

# INSTITUTE AND FACULTY OF ACTUARIES



## EXAMINATION

11 April 2019 (pm)

### Subject SP1 – Health and Care Specialist Principles

*Time allowed: Three hours and fifteen minutes*

#### ***INSTRUCTIONS TO THE CANDIDATE***

1. *Enter all the candidate and examination details as requested on the front of your answer booklet.*
2. *You must not start writing your answers in the booklet until instructed to do so by the supervisor.*
3. *Mark allocations are shown in brackets.*
4. *Attempt all questions, begin your answer to each question on a new page.*
5. *Candidates should show calculations where this is appropriate.*

***Graph paper is NOT required for this paper.***

*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 health and care insurer is considering introducing an individual Income Protection product.
- (i) Describe the main features of this product. [6]
  - (ii) List six typical exclusions under this product. [3]
  - (iii) Describe an appropriate initial underwriting approach for this product. (You are not required to set out the information that might be sought at the initial underwriting stage.) [6]
  - (iv) Describe how the initial underwriting approach would change if the insurer were to offer a group income protection product. [5]
- [Total 20]

- 2** A health and care insurer with an established block of Critical Illness (CI) business is in the process of re-pricing the premium rates on this business.
- (i) Outline how a cash flow approach could be used for pricing CI business. [6]
- The insurer has completed its re-pricing exercise which has resulted in premiums higher than those offered by competitors in the market. The Marketing Director suggests that margins in the pricing assumptions should be reduced to improve the competitiveness of the CI business.
- (ii) Discuss the Marketing Director's suggestion. [6]
- [Total 12]

- 3** A health and care insurer has for many years written Critical Illness (CI) insurance business. The insurer is considering extending its product range to include individual and group Income Protection business.
- (i) Suggest reasons why the insurer may want to adopt this business strategy. [5]
  - (ii) Explain why the insurer might want to reinsure part of the income protection business. [9]
- The insurer has invited several reinsurers to tender for the reinsurance arrangements in respect of its new business.
- (iii) Discuss the key factors the insurer would consider when selecting its reinsurers. [5]
- [Total 19]

- 4** (i) Define the following terms in the context of Private Medical Insurance (PMI):
- (a) acute illnesses
  - (b) chronic illnesses.
- [2]
- (ii) Discuss the advantages and disadvantages to the insurer of including treatment for chronic illnesses within a PMI product. [10]
- [Total 12]

**5** A health and care insurer is considering launching a long-term care insurance (LTCI) product for the first time. There is only a small volume of in force LTCI business in the market and similar products previously offered by the health and care insurer's competitors have received bad press.

The costs of long-term care can be divided between living costs, housing costs and personal care.

- (i) Give two examples of each of the following:
- (a) living costs
  - (b) housing costs
  - (c) personal care costs.
- [3]
- (ii) Describe the following types of LTCI product:
- (a) pre-funded product
  - (b) immediate needs product.
- [4]
- (iii) Set out potential reasons from the perspective of the insurer and the consumer why this product launch may not be successful. [5]
- [Total 12]

6 (i) Describe the following products:

- (a) Private Medical Insurance (PMI).
- (b) Major Medical Expenses (MME).

[9]

A global insurance company, which sells motor insurance as well as PMI and MME insurance, has noticed that some of its motor insurance competitors are settling motor claims immediately on receipt of a claim from the policyholder. This is referred to as an “immediate claims payment service”.

The company has recently started to do the same for its motor policies.

The process for claiming is that the policyholder sends in photographs and details of the claim event, together with details of any other parties involved. The claim underwriter assesses the claim and then authorises payments directly into the policyholder’s bank account.

The Marketing Manager thinks that it would be a good selling point if it could offer a similar service for its PMI and MME policies, as no other health insurer is offering this service.

In order to test the idea, the company will carry out a trial where the immediate claims payments will be limited to PMI and MME claims resulting from traffic accidents.

(ii) Outline how this trial claims settlement process would work. [5]

(iii) State five advantages and five disadvantages to the insurance company of settling PMI and MME claims instantly. [5]

(iv) State two advantages and two disadvantages of carrying out this trial for the insurance company. [2]

(v) Suggest two items of information the insurance company would need to request on policy inception in order to process any claim payment. [1]

(vi) Discuss the suggestion that instant payments would be more suited to the MME policy. [3]

[Total 25]

**END OF PAPER**