

33rd India Fellowship Webinar

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Case Study 5

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Content



- Case Study - Background
- Ask
 - Purpose of Financial Report
 - Major Uncertainties impacting financial conditions
 - Major issues in various areas
 - Business Projection scenarios - solvency/capital
 - Uncertainty

Background



An Appointed Actuary of a stand-alone health insurer in India, May 2020

Health Insurance providing coverage

- Individual Mediclaim (rapidly growing, young age distribution, with Covid-19 cover and preexisting condition exclusions)
- Domestic and International (including USA) Travel insurance
- Employee health schemes (relatively young age distribution where it is possible for an employer to make a mass buying decision quickly or to facilitate the availability of health insurance at a low cost)
- Post retirement group health schemes (all members over age 60)
- Government health schemes

Covid

- Major lock downs that significantly changed the economic environment
- Regular publicly available statistics that show the number of insured cases each day, claims made (claim amounts) and claims paid (settled) by region

Background



Data

General Insurance Companies: Covid 19 cases
Status as on 30th May 2020 at 5:00pm

State	Reported Claims		Settled claims		Status		
	Reported Claim in No	Reported Claims in Amt	Settled Claim in No	Settled Claim in Amt	Death cases	cases Under-Treatment	Cases Discharged
Andhra	6	821,972	5	286,091	-	1	5
Chandigarh	1	147,902	1	121,672	-	-	1
Delhi	949	227,049,654	668	79,983,028	16	420	513
Gujarat	247	21,005,855	80	5,352,645	3	178	66
Haryana	118	21,547,468	63	8,884,180	2	49	67
Total	1,321	270,572,851	817	94,627,616	21	648	652

Background



Ask

Preparation of Financial Condition Report. Future outcomes are prepared on 2 scenarios:

- a vaccine will be available and delivered to the majority within 2 years
- a vaccine will not become available

- A. What is the purpose of the Financial Report? Who are the prime two users? Who are the other users?
- B. What are the new major uncertainties impacting the Financial Condition? What should be covered in the Financial Condition Report?
- c. Mention three major issues that are newly arising due to Covid-19 for each of -
 - A. Product
 - B. Pricing
 - C. Rate reviews
 - D. Sales and marketing strategies,
 - E. Profitability
 - F. GWP trends
 - G. Capital and solvency
- D. What are some of the main business projection solvency/capital scenarios you should perform
- E. What should you say about uncertainty?

(A) Purpose of Financial Report



For an Insurance company Financial reports are prepared every year to provide Profit & Loss and Balance sheet based on accounting principles.

Profit/loss will be made up of: (Earned Premiums + Investment Income + Other Income) - (claims incurred + commission paid + expenses) *

* *after suitably adjusted for reinsurance receivables/payables*

Balance sheet will provide ending position of Assets and Liabilities

Financial report will also include some key ratios like combined ratio, Incurred ratio, Expense ratio, Investment return etc

Main users of Financial Reports are:

- Regulators
- Internal Management/Board

Other Users are:

- Shareholders
- Auditors
- Policyholders
- Market Analyst
- Employees

(B) Major Uncertainty

Risk Management

- Underwriting Risk
- Reserve Risk
- Liquidity Risk
- Credit Risk
- Market Risk
- Operational Risk

Pricing and Reserving

- Premium affordability/Lapse
- Premium Rates not adequate
- Lack of Pandemic Reinsurance Cover
- No Historical data
- Vaccine availability
- Non-Covid Losses

(B) FCR and Uncertainty covered

- A financial condition report (FCR) shows the solvency condition of an insurance company for the current financial status, and an assessment of the ability of the company to survive future risk scenarios.
- This Report includes qualitative and quantitative information on business activities, performance, risk management and the Solvency Test.
- Examine and discuss the sensitivity of the future solvency position to potential changes in the economic environment, claims experience and pricing strategy and all other relevant factors
- Build an early warning signal in the long run
- Company's Board and the Authority to arrive at a comprehensive view on the company

(B) FCR and Uncertainty Covered



- Underwriting Risk
- Reserve Risk
- Reinsurance Risk
- Liquidity Risk
- Counterparty Risk
- Credit Risk
- Asset Liability mismatch

Major Issues (C)

Product - 1



Individual Medi claim (rapidly growing, young age distribution, with Covid-19 cover and pre-existing condition exclusions)

Scenario:1

A vaccine will be available and delivered to the majority of Indians within 2 years

Issues:

- Uncertainty associated with when the vaccine would be made available impacts the **incident rate**.
- cost of the vaccine- Whether available for free , government subsidised or privatised?
- How effective the vaccine is ?Whether the vaccine would completely eradicate the covid-19 ? -Required for estimating the frequency of claim.
- Regulatory mandate to cover cost of vaccine will impact loss ratios as the same was not built in pricing and the level of impact would depend on vaccine cost
- Whether the cost structure would be uniform for the treatment across the hospitals?
- Whether there would be regulatory intervention to standardize the treatment and charges for Covid19 ?
- How will the situation change for the target group in light of potential therapeutics and discovery of a vaccine and cure? To what extent will these changes depend on the timing of discovery?

Product - 1



Individual Medi claim (rapidly growing, young age distribution, with Covid-19 cover and pre-existing condition exclusions)

Scenario:2

A vaccine will not be available.

Major issues on the product:

- Uncertain in the incident rate post relaxation in lockdown, leading to sharp hike in the premium, impacting the New Business Volume and creating strain on fixed expenses
- Lapses could also increase due to economic impact and solvency could fall below regulatory minimum
- Increase in average claim size and Decrease in average number of policies
- Uncertainty in predicting the probability of loss
- Impact on profitability and survival.
- As the pandemic intensifies, availability of health care services can become extremely strained.

Product - 2



Domestic and International (including USA) Travel insurance

Scenario:1

A vaccine will be available and delivered to the majority of Indians within 2 years

Issues:

- When the vaccine would be made available and how the distribution would take place ? Impact the New Business, Renewals, price and profitability
- New Business and Renewals: Depends on when the ban on the commercial international airlines operations would be lifted?-
- What is the cost of the vaccine ? Is cost of the vaccine is covered , what would be maximum ceiling on the cost of the cover to be imposed on the policy condition?

Product - 2

Domestic and International (including USA) Travel insurance

Scenario:2

A vaccine will not be available.

Analysis of the scenario:

- Travel insurance policy covers the period of travel or annually for multi trip could be renewed every year.
- In the wake of the COVID-19, many people are cancelling their trips.
- Even the Indian government has banned all commercial international airlines to operate to India until further notice.

Major issues

- Fall in Single trip insurance and Annual multi trip insurance, hence fall in Revenue.
- Lull on renewal of annual multi trip insurance.
- Fixed expenses continue without revenue.
- Increase in capital requirements.
- Impact on profitability

Product - 3



Employee health schemes (relatively young age distribution where it is possible for an employer to make a mass buying decision quickly or to facilitate the availability of health insurance at a low cost)

Scenario:1 and Scenario :2

A vaccine will be available and delivered to the majority of Indians within 2 years

Issues:

- Group business volumes will depend on the state of companies' finances and if companies are struggling to service their debt they may not be able to afford hospital cover for the employees, even if the vaccine is available.
- There may be fall in the number of new schemes, if the company is wound up.
- Size of schemes may be relatively affected, depending on the industry, if companies are laying off staff and reducing size of workforce.
- Companies may reduce benefit levels in order to cut costs, which would reduce new business premiums.
- Similarly companies would be aware that there is less need to offer high benefits to recruit and retain in a recession - again this could reduce business levels

Product - 4



Post retirement group health schemes (all members over age 60)

A vaccine will be available and delivered to the majority of Indians within 2 years

Issues:

- There is still a great deal of uncertainty regarding the timeline in introduction of vaccine for COVID-19 and how effective it is for the older people.
- More claims, as older people are more prone to getting infected.
- Increase in cost of post medi-claim for the employer.
- This may result in reduction in benefit or introduction of co-pay

If vaccine is not available:

- Increase in intensity and frequency of claims
- More case fatality rate
- Less fund available in the trust to continue the scheme and may lead to Withdrawal of post retirement group health scheme

Product - 5



Government health schemes

A vaccine will be available and delivered to the majority of Indians within 2 years

Issues:

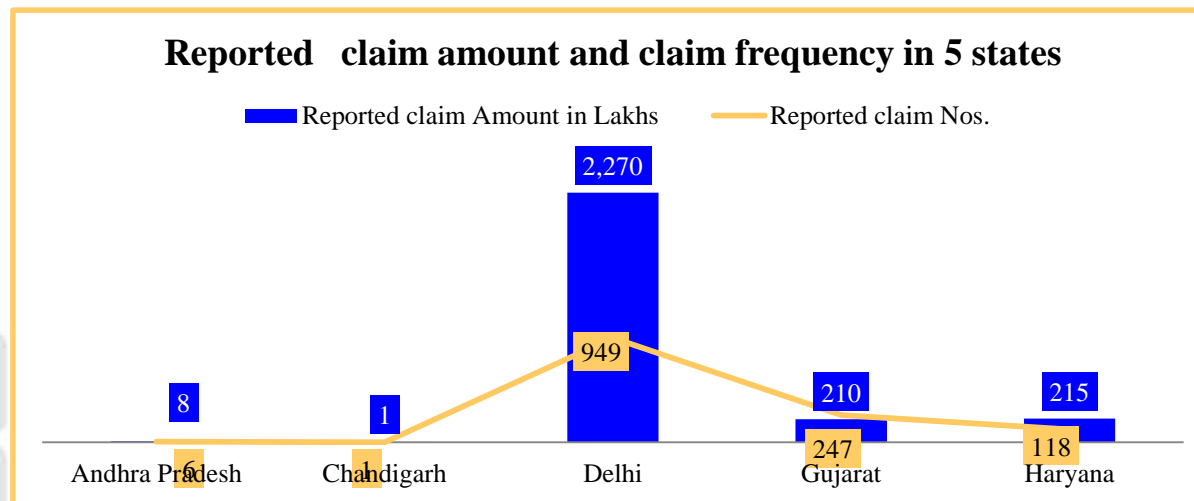
- Deficit on the budget if the cost of the vaccine is borne by the state
- May introduce co-pay to reduce the cost
- Increase the tax on premium and tax on benefit , impacting the new business volume of other insurance product.
- Cancel the tax relief for investing in insurance policies.

If vaccine is not available:

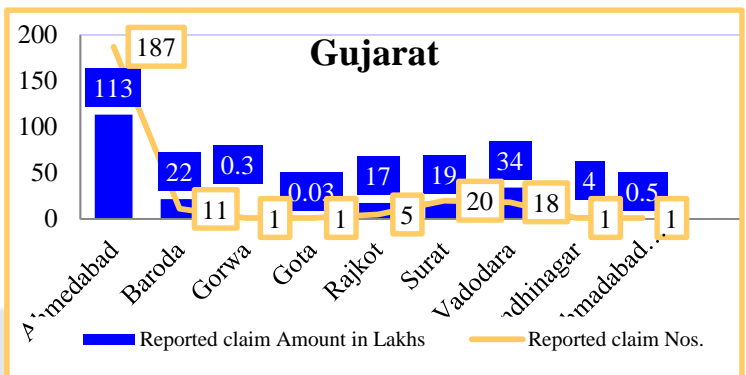
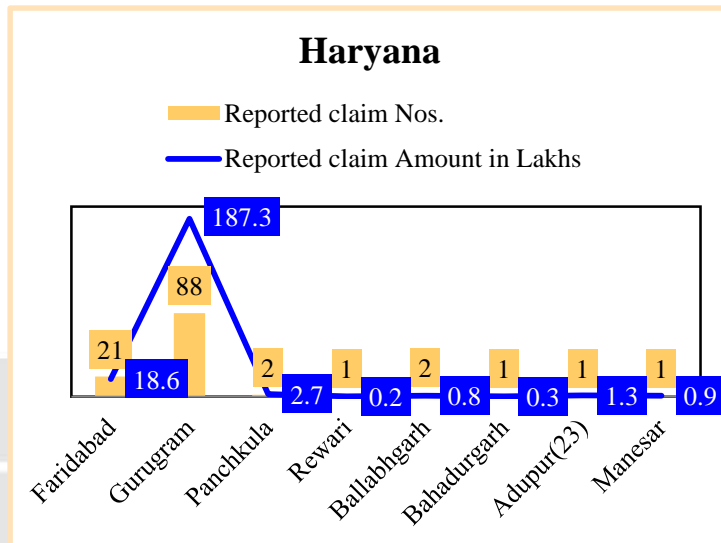
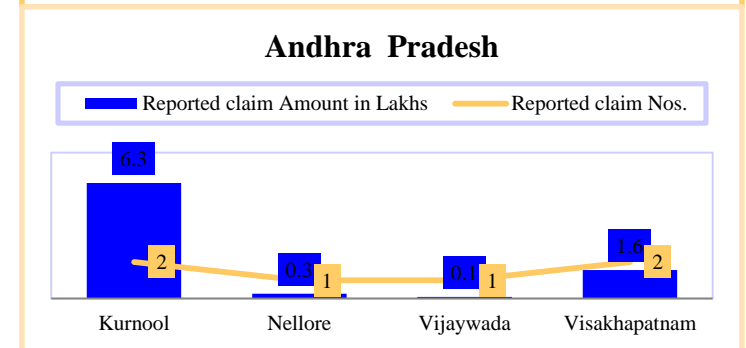
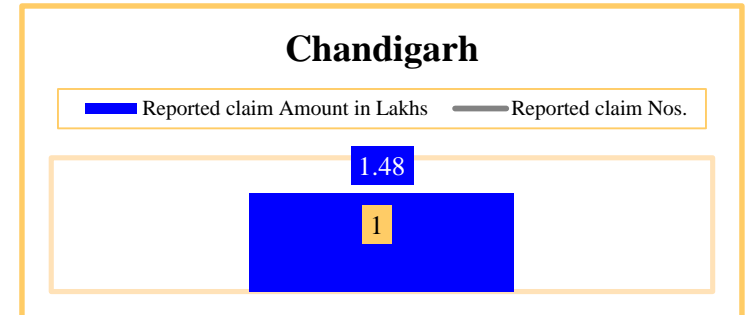
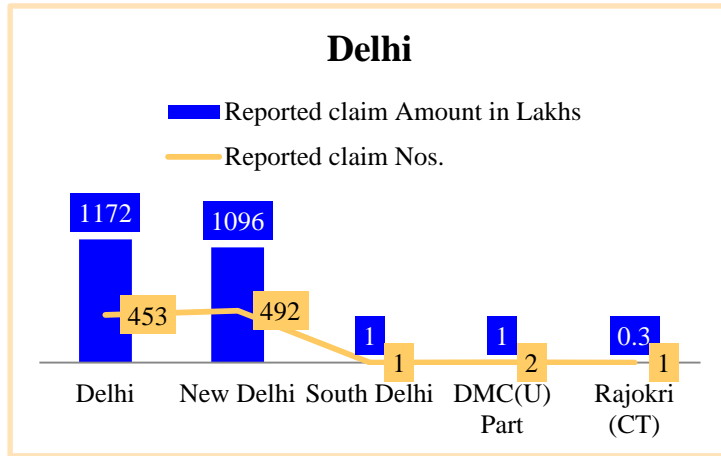
- Increase in frequency and severity of claims impacting the budget.
- Non availability of health care services
- Impact on economic growth

Pricing

- To price the product an initial estimate is required for the parameters for their expected future experience under the product
- Ideally, the Insurance products are priced based on expected experience of insured population, using own data , Industry data.
- There is no experience for any Insurance company to price the product with own data for this pandemic. Would be required to use population data/ international experience/ reinsurer data with suitable adjustments in pricing basis
- Industry data provided in this scenario for claim frequency and claim amount varies widely between the states and also within the states



Pricing-Industry Data



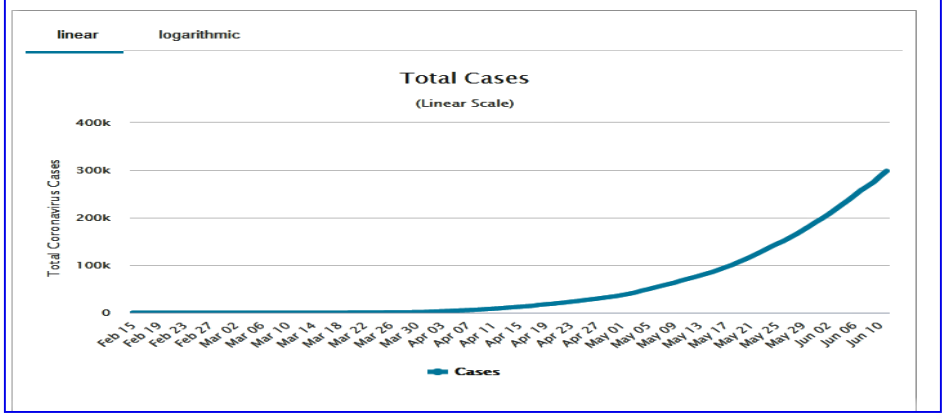


Pricing - Population Data /International Data

Daily new cases in India -Source : Worldometer

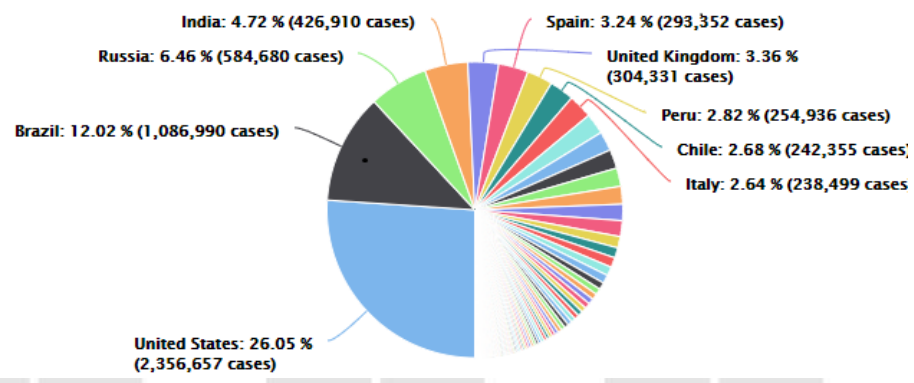


Total Coronavirus Cases in India



Countries cases distribution

Distribution of cases



- Experience related to catching the infection and fatality rate has seen vast variation between different countries and within the country
- The real challenge is how to price the product appropriately for the different segments of the society in the absence of availability of credible data and reinsurance support for risk mitigation

Major Risk on pricing



Major risks on pricing:

- No credible Data due to highly different findings across geographies, multiple dependent factors and many variants of the virus.
- Uncertainty in estimation of the parameter (Lapse, per policy expenses, renewal expenses, investment expenses, New business volume, Investment return etc.)
- If over priced -Impact on New business Volume
- If underpriced -Impact on profitability, Impact on sale of other line of Business.

Rate Reviews



- Increase in claim benefits - Rising health care costs but, not enough data in India to price them in the reviews
- Competition - If the rates are increased using worldwide Covid-19 medical costs data, competitive pressure may build in leading to lower new business volume
- Profitability - uncertainty about claims costs and regulatory pressures to pay off claims will make profitability more uncertain during rate review.

Sales and marketing strategies



- Focus on Online Channel - increased pressure on products that can be sold online. There should be technological bandwidth to be able to do this.
- Target product mix may undergo a change since, guaranteed products may be more in demand than market linked with cash hospitalization benefit
- Managing client-sales interaction could pose threat of contracting the disease. Thus, trainings have to be held to carry out as much as tele or online sales
- Optimise expenses; provide option to customers to pay monthly/ other modes of premium that can minimise lapse/ NB growth risk

Profitability



- Increase in current claim benefits with increasing number of Covid-19 cases and hospitalization would directly hit profits
- Lower new business sales due to difficulty in carrying out business leading to higher per policy expense and problems of economies of scale
- For non-annual policies and term greater than 1 year, policies could get lapsed due to the inability of policyholders to pay premium in the downturn economic environment. Decreased persistency would hit profits.

GWP Trends



- Premiums for the month of March-April-May have showed a downward curve clearly due business not being carried out efficiently. Industry premiums have been on a decline. This jeopardizes business plans. Lower new business sales affects economies of scale leading to higher per policy expense
- GWP Premiums are better where policies are sold by online channel but, offline products have a sharp dip. Renewals are also on a decline due to economic downturn.
- However, considering awareness of health products and its need in situations like this may show an increase in new business premiums and renewals in the year ahead.

Capital/Solvency



There will be additional pressure on capital

- Fall in growth levels affecting absorption of fixed expenses.
- Depression in asset value as the credit spread widens and credit quality deteriorates.
- Reinsurer's default
- Reduction in premium (new and renewal),
- constant fixed costs,
- increase in claims outgo,
- reduced investment income
- and the economic slowdown
- Companies whose solvency is borderline would be under pressure to bring in more capital

(D) Business projection solvency/capital scenarios



- Prepare strategies and action plans for business continuity to ensure enhanced protection to the policyholders.
- Protect the health and safety of employees and their distribution partners in the agent/broker community.
- Examine the capital availability and solvency margins as required in the current financial year 2020-21
- Assess baseline for the “survival horizon” of key assets/investments and liabilities such as sources of funding.
- Identify key drivers of financial risk to the business and focus on the most critical (e.g., liquidity).
- Triage assets/investment and insurance/re-insurance/funding liabilities according to sectors of the economy that are expected to be highly/moderately/minimally/positively impacted by the pandemic.
- Assess baseline for the “survival horizon” of key assets/investments and liabilities such as sources of funding.
- Monitor customer behavior in relation to optionality in products and take-up of support schemes.
- Optimise expenses; provide option to customers to pay monthly/ other modes of premium that can minimise lapse/ NB growth risk;
- Review corporate insurance coverages and potential legal exposures. What legal exposures may arise from the way the pandemic has been handled?

(E) What should you say about uncertainty?



In the Short term and Medium term

- Renewals might get delayed
- De-Growth in the group health segment .
- Fall in New business and the likelihood of second-order challenges, such as fraud and early policy cancellation.
- Increase in premium rate due to consequent increase in cost.
- Fall in Income -Less opportunity in Reinvesting maturing assets with prolonged low-interest-rate environment outlook.
- Increased Regulatory intervention.
- Increased demand on health services and reduced supply increasing medical cost.
- An immunization vaccine may +24 months away or may never arrive.

In the long-term

- Healthcare to reach more remote and less affluent populations.
- Shift in customer preferences
- Rise in tele-health services, offering consultancy to patients via phone or online video services
- Accelerations in product innovation and digital transformation
- Smart work and new capabilities

Thank You

Q&A