

INSTITUTE AND FACULTY OF ACTUARIES



EXAMINATION

11 April 2016 (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 new page.*
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** An insurance company sells a wide range of health and care insurance products.
- (i) Suggest reasons why the company may need to set an unexpired risk reserve for its group private medical insurance (PMI) business. [5]
- The company's individual PMI product is currently priced such that there is no profit loading within the premiums.
- (ii) Suggest possible reasons why the company has adopted this pricing strategy. [4]
- The company's individual PMI products do not currently include health checks. The marketing manager has suggested that a full annual health check should be provided free to all existing and new individual PMI policyholders with no impact on the premium charged.
- (iii) Discuss this suggestion. [13]
[Total 22]
- 2** A large bank which operates in a country with an emerging market economy is looking for an insurance partner. It wishes to enter into a long-term distribution agreement to sell that partner's insurance products to its banking customer base through its existing distribution channels, on an exclusive basis. An established health and care insurer in the UK has been invited by the bank to tender for the joint venture arrangement.
- (i) Suggest reasons why a UK health and care insurer may be interested in tendering for such a joint venture arrangement. [8]
- The insurer undertakes a preliminary investigation into the country's economy, insurance market and the bank, before deciding whether to respond to the tender.
- (ii) Set out the information that the insurer should consider as part of this investigation. [10]
- Following these preliminary investigations, the insurer has noted that the commissions on health and care products sold through the bancassurance channel are generally higher than for products sold by the direct salesforces of insurance companies based in the emerging market country. However, the premium rates are generally lower for the products sold through the bancassurance channel.
- (iii) Discuss possible reasons for these observations. [7]
- The insurer's market research adviser has suggested that future commission rates on products sold through the bancassurance channel are expected to fall as a result of social and commercial pressures.
- (iv) Outline the possible social and commercial pressures. [5]
[Total 30]

- 3** In the country of Actuarial, State benefit and healthcare provision operates on a similar basis to that in the UK.

However, the Actuarial government has just announced that it is going to start charging for all treatment and benefits required as a result of sports injuries.

- (i) Suggest possible reasons why the government is introducing this change. [5]

A health and care insurer currently sells income protection, critical illness, long term care and private medical insurances. As an addition to its standard product range, the insurer has decided to develop new versions of these products. The new versions will be specifically designed to provide cover for sports injury treatments and benefits, in order to address this reduction in free State healthcare provision.

- (ii) Describe the cover that could be provided under these new products. [8]

- (iii) Discuss the factors that the insurer should consider before developing these products. [24]

- (iv) Suggest possible consumers to whom such products could be marketed. [3]

- (v) Outline ways in which these products could be marketed and distributed. [8]
[Total 48]

END OF PAPER