Critical Illness insurance is a perfect example of ‘right product, right place and time’. The seeds of this insurance have correspondingly germinated well and the product is growing strongly. All that’s required now is some careful shaping of the product to prevent tangled growth and to ensure a successful and profitable future.

Serious illness and financial risk
Medical progress has continued to extend life expectancy and increase the survival rates of serious medical conditions. However, for those surviving a serious illness and their dependents, this positive development has a corresponding, often life-changing, impact, including a financial impact due to lost income and additional costs; it is this ‘living’ financial risk that Critical Illness insurance (CI) was designed to address.

Conceived in the early ‘80s in South Africa, ‘Dread Disease cover’, as it was first called, was the brain child of heart surgeon Dr. Marius Barnard. Dr. Barnard had seen at first-hand the considerable financial stresses suffered by patients living with heart disease and other serious illnesses. In comparison to benefits that are paid out on death by a mortality life insurance, his idea was to develop a ‘living benefit’ that would be paid, as a lump sum, to surviving patients of a serious illness.

A fast developing product
Early versions of CI typically covered four main ‘conditions’: heart attack, coronary artery disease requiring surgery, cancer and stroke. Total and Permanent disability (TPD) was soon added to the product, providing payment to the individual following severe disablement as a result of any condition or accident, irrespective of qualification under the listed conditions.

Over time, and as companies have sought to differentiate themselves given high levels of competition, the number of conditions in CI policies has continued to increase. Known across the Life industry as the ‘conditions arms race’, some providers now list more than 80 conditions in their CI policies. The condition definitions have also become increasingly harder to understand, as companies have sought to keep pace with advances in diagnostic technologies by including complex medical terminology.

In terms of global reach, CI initially developed and grew in South Africa and then the U.K., but has now launched in many world markets, with particularly rapid growth continuing across Asia. Innovation of the CI product is rife and there are significant product variations between markets (see figure 1). Each market does however tend to follow a similar CI structural template: in some it is typically offered as a standalone insurance that pays a living benefit if the insured is diagnosed with a critical illness and thereafter survives a specified minimum amount of time, whereas in others, CI is combined with a mortality protection, paying either the CI living benefit or mortality payment, whichever comes first.

Although significant product variation exists between companies and markets, a CI policy will typically provide financial protection for:
• Catastrophic medical costs
• Loss of income
• Lifestyle modification
• Dependents.

Premiums can be reviewable or fixed over the duration of the contract. In some products, premiums are paid for a specified period and the cover continues for a longer period.
CI is now a highly developed and well-known Life insurance product in North America, Asia, Europe, Africa and Australia. The worldwide annual direct premium for CI products is estimated to be over 20 billion euros, with more than half of that originating in Asia. However, in these and many other world markets, CI sales remain low in comparison to other life products. Across the board, there is still considerable room for CI product growth and for innovative solutions tailored to the specific risk landscape and needs of markets.

The principal barriers to CI reaching its market potential are the abovementioned ‘conditions arms race’ and definition complexity. Both issues create confusion for the policyholder (see ‘Untangling the definitions’). At the same time, as this is a long-term product, fixed and very precise definitions in such a dynamic risk environment can prove difficult for the insurer, both from a risk management perspective and as regards ensuring that the product remains relevant.

Although the rate at which new conditions are added in developed CI markets has slowed in recent years, and it would seem therefore that those markets are now approaching coverage-saturation, definition complexity remains a major issue in all markets.

**Untangling the definitions**

CI is primarily a definitions-based policy; claims are paid if the insured has a condition that meets one of the condition definitions in his or her policy.

These definitions have now become so complicated (see example in figure 2) that, in general, medical knowledge is required to fully understand a definition and to make comparisons between CI products. Policyholders in consequence may not fully understand what they are covered for, substantially increasing the likelihood of declined claims. This has a significant negative impact on consumer trust and sales performance.

To help untangle definitions and improve the insured’s ability to compare products, many industry associations and regulators have introduced standardized definitions. Singapore’s Life Insurance Association, for example, has provided standardized condition definitions for the severe stage of 37 common critical illnesses. The Association of British Insurers (ABI) also produces a Statement of Best Practice; the latest version (December 2014) contains standardized conditions definitions for 23 critical illnesses. Use of the definitions may or may not be compulsory. In general, they provide a minimum level of cover which companies can opt to exceed.

To promote better understanding of their product, some insurers are now removing confusing overlapping conditions and/or including ‘plain English’ definitions, together with the corresponding technical medical definitions.

In an attempt to address the issue of loss of trust, some life insurers also publish annual claims statistics to show customers that a high percentage of submitted claims are paid.
Staying true to the product’s roots

The value of CI insurance lies in its being perfectly placed in the current risk landscape of health and medical care and patient needs. The risk landscape, however, is not a constant and this is a long-term product. In order to stay true to the product’s roots – helping surviving critically ill individuals with associated financial hardship – CI must evolve in line with the risk landscape within which it grows. Both policyholders and their insurers will benefit if this can be achieved. One way of doing this would be to move away from definition-based conditions and to increase the focus on the impact an illness has on the insured.

At the same time, some of the essence of the product’s original simplicity needs to be reinstated. An overly complex product ultimately reduces client trust and the product’s subsequent appeal.

Helping you to achieve your goals:

CI solutions from PartnerRe

PartnerRe is active in multiple CI markets with a range of readily available CI products and tailor-made solutions. Ours is a client-centric approach; we listen carefully to the specific needs and challenges of our clients before delivering optimal risk solutions based on partnership and transparency.

Please contact us to benefit from extensive data analytics capability, underwriting and claims expertise, as well as from our experience of collaboration with external partners to provide value adding CI services.

For the contact details of our Life and Living Benefits specialists by region, please go to partnerre.com.

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