

[IRDAI mandates creation of new standardised cover for mental illnesses; will it be easier buy insurance now?](#)

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IRDAI has mandated the creation of a new standardised cover for mental illnesses, much like Arogya Sanjeevani. While one insurer has filed the product, others are in various stages of researching, formulating and finalising it. Find out if this will help resolve the existing problems in buying a mental illness cover.

Q.What are the IRDAI guidelines on the new cover?

On 27 February this year, the insurance regulator issued a circular to all general and standalone health insurers to 'mandatorily launch and immediately offer' an 'appropriate product' and a 'specific cover' for persons with mental illnesses, disabilities and HIV/AIDS. In earlier circulars dated 16 August 2018 and 22 October 2022, IRDAI had first broached the issue on mental illnesses, requiring companies to provide insurance and remove it from the list of exclusions in policies. While there was negligible compliance between 2018 and 2021, since last year, all insurers have started including mental illnesses in their health plans.

Despite this, IRDAI felt the need to issue a diktat regarding a standardised, standalone cover. "Since the current products are indemnity covers, most offer in-patient hospitalisation, but for mental illnesses, out-patient treatment is required. So there needs to be a specific treatment protocol not covered under the existing products," says Bhaskar Nerurkar, Head, Health Administration Team, Bajaj Allianz General Insurance. A crucial inclusion in guidelines is the need to put in place a 'Boardapproved underwriting policy that ensures no proposal from the abovementioned categories of population is denied'. This means the insurers cannot refuse a cover to a person with pre-existing mental disorders. This has brought into renewed focus the difficulty that people have been facing in buying mental illness insurance.

Q.What are the existing problems in buying a cover?

While insurers have complied in letter and have included mental illnesses in their health plans, these covers are not of much use to customers. For one, most plans offer only in-patient covers, which requires hospitalisation for more than 24 hours, while out-patient counselling is covered only if the plan offers OPD benefit. "Mental health has an aspect which is very typical vis-a-vis the construct of all health insurance products, since most of these are in-patient products, whereas a majority of mental health treatment happens on an out-patient basis either through consultation with doctors, drugs or therapy," says Sanjay Datta, Chief, Underwriting, Claims and Reinsurance, ICICI Lombard

"Hence, the utilisation is very low because very few people are hospitalised institutionally for mental health treatment. It is not even hospitalisation, but confinement, which is very different from hospitalisation and the policy does not cover it," adds Datta. Besides, the in-patient treatment has to be in the insurer's network of hospitals or in an authorised psychiatric hospital. So if a person only has an indemnity plan without the OPD benefit, or if he is undergoing counselling through a private therapist who is not empanelled, he cannot avail of the cover's benefits.

Secondly, in case of pre-existing disorders, the insurer is free to refuse a cover if the underwriting lists the patient as high-risk. Even if the insurer provides the cover, there could be a waiting period depending on the severity of the illness. So while the insurer abides by the regulations and keeps the mental illnesses at par with physical illnesses, it is virtually impossible for a patient to benefit from such a cover.

Q.How will the new cover differ from the existing indemnity plans?

The new plan will be standardised, which means that its features and benefits will remain the same across insurers, but the premium will vary. However, being a simpler product, its premium will be lesser than that of an indemnity plan. Since it will be an illness-specific standalone product, it won't be comprehensive and will offer a curtailed coverage with fewer benefits. However, it's likely to have the out-patient coverage as an intrinsic feature.

In comparison, the existing indemnity plans cover a range of illnesses with several features and benefits. Importantly, the insurers will not be able to deny a cover to a person with pre-existing disease, but it will have a waiting period. "Pre-existing diseases will be treated as such, but the underwriting guidelines will be more relaxed than those for a comprehensive product," says Dr Mishra. Remember that if you buy this plan, you will also need a regular indemnity policy to cover other diseases. But if your basic plan offers OPD benefit and the insurer is willing to cover you, you don't need to buy the new plan.

Q.What are insurers' problems in creating a new product?

The biggest issue is that there is no data on the number of patients, treatment availed of, or the costs incurred, since it is an out-of-pocket expense availed of largely at private institutions or with therapists, whose charges range widely. Since there is no data, no standalone plans are available in the market. This means that there's no record on the purchase of such plans. This makes the risk assessment and pricing of the product difficult for underwriting. "IRDAI has asked insurers to devise covers on a standalone risk basis. The industry has to check how it can play out because it's not a function of devising a cover, but of the take-up risk.

How many people will buy it?People don't even admit it as an issue.

Hence, the need to buy it as a standalone product has to be tested in the market," says Datta. Providing out-patient coverage is also a big challenge. "It doesn't have anything to do with mental illnesses. Healthcare is tax-exempt, while health insurance has 18% GST. A hospital consult will cost '1,000, but if you

convert it into an insurance product, it will end up costing '1,500. While there are plans covering mental illnesses with OPD benefit, affordability is a big factor. If covers with OPD benefit cost more, people will obviously not want to spend," says Dr Bhabatosh Mishra, Director of Underwriting, Products & Claims, Niva Bupa Health Insurance.