



Institute of Actuaries of Australia

BIENNIAL CONVENTION 2011

BEYOND THE MANDATE



CALL FOR PAPERS

10 –13 APRIL 2011 • HILTON SYDNEY

LONG TERM CARE : WHAT CAN WE LEARN FROM THE INTERNATIONAL EXPERIENCE?

Bridget Browne & Romain Bridet

Key words:

Long Term Care, international social security systems, life insurance

Purpose of your paper:

The paper will examine the Long Term Care insurance product in a variety of countries with a special focus on France. It will examine the links between the regulatory and social security environment and insurance products with commentary on the important role of cultural influences.

The paper will then consider the possible implications for the Australian situation.

Synopsis:

1. Introduction
2. UK, US, Germany, Spain and Israel
 - a. Demographic situation
 - b. Regulatory environment and social security systems
 - c. Insurance products – characteristics, volumes
 - d. Current topics
3. France
 - a. Demographic situation
 - b. Regulatory environment and social security systems
 - c. Insurance products – characteristics, volumes
 - d. Current topics
 - i. legislative reform
 - ii. development of Group products
4. Australia
 - a. Demographic situation
 - b. Regulatory environment and social security systems
 - c. Insurance products – characteristics, volumes
 - d. Current topics
 - i. Why the differences with the other countries?



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Does it hurt when I do this? The likely cost of catastrophic medical injuries under a national disability insurance scheme.

Jonathan Cohen, Linda Satchwell, Adrian Gould and Win-Li Toh

Key words: Medical indemnity, eligibility, NDIS

Purpose of your paper: To estimate the cost of medical injury claims under a national disability insurance scheme for a range of possible scheme arrangements.

Synopsis:

The Productivity Commission is currently preparing recommendations for a national disability insurance scheme. The scheme's intended mandate is to provide nationally consistent funding for the care and support of severely and profoundly disabled Australians. A significant amount of the complexity of such a scheme revolves around harmonising existing compensation channels for those people whose disabilities are caused by injury. Compensation for those catastrophic injuries that arise from medical negligence is currently dealt with via a tort-based system. Assuming that the most severe of these claims are removed from the courts, it is essential that scheme eligibility criteria are clearly defined and that their ramifications for scheme affordability are well understood. There are currently a number of proposals under consideration ranging from maintaining the status quo to an all-encompassing no-fault scheme. By considering a representative set of real medical indemnity claims, we are able to assess the likely cost of negligence-induced medical injuries under a range of scenarios and, by extension, the likely cost of these injuries regardless of fault. Additionally, we consider the consequences of the various scenarios on injury prevention and on existing governmental subsidies.



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When too much is not enough: capital in a mutual health fund

Peter Carroll

Key words:

capital, health insurance, mutual, profit, return, target, prudential, economic, market

Purpose of your paper:

Determine the maximum capital that should be held by a mutual, or not-for-profit, health fund.

Synopsis:

A for-profit health fund, with access to a parent financier or capital markets, holds capital above that necessary for prudential, economic and market reasons only if it can offer to the capital stakeholders profitable returns in competition with other investments. Such considerations help set a *minimum* threshold for capital in a not-for-profit health fund too, especially where the mutual structure constrains access to additional capital. The question arises as to whether there is a rational *maximum* capital that a mutual should accumulate, under conditions where additional capital offers both a more secure structure and lower prices.

This question is particularly apt in the current Australian health insurance market, where competition has emerged among for-profits, not-for-profits and hybrid funds, and all funds are required to set and justify explicit capital targets to the regulator.



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Health Financial Condition Reports – the first 5 years

Adam Jupp / Raewin Davies

Key words: (enter up to 10 key words applicable to your synopsis / paper / presentation)
Health, Financial Condition Report, Survey

Purpose of your paper:

Based on a survey of insurers and appointed actuaries, this paper reviews the perceived value of financial condition reports for health insurers.

Synopsis:

A financial condition report has been mandatory for Private Health Insurers since 2005. This paper considers the usefulness of FCRs, including:

- Purpose
- Process undertaken in preparing an FCR
- Perceived usefulness from the Board / management / Appointed Actuary perspective
- Hindsight review of the risks covered in the FCR
- Learnings from other practice areas



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GROWING PAINS: Measuring selection effects in Private Health Insurance

Andrew Gale

Key words: private health insurance, selection, growth, claims experience

Purpose of your paper: This paper discusses and analyses selection effects in private health insurance claims experience, particularly during periods of significant membership change.

Synopsis:

Australia's community rated private health insurance system relies on younger and healthy members subsidising the health costs of older and sicker members. Health insurers focus heavily on increasing their appeal to these younger and healthier members and government regulation has also played a role in changes in the participation rate for this segment.

The lower claims costs of younger and healthier members combined with the selection effects of members joining and leaving results in changes in aggregate claims experience. An understanding of these changes is crucial to pricing decisions, profitability analysis and forecasting.

This paper provides a quantitative analysis of demographic mix and selection effects in health insurance using published industry data.



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Contemporary Issues in Private Health Insurance

By Health Practice Committee (Andrew Gale, Ben Ooi & David Watson)

Key words: private health insurance, contemporary issues

Purpose of your paper: To discuss contemporary issues of interest to actuaries practicing in, or interested in, the private health insurance industry

Synopsis: This workshop will provide the opportunity to discuss the latest developments in private health insurance including:

- legislative and regulatory developments
- role of the Appointed Actuary
- industry trends
- cost pressures
- risk equalisation
- contribution rate increases
- solvency and capital adequacy
- accounting standards

and lots more.

This session will take the form of a presentation covering these contemporary issues followed by a discussion. No paper will be distributed.



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**What is the 'appropriate' price for a community rated product?
A case study of private health insurance in Australia**

Karl Niemann

Key words: Pricing, profitability, community rated, health insurance, experience analysis, benefit growth

Purpose of your paper:

To outline and discuss the drivers that affect the profitability (and thus the 'appropriate' premium) of community rated products that are not necessarily apparent from their historical level of performance.

Synopsis:

Traditional actuarial techniques suggest that the premium charged for a product is largely based on the resulting benefits that are expected to be paid. Hence, insurance premiums are underpinned by an analysis on the likely benefit payments of purchaser of a policy. Under a community rated system, however, the information available to assess the expected benefit payments of the policyholder is limited and the data that is available is legislatively prohibited from being used to affect the premium. The result is that that premiums are charged without a direct link to the expected payments of the policyholder.

An approach that can be taken is to base prices on recent experience, and review the price needed for a particular margin or return on capital. However, in an industry where the risk of an individual cannot be specifically assessed and benefit payments of a policy are arguably independent for the premiums received, experience, by itself, hides a number of significant factors that can drive benefit payments.

This paper discusses a number of these factors and details the effects on premiums that has led to large difference in prices for essentially the same product. Ultimately, this paper discusses the factors that determine whether the current prices are 'appropriate' and highlights the changes that can result in premiums being 'inappropriate'.



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Seven Up: The Appointed Actuary in Australian Health Insurance 7 years on

Stuart Rodger

Key words: Appointed Actuary, Private Health Insurance, Professional, Influence, FCR, Board

Purpose of your paper: This paper is intended to allow all members of the profession, including all those practising in health who are not already an Appointed Actuary, to explore what this role has contributed and what it requires in future.

Synopsis: Seven years after the introduction of the Appointed Actuary role for Australian private health insurers what difference has it made, what has been learned, and how might it develop in future?

The paper will include a brief review of the history of the PHI AA role, some statistics, a review of the work performed, learning points, and potential directions for the future.



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Risk Equalisation 2020 – Is the current system sustainable?

Jamie Reid, Sonia Tripolitano, Ashish Ahluwalia

Key words: Health insurance, risk equalisation, market structure, industry change

Purpose of your paper: To examine whether the current health insurance risk equalisation arrangements are sustainable, and consider whether there are superior alternatives.

Synopsis:

Risk equalisation shares certain costs across all health insurers, and is therefore an essential part of Australia's community rated private health insurance system.

The size of the risk equalisation pool has increased significantly since the new arrangements were introduced, meaning that higher costs are passed to younger policyholders. Private health insurance needs to continue to be financially attractive to younger Australians in order for the community rating system to remain viable.

The paper will:

- Estimate the size of the risk equalisation pool in 2020, identifying the drivers of change.
- Comment on the future impact of the risk equalisation pool on the viability of the Australian private health insurance model.
- Investigate whether alternative risk equalisation arrangements may be more sustainable.