Article from

NewsDirect

September 2015
Issue 71

Trends in Critical Illness Insurance

By Ashley Mehrer

At the SOA Health Meeting that was held in Atlanta June 15-17, the Marketing and Distribution Section sponsored a session on New Trends in Critical Illness Insurance. Despite the session being at 8:30 a.m. on the last day of the conference, it was well attended with great engagement from the audience.

We had three speakers who are experts in the critical illness arena: Ryan Chamberlain (VOYA), Cyriac Kotoor (GenRe), and Darrell Spell (Milliman). The MaD Section's very own Kamran Malik from Wakely Actuarial was the moderator. For those who missed the session, the following article will summarize the highlights of what was presented.

Darrell's presentation described seven trends in the critical illness market. I will use these as a basis for the article:

1. CARRIERS ARE ENTERING THE MARKET.

The critical illness market is in a constant state of change, partly due to many carriers entering the market. And they aren't just putting a toe in; they are entering the market in a big way. They are conducting lots of analysis and research prior to entry to be sure their offerings are competitive and differentiated. When a carrier enters the critical illness market, they usually do not enter with a single product, but pair their offering with either accident or hospital indemnity coverage, if not both.

2. CARRIERS HAVE LESS INTEREST IN PLAYING "FOLLOW THE LEADER."

When carriers are entering the market, they are interested in creating distinction and their own flavor of critical illness. This comes across in a few ways, including the selection of triggers covered. Cyriac talked in his section of the presentation about the variation in triggers that he sees in the market. (See table below)

We could attribute this variation and distinction to the extensive research in product development, strong product line managers who have deep understanding of the line of business and the strength of traditional group and health carriers entering the market.

Cyriac also pointed out some key questions to ask when considering certain policy triggers to include:

- Is the condition normally "critical"?
- Can the condition be well defined?
- Can a reliable incidence rate be developed?
- Can the risk be appropriately underwritten?
- Can the benefit eligibility be objectively determined?
- Is this benefit likely to increase sales?

3. PRODUCT POSITIONING THROUGH PACKAGING

As stated earlier, most carriers are entering the supplemental health insurance market, which includes a critical illness (CI) product, usually paired with accident or hospital indemnity. We are also seeing carriers experiment with CI riders on life and health products as a way to provide coverage and protection without a full scale product build. The bundling and portfolio approaches also support needs driven by health care reform legislation and emerging distribution channels, like exchanges.

4. FOCUS ON "PROTECTION" OVER "INNOVATION"

New products that we see coming into the market generally focus on simplicity. Carriers want to ensure that customer needs are met. Simplifying the product and making it easier to understand was also addressed by Ryan's discussion of enrollment. Recognizing that enrollment methods for the product can vary from employer sponsored one on one's (high level of engagement and product explanation) to self-service online or paper enrollment (limited explanation of product), means that the simpler products are going to lead to higher participation. This was another key product driver addressed by Ryan. Getting adequate participation to achieve the necessary spread of risk and to cover expenses is key to the product being profitable.

CORE TRIGGERS	SECONDARY TRIGGERS	ADDITIONAL TRIGGERS	LESS COMMON TRIGGERS
(~75%)	(~15%)	(~5%)	(~5%)
• Cancer • Heart Attack • Stroke • Kidney Failure • Major Organ Transplant	• Carcinoma in Situ • Coronary Artery Angioplasty • Coronary Artery Bypass Grafting	• Aortic Surgery • Benign Brain Tumor • Blindness • Coma • Deafness • Heart Valve Replacement • Paralysis • Severe Burns • Terminal Illness	• Addison's Disease • Alzheimer's Disease • Aplastic Anemia • Loss of Speech • Motor Neuron Disease • Multiple Sclerosis • Parkinson's Disease

5. CONVERGENCE OF INDIVIDUAL AND GROUP PRODUCTS

There is continued blurring of lines between individual and group products, indicating that the world of hybrid is here to stay. While the hybrid concept is not new, its continued market appeal is significant. When comparing products, it can be difficult to tell whether it's group or individual. This blurring of lines between group and individual presents some increased competition for distribution with special emphasis on compensation. Ryan spoke to the many considerations with compensation including the ability to pay high/low or heaped commissions, with options for level commissions over the life of the policy. Another interesting twist on this market is the manner by which additional expenses are addressed. In some instances, costs such as benefit administration, may be paid out of existing commission structures.

6. UNLIMITED PAYOUTS

Following in the footsteps of the fashion market where what's old becomes new and hip again, we have seen an evolution in the number of payouts available on critical illness products. Cyriac spoke to this market evolution, too. Early versions were mostly single payout plans, where the policy would lapse after 100 percent payout of the benefit amount, either for a one major trigger or combination of major and partial benefits. The next generation provided for payments in a category approach. Under the category or "bucket" plan, there is a 100 percent benefit for pre-defined categories, such as cancer, cardiovascular, and others. The policy would lapse after a full benefit is paid under each category. New developments are now leaning towards lifetime maximum approach where the conditions are not limited by categories, but the policy will terminate after 300 percent of the face amount had been paid. Carriers are also creating plan designs that pay once per condition, but the probability of multiple payouts declines as count increases (i.e., you are not likely to have 14 critical illnesses in your lifetime and survive them all). How many payouts per condition and time periods between diagnoses are all important product design considerations.

7. SHIFT TO ISSUE AGE RATING OR IS IT A SHIFT TO ATTAINED AGE RATING?

The trend for critical illness rating is simultaneously going in two directions: those that have issue age rates are adding step rates, and those with step rates are adding issue age capability. Carriers generally have a preference (typically based on what other lines they have), but realize that there is market demand for both types of rate structures. Ryan also spoke about the varying degrees of simplicity and complexity in how the rates are developed, including whether or not a census of eligible employees is required at time of quote.

In addition to these market trends, Ryan spoke to considerations around persistency, both at a case and member level. Case level persistency can be highly impacted by broker of record changes and carrier service experience. But, even when case level persistency is good, there can still be profitability challenges presented by high turnover industries where individual member persistency is low. There are also challenges presented with "no takes," where members sign up, but either leave their employer or cancel coverage before any premium is paid.

Overall, the session highlighted many of the market trends we are seeing in critical illness. It's an exciting time to be involved in the ever changing and evolving critical illness market! ■

Ashley Mehrer is a director in Product and Market Development at Unum. She can be contacted at *amehrer@unum.com.*