

FAX TRANSMISSION



American Council of Life Insurance®

Media Relations

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COMMENTS: *Simpson - This should answer all your questions regarding Life Insurance + Privacy. Let me know if you need more explanation on any of these points. /Gunny*

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LIFE INSURERS AND MEDICAL INFORMATION

How do life insurance companies gather medical information?

When a consumer begins the search for a life insurance product, he or she usually begins by meeting with an insurer's sales representative. A prospective insured may respond to an advertisement or the sales representative may initiate contact through a referral. Sales representatives usually meet with potential clients in their homes or at their place of employment. This is where the relationship between a life insurer and the individual typically begins.

During this initial meeting, the sales representative will discuss with the individual his or her life insurance needs. If the consumer decides to apply for an individually underwritten life product, the sales representative will complete an application.

Many of the application questions concern nonmedical information, such as age, occupation, income, net worth, other insurance and beneficiary designations.

Other questions focus on the applicant's health, including current medical condition and past illnesses, injuries and medical treatments. The sales representative also will ask the applicant to provide the name of each physician or practitioner consulted in connection with any ailment within a specified period of time (typically five years). Other questions will concern past use of alcohol and drugs, and information about family history.

The sales representative usually asks the questions and records the applicant's responses. After the applicant has reviewed the responses to be sure they are accurate and complete, the sales representative will ask the prospective insured to sign the application.

Will the company gather additional medical information?

After receiving an application, the life insurance company may contact the applicant by telephone or by mail for more information. When the sales representative takes the application, he or she also will ask that a potential policyholder sign a consent form authorizing the insurance company to verify the information regarding the applicant's medical history, and to obtain additional information if it is needed to evaluate the individual's application for insurance. This additional information generally is held by the applicant's attending physician. If it appears that the information in those files may be relevant to the underwriting process, the insurance company will send to the physician the signed authorization and a check to cover the physician's administrative expenses in locating and sending the information to the insurer.

The life insurer also may request at this time that the applicant undergo a blood test. A primary, though not exclusive, purpose of a blood test is to check for exposure to HIV infection. Blood usually is drawn by a licensed paramedic who likely is employed by a laboratory.

Depending on the state in which the applicant resides and individual laboratory practices, the applicant will generally be asked to sign another authorization that will contain information concerning the HIV test, and other information relevant to the blood analysis.

When a person applies for a large amount of insurance, the insurance company may require the applicant to undergo a medical examination to verify the condition of his or her health. The physician may report blood test and urinalysis results, and record comments regarding the applicant's condition, including the circulatory, respiratory and nervous systems as well as abdomen, ears, eyes, skin, etc. The results of this exam are placed in the insurer's underwriting file regarding the individual.

What happens to the medical information collected by life insurers?

Life insurance company underwriters and physicians use medical information to underwrite the coverage for which the prospective insured applied. These physicians and underwriters typically are full-time employees of the insurer. A small insurance company may contract with outside professionals to perform these functions. Life insurance business on occasion is reinsured and, in these instances, underwriting information would be shared with the reinsurer.

The underwriting process determines whether the insurer will provide coverage to the applicant and, if so, at what price. Approximately 96 percent of those who apply for individual life insurance products get policies, and approximately 92 percent of all applicants are offered these policies at standard or preferred rates.

What happens after the policy is issued?

After the insurance company issues a policy, an applicant's file generally is placed in secure storage. Information relevant to policy administration (such as name, address, policy number, premium schedule) is entered electronically into the insurer's computer system.

Personally identifiable health information typically remains in paper form within the file, or is stored on microfilm. Such information generally is not necessary for the ongoing administration of the policy and, except under certain circumstances, is not used later by the insurer. The file is kept in a secure fashion with restricted access.

Why would a file be reviewed?

The medical information in a life insurance file may be accessed and reviewed under certain limited circumstances. Files could be used:

- If the insured dies within the contestable period of the policy.

- By insurance regulatory authorities as part of an examination, or by law enforcement authorities following appropriate legal process who suspect illegal activity, such as murder for insurance.
- If the insurance company is selling a block of business and the purchaser wishes to review the seller's underwriting practices.
- If the insured applies for additional coverage or seeks to reinstate or change the policy.

How do life insurers use the Medical Information Bureau?

The Medical Information Bureau (MIB) is a not-for-profit association of life insurers formed to facilitate the exchange of principally medical information among its members. Its basic purpose is to reduce the cost of insurance by helping insurers detect (and deter) attempts by insurance applicants to conceal or misrepresent facts.

MIB member companies are required to report to the bureau a brief, coded summary of relevant information obtained during the underwriting evaluation of individuals applying for life or health insurance. The vast majority of reported items involve medical conditions. Certain nonmedical information, such as that relating to hazardous activities or adverse driving records, may also be reported, provided such information is confirmed by the applicant or official records. Information relating to amounts of insurance issued, underwriting and claims decisions may not be reported to MIB.

Member insurers, after receiving the applicant's authorization, may have access to MIB information. Before accessing MIB files, an insurer must give the applicant a notice containing specified information, including procedures for accessing and correcting information in accordance with the federal Fair Credit Reporting Act.

An insurer may not use MIB information as a basis for establishing an applicant's eligibility for insurance. Rather, it can only be used as an alert to members of a possible need for further investigation.

How do life insurance companies protect health information?

There are no uniform procedures for the protection of health information. However, the life insurance industry is well aware of how important it is to treat an individual's personal medical information in a confidential manner. For the most part, health information typically remains on paper in its original form and is stored in a secure facility. Companies place strict limits on who sees and can use the personal information on applicants and policyholders. For highly sensitive information such as that related to HIV infection, some life insurance companies employ special protections.

The NAIC Model Privacy Act and certain states require by law that such information is kept confidential. Penalties can be imposed for inappropriate disclosures.

To the limited extent that health information is placed in other than paper form, this too is highly protected. Life insurers use fire walls and other procedures to insure that only those with proper authorization have access to the files.

What are life insurers concerns about emerging technologies?

According to the Health Insurance Portability and Accountability Act of 1996, the secretary of the U.S. Department of Health and Human Services, within 12 months of the bill's enactment, must provide detailed recommendations to Congress on standards for the privacy of individually identifiable health information. The secretary must adopt security standards and safeguards for electronic information systems involved in administrative and financial transactions.

The act also gives Congress 36 months to enact legislation regarding the privacy of individually identifiable health information. If Congress fails to enact such legislation, the secretary must promulgate final regulations containing such standards within six months.

Life insurers recognize the potential benefits offered by a computer-based patient record system. Such a system can link health data stored in multiple locations, providing a complete record for continuity of care. In addition, eliminating paper records could provide significant savings to the nation's health care delivery system.

Technological advances also hold the promise of increased efficiency for life insurance companies. For example, access to computer-based patient records systems could allow for quicker, better informed underwriting.

In the area of computer-based patient record systems, a primary concern for life insurance companies is that they will continue to be able to obtain relevant health information about insurance applicants. Obviously, life insurers want any content standards, identifying codes and structures to be compatible with their existing practices. At the same time, they recognize that information technology must advance in concert with the principles of privacy and security -- principles that allow individuals to have a recognizable interest regarding the dissemination of personally identifiable health information.

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