

## Glasses £30...

Courtney Marsh  
15 May 2008

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Section 1

## What is a Hospital Cash Plan?

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**What is a Health/Hospital Cash Plan?**  
Who has actually ever heard of one?

- 40% of the public have never heard of a hospital cash plan
- If you have...



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**What is a Health/Hospital Cash Plan?**  
Quick history lesson

- Started in 1870s
- Developed from the hospital contributory scheme movement - Saturday Funds
- 1930s – National network covering hospitalisation and covering 10 million people
- Government decided they had no place in the NHS
- Restructured themselves to provide cash benefits during periods of sickness, along with convalescent, dental and optical care
- Known today as health or hospital cash plans

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**What is a Health/Hospital Cash Plan?**  
They provide a wide range of everyday benefits

- | Common Benefits                  |
|----------------------------------|
| ▪ Dental                         |
| ▪ Optical                        |
| ▪ Hospital In Patient / Day Case |
| ▪ Physiotherapy                  |
| ▪ Maternity                      |
| ▪ Chiropody                      |



- | Other Benefits          |
|-------------------------|
| ▪ CI                    |
| ▪ PA                    |
| ▪ Consultation helpline |
| ▪ Fitness benefits      |
| ▪ Prescriptions         |

And all you pay is a level monthly or weekly premium...

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**What is a Health/Hospital Cash Plan?**  
 ...well it's not quite that simple

- Generally one price fits all (premiums don't rise with age)
  - However, some insurers are bringing in different schemes/higher premiums for older members
- Most plans have an age limit of 65
- Work on guaranteed acceptance (no medical examination)
- Exclude pre-existing conditions
- Initial waiting period
- Don't always get a full refund

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**What is a Health/Hospital Cash Plan?**  
 Benefits are offered over a range of different levels

Cover Level	Level 1	Level 2	Level 3	Level 4
Weekly Payment for You	£1.85	£3.40	£5.50	£8.90
Weekly Payment for You and Your Partner	£3.20	£5.70	£10.90	£13.75
Dental	£55	£110	£150	£205
Optical	£50	£110	£150	£205
Hospital Benefit (per night/day)	£20	£45	£65	£85
Physiotherapy etc	£120	£280	£370	£500
Specialist Consultation etc	£120	£280	£370	£500
Chiroprody	£40	£120	£160	£205
Maternity	£150	£300	£560	£695
Health Screening	£40	£120	£160	£205
Other Benefits	Fitness Benefit, Personal Accident, 24hr Helpline, Prescriptions, CI Cover			

Source: Health Shield Friendly Society

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Section 2

**Overview of the Market**

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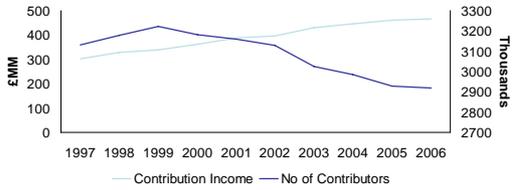
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**Overview of the Market – Market Trends**

Unlike PMI, the vast majority of HCPs are taken out by individuals

- In 2006, 92% of HCPs were wither paid in full or part paid by individual consumers
- Average income per contributor is £159
- Persons covered 4.9 million (8.1% of UK population)



Source: Health Cash Plans, Finance Intelligence, November 2007

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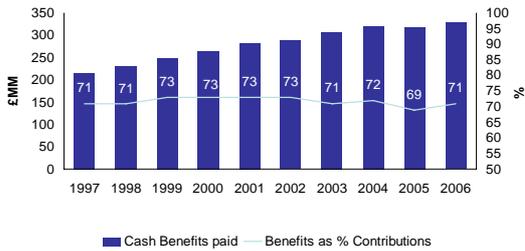
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**Overview of the Market – Market Trends**

Claims ratios have remained quite steady over the last 10 years

- In 2006, the average benefit paid per contributor is £113



Source: Health Cash Plans, Finance Intelligence, November 2007

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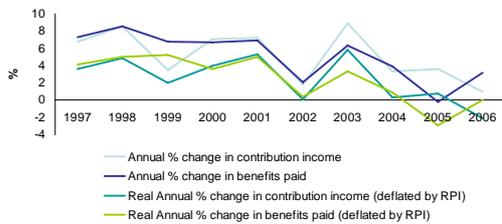
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**Overview of the Market – Market Trends**

Contributions and claims have increased in real terms



Since 1996, the average annual increase in claims and premiums has been 5.6%

Source: Health Cash Plans, Finance Intelligence, November 2007

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### Overview of the Market – HCP v PMI

The main differences between PMI and HCP are:

	PMI	HCP
<b>Benefits</b>	Provides indemnity against costs of treatment for acute medical conditions	Provides cash to cover expenses associated with defined health benefits
<b>Underwriting</b>	Medical questionnaire	Exclude pre-existing conditions (or load for them)
<b>Pricing</b>	Individual ages based on underlying risk costs	One premium suits all or wide age bands
<b>Features</b>	Average premium £680 p.a. Loss Ratio 77% 31% individual business	Average premium £160 p.a. Loss Ratio 71% 92% individual business

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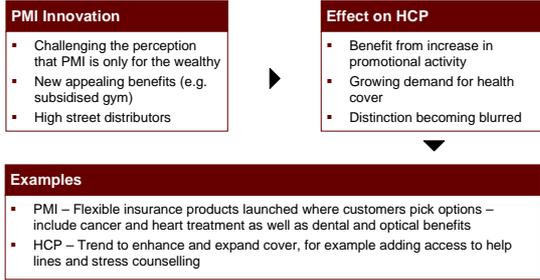
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### Overview of the Market – HCP v PMI

The differences between HCP and PMI are becoming blurred



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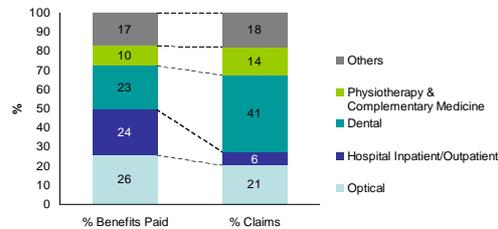
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### Overview of the Market – Claims

Three categories dominate claims



- In dentistry more people are entering private sector
- Top 3 categories account for almost 75% of benefits paid

Source: Health Cash Plans, Finance Intelligence, November 2007

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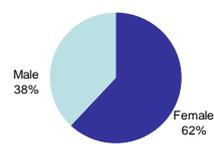
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Overview of the Market – Claims  
Want to attract male members...

Membership Breakdown  
Individual Members



Claims Breakdown  
Individual Members



Would rather the workforce from Kwik Fit than Kwik Save!

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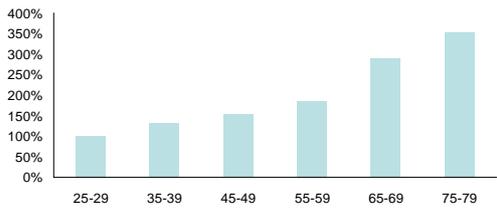
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Overview of the Market – Claims  
...and young members



Would rather Jamie than Delia!

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Overview of the Market – Claims  
Members can do rather well

- Take for example a lady taking out individual cover

	Contributions	Claims
Female, Age 37	£42.90 per month	Maternity x 1 = £900 Dental x 3 = £480 Physio x 9 = £505 Optical x 1 = £50
	TOTAL = £515	TOTAL = £1,935

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Overview of the Market – Claims  
Members can do rather well

- However, Sharon's policy also covers her children...and she has 9...



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Overview of the Market – Claims  
Members can do rather well

- And they claimed....

	Contributions	Claims
9 Children of Female, Age 37	£0	Dental x 8 = £975 Physio x 106 = £5,530 Optical x 10 = £930
	TOTAL = £0	TOTAL = £7,435

And she could hold policies with more than one HCP provider!

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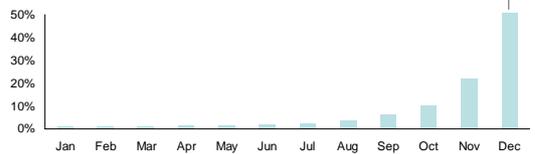
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Overview of the Market – Claims  
And Sharon doesn't have to wait long to be paid



Notification	Handling & Settlement
<ul style="list-style-type: none"> <li>▪ Natural delay</li> <li>▪ Complete claim form</li> <li>▪ Receipt based</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cover in force</li> <li>▪ Limits not breached</li> <li>▪ Pre-existing conditions</li> <li>▪ Fraud</li> </ul>

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### Overview of the Market – Distribution

The majority of HCPs are sold directly to individuals

- | IFA Sales   | Direct Sales  |
|---|---|
| <ul style="list-style-type: none"><li>4% of 2006 total sales (Rising to 11% for company paid, reducing to 3% for personal/employee paid)</li><li>Increasing importance in company paid sector</li><li>Low commission</li><li>Easy product to sell</li></ul> | <ul style="list-style-type: none"><li>Mainly direct salesforce</li><li>Increasing use of internet sales<ul style="list-style-type: none"><li>Potential to grow due to underwriting</li><li>Use of online technology to improve customer service</li></ul></li><li>Includes over the counter sales</li></ul> |

- | The workplace   |
|---|
| <ul style="list-style-type: none"><li>Most HCPs sold in the workplace using worksite marketing</li><li>Employees get corporate discount</li><li>Paid via salary deduction</li></ul> |

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Section 3

## Actuarial issues

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### Actuarial Issues – Pricing

Price is risk costs plus “others”

- | Others include  | Considerations   |
|---|--|
| <ul style="list-style-type: none"><li>Expenses<ul style="list-style-type: none"><li>Acquisition</li><li>Maintenance</li></ul></li><li>Profit</li><li>Tax</li><li>ROCE</li></ul> | <ul style="list-style-type: none"><li>Benefits<ul style="list-style-type: none"><li>Inflation (and at what rate)</li><li>Fixed</li><li>Proportional refund</li><li>Levels of cover</li></ul></li><li>Cyclical claims</li><li>Rating<ul style="list-style-type: none"><li>Factors</li><li>Average age</li></ul></li><li>Tailored pricing</li><li>Reviews</li><li>Data</li><li>Competition</li></ul> |

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**Actuarial Issues – Risks**

Insurance and Operational risks require the most supporting capital

<b>1</b>	<b>Market Risk</b>	<ul style="list-style-type: none"> <li>▪ Depends on attitude to risk</li> <li>▪ Free assets</li> <li>▪ General/Life insurer</li> </ul>
<b>2</b>	<b>Credit Risk</b>	<ul style="list-style-type: none"> <li>▪ Reinsurance – Personal accident/Critical Illness</li> <li>▪ Corporate bonds</li> <li>▪ Debtors – Employers</li> </ul>
<b>3</b>	<b>Insurance Risk</b>	<ul style="list-style-type: none"> <li>▪ Claims</li> <li>▪ Lapses</li> <li>▪ Expenses</li> </ul>
<b>4</b>	<b>Operational Risk</b>	<ul style="list-style-type: none"> <li>▪ IT issues</li> <li>▪ Policy wording</li> <li>▪ Data</li> </ul>
<b>5</b>	<b>Liquidity Risk</b>	<ul style="list-style-type: none"> <li>▪ High number of small cashflows</li> <li>▪ Premiums in, claims out</li> </ul>

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Section 4

**The future for HCP**

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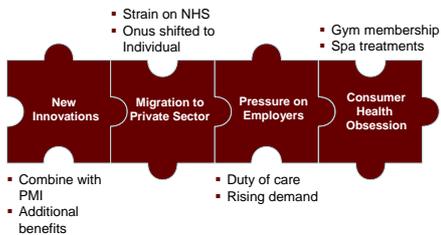
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**The future for HCPs**

A number of factors have reduced demand but could this trend could be set for a reversal...



And as 40% of the population has not heard of a cash plan there is plenty of scope for increasing awareness

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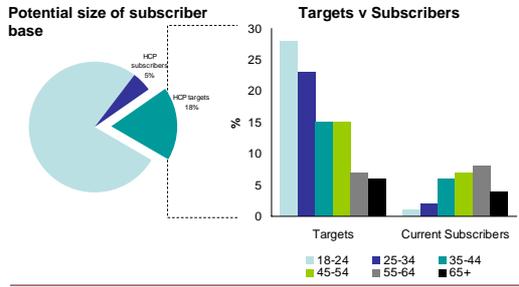
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**The future for HCPs**  
Potential for the market to grow fivefold



Source: Health Cash Plans, Finance Intelligence, November 2007

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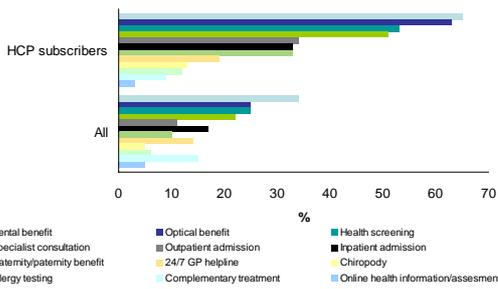
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**The future for HCPs**  
Benefit popularity varies greatly between HCP subscribers and the population



Source: Health Cash Plans, Finance Intelligence, November 2007

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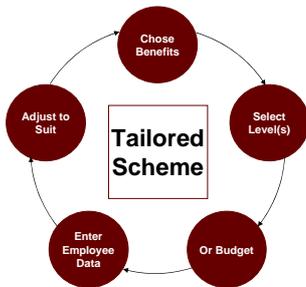
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**The future for HCPs**  
There is a need for providers to offer flexible plans



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**The future for HCP**  
Who is a typical HCP Subscriber?

**HCP subscribers are model citizens**

- Eat better
- Drink less
- Smoke less
- Exercise more
- ...
- Put out their bins on time
- Help old ladies across the road

**Also use more health services**

- Visit the doctor more
- Visit the dentist more
- Visit the optician more
- More likely to wear glasses
- Use complementary treatments
- Research on the internet
- ...but varies between the sexes (and you can guess which way!)

**Opportunity?**

- Link up with Dentists/Opticians/Health Clubs
- Use tailored website advertising
- Gender specific benefits

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**The future for HCP**  
Summary

**Strengths**

- Long established market
- Flexible product
- Low cost alternative to PMI
- Steady premium growth
- No underwriting
- Integrated into broader benefits package

**Weaknesses**

- Mature, making it difficult to increase penetration
- Low public awareness
- Overlap with dental/PMI
- Age limit on most plans
- Revenues reliant on personal sector

**Opportunities**

- Increased healthcare needs
- Changing NHS – more emphasis on self provision
- Growing interest from corporate sector
- Scope to expand add-on benefits
- Consumer obsession with health and wellbeing – spas, gyms, retail brands

**Threats**

- Ageing population – more claims
- Competition from dental/vision plans (and maybe PMI)
- Rising healthcare costs push premiums out of reach of traditional market

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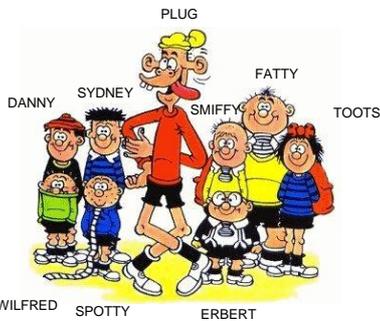
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**Any questions?**




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