GENERAL INSURANCE CONVENTION 1991

LLANDRINDOD WELLS 23-26 OCTOBER

MEDICAL EXPENSES INSURANCE
GIRO CONFERENCE 23-26 OCTOBER 1991

MEDICAL EXPENSES INSURANCE

SECTIONS

1 Introduction
2 Products
3 Prices and Reserves
4 Future Developments

SPEAKER

GCO  SLE  JMT  GCO
HEALTH INSURANCE WORKING PARTY

George Orros (Chairman)
Stephen Evans (Secretary)
Colin Garlick
Frank Guaschi
Michael Moliver
John Taylor
Mark Trayhorn
TERMS OF REFERENCE

The working party will research and report upon the actuarial implications of the financing of health treatment of all kinds.
HEALTH INSURANCE MODELLING

- Lack of UK insurance data
- HIPE until 1985
- HSI from 1983
- Aim for multi purpose model
HEALTH SERVICE INDICATORS

- Performance measurement of providers
- Indicators for purchasers
- Multitude of ratios
- Limited exposure details
PRODUCTS, PRICES AND RESERVES

- Short tail business
- Long term considerations
- Interaction of NHS
PRODUCTS

- Main product types
- Ancillary product features
- Cover
- Definitions
- Individual
- Over Sixties
- Small group
- Large group
- Third party administration
- Helplines
MAIN PRODUCT TYPES

- Traditional comprehensive
- Preferred provider comprehensive
- NHS waiting list
- In patient only
- Out patient only
ANCILLARY PRODUCT FEATURES

- Health cash
- Overseas cover
- Excesses
- Co-insurance
- No claims discount
- Waiver of premium
COVER

IN
- Acute Conditions
- Inpatient/outpatient
- Hospital, consultant, surgeon, etc

OUT
- Psychiatric
- Alcohol
- Maternity
- Aids
- Pre-existing conditions
DEFINITIONS

- Acute vs chronic

- Contract Duration

- Date of illness/diagnosis - incurred

- Date of treatment - incident

- Employment dates
INDIVIDUAL PRODUCTS/UNDERWRITING

- Medical questionnaires
- Specific condition exclusions
- Pre-existing condition exclusions
- Moratorium clauses
OVER SIXTIES INDIVIDUAL CONTRACTS

- Finance Act 1989
- Tax relief
- Limited Benefits
- Concessions on overseas
- Certification process
SMALL GROUP PRODUCTS/UNDERWRITING

- Individual Benefits
- Underwriting relaxation
- Occupational rating
- Lower prices
LARGE GROUP PRODUCTS/UNDERWRITING

- 50+ members
- Experience rating
- Profit sharing
- Bespoke benefits
THIRD PARTY ADMINISTRATORS

- Provide all administration
- Work with new insurers
- Work with large companies
- Do not provide insurance
- Can be stricter than insurance companies
CLAIMS HELPLINES

- Pre admission screening
- Directs patients to low cost
- Controls claims
- Avoids post claims problems
- Interprets cover, hospital lists, policy terms
PRICING

- Practical pricing/theoretical costing
- Market competition
- Individual pricing
  - Categories
  - Book rates
  - Discounts
- Group rating
  - Variability
  - Experience-rating, credibility
  - Profit-sharing
  - Negotiated rates, terms
INDIVIDUALS - PRICING CATEGORIES

- Age group
- Single, married, family, single parent family
- Scale of cover
- Excess, co-insurance
- No claim discount
- Professional, trade affiliation
- Underwritten (yes/no)
- Premium payment mode
AVAILABILITY OF DATA

INTERNAL
• Own price, claims experience

EXTERNAL
• Competitors’ prices
• Company Act accounts
• DTI returns
• Reinsurer’s data, knowledge
• USA experience
• European experience
• National (public NHS) experience
  - HIPE
  - HSI
PRICING MODEL DEVELOPMENT

- Health Insurance Working Party
- Use of HIPE, HSI data
- Other external data, parameters
- "Component" model of costs, treatments
- Pricing, monitoring health costs
PROFIT-TESTING MODELS (1)

- One-year costing inappropriate

since

- Long-term perception of PMI cover

- Cross-subsidies by age

- Initial selection

- New business/renewal commission

- Cost of acquisition
PROFIT-TESTING MODELS (2)

Allow for

- Selection
- Lapses
- Inflation
- Expenses
- Interest rates
- Risk discount rates
- Taxation
- Solvency, cash flow requirements
GROUP PRICING

- Small/large groups
- Voluntary/compulsory membership
- Admission of dependants
- Continued membership after retirement
- Standard/experience-rating
- Profit/loss sharing
- Competition
PRICE GUARANTEES

- Individuals
  - Monthly/annual cover

- Groups
  - Contractual agreements, formula
  - Multi-year cover
RESERVING ISSUES

• Recognize
  - nature of contract, cover given
  - seasonality

• Quantify required margins

• Estimate emerging cash flows

• Statistical methods vs case estimates

• Large claims
RESERVING FEATURES

• Trends in
  - claims frequency
  - average claim size
  - types of claim

• Speed of claim settlement, backlogs

• Seasonality
LONG-TERM RESERVES

- Large group contracts
  - experience-rating
  - profit-sharing formulae
- Long stay claimants
- Pre-funding for increasing age
ROLE OF RESERVE MARGINS

- Management accounts
- Financial (statutory) accounts
- DTI returns
- Taxation accounts
- Product pricing
- Actuarial certification?
SHORT TERM VERSUS LONG TERM

- General versus Long Term
- DTT implications
- Guarantee of renewability
- Long term uncertainties
POTENTIAL NHS DEVELOPMENTS

- NHS Trusts
- Purchasers versus providers
- Private treatment within NHS
- Increased competition between providers
- Quality assurance and control
• Risk Management
• Medical malpractice financing
• Cross boundary pricing
• Diagnosis related group pricing
• Risk cost modelling

NHS FINANCING ISSUES
POTENTIAL PRODUCT FEATURES

- Primary care
- Chronic care
- Disease specific treatment
- Preferred provider networks
- NHS complementary treatment
POTENTIAL ANCILLARY PRODUCTS

- Overseas health treatment
- Hospital cash plans
- Health cash plans
- Permanent health insurance
- Long term care
- Critical illness