

# INSTITUTE AND FACULTY OF ACTUARIES



## EXAMINATION

23 April 2014 (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** A large UK health insurance company currently sells its individual income protection insurance product only through independent financial advisers.

The company is now considering whether it should also sell this product directly to customers via its own website.

- (i) Explain why this product may not be suitable for direct online distribution. [8]
- (ii) Suggest actions that could be taken to make the product more suitable for direct sales on the company's own website, whilst continuing to meet similar customer needs. [5]

The company has been approached by a price comparison website, which is considering adding income protection insurance to its range of products. The website aims to provide instant premium quotations for products offered by different providers to enable the customer to make a comparison. If the customer chooses a particular product, this links directly to the insurance company's systems to complete the sale.

- (iii) List the data that would need to be collected through the website in order to produce a premium. [3]
  - (iv) Discuss the additional risks to the insurance company that arise from the use of the price comparison website, compared to just offering the product directly from the company's own website. [8]
- [Total 24]

- 2**
- (i) (a) Explain the difference between an acute and a chronic condition.
  - (b) Explain why private medical insurance (PMI) normally only provides cover for acute conditions and not for chronic conditions. [4]

Cancer is not necessarily considered to be an acute condition. However, a large health insurer that currently sells a wide range of health and care insurance products is proposing to offer full cover for cancer claims on all PMI policies, both for new business and renewals.

- (ii) Discuss the possible reasons for this proposal. [9]
  - (iii) Discuss the risks that the proposal might introduce for the insurer. [9]
  - (iv) Describe how these risks could be mitigated. [11]
- [Total 33]

**3** A large UK insurance company, which writes all types of health and care insurance business, is considering designing a group scheme that will provide all of the health insurance required by UK-based airlines for their employees.

- (i) (a) Explain why airlines would be interested in purchasing a group health insurance scheme to cover their employees.
- (b) Recommend which types of health insurance should be included in the group scheme.

[6]

The company regularly investigates the possibility of offering health insurance schemes to multinational companies, but has never offered a scheme specifically to airlines before. The Board of the company has therefore asked the Chief Actuary to prepare a report, the purpose of which is to ensure that the specific characteristics of this new target market are fully understood, in order to help the company decide whether to enter this market. Two of the main sections of the report are on “Pricing” and “Profitability and marketability”.

- (ii) Outline the points that should be made in the report under the section “Pricing”. [25]
- (iii) Outline the points that should be made in the report under the section “Profitability and marketability”. [7]
- (iv) Outline the purposes of the three Generic TASs with which the report should comply. [5]

[Total 43]

**END OF PAPER**

