



SOCIETY OF ACTUARIES

Article from:

# International Section News

July 2005 – Issue No. 36

# Insurance Market Behavior and Health Insurance Seminar Held in Beijing

by Howard J. Bolnick



*March 14-18, 2005 – The 60 participants gather for a group shot at the Insurance Market Behavior and Health Insurance Seminar held in Beijing, China.*

Sixty Chinese actuaries, health executives and regulators from the China Insurance Regulatory Commission (CIRC) attended the Insurance Market Behavior and Health Seminar held in Beijing at Central University of Finance and Economics (CUFE), March 14-18, 2005. This seminar was developed and taught by Howard Bolnick. He is a former president of the SOA, an experienced health insurance actuary and company executive, adjunct professor of finance at the highly rated Kellogg School of Management and currently, chairman of the IAA Health Section. The seminar was first conceived and developed in 2001 at the request of the three Baltic State actuarial organizations to introduce the special characteristics of health insurance markets and health insurance to actuaries and insurance executives in countries where health insurance products are in their formative stages. Professor Bolnick has taught the seminar in five Eastern European countries. The seminar in China, which was taught in English, is the first one to be held in Asia.

The Beijing seminar was hosted by the China Institute for Actuarial Science at CUFE and its dean, Professor Li Xiaolin. Valuable administrative support was provided by CUFE, the Society of Actuaries of China (Liu Donghong, administrator) and the Society of Actuaries Hong Kong Office (Pat Kum, coordinator and her assistant, Sarah Hui). Funding support was provided by the Society of Actuaries including the International and Health Sections, ASTIN and Munich Re's Beijing office. ASTIN has been a generous and very appreciated supporter for a number of Professor Bolnick's previous health seminars.

The seminar was an intensive learning experience. Classes were held over five consecutive days for five hours per day. In addition, there was reading and a very important economic market-structure exercise that attendees needed to complete in advance of class. The seminar stresses the importance of (non-mathematical) risk management tools over actuarial analyses. Seminar attendees are trained in general nonmathematical tools needed to properly design and manage health insurance portfolios rather than provided with detailed product-by-product design and operating considerations.

Health insurance differs significantly from other areas of actuarial specialization. Success in developing and managing health insurance portfolios depends much more on understanding insurance market dynamics and customer behavior than on being good actuarial mathematicians. The seminar emphasizes this very important theme. It consists of two distinct parts. The first part describes the unusual economic and behavioral characteristics and fundamental problems of insurance markets (which are referred to by economists as markets with asymmetric information). It then uses these characteristics to uncover consequences of market structure for insurance products; and, finally, attendees discover how insurance company risk management tools are used to overcome these problems so that insurance markets are both feasible and viable. The

second part applies this framework and risk management tools to a variety of health insurance products found in most insurance markets.

During this second, health insurance product-oriented portion of the seminar, Professor Bolnick was joined by two SOA members, each with extensive experience in the Chinese health insurance market: Song Song Liao, ASA, who is general manager, health for Munich Re in China and Davout Yean, FSA, vice president and head of product development for AIG in Beijing. Their knowledge and help was invaluable in making the seminar a huge success. A rapidly developing and very favorable environment for private health insurance in China explains the large number of seminar attendees and their enthusiasm for the material.

The previous government health care financing and delivery system has been replaced with a mixed public social insurance—private health insurance financing system supporting an evolving health care delivery system. Unlike Eastern and Central Europe, where Communist era government health care systems were transformed into wage-tax based social health insurance systems looking quite like those found throughout the pre-expansion EU, the health care financing system in China is being totally reformulated and reconstructed. Social health insurance to cover some of the cost of hospital care exists only in urban areas, and, even in these areas, it does not even cover all workers. Health care financing in rural areas, where institutional financing no longer exists, is a real problem.

From conversations in China with seminar students, other insurance executives and regulators from CIRC, it appears that the huge “gap” in health care financing between the modest benefits offered by government Social Insurance Bureaus (SIB) and the cost of Chinese citizens’ health care needs will be filled in the future largely by new private health insurance companies and managed care plans.

There are currently only a small number of health insurance companies with licenses to operate in China, as well as a limited number of Chinese life and general insurance companies that are exploring the health insurance market as adjuncts to their primary insurance businesses. For the future, CIRC appears to favor encouraging the formation of new insurance companies that specialize in health insurance. Consequently, there is strong interest in developing joint ventures between health insurance specialists from developed countries and new Chinese health insurance companies.

While the general direction of growth in health care financing is clear, the problems and unique characteristics of China and Chinese insurance markets means that there is both great opportunity and great peril to those entering such a new and unformed market. There is a strong sense that opportunity outweighs peril for companies from developed countries that know health insurance and health care delivery and can find appropriate ways to merge their ideas and knowledge with Chinese culture and integrate successfully with China’s developing health care delivery system. If this is successfully done, 15 to 20 years from now private health insurance in China will be the largest market in the world!

Past successes, including this recent Beijing seminar, reinforce the attractiveness of this health seminar and others like it to actuarially developing countries where there is a core of well-trained actuarial mathematicians who are seeking guidance from experienced professionals on how to apply their skills to product-specific problems they face on the job. Central and Eastern Europe have been the focus of this type of seminar to date. Interest is now being expressed from Asia. For the future other opportunities exist in a wide range of actuarially developing areas such as Central Asia, India, Southeast Asia, Latin America and Africa. □

**While the general direction of growth in health care financing is clear, the problems and unique characteristics of China and Chinese insurance markets means that there is both great opportunity and great peril to those entering such a new and unformed market.**



*Howard J. Bolnick, FSA, MAAA, HonFIA, is chairman of the Infocus Financial Group, Inc. in Chicago, Ill. He can be reached at [hbolnick@kellogg.northwestern.edu](mailto:hbolnick@kellogg.northwestern.edu).*