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## IPMI – profitable growth opportunity or saturated market?

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## UK PMI Market

Market development

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## UK PMI Market

### Pricing and Monitoring



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Expertise  
Mentorship  
Thought leadership  
Progress  
Community  
Sessional Meetings  
Education  
Working parties  
Volunteering  
Research  
Shaping the future  
Networking  
Professional support  
Enterprise and risk  
Learned society  
Opportunity  
International profile  
Journals  
Support

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## UK PMI Market

Homogeneous data available  
Experts readily available  
No political interference

Implies

Confidence in pricing  
Confidence in profitability

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Expertise  
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## IPMI Market

Heterogeneity everywhere!

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## Agenda

- Market Dynamics
- Pricing Basics and Challenges
- Profitability
- The Future

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## Market dynamics for IPMI

- Global Insurance Companies
  - Offering fully comprehensive solutions
  - Emphasis on compliance / medical network
  - More Group Business Focussed
- Niche Insurance Companies
  - Target domestic markets for international opportunities
  - Use specialist providers for TPA / Network services
  - Pricing can be finely targeted to the underlying risk
- TPA providers



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## Extract from Daily Telegraph Money Section

- Pretend you are looking to buy a smart dining table and set of chairs. One furniture store meets your needs at a cost of £5,300. Another charges nearly £13,000 for an apparently similar collection.
- Most people buy the first and save £7,700. In fact, they might well wonder how the expensive shop could ever stay in business.
- Parallels are possible here between fictional furniture stores and the real world of international [medical insurance](#) companies – in the sense that premiums can vary two-and-a-half times for apparently similar cover for the same individual.



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## What are the pricing challenges Or why do premiums vary so much!

- Location of Risk
  - Determines medical cost (see later)
  - Geographical Scope (wide or narrow? e.g. To include the US or not)
- Nationality
  - Determines utilisation behaviour and decision where to take care
- Medical Network
  - Determines underlying severity costs and service levels.
  - Pricing work has shown US network discounts vary from 20% to 50%
- Benefit Schedules (comparability)



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## Location of Risk

- Fundamental driver of cost (Key rating factor)
- Variation can be very large (client examples):
  - UK 100%
  - US 225%
  - HK 163%
  - Thailand 55%
- But please take care over credibility and type of policyholders in the location. For example executive managers with families versus IT contract workers.



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## Nationality

- Important decision factor over where care is taken.
- Some nationalities prefer to come home for significant care events
- Depending on the policyholder's original local healthcare system, this will have a big impact on
  - Attitude to utilisation
  - Utilisation spikes when assignment begins



## Medical Networks

- One of the key differentiators in the market place
- Used for both a service and a price advantage
- Many companies using “Rent a Network” approach
- Difficult in a commercial pricing environment to know what level of discounts a competitor is using.
- In Group Business, targeted networks can bring substantial discounts when quoting e.g. A facility will grant discounts



## Large Claims

- Key difference to UK PMI is that as the cover is comprehensive very large claims can occur.
- US and Asia cover can create large claims in particular:
  - Premature births
  - Congenital defects
  - Organ Transplants in the US
- All IPMI companies need to assess the likelihood of these claims in their risk strategy and capital planning.
- Terror concentration risk also needs to be considered.



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## Benefit Schedules

- There is the usual Split between Inpatient / Outpatient / Dental and Services but increasingly client driven menu based plans.
- The major pricing issues lie with the Outpatient and Dental benefit structures
- Typical issues
  - Underestimation of dental utilisation for certain groups
  - High costs for Maternity coverage for HNW expatriates
  - Do clients understand benefit caps and deductibles and can they make a meaningful comparison?



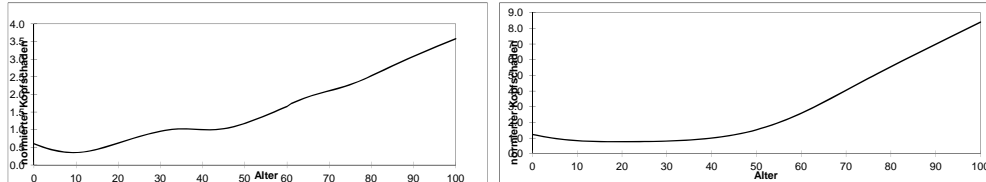
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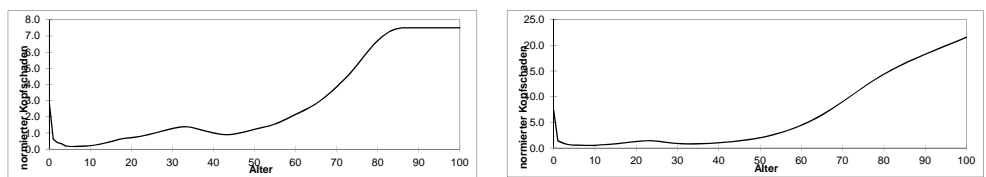
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## Age Profiles – Inpatient / Outpatient

### Out-patient profiles (Female and Male)



### In-patient profiles (Female and Male)



Credible data required at distribution edges to ensure appropriate pricing



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## Medical Trend

- Medical Trend
  - Utilisation trend Excluding Ageing (frequency)
  - Age related trend
  - Medical Cost components (severity)
- Domestic Medical Trend varies considerably from country to country. See Towers Watson Global Medical Trend study.
- IPMI Medical Trend can be different because of utilisation or impact of co-pays and deductibles.
- Important to assess on a regional basis and apply on a blended basis.
- Always important to ensure the data is normalised



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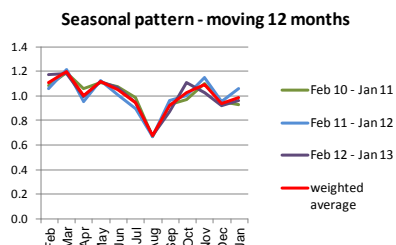
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## Group Business

- Group Business offers some additional challenges
- IBNR estimation
  - Seasonality
  - Comparison to other insurers
  - Completion Factor Methodology / Operation impacts
- Credibility Rating Methodology
  - Differences between companies
  - Is credibility always statistically justified or market driven
  - Are the manual rates used for blending appropriate.



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## Is IPMI a profitable opportunity?

### Yes – Opportunities exist

- Considerable market growth still exists and many segments are available:
  - Traditional Expat
  - Retiree Market
  - Travel Variants
  - Some HNW plans
- Clearly new market propositions have to be targeted at desired segments.
- Traditional IPMI centres such as ME and Asia are still growing but increasingly newer markets open up e.g. Latin America.
- Compliant sales offering is key, the grey markets are becoming regulated.

### No – Saturated market

- New entrants are simply driving a price war and cannibalising sales.
- Increasingly plans are required to have global network coverage plus complete service. This is expensive to set up.
- Data quality is key to having a competitive product, new entrants either price in line with market or use reinsurers.



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## Is IPMI profitable under S2?

- Normally classified as Non SLT, although in some markets it is written as SLT.
- Premium risk volatility affected by
  - Geographical mixture
  - Currency movements
  - Exogenous shocks e.g. New coding of Hospital diagnosis systems.
- Currency affects the balance sheet and needs to be shocked under the market risk module.
- Ultimately no special treatment compared to UK PMI but there are additional sources of volatility.
- Alternative source of diversification



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## IPMI where next in 2013 and beyond?

- Move towards global players who have a significant network of local legal entities to drive service and coverage. Large insurance groups are becoming increasingly involved.
- However probably still scope for niche players offering bespoke plans based on coverage, region etc. For example growth in expat populations in UAE etc.
- Specific Specialisation will continue e.g. Marine / Defence plans etc
- Medical Tourism starts to blur the dividing lines between traditional products and new services.
- International Healthcare is now viewed as a key component of global employee benefit packages and some companies start to globally pool the risk via captives etc.
- Reinsurers will continue to offer specific covers such as RXOL, Agg SL etc



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## IPMI – Future Challenges

- Coverage for the global nomad
- Continuation rights for returnees / developing a comprehensive solution.
- Managing the costs for the individual and the employer
- Staying in touch with global and legal developments



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Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.



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