



Institute and Faculty of Actuaries

Developing and Pricing an Innovative Long Term Medical Insurance Product

Peter Gatenby of Peter Gatenby Consulting and Amanda Brown of National Deposit Friendly Society

11 May 2016

Today's presentation

- National Friendly – History
- Conditions necessary to re-open to new business
- Why design a medical insurance product?
- Initial design considerations?
- How did we price the new product?
- What did we do to minimise the risk to National Friendly?
- Your Health Fund – the final product

11 May 2016

2

National Deposit Friendly Society

- National Friendly was established as a friendly society (mutual insurer) in 1868 in order to provide savings and protection cover to its policyholders.
- The Society was founded upon a deposit-based product that encouraged policyholders to save on a regular basis which also, if there were sufficient funds in the deposit account, paid out insurance benefits (protection) in times of need.
- More recently, National Friendly re-launched the deposit account product into the healthcare market in 2006 and built up a sizeable book of circa 13,500 policies.
- In 2011 National Friendly temporarily closed to new business following poor claims experience for a few tranches of the healthcare products containing long term medical cost guarantees.

11 May 2016

3

Conditions necessary to re-open to new business

- Sufficient capital
- Minimise risk learning from the experience of 2009 and 2010
 - Product features
 - Pricing
 - Underwriting
 - Reinsurance
- Board approval
- PRA notification

Why develop a medical insurance product?

- National Friendly's strategic aims are to provide existing and new customers with products which meet their welfare and care needs at every stage of life, but chiefly from age 50 onwards.
- Whilst Later Life Care (long term care) is a key aim, it was felt that National Friendly's best route back to market would be in deposit account-based Private Medical Insurance because:
 - NF had demonstrated that the deposit account concept remained relevant to the current market place.
 - National Friendly had been pitched as a credible, cost-efficient alternative to the major blue chip healthcare providers.
 - NF had in place a robust and scalable claims management function through partnership with Simplyhealth (now AXA PPP).
 - Good quality data for pricing along with the lessons learned from the past.

Initial design considerations

- The new product must include the deposit account concept.
- Diagnosis seen as a major element of the product to focus on and fits neatly with the deposit account concept.
- The product needs to be written as long term insurance as National Friendly is only licensed to write long term insurance.
- Guarantees to be kept to the minimum.
- Reinsurance is key both to mitigate insurance risk and help preserve precious capital.
- The final product design and price needs to be competitive.

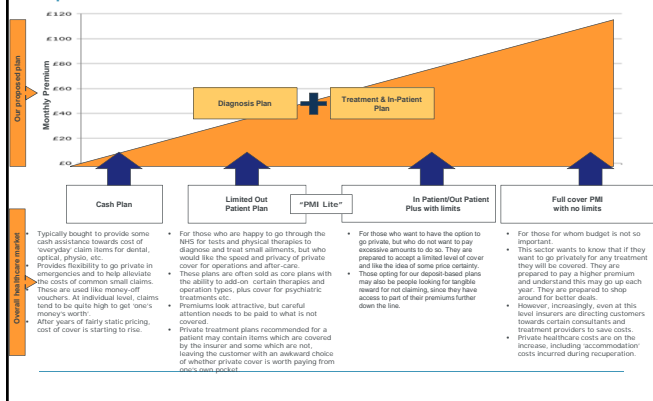
Extract from an early product specification

- **Product suitability**
 - Those looking to get prompt attention for acute conditions which cannot be treated by GPs.
 - Those who want quick access to consultations, diagnostics and primary care.
 - Those who want rewards for maintaining good health.
 - Those looking for price certainty / transparency
- **Not suitable for**
 - Those looking for day one cover for diagnostics and/or out-patient
 - Those looking for cancer or heart cover
 - Those looking for full-blown PMI
 - Those looking for a cheap cash plan
 - Those not prepared to use the NHS or own cash for more serious conditions

11 May 2016

7

A possible solution



Pricing

- We were lucky to have very good, comprehensive, relevant claims data collected over the years from the existing portfolio.
- The most useful claims data was collected after July 2013 when claims handling was moved to Simply Health.
- Using pivot tables we were able to extract and analyse claims information relative to the various diagnostic tests, consultations, treatments etc proposed in the product.
- Using this data along with the relevant exposures we were able to derive relevant incidence rates and average claims costs by age group to then use to calculate annual risk costs.

11 May 2016

9

Pricing (continued)

- Sample office premiums were then produced bringing together these risk premiums rates, reinsurance risk premiums, expense loadings and distribution costs.
- The sample rates were then sensitivity tested by the in-house team through their Mo.net model including stochastic modelling of the claims data.
- During the progress of the project the underlying risk rates were refined each month during a six month product development period as more claims data became available.

11 May 2016

10

Risk Mitigation

- Via Product design
 - Annually reviewable premium rates
 - Co-insurance via the deposit account concept
 - Some limits for certain treatments
 - £25,000 annual limit for in-patient cover
- Via Reinsurance
 - Quota share reinsurance of 70%
- Via Underwriting
 - Exclusion of pre-existing conditions
 - Full underwriting

11 May 2016

11

Your Health Fund

Healthcare insurance product which pays for costs incurred to correctly diagnose treatment of a non pre-existing condition and provide out-patient therapy treatments where required.



DIAGNOSIS PLUS PLAN

Optional further benefit, bought separately provided that a diagnosis plan has been purchased, which pays out a medical benefit that aims to HELP PAY TOWARDS the incurred costs associated with an in-patient hospital, day-case treatment stay.

IN-PATIENT TREATMENT PLAN

- Deposit based product.
- Provides an affordable alternative to those seeking consultations and diagnosis.
- Additional bolt on cover for treatment.
- Optional extra --with a choice of two benefit levels.
- Excludes:
 - Psychiatric treatment
 - Routine pregnancy etc

Diagnosis Plus

- Consultations with a specialist and/or consultations with a private GP
- A full range of diagnostic tests
- Podiatry and chiropody
- Specialist out-patient treatments including physiotherapy, osteopathy, chiropractic treatments and acupuncture
- Counselling and psychotherapy
- A minor in-patient surgery allowance
- Care at home for selected benefits

11 May 2016

13



11 May 2016

14

Private Hospital In-Patient Cover

- Private Hospital In-patient cover helps pay towards the cost of specified in-patient and day-patient charges incurred as a private patient.
- The overall limit to what can be claimed in a year is £25,000.
- As well as operations, cover includes anaesthesia, specialists' fees and follow-on treatment, which would include some aspects of out-patient treatment such as physiotherapy administered after an in-patient procedure.
- Cover also includes hospital accommodation for adult patients staying with a child in a private hospital and transportation by private land ambulance where recommended by the specialist.

11 May 2016

15

Your Health Fund was launched in March of this year and the first new policies written by National Friendly for five years are now in force

11 May 2016

16

Questions

Comments

The views expressed in this presentation are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this presentation and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this presentation.

11 May 2016

17
