

INSTITUTE AND FACULTY OF ACTUARIES

EXAMINATION

22 April 2021 (am)

Subject SP1 – Health and Care Specialist Principles

Time allowed: Three hours and fifteen minutes

<p>In addition to this paper you should have available the 2002 edition of the Formulae and Tables and your own electronic calculator.</p>
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If you encounter any issues during the examination please contact the Assessment Team on
T. 0044 (0) 1865 268 873.

1 A health and care insurance company has sold a stand-alone individual Critical Illness (CI) product for many years. On the diagnosis of a CI, the following benefits are paid:

- a lump sum equal to 50% of the sum assured
- an annuity with annual payments equal to 10% of the sum assured, payable annually in arrears ceasing on death, or on the date of the fifth instalment, if earlier.

(i) Describe how the premium rates for this product could be determined. [11]

In recent years, the insurer has seen the volumes of CI business it sells fall due to increasing competition in the market.

The insurer has recently updated its CI premium rates, taking into account the most recent experience for this product. The Marketing Director has commented that the updated premium rates still appear to be uncompetitive.

(ii) Suggest possible actions the insurer could take to reduce premium rates further. [8]

(iii) Suggest possible ways the insurer could increase CI new business sales without further reduction in premium rates. [4]

[Total 23]

2 A small health and care insurance company is considering launching a new group Private Medical Insurance (PMI) product. The insurer has asked reinsurance companies to provide detailed quotations for reinsurance cover for this product.

(i) Outline possible reasons why the insurer may be seeking reinsurance for this product. [6]

(ii) Set out the information that the insurer is likely to request to be included in the quotations submitted by the reinsurance companies. [10]

[Total 16]

3 A bank distributes selected products of an insurance company alongside the loans the bank provides to its customers. The insurance products include:

- Creditor Insurance, providing cover for death, accident, sickness and unemployment
- A Level Term Assurance (LTA), providing cover for death only.

The bank is currently reviewing its customer insurance propositions and is considering replacing the Creditor Insurance contract with an Income Protection (IP) contract for new customers.

- (i) Compare Creditor Insurance and IP insurance from the perspective of a customer. [6]

For new loan customers, the bank is considering replacing the LTA with an Accelerated Critical Illness (ACI) policy.

- (ii) Compare the LTA and ACI policy from the perspective of a customer. [5]

The health and care insurer underwriting the ACI policies currently uses a detailed application form. The bank has asked the insurer to use a simplified application form.

- (iii) Outline the potential implications for the insurer of introducing the simplified form. [4]

The bank has decided to adopt the proposed changes. It will offer the IP and ACI products to new loan customers. The bank will use its own staff as sales agents to advise customers on the purchase of these products.

- (iv) Describe, with examples, the sales risks to the bank and to the insurer arising from this decision. [4]

[Total 19]

4 Company A is a health and care insurance company specialising in Private Medical Insurance (PMI). Under its current claims management practice, policyholders submit a claim after they have received the required medical procedures and treatments. Claims are then assessed by the insurer with no guarantee that it will pay the submitted claims.

Company A's Claim Manager has proposed introducing a pre-authorisation process where policyholders will be required to obtain approval from the insurer before carrying out the actual treatments processes.

Discuss the factors that may be considered in deciding whether to implement the Claim Manager's proposal. [10]

- 5** A small health and care insurance company sells a full range of health and care insurance products including Critical Illness (CI), Income Protection (IP) and Private Medical Insurance (PMI) products. The insurer mainly relies on tied agents to sell its individual policies, and brokers to sell its group policies.

Due to recent global trends, sales through tied agents have fallen. The insurer is considering introducing a mobile application (app) designed to run on mobile devices such as smart phones, tablets and watches. The app will allow policyholders to do the following:

- obtain quotations
- purchase policies
- view and amend policy details such as beneficiaries, level of cover and termination date
- submit claims
- receive claims payments.

- (i) Discuss the factors the insurer may consider before launching the app. [15]

The Chief Underwriter has voiced concerns about whether the app will enable adequate underwriting.

- (ii) Suggest possible reasons for the Chief Underwriter's concerns. [5]
[Total 20]

- 6** Company A is a health and care insurance company specialising in individual Private Medical Insurance (PMI) business. The company has adopted the Moratorium Underwriting approach where no formal underwriting is carried out at the point of acceptance, but past medical history is examined at the time of claim.

The company is planning to launch an individual Long Term Care Insurance (LTCI) product.

- (i) Outline the information that may be included in the proposal form for the LTCI product. [5]
- (ii) Discuss the suitability of using the Moratorium Underwriting approach for the LTCI product. [7]
[Total 12]

END OF PAPER