

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINATION

23 April 2012 (pm)

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 before 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 all three 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 from the approved list.

- 1** A medium sized health and care insurer based in an economically developed country currently writes individual income protection (IP) business solely in its domestic market. The Chief Executive Officer of the company has heard about micro-insurance and is thinking of offering an IP micro-insurance product in a rapidly developing nation.

Micro-insurance is a term used for insurance products characterised by low premiums and low coverage limits.

- (i) Discuss the factors that should be considered by the insurer before entering this market. [20]
 - (ii) Discuss how the experience under this proposed new product might differ from that under the standard IP product. [15]
 - (iii) Suggest actions which the insurer might take to try to improve any resultant adverse experience. [10]
- [Total 45]

- 2** (i) Describe the three components of the health insurance risk sub-module of the Solvency Capital Requirement (SCR) standard formula calculation. [6]

Instead of evaluating the catastrophe risk capital using the standard formula, a health insurance company has decided to assess the possible catastrophic events under the following categories:

- Man-made catastrophes
- Natural catastrophes
- Pandemic events

- (ii) List possible relevant events under each of these categories. [4]

The company is now considering using an internal model for all of its SCR calculation.

- (iii) Discuss the advantages and disadvantages of choosing the internal model approach. [10]
- (iv) Explain the tests that the internal model must pass before it can gain approval. [6]
- (v) Explain the responsibilities of each of the functions and business areas that is likely to be involved in the Own Risk and Solvency Assessment (ORSA) process. [10]

[Total 36]

3 Employment and Support Allowance (ESA) replaced Incapacity Benefit in the UK in October 2008. Its key purpose was the introduction of stricter claim conditions.

- (i) Outline the Employment and Support Allowance (ESA) as it applies in the UK as at 31 May 2011. [6]

A report issued in 2011 quoted the results of potential claimants for ESA. The report considered the results of 1.3 million capability assessment tests carried out between October 2008 and November 2010.

The results of the tests were that:

7% of potential claimants were incapable of any work.

17% of potential claimants were able to do some work but needed the correct level of support.

39% of potential claimants were deemed to be fit for work and therefore their allowances were adjusted to the Job Seeker's Allowance.

36% of potential claimants dropped out of the application process.

1% of potential claimants were still in the application process.

- (ii) Comment on these results from the perspective of the UK government, including any further investigations that may be appropriate. [3]

The Chief Executive Officer (CEO) of a health and care insurer has suggested that the company should adopt the tighter ESA claims acceptance and management approach for its own income protection contract. However, some specialist areas within the insurer are concerned that the approach would be too harsh for both new and existing claimants.

- (iii) Discuss the CEO's suggestion. [10]
[Total 19]

END OF PAPER