

ADVERSE SELECTION AS ETHICAL AND SOCIAL ISSUE OF APPLYING GENETIC TESTING IN INSURANCE

Arych M., Ph.D. in Economics¹

Levon M., Ph.D. in Medical science²

1 – National University of Food Technologies

2 - Bogomolets National Medical University

Despite the clear and undeniable efficiency of genetic testing in the diagnosis and treatment of diseases, it is also necessary to investigate the major social and ethical implications of genetics for risk assessment in insurance. The review of previous research results shows that in most cases the scientists and researchers have concentrated on discussing different aspects of human genetics and insurance peculiarities, such as: use by insurer, risk classification, genetic discrimination [1], adverse selection [2], as well as technical, social and ethical issues.

Continuing the literature review, significant scientific results about the ethical and social implications of genetic technologies were obtained by Murray T. H. and Livny E., and these results were related to the Human Genome Project. Hence, the scientists suggest that the progress in understanding the human genome and the recent development of genetic tests have sparked debate in public policy regarding who should have access to genetic test results. That is, genetic testing has the potential to create adverse selection or information asymmetry (AS or IA) in the insurance market [3]. AS leads to information asymmetry, or can even be interpreted as IA itself.

In general, AS is the one of the biggest concerns of the insurance industry, and AS arises when individuals (insureds, policyholders) have better information about their health risks than the insurance companies (insurers) have [4].

Thus, AS can be characterized as follows:

i) It is the result of the asymmetric information between the insured (agent) and the insurer (principal) [5].

ii) It is a threat to the stability of an insurance pool (for example, where serious losses are suffered due to the lack of underwriting control) [6].

iii) It occurs when people with a higher probability of making an insurance claim know their risk while the insurer does not, making the consumer more likely to purchase coverage. Then the premiums charged across the risk pool are not adequate to cover [7].

iv) It means that people with a likelihood of a loss greater than that which they are charged for tend to apply for insurance coverage more often than other people [8].

Additionally, another group of scientists, Ida R., Ono M. et al. (2004) suggest that if a person applies for insurance without disclosing to the insurance company the existence of a high risk for diseases, such as Huntington's disease, such an action may serve to decrease the fairness of actuarial calculations. This can also be explained as adverse selection [9].

Hence, one of the main risks for insurance companies is related to using genetic testing information in the underwriting process and is known as AS. Also, it shows the tendency of some individuals to buy new insurance policies or to renew insurance more frequently and for larger insurance coverage [10]. In addition, the form of AS (such as anti-selection) may include increasing the rates of insurance services and of the sum assured [4].

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