

**SESSION E4/F4**

**GENERAL INSURANCE CONVENTION 1991**

**LLANDRINDOD WELLS 23-26 OCTOBER**

**MEDICAL EXPENSES INSURANCE**

# GIRO CONFERENCE 23-26 OCTOBER 1991

## MEDICAL EXPENSES INSURANCE

### SECTIONS

### SPEAKER

1	Introduction	GCO
2	Products	SLE
3	Prices and Reserves	JMT
4	Future Developments	GCO

# HEALTH INSURANCE WORKING PARTY

George Orros (Chairman)

Stephen Evans (Secretary)

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Frank Guaschi

Michael Moliver

John Taylor

Mark Trayhorn

## TERMS OF REFERENCE

The working party will research and report upon the actuarial implications of the financing of health treatment of all kinds.

# HEALTH INSURANCE MODELLING

- Lack of UK insurance data
- HOPE until 1985
- HSI from 1983
- Aim for multi purpose model

# HEALTH SERVICE INDICATORS

- Performance measurement of providers
- Indicators for purchasers
- Multitude of ratios
- Limited exposure details

# PRODUCTS, PRICES AND RESERVES

- Short tail business
- Long term considerations
- Interaction of NHS

# PRODUCTS

- Main product types
  - Over Sixties
- Ancillary product features
  - Small group
  - Large group
- Cover
  - Third party administration
- Definitions
  - Helplines
- Individual



# MAIN PRODUCT TYPES

- Traditional comprehensive
- Preferred provider comprehensive
- NHS waiting list
- In patient only
- Out patient only

# ANCILLARY PRODUCT FEATURES

- Health cash
- Overseas cover
- Excesses
- Co-insurance
- No claims discount
- Waiver of premium

# COVER

## IN

- Acute Conditions
- Inpatient/outpatient
- Hospital, consultant, surgeon, etc

## OUT

- Psychiatric
- Alcohol
- Maternity
- Aids
- Pre-existing conditions

# DEFINITIONS

- Acute vs chronic
- Contract Duration
- Date of illness/diagnosis - incurred
- Date of treatment - incident
- Employment dates

# INDIVIDUAL PRODUCTS/UNDERWRITING

- Medical questionnaires
- Specific condition exclusions
- Pre-existing condition exclusions
- Moratorium clauses

# OVER SIXTIES INDIVIDUAL CONTRACTS

- Finance Act 1989
- Tax relief
- Limited Benefits
- Concessions on overseas
- Certification process

# **SMALL GROUP PRODUCTS/UNDERWRITING**

- **Individual Benefits**
- **Underwriting relaxation**
- **Occupational rating**
- **Lower prices**

# LARGE GROUP PRODUCTS/UNDERWRITING

- 50+ members
- Experience rating
- Profit sharing
- Bespoke benefits



## THIRD PARTY ADMINISTRATORS

- Provide all administration
- Work with new insurers
- Work with large companies
- Do not provide insurance
- Can be stricter than insurance companies

# CLAIMS HELPLINES

- Pre admission screening
- Directs patients to low cost
- Controls claims
- Avoids post claims problems
- Interprets cover, hospital lists, policy terms

# PRICING

- Practical pricing/theoretical costing
- Market competition
- Individual pricing
  - Categories
  - Book rates
  - Discounts
- Group rating
  - Variability
  - Experience-rating, credibility
  - Profit-sharing
  - Negotiated rates, terms

# INDIVIDUALS - PRICING CATEGORIES

- Age group
- Single, married, family, single parent family
- Scale of cover
- Excess, co-insurance
- No claim discount
- Professional, trade affiliation
- Underwritten (yes/no)
- Premium payment mode

# AVAILABILITY OF DATA

## INTERNAL

- Own price, claims experience

## EXTERNAL

- Competitors' prices
- Company Act accounts
- D'II returns
- Reinsurer's data, knowledge
- USA experience
- European experience
- National (public NHS) experience
  - HIPE
  - HSI

# PRICING MODEL DEVELOPMENT

- Health Insurance Working Party
- Use of HIPE, HSI data
- Other external data, parameters
- "Component" model of costs, treatments
- Pricing, monitoring health costs

# PROFIT-TESTING MODELS (1)

- One-year costing inappropriate
- since
- Long-term perception of PMI cover
  - Cross- subsidies by age
  - Initial selection
  - New business/renewal commission
  - Cost of acquisition

# PROFIT-TESTING MODELS (2)

Allow for

- Selection
- Lapses
- Inflation
- Expenses
- Interest rates
- Risk discount rates
- Taxation
- Solvency, cash flow requirements



# GROUP PRICING

- Small/large groups
- Voluntary/compulsory membership
- Admission of dependants
- Continued membership after retirement
- Standard/experience-rating
- Profit/loss sharing
- Competition

# PRICE GUARANTEES

- **Individuals**
  - Monthly/annual cover
- **Groups**
  - Contractual agreements, formula
  - Multi-year cover

# RESERVING ISSUES

- Recognize
  - nature of contract, cover given
  - seasonality
- Quantify required margins
- Estimate emerging cash flows
- Statistical methods vs case estimates
- Large claims

# RESERVING FEATURES

- Trends in
  - claims frequency
  - average claim size
  - types of claim
- Speed of claim settlement, backlogs
- Seasonality

# LONG-TERM RESERVES

- Large group contracts
  - experience-rating
  - profit-sharing formulae
- Long stay claimants
- Pre-funding for increasing age

# ROLE OF RESERVE MARGINS

- Management accounts
- Financial (statutory) accounts
- DTI returns
- Taxation accounts
- Product pricing
- Actuarial certification?

# SHORT TERM VERSUS LONG TERM

- General versus Long Term
- DTI implications
- Guarantee of renewability
- Long term uncertainties

# POTENTIAL NHS DEVELOPMENTS

- NHS Trusts
- Purchasers versus providers
- Private treatment within NHS
- Increased competition between providers
- Quality assurance and control



# **NHS FINANCING ISSUES**

- **Risk cost modelling**
- **Diagnosis related group pricing**
- **Cross boundary pricing**
- **Medical malpractice financing**
- **Risk Management**

# POTENTIAL PRODUCT FEATURES

- Primary care
- Chronic care
- Disease specific treatment
- Preferred provider networks
- NHS complementary treatment

# POTENTIAL ANCILLARY PRODUCTS

- Overseas health treatment
- Hospital cash plans
- Health cash plans
- Permanent health insurance
- Long term care
- Critical illness