

# **INSTITUTE AND FACULTY OF ACTUARIES**

## **EXAMINATION**

30 September 2020 (am)

### **Subject SA1 – Health Care Specialist Advanced**

Time allowed: Three hours and fifteen minutes

In addition to this paper you should have available the 2002 edition of the Formulae and Tables and your own electronic calculator from the approved list.

If you encounter any issues during the examination please contact the Examination Team on T. 0044 (0) 1865 268 873.

**1** Country A is a large, well-developed country, with a heavily regulated health and care insurance market.

For many years the health and care insurance market in Country A has been dominated by a small number of large, well-established health and care insurance companies that sell a wide range of health and care insurance products.

There has been considerable criticism of the dominant health and care insurance companies in the consumer press of Country A. Particular concerns have been expressed about:

- the poor standards of customer service.
- the onerous underwriting and application process to take out a new policy.
- the lack of product innovation to meet the needs of individuals.

A large international health and care insurance group is currently in discussions with the insurance regulator of Country A about launching a new insurance company (Company XYZ) in Country A. The group has insurance companies operating in a number of countries. The same business model is used for every health and care insurance company in the group. In particular:

- Significant investment is made in technology in order to enhance its product proposition.
- Each health and care insurer collects large amounts of personal data on policyholders to enable it to understand better their preferences and offer them a better service.
- Each health and care insurer only sells income protection, critical illness business and individual private medical insurance.
- The group has a publicly stated aim of becoming one of the main players (by market share) in each country it operates in within 3 to 5 years of launch.
- The group demands a high return on the capital it has employed.
- Each health and care insurance company within the group will maintain the minimum solvency levels that the local regulator will accept.
- Surplus capital is held at group level and is deployed in the group as required.

(i) Suggest how Company XYZ could use technology to enhance its product proposition. [5]

(ii) Discuss the possible risks for Company XYZ in collecting large amounts of personal data in Country A. [5]

(iii) Suggest possible challenges that Company XYZ could face in meeting the group's market share and profitability targets in Country A. [10]

(iv) Discuss the advantages and disadvantages of the group's business model from the perspective of:

- (a) Company XYZ.
- (b) the group.
- (c) policyholders of XYZ.

[9]

In initial discussions with the health and care insurance regulator for Country A, the Regulator has expressed concerns about the group's stated business model. In particular, the Regulator is concerned about the group's approach to capital management and how risks will be managed in Company XYZ as the insurer develops its business.

(v) Suggest why the health and care insurance regulator in Country A may be concerned about the group's approach to capital management. [10]

(vi) Describe the actions Company XYZ could take to control the risks as its portfolio of business builds up. [10]

[Total 49]

**2** A large company operates in a country where the state provides no sickness or disability benefits to its citizens. The company has employees working in a wide range of roles.

The company is considering introducing a new sickness and disability benefit scheme for its employees who are unable to work as a result of sickness or injury. The scheme will provide a replacement income to employees payable in the event the employee becomes sick or disabled.

The company requires the benefits of the scheme to be structured in a way that meets the needs of the employees themselves, but also incentivises employees to return to work when they are able to. The costs of the scheme must also be affordable for the company.

The company has sought advice from a consultancy that specialises in providing advice on employee benefits, with regards to how the scheme could be structured to meet the company's requirements.

(i) Outline possible reasons why the company is introducing the scheme. [3]

(ii) Suggest, with reasons, how the benefits of the scheme could be structured to meet the requirements of the company. [10]

(iii) Suggest other possible actions the employer could take to manage the operational costs of running the sickness and disability scheme. [3]

[Total 16]

**3** A health and care insurance company specialises in long-term Critical Illness (CI) insurance business. The insurer sells CI insurance business with either:

- guaranteed premium rates – where all future premiums are guaranteed to be the same as the premiums offered at the policy commencement date; or
- reviewable premium rates – where premiums are guaranteed to be unchanged for the first 5 years of the policy term and are then subject to annual reviews. Any changes to premium rates are at the discretion of the insurer.

(i) Outline the advantages and disadvantages of offering CI insurance business with reviewable premium rates from the perspective of the insurer. [5]

There are currently no statements of good practice in place relating to reviewable premium rates for long-term CI insurance business sold in the country in which the insurer operates. The insurance regulator is considering introducing a set of statements of good practice with respect to how an insurer should review premium rates for CI business.

(ii) Suggest examples of good practice that could be included in the statement. [5]

The insurer conducts a premium review exercise annually in respect of its reviewable CI business. The results of the exercise are used by the management of the insurer to decide on whether any premium changes are needed.

(iii) Describe how the premium review process could be conducted. [15]

The results of the most recent premium review exercise indicate that the business written on the current premium rates is unlikely to meet the profit criteria required by the management of the insurer.

(iv) Set out the factors and information that the management may need to consider in order to decide on the most appropriate course of action. [10]

[Total 35]

**END OF PAPER**