

P64

Diploma in Insurance

Unit P64 – Private medical insurance practice

April 2013 examination

Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit P64 – Private medical insurance practice

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 200 marks, as follows:

Part I	14 compulsory questions	140 marks
Part II	2 questions selected from 3	60 marks
- You should answer **all** questions in Part I and two out of the three questions in Part II.
- You are advised to spend no more than two hours on Part I.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show each step in any calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

PART I

Answer ALL questions in Part I

Note form is acceptable where this conveys all the necessary information

1. (a) Explain briefly three reasons why an employer would provide benefits to its employees under a company-paid private medical insurance policy. (3)
- (b) Outline how the employer could vary the cover offered to differentiate between grades of staff. (4)
2. (a) Describe briefly why insurers apply exclusions under private medical insurance (PMI) policies. (4)
- (b) List six typical exclusions under a PMI policy. (6)
3. In private medical insurance, explain briefly the part played by:
 - (a) medical helplines; (4)
 - (b) second opinion services. (5)
4. Bill is a UK national and has recently emigrated. He intends to live overseas permanently where he will not have access to free healthcare.
 - (a) Describe briefly the type of policy that would be most suitable for Bill's future healthcare needs. (6)
 - (b) Outline the differences in cover of this policy compared to its UK equivalent. (9)
5. (a) Describe briefly the purpose of long-term care (LTC) insurance and the cover it provides. (4)
- (b) Outline three typical activities of daily living relevant to LTC insurance. (3)
6. (a) Explain briefly how reinsurance would be of benefit to a private medical insurer in achieving the following aims.
 - (i) An increase in its capacity to write more business. (3)
 - (ii) To obtain protection against a catastrophic event. (3)
- (b) Outline the types of reinsurance the insurer should consider buying in the following cases.
 - (i) To protect its recent entry into the individually-rated market where its insured risks show no concentration by geographical location. (4)
 - (ii) To protect its group-paid account where there are accumulations of workers engaged in medium to heavy industry. (4)

-
7. Explain briefly the disadvantages of the following methods of underwriting for an applicant seeking private medical insurance.
- (a) Full medical underwriting. (4)
 - (b) Moratorium underwriting. (4)
8. (a) In private medical insurance, explain briefly what is meant by pre-existing conditions and why they are usually excluded from the policy cover. (4)
- (b) Describe briefly how insurers may attempt to offer applicants cover for pre-existing conditions. (6)
9. List six benefits that would typically be found under a comprehensive or full refund individually-rated private medical insurance policy. (6)
10. Describe the action that a private medical insurer will take when it receives a completed claim form from a member, to verify that the claim is valid prior to the point at which a claims payment is made. (11)
11. (a) List the three principles which are key to the concept of managed care. (3)
- (b) Describe briefly the three components which make up the utilisation review carried out by private medical insurers when implementing their managed care philosophy. (9)
12. In relation to buyers of individually-rated private medical insurance (PMI), summarise the reasons :
- (a) why members of higher socio-economic groups are more likely to buy; (5)
 - (b) why lower socio-economic groups are inclined not to buy; (5)
 - (c) that insurers can put forward to members of all socio-economic groups, suggesting why they should buy PMI. (5)
13. Explain how private medical insurers use advertising in order to engage the attention of potential customers with their product propositions. (8)
14. Explain why the average spend per capita on healthcare premiums is greater in the USA than in the UK. (8)

Questions continue over the page

PART II

**Answer TWO of the following THREE questions
Each question is worth 30 marks**

- 15.** A major employer has 600 employees and wants to provide healthcare benefits for its staff. It is considering setting up a health trust as an alternative to offering private medical insurance (PMI).
- (a) Explain how a health trust works. (12)
- (b) Describe the advantages and disadvantages of effecting such a trust compared to PMI for this employer. (12)
- (c) Describe the tax implications for the employer and employee when the employer decides to set up a trust. (6)
- 16.** A national chain of garden centres has made an application for group-rated private medical insurance for its workforce comprising 750 members of staff. Most staff are engaged in manual outdoors work, whilst smaller numbers carry out retail or back office clerical duties.
- (a) Explain the differences of approach in experience-based and community-priced ratings in calculating premiums for a group scheme such as this. (16)
- (b) Explain the impact of the different roles and grades of the workers within this proposed scheme and how the insurer may accommodate and control the different risks posed by the sub-groups. (14)
- 17.** Shelley owns a small manufacturing business. She has previously been contacted by independent intermediaries attempting to sell her private medical insurance (PMI). She is now interested in buying PMI for herself and her staff but is unsure how to proceed.
- (a) Describe the roles of the main types of independent intermediary Shelley should approach. (9)
- (b) Explain the stages of an independent intermediary's sales process. (9)
- (c) Explain the advantages and disadvantages to Shelley when purchasing cover through an independent intermediary. (12)

BLANK PAGE

