

Actuarial Circular Notice on Group Medical Pricing

1. BACKGROUND

The mission of ASHK is to represent, develop and inspire the actuarial profession in Hong Kong to serve public interest. In Hong Kong, it seems that the employee benefits insurance market, especially the group medical insurance, has already been struggling in the long term profitability for many years, and this seems to reduce the long term sustainability of the industry. On one hand, there should be a free market for competition. On the other hand, actuarial profession should provide sufficient information to the management of insurers to make informed decisions. It is natural for more efficient competitors to be profitable and less efficient competitors to be unprofitable, but this may probably not lead to a sustainable market if the overall market is not making reasonable profit over the long term. The instability of the market is not in the public interest.

To tackle the above issue, ASHK Pension and Employee Benefits Committee (“the Committee”) conducted a survey in Hong Kong to understand the practice of actuaries in performing pricing analysis for group medical insurance. Based on the results of the survey and then subsequent discussions with actuaries practicing in group medical insurance, the Committee has decided to issue this circular notice to actuaries on group medical pricing analysis to encourage best practice in the industry.

A taskforce has been formed within the ASHK and it consists of the following ASHK members:

- Ellen Leung
- Billy Wong
- Gary Lee

2. SCOPE

The general principles documented in this note are intended to be generic and actuaries who perform any actuarial work in relation to the group medical insurance pricing in Hong Kong are encouraged to follow them.

3. GENERAL PRINCIPLES

- 3.1 The actuary should follow the principles as outlined in this circular notice and should use their best effort to document any deviation from this circular notice and the reasons of those deviations.
- 3.2 When performing the group medical pricing, the actuaries should clearly state their understanding of their duties and their powers in every pricing output. For example:
 - The actuary is providing actuarial advice to the business by performing the best estimate calculation of future medical claims only, and does not have the power nor the responsibilities to determine the final pricing and the long term sustainability of the business.

- The actuary is providing actuarial advice to the business by calculating the expected profitability of each case and/or the business after considering the uncertainty of medical claims and all other costs, and does not have the power nor the responsibilities to determine the final pricing and the long term sustainability of the business.
 - The actuary is managing the group medical pricing process to ensure that the group medical business is expected to be sustainable over the long term after considering the capital commitment and the expected return on capital or the business over a specified period.
- 3.3 Under normal circumstances, the actuary should perform the actuarial calculation for the group medical pricing only if the actuary receives sufficient information and believes these information are credible. In a situation where there is insufficient information and a price still needs to be provided, the actuary should use their best effort to document the reasons for not being able to obtain the information and then document the reasons to justify their pricing. Examples of information to obtain for pricing include and not limited to the following:
- Benefit provisions
 - Terms and conditions of the claims
 - Medical claims history of at least 36 months split by each claim category, breakdown by at most 12-month period. The claim history should be at most 6 months prior to the policy effective date.
 - Average age of the insured
 - Gender mix of the insured
 - Description of the occupation and geographical location of the insured
 - Number of the top 10 claimants still staying in the insured pool
- 3.4 The actuary should maintain their own list of minimum data requirement for the purpose of performing their duties.
- 3.5 The actuary should use their best effort to cater for assumptions relevant to group medical pricing, which includes and not limited to the following:
- Medical Inflation
 - Morbidity trends
 - IBNR
- 3.6 When presenting the pricing results, the actuary should use their best effort to include scenarios in order to give senior management an expectation on the range of potential outcomes. Potential scenarios may include and not limited to the following:
- Best estimate scenario
 - Best case scenario
 - Worst case scenario

The estimated likelihood and severity of each scenario should be clearly documented.

The assumptions supporting each scenario should be clearly documented.

Please refer to AGN 9 for best estimate assumptions.

- 3.7 The actuary should use their best effort to cater for ad-hoc group medical pricing request including, but not limited to the following:
- Overage members
 - Period of cover beyond 12 months
 - Reinsurance and international pooling arrangements
- 3.8 The paragraph 5.1(b) of Guideline on Medical Insurance Business (GL 31) issued by the Insurance Authority requires the insurers to put in place appropriate policies, procedures and controls to enable them to price a medical insurance product reasonably taking into account the sustainability of the product.
- 3.9 In response to 3.8, the actuary should prepare an annual report for the group medical pricing business to the management with the following:
- The sustainability of the group medical business based on the existing medical pricing practice. In some cases, an insurer may consider the sustainability of group medical insurance business together with other lines of business (e.g. group life insurance business, individual medical insurance business, etc.). If the actuary could not have full access to the information of these other business lines, then the actuary should state that they could not ascertain the sustainability of the group medical business.
 - The major drivers of the gains or losses of the overall portfolio to the management over last 12 months
 - Compared their previous forecast of profitability against the actual outcome over last 12 months

4. Other Considerations

Despite the general principles discussed, it is anticipated that special considerations and adjustments are inevitable under some circumstances.

5. Commencement Date

This circular notice shall become effective on 1st March 2021.

END OF ACTUARIAL CIRCULAR NOTICE

Disclaimer

The Actuarial Society of Hong Kong (“ASHK”) disclaims all liabilities and responsibilities in respect of warranties, conditions and/or terms of any kind, whether expressed or implied, and shall not be liable for any loss or damage whatsoever [including direct, indirect, special, incidental, consequential and/or exemplary (whether in tort or contract or otherwise) loss or damage], arising out of, and/or in connection with, any use of and/or reliance on any information and materials written, printed, uploaded, produced and/or provided by ASHK.

While it has made efforts to ensure the information and materials provided by ASHK are relevant and appropriate, ASHK accepts no liability or responsibility for the accuracy, completeness, suitability, reliability and/or omission thereof. ASHK recommends that readers exercise due care, using their own skills or by seeking independent professional advice if appropriate.