

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINATION

19 April 2023 (am)

Subject SA1 – Health Care Specialist Advanced

Time allowed: Three hours and twenty minutes

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

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

1 Country A is a large, rapidly developing country. There is significant variation between regions in Country A in terms of population size and the level of personal wealth of its citizens.

Historically, the government of Country A has provided limited health and care benefits to its citizens in the form of a universal healthcare system. The universal healthcare system meets the cost of medical treatment for its citizens, but there are limits on both the type and cost of treatment provided.

The private health and care insurance sector in Country A has a small number of health and care insurance companies.

The government in Country A carried out a recent study into sales of private health and care insurance in Country A. The main conclusions of the study were as follows:

- The level of consumer take-up of private health and care insurance overall is very low, compared to other equivalent countries.
- Only the very wealthiest citizens appear to buy health and care insurance products.
- There is considerable variation in the health and care insurance business sold between different regions.

(i) Suggest possible reasons for the low consumer take-up of private health and care insurance in Country A. [5]

The government of Country A is aiming to increase levels of private health and care insurance in Country A.

(ii) Suggest possible actions the government could take to achieve its aim. [5]

The government is now proposing to permit, for the first time, health and care insurance companies based overseas, to sell into Country A.

(iii) Discuss the advantages and disadvantages of this proposal from the perspective of the government. [5]

Following feedback from a wide range of stakeholders, the government has decided to allow private health and care insurance companies in Country A to set up joint ventures with health and care insurance companies based overseas. The joint ventures will initially be subject to additional regulatory restrictions, which include the following:

- There will be additional scrutiny to ensure products sold are appropriate for consumers in Country A.
- Joint ventures will initially only be allowed to sell accelerated critical illness and major medical expenses insurance products in Country A.
- The initial term of any joint venture agreement will be 10 years. At the end of 10 years, there will be an option for both parties to extend the venture for a further 10 years. If either party does not wish to extend the venture, the domestic insurer will take over the overseas company's share of the joint venture liabilities in return for a buyout payment.

Company XYZ is a large multi-national health and care insurance company based outside of Country A. Company XYZ is currently considering whether to enter into a joint venture agreement with Company W, a health and care insurance company based in a particular region of Country A.

- (iv) Discuss the factors that Company XYZ should consider before deciding to enter into the proposed joint venture. [20]

Following a detailed analysis of the proposed joint venture, Company XYZ has agreed to set up the joint venture with Company W.

The one outstanding area of discussion are the terms of any buyout payment in the event that either party does not want to extend the venture after 10 years.

- (v) Discuss the possible considerations for Company W and Company XYZ in determining the buyout payment. [10]
[Total 45]

2 In Country Z, the insurance industry sells only individual Stand-Alone Critical Illness (SACI).

Policyholders, at the time of sale, have the choice to add a Return of Premium (RoP) option to their SACI policy. If the policyholder chooses an RoP option, they will receive a return of a specified amount of the premiums paid from the inception of the policy to the date of a pre-specified event.

The policyholder can choose different RoP options where premiums are returned dependent on different pre-specified events that can occur during the lifetime of the policy.

The amount of premiums returned to the policyholder is dependent on the pre-specified event covered under the option.

For example, if the customer adds a ‘cooling-off’ RoP option at the time of sale, the ‘RoP amount’ paid to the policyholder is equal to the premiums paid by the policyholder up to the date of cancellation, if they cancel their policy up to 14 days from the date the policy started.

- (i) Describe four possible pre-specified events that an RoP option could be based on. [4]
- (ii) Discuss, with reasons, the factors that would be considered for calculating the specified RoP amounts offered and in pricing the options. [7]

Around 70% of the sales of individual SACI sold in Country Z include at least one type of RoP option. All SACI policies sold in Country Z are sold by Independent Financial Advisors (IFAs). The addition of each RoP feature increases the premium paid by the policyholder.

- (iii) Discuss the different issues that an IFA should consider before recommending an RoP option to one of their clients. [4]

Within the market, different SACI policies are sold to individual adults, families and children. The main features of these policies are set out in the table below:

<i>Policy conditions</i>	<i>Type of produce</i>		
	Adult	Family	Child
Cover	One adult.	Up to two adults and two children.	One child.
Age	Underwritten on lives aged 17 and over.	Underwritten on lives aged 17 and over.	Underwritten on lives aged below 15.
Claim conditions	Partial claims reduce the sum insured and do not terminate the policy. Termination upon full claim.	Partial claims reduce the sum insured and do not terminate the policy. Termination upon first full claim.	No partial claims. Termination upon full claim.
Term	Offered with terms of 10, 15 and 20 years or to expiry at age 65 or at age 100.	Offered with terms of 10, 15 and 20 years.	Offered with terms to expiry at age 18 or at age 25.
Other conditions	Offered for personal or business purposes.		At expiry age, there is an option to convert to an adult policy without underwriting.

(iv) Suggest, with reasons, which type of policy is most suitable for the following clients:

- A A high-net-worth 45-year-old doctor with his own medical practice with no dependents
- B A single parent on low income, with above-average savings, who has two children aged 18 and 25 in further education
- C A wealthy adult who already owns an adult individual critical illness policy. She has four grandchildren under 5 years old and is currently looking at inheritance planning.

[6]

(v) Discuss whether adding RoP options is in the policyholder's best interests in each case.

[3]

The regulator in Country Z has expressed concerns over the prevalent use of RoP in the market. The regulator is particularly concerned that:

- adding the RoP option is making SACI products unaffordable for policyholders.
- the cost of SACI with the RoP option is increasing the protection gap in Country Z, where many individuals are already under-insured.

The regulator in Country Z has called for industry participants to voluntarily cease the use of RoP options. The marketing actuary at Insurer A has stated that there would be consequences of being the first to do this.

- (vi) Suggest what the possible consequences could be for the first insurer to cease the use of RoP options in the market. [6]

The marketing actuary at Insurer A has suggested a phased approach where no RoP options will be offered on SACI sales for sum insured values in the lowest quartile by sum insured value from the industry in force statistics. This will remain or expand to the next quartile after the impact is assessed at the end of the financial year.

- (vii) Discuss the advantages and disadvantages of the marketing actuary's suggestion. [3]
[Total 33]

3 Country A's healthcare system is serviced by private healthcare providers. A number of health and care insurance companies operate in the market, and two insurance products are available to individuals in Country A:

- hospital cash plans
- private medical insurance.

The government is looking to support individuals who are unable to afford health and care insurance. It has proposed introducing a means-tested subsidy, the size of which is dependent on the individual's income. The government would pay the subsidy directly to the healthcare provider.

- (i) Discuss the government's proposal from the point of view of:
- (a) healthcare providers.
 - (b) customers.
 - (c) health and care insurers.
 - (d) the government of Country A.
- [16]

A government adviser has suggested that the subsidy should be limited to inpatient treatment only.

- (ii) Describe the rationale for the adviser's suggestion. [6]
[Total 22]

END OF PAPER