

## Critical Illness Insurance—The Opportunity Product for Companies Large and Small

By Sheila Matheson

**W**e've all heard the story of the genesis of the critical illness insurance product: More than 20 years ago in South Africa, a successful cardiologist named Dr. Marius Barnard grew tired of seeing the financial devastation suffered by many of the patients in his practice. His and his brother Christian's groundbreaking medical skills were keeping people alive, but in many cases the cost of living with ongoing heart disease was killing them financially. Dr. Barnard set out to change this and approached a life insurance company with his own concept for a new kind of insurance—insurance that would pay its benefit not when the person died but when they survived a life-changing diagnosis—heart attack, cancer, stroke and several others. The benefit would be money paid in one lump sum to the insured person so he or she could use it whenever and however they needed—to manage their mortgage and other expenses, pay the many costs of recovery not covered by health insurance, continue saving for important things like their children's education and their retirement and protect their business while they recovered.

### The Need is Real and Growing

Though the product is now available around the world, it has been slow to grow in the United States. But current circumstances are driving the need and making this product an essential financial protection vehicle.

Employer health care cost trends continue at unsustainable, albeit reduced levels. According



to Robert Laszewski of Health Policy and Strategy Associates in Washington, while private health care cost trends continue in the 7 to 8 percent range, employer health plan trends are more likely to be around 9.5 percent without cost shifting in the form of higher deductibles, co-pays and higher employee contributions. So Americans are paying more for health care but receiving less. The end result of this scenario is that any major illness represents a serious financial threat.

### Filling the Gap

Critical illness insurance can fill the gap and we are now seeing it across most U.S. markets.

For the company focused on traditional life and annuity products, a critical illness insurance product that would accelerate a portion of the life insurance benefit in the event of a serious illness or would add a layer of protection payable in the event of a life-changing illness is now an essential part of a comprehensive financial protection package.

For the disability insurer, critical illness is a natural complement to disability coverage, providing cash benefit not tied to inability to work and extra financial support at a time of great need.

In the group insurance arena, the medical coverages sold to employers and to the employee on a voluntary basis are increasingly including small face amount critical illness protection as a financial "safety net" in the face of less comprehensive medical coverage. And critical illness insurance—either on a stand-alone health chassis or as a life insurance acceleration product—is finding significant growth as a voluntary worksite product with higher face amounts available.

### Products Features Vary

The "typical" product varies significantly by market. The individual product will usually be the most robust in terms of number of covered events; 15 is not unusual. Available face amounts can reach \$500,000. The voluntary worksite offering normally has fewer covered events and face amounts of \$10,000–100,000, while the medical product critical illness inclusion is usually a small face amount in the \$5,000–10,000 range.

The fact is that the three "core" coverages—for cancer, heart attack and stroke—represent more than 80 percent of the incidence risk even in a comprehensive individual product. But of course, competitive market demand for differ-

entiated product features has led to the inclusion of more events and a number of new elements. Many products now include multiple payouts that provide benefits by category and keep the policy in force even after benefit in one category has been paid and recurrence benefits providing a benefit for the second occurrence of a covered event.

### Defining Covered Events and Managing the Risk

One crucial aspect of a successful Critical Illness (CI) product is defining the covered events. The goal is a clear, easily understood explanation of what is covered and the challenge is to craft a product that includes coverage of the serious life events while preventing the “windfall” of large cash payout for a relatively trivial medical event. A good example of this is the definition of stroke. The stroke coverage should be defined as providing benefit in the event of an acute cerebrovascular accident producing neurological impairment and resulting in paralysis or other measurable objective neurological deficit persisting for at least a defined period of time and expected to be permanent. Minor neurological events such as transient ischemic attack, the so-called “mini-stroke,” which typically produces symptoms that disappear within 24 hours, should be specifically excluded.

Underwriting for critical illness events is quite different from underwriting for life insurance. The morbidity versus mortality risk requires a somewhat different set of application medical questions and can result in quite a different decision regarding the applicant. Such factors as family history can have significant impact on eligibility and must be part of the individual underwriting process. It is not uncommon for an applicant who is a standard life risk to be rated for critical illness because the risk of claim may be high for the CI covered events while the life claim risk may fall within standard limits. Worksite underwriting requires simplified issue underwriting and in some cases group business is guaranteed issue. In every case the challenge is to construct a process that minimizes the anti-selection elements.

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There is no doubt about the real and growing need for the critical illness product in U.S. markets. This product presents huge growth opportunities for the insurers who recognize its potential. The challenge for all companies is creating a competitive and profitable product suitable for its own markets. The product’s newness means that there are very few expert and experienced advisors—reinsurers or actuarial consultants—to assist with the project, but the opportunity is compelling and well worth the investment.

The market is still wide open and the company whose distribution is presenting the Critical Illness product is finding that this is untapped territory with real responsiveness based on the appreciation of the compelling need for this financial protection. ●

*Of special note: Today, Dr Barnard, now in his late 70s and suffering from prostate cancer, continues to travel the world to promote the value of this financial protection. He will be the keynote speaker in September at the Critical Illness Insurance Conference co-sponsored by the SOA, LIMRA/LOMA and NACII in Las Vegas, September 22–24.*



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