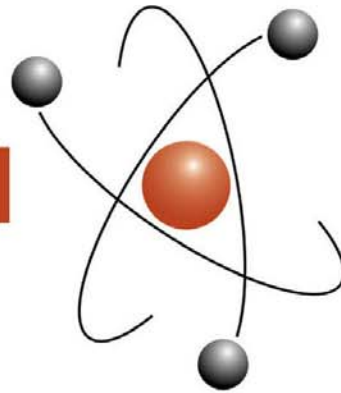


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A B I L I T Y

ACTUARIES AND THE FUTURE

The Evolving Role of the Actuary in Health Insurance

Peter Lurie

PricewaterhouseCoopers



Institute of Actuaries of Australia



Presentation outline

- **overview of health insurance market**
- **actuarial role to 2000**
- **the expanding role since then**
- **the appointed actuary arrives**
- **the actuarial response**
- **challenges ahead**



Overview of health insurance market

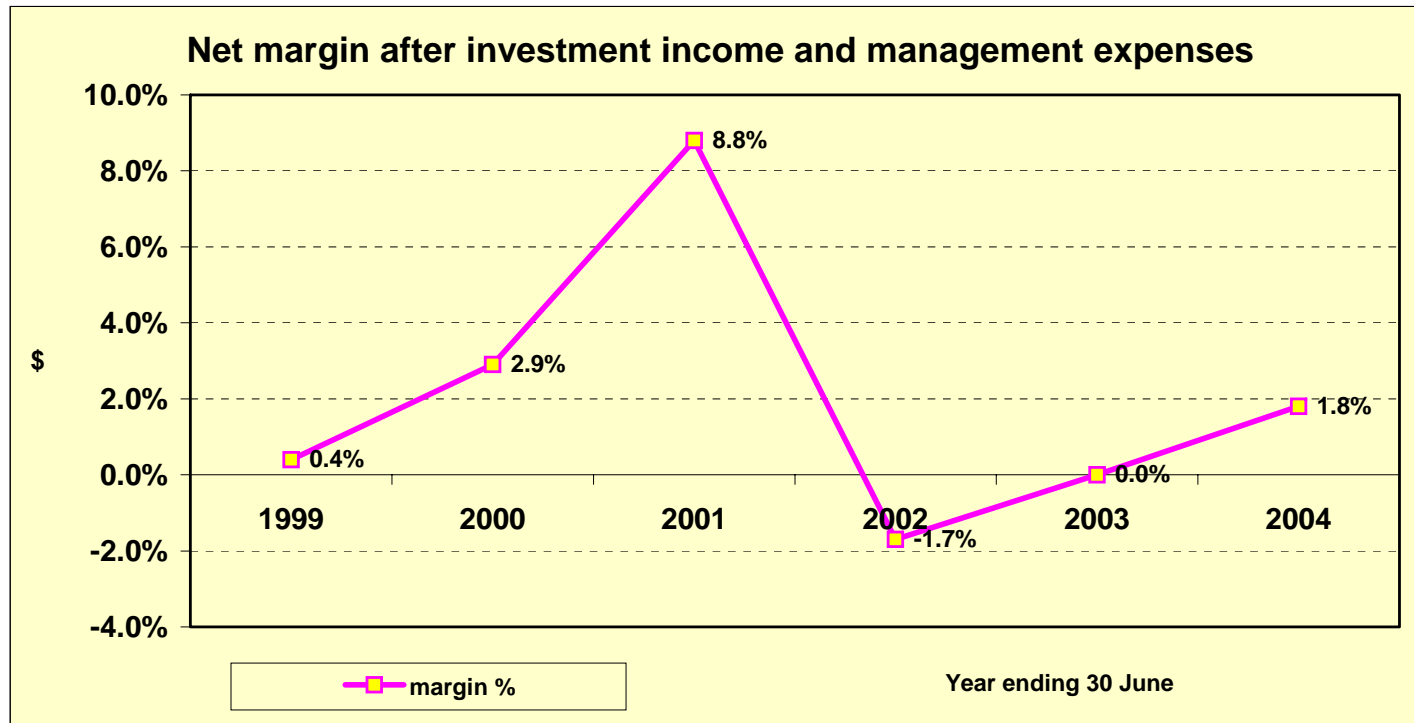
- **market concentration in big 6**
- **profitability of health insurers**
- **distribution of benefits**
- **regulators**

Market concentration

Insurer name	Premium income for 2003/04	Market Share	Consolidated premium 2003/04	Market Share
	\$bn	%	\$bn	%
Medibank Private	2.415	28.0%	2.415	28.0%
MBF	1.495	17.3%	1.700	19.7%
Bupa	0.911	10.6%	0.911	10.6%
HCF	0.655	7.6%	0.729	8.4%
HBF	0.624	7.2%	0.624	7.2%
NIB	0.450	5.2%	0.460	5.3%
all others	2.085	24.1%	1.796	20.8%
Total	8.635	100.0%	8.635	100.0%

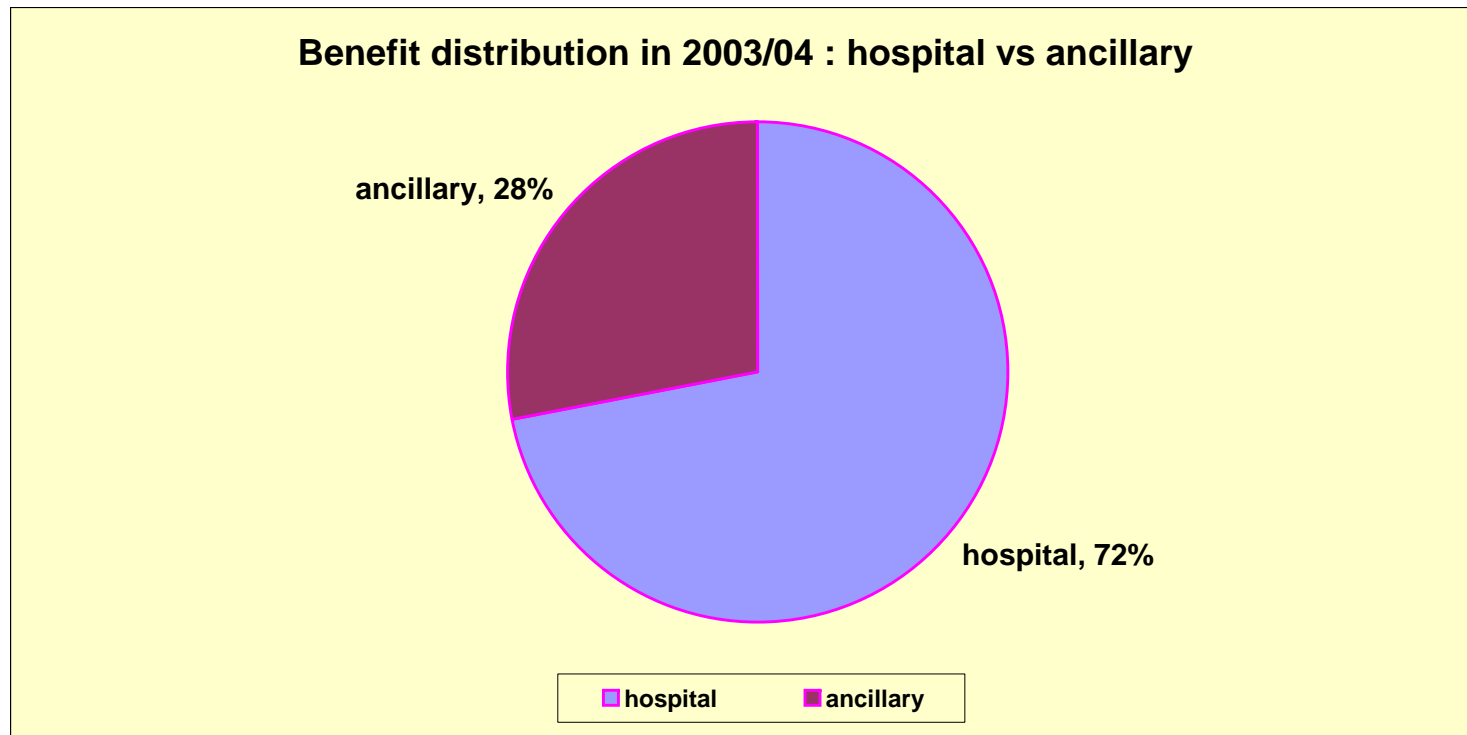


Profitability of health insurers



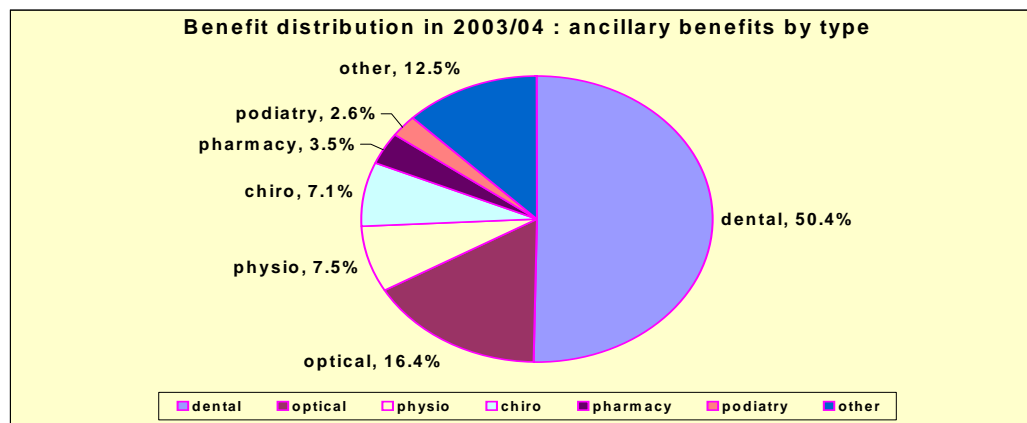
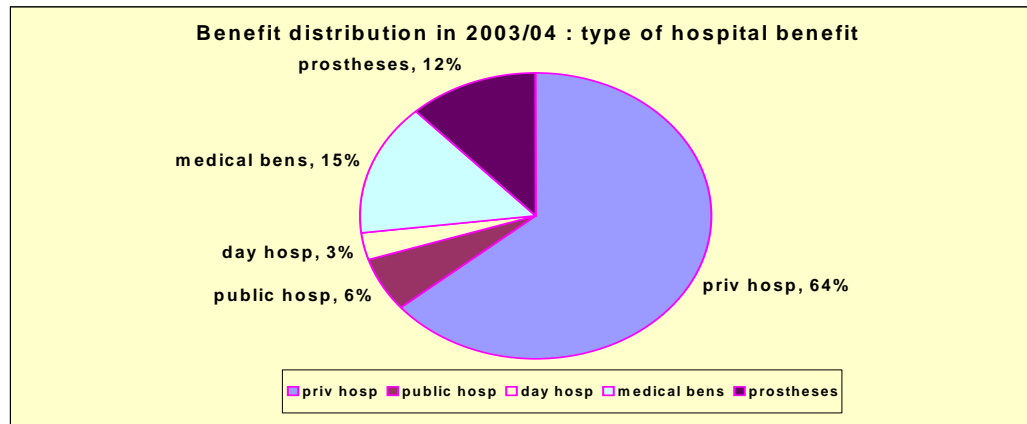


Distribution of benefits





Distribution of benefits





Regulatory framework

- **shared between DHA and PHIAC**
- **DHA – products and prices**
- **PHIAC – prudential regulation & reporting. Estd 1989**
- **two-tier capital requirement -**
 - **solvency standard – run-off view**
 - **capital ad standard – ongoing view**



Evolving actuarial role up to 2000

- **actuaries involved for several decades**
- **health role narrow compared to life & GI**
- **health insurance became more complex**
- **relatively few actuaries involved :**
 - **with large funds and regulators**
 - **pricing, claim trends and reserving**
 - **plans to remedy solvency breaches**
 - **Sect 82K National Health Act 1953 appointments**



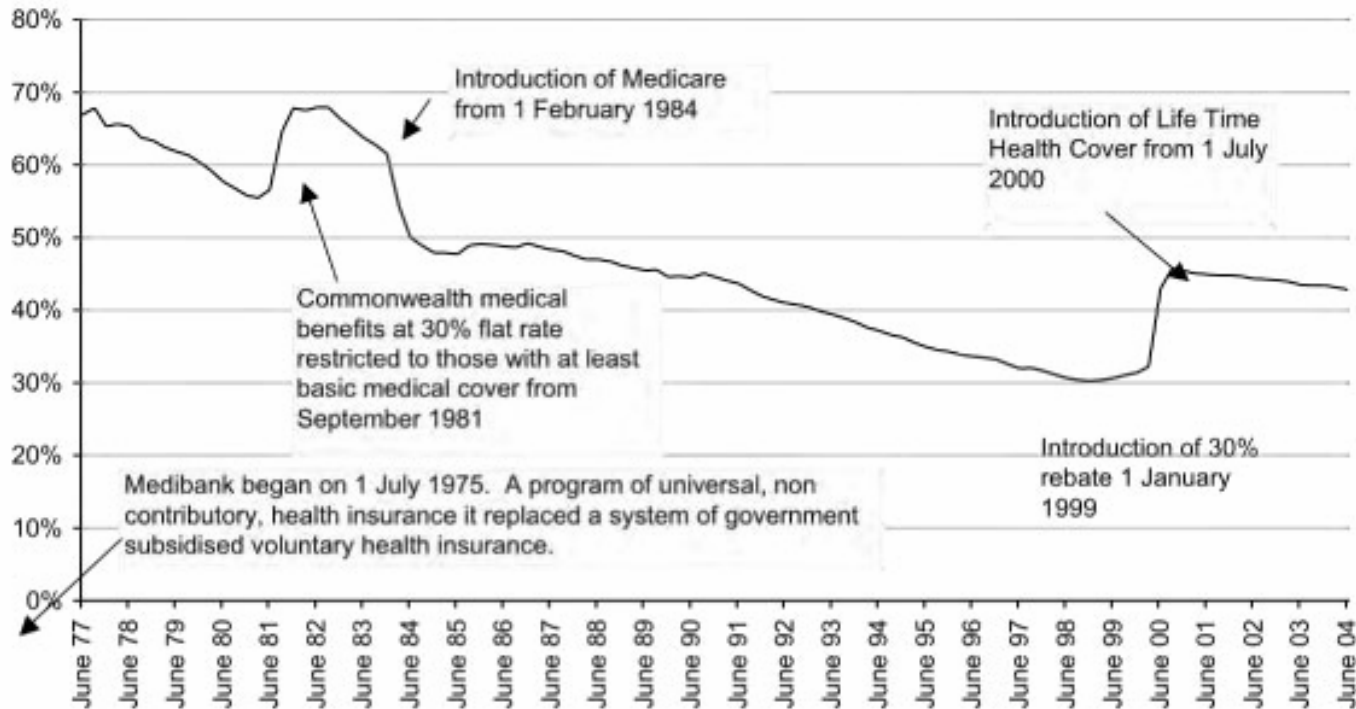
Key drivers of change for insurers and actuaries

- **30% rebate – Jan 1999**
- **lifetime health cover – July 2000**
- **Gap cover schemes – Aug 2000**
- **solvency and cap ad std – Jan 2001**
- **actuarial rate review certificates – Nov 01**
- **appointed actuary role – July 2004**

Membership trends

[source : PHIAC Annual Report 2003-04 page 44]

Figure 44. Percentage of Persons Covered by Hospital Insurance 30 June 1977 to 30 June 2004





Key drivers of change (contd)

- **LHC increased membership**
- **LHC improved claim experience & profits**
- **adverse claim costs a year later**
- **several funds got into financial trouble**
- **increased demand for actuarial advice**
- **DHA actuarial certificates + AA role**



Appointed Health Actuary role

- **annual rate review certification**
- **product development opinions**
- **discretionary margins advice sol&cap ad**
- **risk margins for technical liabilities**
- **FCR – financial condition report**



Financial Condition Reports

- **risks to future solvency and profitability**
- **recent overall performance**
- **prospective performance**
- **adequacy of contribution rates**
- **capital adequacy modeling**
- **3 year min forward projection**
- **investment / asset review**



Actuarial response

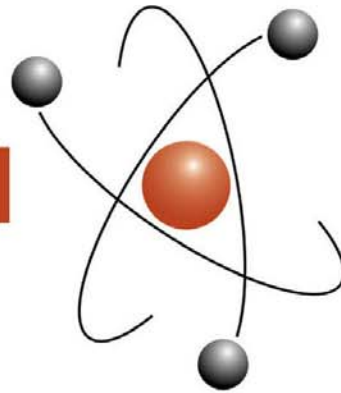
- **list of experienced health actuaries**
- **Institute issues guidance notes on:**
 - **outstanding claim valuations**
 - **financial projections**
 - **FCRs**
- **workshops and seminars with PHIAC**
- **good co-operation between Institute, actuaries and regulators**



Future challenges

- **supply of experienced actuaries**
- **add value to health insurers**
- **affordability to medium / small insurers**
- **keeping up with health environment and technology advances**

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