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Report on the Review of Group Medical Insurance Pricing Practice in Hong Kong 2019

**The Actuarial Society of Hong Kong
Pension and Employee Benefits Committee**

(Disclaimer: This report is intended for the purpose of information only. The contents of this report are not to be construed as any form of actuarial, legal, business, investment or other advice.)

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If you have any question on this paper, feel free to email to info@actuaries.org.hk.

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 may consider to issue guidance to actuaries on pricing analysis to encourage best practice in the industry.

The survey addresses the practice of actuaries in Hong Kong and we do not intend to collect proprietary information from insurers.

A taskforce has been formed within the Committee. This report is approved to be released to the public by the Committee on October 2, 2019 and the Council of ASHK on October 4, 2019. The taskforce consists of the following ASHK members:

- Gary Lee
- Ellen Leung
- Billy Wong

2) Profile of the Survey Participants

Based on ASHK membership, we have sent out the request to 14 actuaries which we believe they are being involved in the group medical pricing in Hong Kong. 9 of them responded and participated into the survey. All participants indicated that they have been involved in the pricing analysis of the group medical insurance in Hong Kong while only one of them is not currently involved. They indicated that they worked in AIA, AXA, Bank of China, Bupa, Cigna, FWD, Generali, Manulife and Sun Life.

We are not able to obtain market share information of group medical insurance from the public domain. However, based on our understanding of the market, we believe the participants' employers have already represented more than 70% share of the group medical insurance market in Hong Kong. Hence we believe this survey has provided a good representation of the current pricing practice in Hong Kong market.

44% of participants indicated that they have 10 years+ of post-fellow experience, and other 33% indicated that they have 6-10 years of post-fellow experience. 44% indicated that they have more than 5 years of group medical pricing experience, and other 44% indicated that they have 3 to 5 years of group medical pricing experience.

We believe the participants are sufficiently senior to provide the insights of the pricing practice.

3) Survey Results

3.1) Factors to be considered for pricing

All actuaries have considered actual claim history over last year and last 3 years.

Majority of actuaries have considered whether the claimants are still active in the group (89%), occupation and industry (89%), whether insured's work location outside Hong Kong (89%), overall client and business relationship (89%), age mix (78%), and new medical procedures and relevant costs (78%).

Some actuaries have considered actual claim history over 5 years (67%), administrative needs from employers (67%), gender mix (56%) and credit facility arrangement (56%).

A few actuaries have considered nationality of the insured (44%), experience of the distribution channel (33%) and industry experience tables (22%).

33% have responded that they have considered some health indicators but this is limited to either voluntary members or small companies.

Only 11% indicated that they have considered beyond the above factors.

3.2) How actuaries present the pricing recommendation

All actuaries have normally highlighted the major drivers of the loss of the overall portfolio to the management and majority (89%) of actuaries have normally compared their previous forecast of profitability against the actual outcome but only 22% of actuaries normally present the probability distribution of profitability to the management.

Only 22% have responded they can make all pricing decisions while total 44% (including the above 22%) have responded that actuaries (but in different roles) are making final decisions.

The remaining 55% have responded that average 32% of their pricing recommendation have been overridden by non-actuaries.

3.3) What guidelines actuaries have relied on for pricing

All actuaries have responded that they have followed PS1 when setting the premium but only 44% indicated that they have explicitly followed.

22% of actuaries have indicated that they have relied on CAS guideline and 11% of actuaries indicated that they have relied on internal guideline.

4) Conclusion

The committee has engaged with the survey participants and hosted a discussion session on September 24, 2019. All presented survey participants indicated that a guidance note from ASHK on group medical pricing practice will likely enhance the long-term sustainability of the market and the findings should be beneficial to the insurance industry and the public.

The Committee is reviewing the feasibility of the issue of a guidance note on the Group Medical Pricing Practice for Hong Kong actuaries.

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