



Growth Potential of Critical Illness Insurance in Asia

For those falling ill and their dependents, Critical Illness Insurance offers much-needed financial support for potentially catastrophic medical costs and lost income. With demand for such products increasing and under-insurance a major issue, the product, which has seen particular success and innovative developments in Asia, has significant further growth potential. We review the current characteristics and potential opportunities in markets across the region.



Increasing need for financial protection against critical illness

As economies strengthen, higher survival rates for critical illnesses combined with falling birth rates and resultant ageing populations, as well as no overall reduction in the underlying incidence rates of critical illnesses, equates to the potential for spiraling medical costs.

To support the associated costs, state healthcare systems across Asia are increasing their scope, protecting evermore individuals, but these systems are often limited in terms of the level of cover provided. At the same time, expansion of the young middle-class in developing markets has significantly increased the awareness of and interest in income protection and insurance products.

Combined, these factors have led to a rise in demand across Asia for Critical Illness (CI) type insurance products that specifically reduce the financial stress associated with surviving a serious disablement or illness.

Life expectancy and incidence rates rising

People are living longer thanks to improved economic factors, medical progress and enhanced accessibility to medical treatment and healthcare facilities. As **figure 1** shows, in many parts of Asia individuals born in 2013 can now expect, even without any further improvement in mortality rates, to live well into their 70s or 80s.

These statistics, however, do not mean that critical illnesses are being eradicated, rather that we are better at diagnosing and treating serious illnesses, and therefore at surviving for longer after a diagnosis. Indeed, overall incidence rates of critical illness have increased over recent years and this trend is expected to continue. There are, however, variations; as **figure 2** shows, the incidence rates for certain critical illnesses, such as cancer, have been reducing in some countries, but are in fact continuing to increase

in others. Contributing factors to these trends include variations in healthcare accessibility and lifestyle risk trends, such as increased sedentary lifestyles, alcohol and poor eating habits¹, as well as improvements in diagnostics and increasing elderly populations.

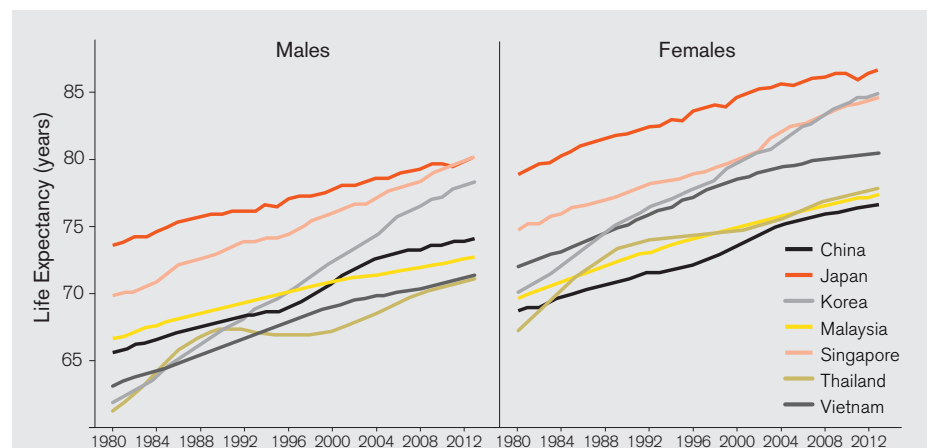


Figure 1: Life expectancy at birth for males and females by calendar year for a range of Asian countries. Increasing life expectancy is seen in all countries, with individuals born in 2013 now anticipated to live well into their 70s or 80s without any further improvement in mortality rates. Source: World Bank.

¹ 'A Matter of Style', PartnerRe (2015).

**Critical Illness Insurance (CI):
A simple and effective living benefit**

CI pays a lump sum benefit if an assured suffers from and survives a serious illness. The product supports the policyholder at a time of personal and financial distress. The use of the benefit is entirely flexible. With increasing life expectancy, falling birth rates and no substantial reduction in critical illness incidence rates, the demand for financial protection products such as CI will continue to grow.

A core product for Life insurers

In Asia, CI is a core product for Life insurers and is offered by the majority of new market entrants. Asia has very much been at the forefront of CI innovation over the last 10–15 years, with product, technological and customer trends driving the continued expansion and development of CI.

Today, CI can incorporate tens if not hundreds of covered conditions, and has many distinct coverage forms, such as multi-pay CI, severity-based covers, gender specific options and child CI cover, to name but a few².

There is a definite trend in Asia towards increased market segmentation and the offering of distinct CI products to different consumer groups. To be successful in this respect requires a high level of flexibility and responsiveness to evolving customers' needs and using the available risk and consumer data to its full potential.

Each market with its own characteristics and solutions

CI markets across Asia have distinct identities reflecting variations in market development and consumer needs.

In Japan, for example, CI has been popular since the 1980s with a focus on cancer-only products which provide a lump-sum benefit on an initial cancer diagnosis, as well as benefits for

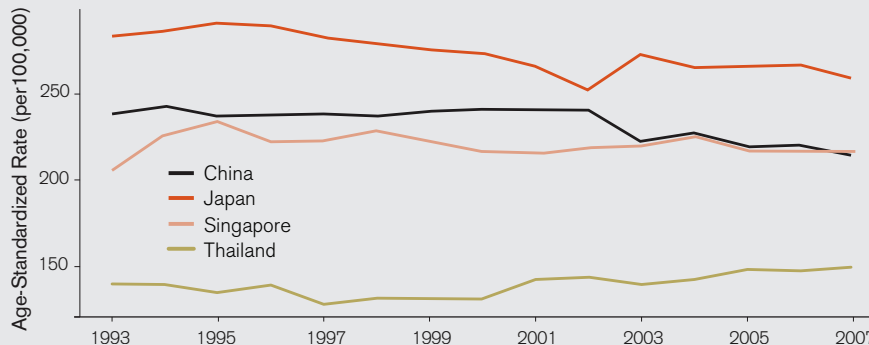


Figure 2: Cancer (excluding non-melanoma skin cancer) age-standardized incidence rates by country from 1993 to 2007. Over this time period, some countries have seen a slight reduction in the incidence rate of these cancers, whereas in others it has slightly increased. Overall, the incidence rates of critical illness have increased over recent years. Source: International Agency for Research on Cancer.

consequent hospital stays, outpatient visits and anti-cancer drug treatments.

CI was introduced in Korea in the 1980s, initially sold by Life companies, but now offered on a limited-term basis by most large P&C insurers. There is a wide variety of CI products on offer, with variations including multi-pay, whole of life, staged cancer and gender-specific products. Comprehensive CI products and cancer-only covers co-exist in Korea. Competition is continuing to push the product development boundaries, particularly connected to simplified underwriting and products for older age groups.

China is currently estimated to be a \$15 billion CI market³, with many product varieties available and a focus on protection for catastrophic medical expenses. The market⁴ has grown by 12% per annum over the period 2005 to 2010⁵. Alongside a growing awareness of health, medical costs and the need for income protection, this growth partly reflects regulatory changes in 2014 which placed greater emphasis on protection products, requiring that at least 20% of all insurance products sold by bancassurance providers are protection products. The expectation is for this emphasis to increase in coming years.

In 2012, China piloted state-run critical illness cover, which has been expanded

over the years. Under the scheme, when a patient's medical bills for necessary treatments exceed a certain amount, the patient is reimbursed for approximately 50% of the fees paid. Even with this scheme, however, the amount that an individual may have to pay remains high and certain drugs are excluded. Together with the regulatory emphasis on protection products, this means that the market for private CI protection will continue to grow.

Economic growth in South East Asia has been rapid in recent years, with economic and demographic trends increasing the demand for CI protection products. While Life insurance penetration remains low, double-digit growth is being experienced in some markets. Malaysia, Thailand, Indonesia, the Philippines and Vietnam are all at different stages of economic development, but are all increasingly attractive markets for Life and Health insurance. There is also an emerging demand for Takaful products, especially in Muslim majority countries such as Malaysia and Indonesia.

The protection gap

While the demand for CI-type products across Asia is continuing to increase, there remains a huge 'protection gap' between what is needed to cover health costs and (for dependents) lost income in the event of a serious illness, or to provide for dependents in the event of death,

²'Roots and Developing Structure of Critical Illness Insurance', PartnerRe (2015).

³Asia Insurance Review, September 2014.

⁴Number of in-force policies.

⁵'China Life Insurance Experienced Critical Illness Table 2006-2010', CIRC (2013).

versus what is actually available from the state and/or purchased privately by individuals. Older age group populations, those more at risk of developing critical illnesses, are notably under-represented in terms of market penetration⁵. The Asia protection gap is also widening as insurance take-up lags behind economic growth and increasing incomes and cost of living.

To give an indication of size, Swiss Re has estimated that the mortality protection gap for Asia widened from \$42 trillion to \$58 trillion between 2010 and 2014⁶. AIA recently published research estimating that this will continue to grow, reaching \$82 trillion by 2020⁷ (see breakdown by country in **figure 3**).

With demand increasing and under-insurance such a major issue, there remains a huge potential market for innovative, accessible and affordable protection products to meet the growing needs of all consumers.

Distribution a major factor in closing the protection gap

Across Asia, in both developed and emerging markets, there has traditionally been a strong

focus on face-to-face agents for the sale of CI policies. Over recent years, however, bancassurance has gained significant ground (see example in **figure 4**). With insurers and banks in partnership, this change partly reflects new technologies which allow for simpler underwriting and issuance, offering consumers a relatively more efficient and convenient purchasing experience. This trend is set to continue as technology advances, e.g. increased sales possibilities via mobile phone and at cash-points. Notably, mobile phones represent a strong means with which to increase access to insurance in less developed areas, an important factor in closing the protection gap.

Underwriting challenges to overcome

Inconsistency and lack of market data

For insurers, pricing CI can be a challenge given the wide variety of CI products and lack of consistent condition definitions between companies, which makes market experience data harder to compile and use. Consumers can also find the choice and inconsistency between products confusing. Some countries, including Singapore, have adopted standardized product definitions to make products more easily comparable for consumers and pricing more robust for

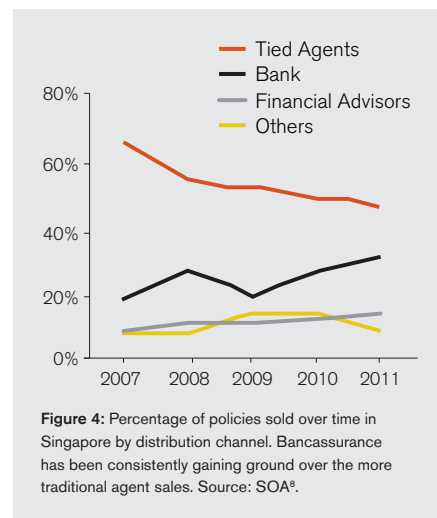


Figure 4: Percentage of policies sold over time in Singapore by distribution channel. Bancassurance has been consistently gaining ground over the more traditional agent sales. Source: SOA⁸.

insurers. Industry or government bodies have also been established in some countries to collect and analyze market experience data. For example, in 2013 the China Insurance Regulatory Commission (CIRC) published the country's first critical illness incidence table covering experience data from the period 2006 to 2010⁵. Similarly, the Taiwan Insurance Institute regularly publishes critical illness experience reports.

International reinsurers can also provide valuable assistance to insurers for inconsistency and lack of data issues through their pricing knowledge, data analytics capability and expertise from other world markets.

Premium guarantees

Another major underwriting challenge for insurers is the fact that premiums may be guaranteed for a long time period. This varies by market, for example in Korea, 100% of in-force policies have fully guaranteed premiums, whereas in China only around half of policies have this⁹. These guarantees expose insurers to the risk of trends in critical illness incidence rates, either from the underlying incidence or from improvements in diagnostics.

A move towards shorter guarantees or reviewable premiums would help to mitigate this risk.

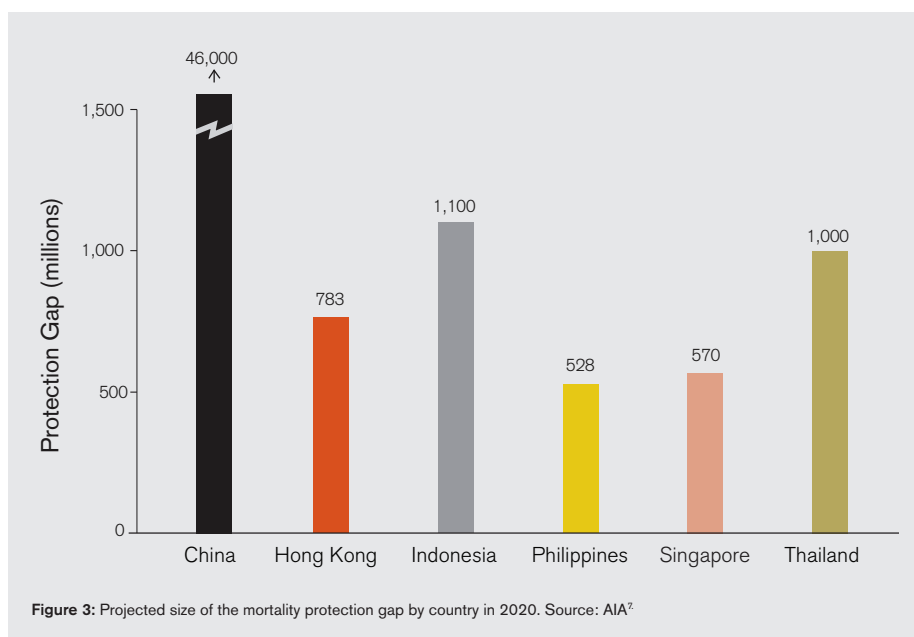


Figure 3: Projected size of the mortality protection gap by country in 2020. Source: AIA⁷

⁵ Swiss Re Mortality Protection Gap Report (2015).
⁶ www.aia.com/en/for-media/press-releases/2015/
⁷ SOA 2012 Annual Meeting & Exhibit - Session 142 IF, Drivers and Forces in Asia: Current and Future Insurance Markets.
⁸ Gen Re Dread Disease Survey 2004-2008 Initial Results - Joint IACA, IAHS and PBSS Colloquium in Hong Kong 2012.

PartnerRe: your partner for CI risk solutions

PartnerRe has extensive and long-term international experience in CI risk solutions and is fully committed to Asian markets; we have been working across Asia for over two decades and our presence in the region continues to expand. We offer our clients:

- Strong analytics capabilities, helping to analyze market risk and claims data and to identify trends and future opportunities.
- Experience of best-practice sales, underwriting and claims handling from world markets.
- Product development expertise, including the combining of products for specific market segments.
- International regulatory experience, a valuable partnership for insurers which is highly regarded by regulators.
- Risk management know-how for the optimization of your capital position.
- A range of standard and customized CI risk solutions for clients.
- Experience of developing third-party partnerships to deliver key product differentiators, such as services to provide a second medical opinion on diagnosis and to access the best available treatment.

Please contact us to discuss how we can help your business to achieve sustainable market growth in CI protection products. For the contact details of our Life and Living Benefit specialists by region, please go to partnerre.com.

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