Case Study - Health Insurance
New product
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21st Indian Fellowship Seminar

Indian Actuarial Profession
Serving the Cause of Public Interest
Contents

• A brief background
• Key aspects of products
• Product design
• Pricing
• Valuation method
• Competence and professionalism
• Next steps
A brief background

- A New health insurance company in India
- A new product is identified by Chief Marketing Officer
- It has a good business opportunity
- Product Development Actuary needs to-
  - price the product
  - set aside reserves
- Two scenarios-
A brief background - scenarios

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th>Scenario 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The product is available in the market.</td>
<td>• The product is the consequence of new regulation.</td>
</tr>
<tr>
<td>• It is new to his company.</td>
<td>• No product specific knowledge is available</td>
</tr>
<tr>
<td>• It is new to him.</td>
<td></td>
</tr>
</tbody>
</table>
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## Key aspects of products - Marketing

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th>Scenario 2</th>
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</thead>
<tbody>
<tr>
<td>• Research done by Chief Marketing Officer about-</td>
<td>• No prior experience as new to market</td>
</tr>
<tr>
<td>- Customer need</td>
<td>• Key features of product prescribed by regulator</td>
</tr>
<tr>
<td>- Target market for product</td>
<td>• How to capture market for this product-</td>
</tr>
<tr>
<td>- Market size available</td>
<td>- Competitive premium rates</td>
</tr>
<tr>
<td>- Risk and reward</td>
<td>- Better servicing aspects</td>
</tr>
<tr>
<td></td>
<td>- Marketing and advertising</td>
</tr>
<tr>
<td></td>
<td>- Volume of business &amp; capital requirement</td>
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</table>
Key aspects of products- General

• Treating Customers Fairly-
  - Sales prospectus, policy terms & conditions, advertisements, etc.

• Profitability of products-
  - Premium rates, expenses / charges, commission, sales volume

• Claims management
  - Reinsurance, underwriting, waiting periods, pre-authorization
Key aspects of products- Key Stakeholders

INSURER

COMMUNITY

HOSPITALS

Risk Management
Administration
Quality Service
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Product design- Product 1

• Type of product-
  - Individual, family floater, group
• Term of product
  - Guaranteed premium for one year / two year
• Life time renewability
• Benefit structure
• Riders / add on
• Risk sharing with customers
  - Co-pay
  - Deductibles

Whether similar product is available in the market.
Product design- Product 2

- Understand features of product from regulation-
  - Compulsory features
  - Optional features
  - Flexibility given to insurer for pricing
  - Target group
  - Term of product

- Study of other markets
- Availability of reinsurance
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Pricing

- Adequate - *neither too high and nor too low*
Pricing - Product 1

• Can we price the product at market rates?
• Other data sources-
  - *Insurance Information Bureau of India (IIB)*
  - *Reinsurer’s data*
  - *Competitor’s data*
• Data validation
• Other assumptions -
Pricing – Both products

- Demographic-
  - Product 1- existing product data, data from other sources mentioned
  - Product 2- reinsurer’s data or other market’s data with suitable changes

- Expense-
  - New insurance company management expenses may be higher
  - Commission as prescribed by regulator

- Inflation rate- allowance for medical inflation for more than 1 year products
Pricing – Both products

• Investment return-
  - *Not so important as short term products*

• Profitability criterion-
  - *May be similar to earlier products*

• Margins-
  - *Add margins for prudence APS (7)*

• *Viability of premium rates- Stress testing*
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Valuation method – Both products

- Incurred But Not Reported Reserve
  - delay in intimation of claim
- Reported but not settled claim reserve
  - Outstanding claims not yet settled
- Unexpired Risk Reserve
  - premium received but risk period yet to expire
- Additional reserves
  - Disputed claims (declined or terminated)
  - Data quality
  - TCF considerations
  - Reinsurance/Third Party Default
  - Contingencies
  - Premium guarantee, if any
- Compliance with IRDA (ALSM) Regulation, 2000
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Competence & Professionalism

- Competence- Requisite knowledge of jobs and functions (APS 1)

- Professionalism-
  - Work with Competence & Integrity
  - Effective communication

- Data validation-
  - Section 3.4 Professional Conduct Standards
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Next steps

• Documentation of every process- (professionalism)
• Experience monitoring-
  - profitability actual Vs expected
  - claims experience (loss ratio)
  - expense assumption (combined ratio)
  - grievances (PRE issue and TCF issue)
• Training to sales staff to avoid mis-selling
Thank you

Any questions?