INSTITUTE AND FACULTY OF ACTUARIES

EXAMINATION

18 April 2023 (am)

Subject SP1 – Health and Care Specialist Principles

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.

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1 Company A is a large health and care insurance company that specialises in individual Critical Illness (CI) insurance business in Country X. In recent years, Company A has been experiencing:

(a) a reduction in new business volumes.
(b) an increased level of lapses on its in-force CI business.

(i) Describe possible causes behind the adverse experiences mentioned above. [12]

(ii) Suggest possible actions that Company A may consider to:

(a) increase new business sales.

(b) reduce the future level of lapses on its in-force CI business. [8]

[Total 20]

2 Company A is a health and care insurance company that specialises in individual and group Income Protection (IP) business in Country X. Company A's product development team has proposed launching a new 'accident only' IP product that only provides regular benefit payments for a loss of earnings as a result of an accident. This type of 'accident only' IP product is not currently being offered by any of the health and care insurers in Country X, and market research conducted by the product development team indicated that an 'accident only' IP product has been very successful in a neighbouring country.

(i) Suggest possible reasons why an 'accident only' IP product was successful in the neighbouring country. [3]

(ii) Discuss the advantages and disadvantages of an 'accident only' IP product from the perspective of the customers. [3]

(iii) Discuss the factors that Company A may consider in designing the product features for the proposed 'accident only' IP product. [10]

(iv) Discuss the factors that Company A may consider in setting the premium rates for the proposed 'accident only' IP product. [12]

[Total 28]

3 Company A is a large health and care insurance company that specialises in Critical Illness (CI) business. Company A's Business Strategy Director has proposed extending Company A's product range to include Private Medical Insurance (PMI) products.

(i) Describe the differences between the product features of the CI and PMI products. [4]

(ii) Suggest possible reasons behind the Business Strategy Director's proposal. [6]

Company A's Business Strategy Director has also proposed that instead of building its PMI market share gradually, it should seek to purchase a block of in-force PMI business from one of the existing PMI providers.

(iii) Discuss the advantages and disadvantages of the Business Strategy Director's proposal for purchasing a block of in-force PMI business. [7]

Company B is a specialist PMI provider looking for a buyer to take over the company in its entirety. Company B has invited Company A to submit an offer.

(iv) Describe the factors that Company A may consider in order to arrive at a purchase price for Company B. [10]

[Total 27]

4 Company A is a large health and care insurance company that sells a full range of health and care products including:

(a) individual standalone Critical Illness (CI) with tiered benefits.
(b) Group Income Protection (GIP).
(c) Group Private Medical Insurance and Individual Private Medical Insurance (GPMI and IPMI).

(i) Discuss the suitability of the various distribution channels for each of the health and care products above.

- insurance intermediaries (brokers)
- tied agents
- own salesforce
- direct marketing
- worksite marketing. [11]

The persistency experience of Company A's individual Critical Illness (CI) business has been deteriorating in recent years. In response to this, it has been proposed that Company A will introduce a level commission system where regular level payments will be paid to the distributor over the policy's premium paying term. This is to replace Company A's existing indemnity commission system where a lump sum payment is paid to the distributor at policy commencement.

(ii) Discuss the factors that Company A may need to consider before adopting the proposed level commission system. [5]

[Total 16]

5 A health and care insurance company that specialises in individual and group Income Protection (IP) business has seen its new business volumes for individual IP business gradually declining over recent years. The Marketing Director has suggested that the concept of 'free cover limits' used for its group IP business should also be applied to its individual IP business, where full underwriting will only be conducted on new individual IP policies where the benefit amount chosen by the policyholders exceeds the 'free cover limit' for individual IP business.

(i) Discuss the advantages and disadvantages of the Marketing Director's proposal from the perspective of the health and care insurance company. [5]

The company has decided to adopt a 'free cover limit' system for all its future new individual IP policies.

(ii) Suggest possible actions that the company may consider in order to address the disadvantages identified in part (i) above. [4]

[Total 9]

END OF PAPER