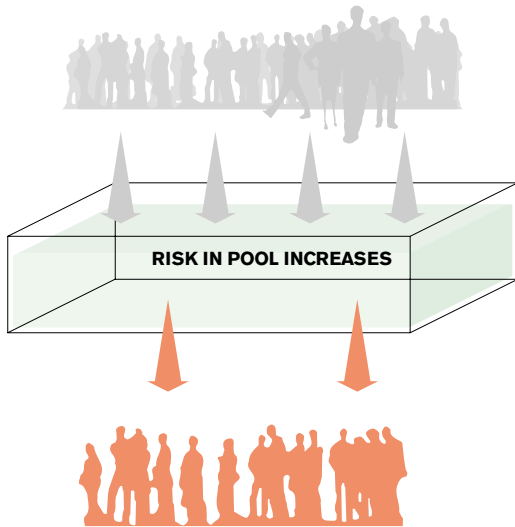
Medical scientists are conducting huge amounts of research on the connection between human genes and health disorders. In some cases the research has found a clear link between a particular gene mutation and an inheritable disease. Members of a family where the disease occurs may then be able to be tested for the presence of the mutated gene to help them understand their risk of acquiring the disease.

For the purposes of this discussion, genetic testing falls into three broad categories.

- 1 Genetic tests that identify alteration(s) in genes for specific diseases that are known to be caused by a single dominant gene or a single pair of recessive genes. Such information enables prediction, with a high degree of certainty, whether an individual will develop that particular disease. Each individual with a positive genetic test result will, however, not know precisely when the symptoms will onset or what the extent of the symptoms will be. Examples of specific diseases where such tests are already available include Huntington's disease and Duchenne muscular dystrophy.
- 2 Genetic tests that determine a general predisposition to a certain disease or group of diseases. The risk may be due to an inherited mutated single gene or determined by the information contained in number of different genes. Lifestyle and environmental factors need to be taken into account as these can increase or decrease the probability of a predicted disease occurring. Well-known examples of the influence of lifestyle and environment on the development of disease are smoking and lung cancer or sun exposure and skin cancer.
- 3 Genes that influence the course of various diseases that are not hereditary in nature. An example would be an analysis of any gene identified that influences the progression of HIV infection to AIDS.

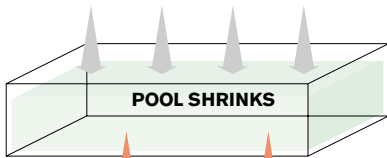
**When your doctor orders a genetic test, the results may give you additional information about your future health. This information can be important if you subsequently wish to take out life, disability or trauma insurance. If you have a genetic test performed, this fact needs to be disclosed in any future application for life insurance.**

**ALL RELEVANT DATA ON A PERSON'S  
HEALTH NOT DISCLOSED**



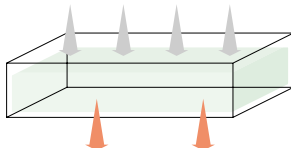
**CLAIMS INCREASE**

**PREMIUMS RISE;  
HEALTHY PEOPLE DROP OUT**



**INCREASED CLAIMS**

**PREMIUMS RISE FURTHER;  
MORE PEOPLE DROP OUT**



**What does genetics have to do with insurance?**

Genetic information, like all other medical information, may influence a person's desire to apply for insurance. A person who is aware of their genetic test results indicating that they are at high risk of an early death or disablement might find a life insurance policy an attractive proposition. Conversely, armed with favourable genetic test results, some people might choose not to take out insurance to cover their future risk for developing a particular condition.

The results of a genetic test are used by insurers in the underwriting process to either confirm a person's predisposition or eliminate the possibility that a person will develop a particular disease. In some cases, the genetic test will identify a disease that can be controlled through treatment which in turn may allow the person to become insurable.

Unless the insurance company has access to all relevant data on a person's health, the company is unable to set a fair price. If more people with knowledge of their higher risk joined the 'risk-sharing' pool at too low a price relative to their likelihood of claim, then premiums would rise for everyone, resulting in insurance being generally less attractive to those who know they are healthy. The adjacent diagram illustrates this point.

## What is the IFSA Genetic Testing Policy?

Some consumers are concerned that their genetic test may impact their ability to obtain insurance or that they may not be treated fairly. This is why the industry has developed a Genetic Testing Policy to regulate the use of genetic tests by life insurance companies

### Under the Policy, IFSA members:

- Will not require you to undergo a genetic test when you apply for insurance.
- Will require that you make available the results of any **previously undertaken** genetic tests upon request.
- Will not use your genetic test information to assess another family member's risk, for example genetic test information obtained from a parent will not be used to assess an insurance application made by the son or daughter.
- Will take account of the benefits of special medical monitoring, early medical treatment, compliance with treatment and the likelihood of successful medical treatment when assessing overall risk.
- Will ensure that genetic test results are only made available confidentially to the insurer's underwriters and reinsurance companies.
- Will provide, to you or your medical practitioner, reasons for any adjustment to premiums or policy conditions after assessing your application.

## How will IFSA's Policy be monitored?

If you believe that an IFSA member company has breached the provisions of the IFSA Genetic Testing Policy, then contact the IFSA's Senior Policy Manager (Life Insurance). IFSA will review the matter with a view to liaising with the member company to ensure that the Policy has been followed.

If after IFSA has liaised on your behalf you are still of the view that you have been subject to discrimination you may take the matter of discrimination up with the Human Rights & Equal Opportunity Commission (HREOC)

## Who can I contact if I have a question about IFSA's Policy?

For more information contact IFSA on 02 9299 3022 or [ifsa@ifsa.com.au](mailto:ifsa@ifsa.com.au) and ask to speak to the Senior Policy Manager (Life Insurance).

## Glossary of life insurance products

**Disability** cover is available under a range of products or through a rider attached to term life. For example Income Protection provides for the payment of a monthly benefit, usually up to a maximum of 75% of the insured's person income, while they are prevented from working through sickness or injury.

**Group Life Insurance** is designed to provide term life cover for groups of people who are linked together through employment or superannuation. Group Life is a product purchased by employers or trustees of superannuation funds to provide coverage on an agreed basis, for their employees or superannuation fund members. A lump sum is paid on the death of the insured person.

Other benefits can be included in the group life insurance product such as Total and Permanent Disablement (TPD).

**Group Disability Insurance** is designed to provide income protection benefits to groups of people who are linked together through employment or superannuation. Insured members receive an income stream, being a percentage of their normal salary, while they are unable to work. The period benefits are paid for is usually limited to a maximum of two years.

**Term Life** insurance pays an agreed amount, referred to as the Sum Insured, as a lump sum on the death of the insured person.

**Total and Permanent Disablement (TPD)** will pay a benefit if the insured person is unable to ever work again or suffers the permanent loss of the use of two or more limbs or the sight in both eyes.

**Trauma (Crisis Cover)** will pay a lump sum benefit if the insured person suffers one of a list of specified trauma conditions, such as heart attack, stroke, cancer or a chronic disease like kidney failure.

## Some Common Misunderstandings about Insurance

**Myth:** An insurance company can cancel your life insurance policy if you come down with a serious illness.

**The fact is** that a life insurance policy is a contract between the company and the policyholder. It is a long-term contract and in recognition of this, the law stipulates that as long as the policyholder pays his or her premium, the company cannot cancel the policy.

**Myth:** Once I am denied insurance, I will never be able to get it.

**The fact is** that different insurance companies use different criteria when determining who to insure and what price to charge. Insurance is very competitive and consumers should always shop around. Also, if a company declines your application as a result of a current health problem that improves or goes away, the company may reconsider your application.

**Myth:** Insurance companies require you to take a genetic test.

**The fact is** that under IFSA's Genetic Testing Policy, insurance companies who are IFSA's members will not require you to undertake a genetic test to take out insurance.

**Myth:** As the technology advances and the number of genetic tests increases, many Australians won't be able to get insurance.

**The fact is** that improved technology may also mean improved management and treatment of diseases. Many people who were previously unable to get insurance, may be able to obtain cover in the future.

**Myth:** Insurers will use genetic test results to deny applicants insurance.

**The fact is** that insurance companies only remain a sustainable business if they sell insurance. It is in their interest to insure as many people as possible. Today, insurers have access to extensive medical information and very few applicants are turned down.

**Myth:** The industry has been criticised in studies as discriminating against people who have had genetic tests. Is this true?

**The fact is** the life insurance industry is unable to confirm or deny these criticisms because many of the studies are based on anonymous reports with no detail of names of companies or individuals. There are very few genetic tests currently being seen with life insurance applications, although it is expected these numbers will increase over time. The industry is working to collect facts and data on the experience of life insurance companies with genetic testing so that it may work with the medical and scientific communities to establish an accurate assessment of the situation.

**Myth:** It would be fairer for us all to pay a little more to allow everyone, even sick people, to get insurance at the same price.

**The Fact is** the additional cost to provide insurance to everyone could be as much as a 50% increase, probably well in excess of what most people are prepared to pay.