



Institute of Actuaries of India

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



Scenario 1	Scenario 2
<ul style="list-style-type: none">• The product is available in the market.• It is new to his company.• It is new to him.	<ul style="list-style-type: none">• The product is the consequence of new regulation.`• No product specific knowledge is available

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Key aspects of products- Marketing



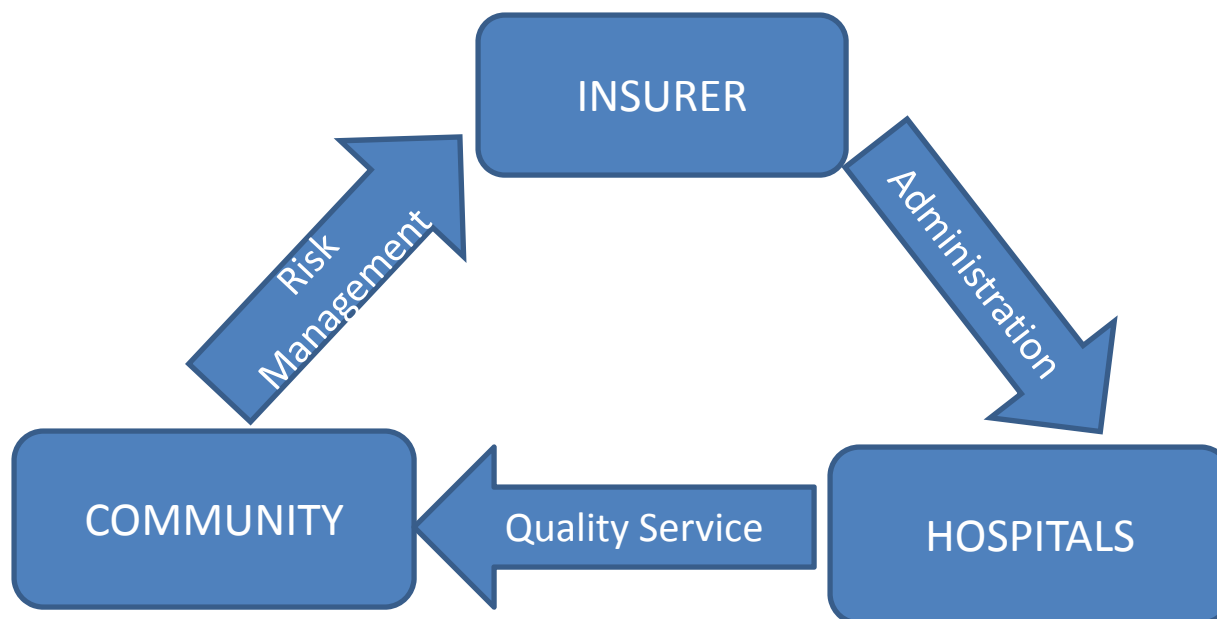
Scenario 1	Scenario 2
<ul style="list-style-type: none">• Research done by Chief Marketing Officer about-<ul style="list-style-type: none">- <i>Customer need</i>- <i>Target market for product</i>- <i>Market size available</i>- <i>Risk and reward</i>	<ul style="list-style-type: none">• No prior experience as new to market• Key features of product prescribed by regulator• How to capture market for this product-<ul style="list-style-type: none">- <i>Competitive premium rates</i>- <i>Better servicing aspects</i>- <i>Marketing and advertising</i>- <i>Volume of business & capital requirement</i>

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



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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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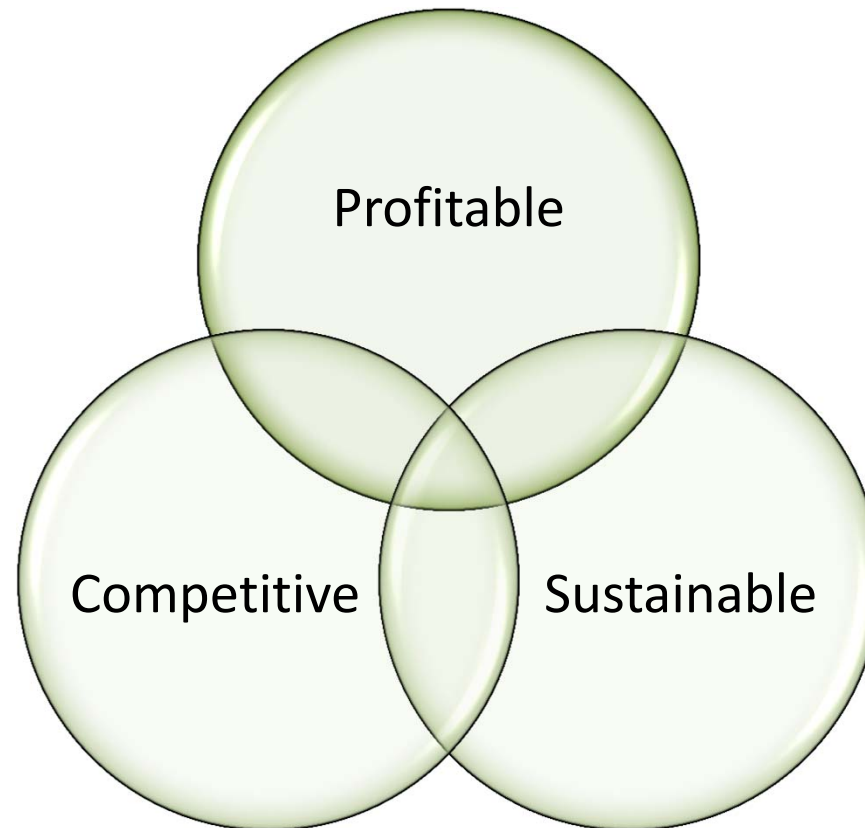


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Pricing



- 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?