

EXAMINATION

6 September 2005 (am)

Subject SA1 — Health and Care Specialist Applications

Time allowed: Three hours

INSTRUCTIONS TO THE CANDIDATE

1. *Enter all the candidate and examination details as requested on the front of your answer booklet.*
2. *You have 15 minutes at the start of the examination in which to read the questions. You are strongly encouraged to use this time for reading only, but notes may be made. You then have three hours to complete the paper.*
3. *You must not start writing your answers in the booklet until instructed to do so by the supervisor.*
4. *Mark allocations are shown in brackets.*
5. *Attempt both questions, beginning your answer to each question on a separate sheet.*
6. *Candidates should show calculations where this is appropriate.*

AT THE END OF THE EXAMINATION

Hand in BOTH your answer booklet, with any additional sheets firmly attached, and this question paper.

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

- 1** A leading bank has a long-term insurance subsidiary which offers investment and life assurance products to its customers. The bank does not offer any other insurers' products. The subsidiary does not currently offer any income protection or critical illness products. The bank is considering its options for expanding the product range to its customers.
- (i) Describe how income protection and critical illness products could be used to meet the needs of the bank's customers. [8]
 - (ii) The subsidiary is considering seeking reinsurance for these products. Discuss, with reasons, the reinsurance arrangements that are most likely to meet the subsidiary's requirements and any other practical assistance that the reinsurer could offer the subsidiary in managing these lines of business. [7]
 - (iii) An alternative approach has been proposed where the subsidiary provides the policy to the bank's customers but a specialist health and care insurer issues the policy and undertakes all policy processing and claims administration, payments and administration. Discuss the advantages and disadvantages of this approach to the subsidiary. [5]
 - (iv) The bank has asked for information regarding how these contracts would generally be priced. Describe the investigations usually used for pricing own product business, highlighting the differences in approach between critical illness and income protection. [22]
 - (v) If the subsidiary also offers with profits contracts, describe the potential impact on its profits distribution of also offering income protection or critical illness products. [6]
 - (vi) A health services provider has recommended that the subsidiary implements a claims management process for its income protection business where health professionals are used after a claim is notified to the subsidiary to treat the claimants and help them back to work. Discuss the advantages and disadvantages of this approach to the subsidiary. [6]
 - (vii) A director of the bank has raised concerns over income protection business. He is aware of other companies having had very poor claims experience on this line of business. Discuss the possible reasons that could have given rise to this poor experience. [6]
- [Total 60]

- 2** A UK Health Insurer currently sells in the UK both individual and corporate private medical insurance through a range of intermediaries and direct to customers. Over the last three years there has been a significant reduction in the volume of new individual PMI business sold through intermediaries.
- (i) Discuss the possible reasons for this reduction in new business sales. [10]
 - (ii) Describe how you would monitor individual PMI claims experience. List the additional claims factors to be considered if this claims analysis were to be part of a pricing calculation. [5]
 - (iii) It has been suggested that, to halt the decline of sales in this sector, a new, PMI style plan, offering coverage for acupuncture is developed. You have been asked to price this product but only have limited data. Outline how you would reduce the risk associated with this lack of data. [5]
 - (iv) An alternative suggestion is that the definitions of benefit covered will be tightened to reduce the level of claims outgo. This saving will then be passed onto the customer by way of a reduced new business premium. In addition, it is suggested that this approach is extended to existing customers to minimise increases in premium at renewal. Your existing PMI policy has a guaranteed renewability clause. Outline for new and existing business the considerations associated with this proposal. [11]
 - (v) Describe how the introduction of genetic testing may impact in the future on your portfolio and the proposals suggested in parts (iii) and (iv) above. [9]
- [Total 40]

END OF PAPER