Group Benefits Pricing

Stakeholder Engagement

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Introduction

- Group Benefits offered in the market
  - Group Life Assurance
  - Group Critical illness
  - Group Occupational and Accident Cover
  - Group Last Expense
  - Group Credit and Mortgage
  - Retrenchment cover
- Key issues affecting the market

What does the framework address

- Lack of adequate data to price
  - Guidance on minimum data requirements that will apply for any Group Benefits quote to be done
- Application of actuarial techniques in pricing
  - Prescribes the principles and minimum basis to be applied in order to determine an actuarially sound quote

1. Minimum data requirements

Employee Benefits	Group Credit
Employee date of birth	Date of Birth
Employee gender	Gender
Employee's dependents date of birth (where cover includes dependents)	Dependents date of birth (where cover includes dependents)
Employee Salary or Sum assured	Size of loan
Employee Occupation	Term of loan
Employment Industry of the policyholder	Interest rate or Run-off pattern of loan

2. Principles to be applied in the pricing of group benefits

The framework provides guidance on principles to be applied in determining a price. This includes having allowance for:

a) Risk Premiums
b) Commissions
c) Expenses and
d) Profit margins
e) Reinsurance
f) Free Cover Limit (FCL)

Allowing for the cost of claims

An insurer needs to determine risk premiums for risk events that they cover in group schemes.

The Risk Event may cover the risks below (list not exhaustive):

- Death
- Permanent Total Disability
- Temporary Total Disability
- Critical illness
- Retrenchment

Determining Risk Premiums

Risk premiums:

- should be enough to cover the expected cost of claims
- Should reflect the risk experience of the group of lives to be covered.
- should allow for the industry of the policyholder and the number of lives to be covered
- minimum basis that should be used in determining the cost of claims
- should be done at a member level and not at a group level
- Should allow for all relevant risk factors such as age and gender for all members and their dependents
- Group credit single premium business: a reasonable rate of interest should be applied when discounting the cash flows when calculating the appropriate premium

Allowing for Commissions in pricing

- The pricing of schemes should allow for commission adequately.
- The total premium charged should include a sufficient allowance to cover the known commission payable for that class of business, as specified in the insurance act.
- That maximum commission that can be charged to policyholders is only the regulated amount. Anything above this would be unfair to customers.

Allowing for Expenses in pricing

- The pricing of group benefits should have an adequate allowance for expenses that the insurer will incur in writing a scheme.
- This will be based on the experience of an insurer; however, an adequate allowance should be included in the premium charged.

Allowing for Profit margins in pricing

- Premiums charged should contribute an acceptable amount of profit to an insurer.
- This will be dependent on the profit requirements of an insurers.
- The profit margin so allocated should include an allowance to cover for the cost of capital for supporting the business written.

Allowing for Reinsurance

- The pricing may vary depending on the reinsurance treaty in place.
- An example is under Quota Share the reinsurer may want to have control of the premium rates.

Allowing for Free Cover Limit

- The higher the FCL the higher the likelihood of anti-selection. If enrolment for insurance cover in the scheme is fully compulsory for all members, then there is less likelihood of anti-selection. However, if enrolment for insurance cover in the scheme is non-compulsory, there needs to be a minimum participation rate (number of people opting into the scheme insurance cover) for anti-selection to be limited. In case the participation rate is below the minimum, the insurer can:

  - Quote a reduced FCL to offset the higher anti-selection
  - Increase the premiums offset the higher anti-selection risk
  - Or ask for evidence of insurability of members.

Summary

- The current pricing practices in the industry do not apply sound actuarial pricing practices which have adversely affected the industry.
- Group benefits pricing framework to address this:
  - Minimum data for a quote to be done
  - Principles to be followed in determining premiums

Thank you