



SOCIETY OF ACTUARIES

Article from:

Health Section News

August 2000 – No. 38

with the pended claims, there is still less uncertainty than with the "Incurred but Unpaid" of the previous model. With one month's runout, these claims have made up about 10% of "Incurred but Unpaid."

- **Incurred but Not Reported** — These are the claims that have yet to be received from the service provider. These claims need to be estimated based entirely on historical data showing submission patterns. This data has uncertainty similar to that of "Incurred but Unpaid," which would have a traditional lag triangle. Because we are now looking at the lag in reporting, not payment, we changed our models accordingly and estimated counts of claims which were IBNR. To estimate the dollar value of these claims, we used the same method as described above with the submitted but unprocessed claims.

With this new methodology, we have been able to reduce the uncertainty on 80% of previously uncertain claim amounts. This has allowed us to reduce the subjectivity of our reserve estimates while increasing the accuracy.

Not all claims processing systems will provide data to allow breakdowns exactly like those described above. However, hopefully this discussion has illustrated the potential of using available data for us as actuaries to become better practitioners of our craft.

Robert Bachler, ASA, MAAA, is vice president, actuarial at Educators Mutual Insurance Association in Murray, Utah. He can be reached at BachleRo@educatorsmutual.com.

Disability in the New Millennium - A UK Perspective

By Sue Elliott

In the United Kingdom in recent years, a great deal of attention has been given to all health care products. As the "cradle to grave" welfare state has slowly begun to disappear; people are realizing that they will need to provide for themselves. As an industry, we need to be in a position to supply products that suit the needs of the consumer and are flexible enough to cope with their changing needs. The government has the right idea, focusing on "ability" and what people can do, not what they cannot do. As an industry, we should follow suit.

The Last Decade

During the '90s, key health care products have had mixed fortunes.

Critical illness insurance has been available in the UK since 1986 and has enjoyed exceptional sales in the last decade, as can be seen from the chart below.

Year	New Policies
1992	177,3356
1993	230,800
1994	251,407
1995	302,245
1996	470,468
1997	626,584
1998	694,263

Income protection, on the other hand, has often been referred to as "the Cinderella product that has never made it to the ball." It has suffered several false dawns, as providers failed to maximize its potential in lukewarm responses to various government initiatives. Independent Financial Advisors (IFAs) complained that the product was too complicated and too expensive. Rates rose due to the poor experience that came about because of less than optimal risk management.

As can be seen from the following chart, income protection sales have been relatively flat, although there has been a small increase since 1996.

Year	New Policies
1992	153,000
1993	152,177
1994	116,405
1995	117,212
1996	127,514
1997	143,553
1998	156,424

As in the United States, the leading causes of income protection claims are now stress-related illnesses, which because of their duration are very costly. The key question is: how do we provide some sort of protection and at the same time, minimize our exposure to such risks?

Long-term care insurance (LTCI) has been available in the UK since the early '90s. It is still undersold, mainly due to a lack of awareness of the need and to confusion about what the product is intended to cover. Efforts have also been made in the UK to link LTCI with pensions, as both are providing funding for the retirement years. A Royal Commission to investigate the funding of long-term care in the UK was initiated in December 1997 and reported back on March 1, 1999. Many recommendations were made, but as yet none have been implemented.

Year	In-force Policies
1995	15,598
1996	16,637
1997	22,924
1998	29,257

The above table shows very low penetration of LTCI in the UK, but similar growth patterns have been observed in other markets.

The reform of the welfare state and

Disability in the New Millennium - A UK Perspective

continued from page 17

the resulting change in the benefits system will most certainly have an impact on income protection and long-term care insurances. As the state withdraws provision, there will be an increasing role for private insurance. However, we need to realize both that there is no one compelling solution and that change will be a long, drawn-out process.

The main issue that needs to be addressed is that of “definition drift” on the ADL (Activities of Daily Living) criteria. Although what constitutes failure of an ADL is clearly stated in the policy wordings, offices are under pressure to pay claims that do not entirely satisfy the claims criteria. This could be a result of failing to manage customer expectations

Rehabilitation also has a major role to play in the management of our health care products.

Technology and medical advances, too, will have an impact on our industry. We need to be able to anticipate changes and quantify their potential financial impact

Last, but certainly not least, changing consumer attitudes and expectations must be addressed. Generational differences should be recognized. For example, “baby boomers” will have a different attitude about who should take care of them in old age than the current elderly population, who have grown up believing that the welfare state will provide.

Government has become much more consultative, so we need to work with them to develop solutions that benefit both the public and private sectors....

Current Issues

For critical illness, the main concern is the durability of claims conditions to a changing environment. What will be the impact of legal challenges and, more importantly, medical advances? The claims criteria are based on “diagnosis.” So, for example, increased screening for certain cancers could adversely impact our claims experience. On the plus side, the industry has just introduced benchmark definitions for both the core diseases and 13 further diseases. Such standardization should increase IFA confidence and improve consumer understanding.

The main concern for income protection (IP) is the low penetration in the market. It is undersold and poorly understood, often being confused with other healthcare products. As an industry, we have also suffered from poor claims experience, but we have slowly come to realize that to write a profitable book of IP business, sound risk management with a holistic view across all disciplines is needed. Offices with this type of focus have been very successful.

Like income protection, long-term care insurance has suffered from low penetration and lack of understanding.

at the point of sale, which is vital. The message at outset must become a “claims reality” if we do not want to suffer another mis-selling scandal. The “care element” of the product also needs to be emphasized at the point of sale; it is a product that allows policyholders to grow old with dignity and to maintain their independence for as long as possible.

Key Drivers into the New Millennium

One of the key drivers going forward is the role of the government. The welfare reform agenda will be shaping and developing over the next few years, focusing on what the state will and will not provide. Consumer research shows that people are becoming more aware and more willing to provide for themselves. Government has become much more consultative, so we need to work with them to develop solutions that benefit both the public and private sectors, such as public/private partnerships.

An increased focus on preventative care — encouraging qualitative improvement in the lives of older people through exercise, constructive leisure pursuits and education — in both the public and private sector will benefit the industry.

Summary

Customers are becoming more financially astute and aware of the products available. They are looking for simplicity of purchase and to have confidence in that purchase. They will attach different priorities to different products as their life stages change, and the whole process will be about “relationship” rather than “transaction.” We must understand our clients’ needs and seek to meet these needs.

Sound risk management with a holistic view across all disciplines is vital for the success of our healthcare products going forward. We need to recognize and appreciate what each discipline brings to the table.

There are still issues that need to be addressed, but we need to view these as opportunities to continue the development of a successful health care market in the UK. As Einstein said, “Behind every difficulty lies an opportunity.”

Susan Elliott, FSA, FCIA, MAAA, is a health care actuary in the London, England office of Swiss Re Life & Health Limited. She can be reached at sue_elliott@swissre.com.